



Audit and Risk Management Committee

Date:	Wednesday, 23 September 2009
Time:	7.00 pm
Venue:	Committee Room 1 - Wallasey Town Hall

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SUPPLEMENTARY AGENDA

5. STATEMENT OF ACCOUNTS (Pages 1 - 6)
6. AUDIT COMMISSION - ANNUAL GOVERNANCE REPORT (Pages 7 - 46)
7. LETTER OF REPRESENTATION
Contained within the Annual Governance Report at agenda item 6
16. ANY OTHER URGENT BUSINESS APPROVED BY THE CHAIR
17. AUDIT COMMISSION - FINANCIAL MANAGEMENT REVIEW (Pages 47 - 70)
18. MERSEYSIDE PENSION FUND - STATEMENT OF ACCOUNTS (Pages 71 - 112)

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WIRRAL COUNCIL

AUDIT AND RISK MANAGEMENT COMMITTEE

23 SEPTEMBER 2009

REPORT OF THE DIRECTOR OF FINANCE

STATEMENT OF ACCOUNTS 2008/09

1. EXECUTIVE SUMMARY

- 1.1. The Statement of Accounts for 2008/09 was approved by this Committee on 29 June 2009 and was then subject to audit. The District Auditor will report his findings within the Annual Governance Report and Members are requested to consider this report with his report and the Letter of Representation.
- 1.2. In accordance with the Accounts and Audit Regulations 2003 Members are requested to consider the adjusted amendments to, and the unadjusted misstatements in, the Statement of Accounts for 2008/09. This report highlights the suggested amendments following audit and asks Committee to approve the revised accounts.
- 1.3. The Statement of Accounts includes the Merseyside Pension Fund accounts as Wirral Council is the administering authority for the Fund. As the Fund receives a separate Annual Governance Report this has to be considered by Pensions Committee and also this Committee as part of approving the Accounts.

2. AMENDMENTS TO THE STATEMENT OF ACCOUNTS

- 2.1. The purpose of the Statement of Accounts is to present the overall financial position of the Council at 31 March 2009 in accordance with prescribed guidance.
- 2.2. Under the Audit Commission Act 1998 and the Audit Commission Code of Audit Practice for Local Government the District Auditor reports upon the Authority's financial statements.
- 2.3. There are number of amendments to the financial statements that have been requested by the District Auditor. These are detailed in the Annual Governance Report - Appendix 2. Members are asked to consider whether or not they agree to the amendments summarised in the following paragraphs:-

2.3.1. Balance Sheet

The changes required related to the following adjustments:-

- i. The reduction in the value of a number of Community Assets to a nominal sum to reflect recommended accounting practice. In the

2005/06 Statement of Accounts several assets, including Arrowe Park were reclassified from operational to community assets and the value that transferred at that time reflected their operational use. This year the audit has recommended that this is changed to reflect the community nature of this group of assets.

- ii. Whilst the Oval Sports Centre buildings are included within the assets the value of the land was omitted from the tangible fixed assets in the Balance Sheet.
- iii. In respect of one school, its buildings and land were included, although only part of the playing fields was owned by the Council, reducing the tangible fixed assets in the Balance Sheet.
- iv. A number of provisions, totaling £3.215 million, have been reclassified as reserves to reflect more accurately the obligations placed upon the Council. This adjustment has reduced the value of provisions and increased the size of reserves.
- v. The understatement of debtors and creditors due to “netting off” in relation to Collection Fund has resulted in the need to revise the related entries.
- vi. The incorrect analysis between long and short term investments which has not changed the total value of investment held by the Council.

2.3.2. Income and Expenditure Account

The changes required related to the following adjustments:-

- i. Council Tax benefit payments (£26.396 million) were recorded under the line for Other Housing Services which was consistent with the approach that Wirral has used for many years. The audit identified that this should be recorded under Central Services to the Public and the adjustment has been made between these two lines.
- ii. Revenue expenditure funded from capital under statute (REFCUS) was included as a net expenditure figure being consistent with the approach adopted for many years. The audit identified that this should be recorded as Gross Expenditure and Gross Income and this adjustment has been made and the net revenue expenditure has not changed.
- iii. Capital receipts of £2.230 million received by the Council that do not relate to specific fixed assets have been credited directly to the useable capital reserve. Following audit these have now been recorded within the Income & Expenditure Account and the Statement of Movement on General Fund Balances before being credited to the useable capital receipts reserve.
- iv. As mentioned above at 2.3.1.

- a. The revision to the 2008/09 gross expenditure of £3.215 million relates to the reclassification of a number of provisions as reserves and primarily related to the Insurance Fund and Technical Services.
- b. A revision of £1.3 million to the line for (Gain)/Loss on sale of fixed assets to reflect the reduction in tangible fixed assets for the adjustment relating to school land.

2.3.3 Statement of the Movement on the General Fund Balance

Changes to the Movement on the General Fund Balance for 2008/09 were required in relation to the adjustments at 2.3.1 and 2.3.2 (iv).

2.3.4 Summary of Amendments made to the draft Statement of Accounts 2008/09

Nature of Amendment	Amount £000	Area Changed	Effect on Balances £000
Council Tax benefits recorded under Central Services to the Public and not Other Housing Services	26,396	Income & Expenditure A/c	Nil
Recording of Gross Revenue expenditure funded from Capital under Statute	16,539	Income & Expenditure A/c	Nil
Specific Community assets valued at a nominal amount	14,703	Balance Sheet	Nil
Inclusion of the value of land at the Oval Sports Centre	3,463	Balance Sheet	Nil
Debtors and Creditors grossed up within the Collection Fund	2,497	Balance Sheet	Nil
Capital receipts not recorded in as a gain on the disposal on fixed assets	2,230	Income & Expenditure A/c Statement of Movement on GF Balances	Nil
Reclassification of long and short term investments	1,989	Balance Sheet	Nil
Reclassification of provisions as reserves	3,215	Balance Sheet Income & Expenditure A/c	Nil
Reclassification of part of the value of a school	1,300	Balance Sheet	Nil

2.4 A number of unadjusted misstatements in the accounts have been identified following audit. Details of each items and an explanation as to why they have not been adjusted is given below. Members are: asked to consider whether or not they would like to adjust the Statement of Accounts for any of the unadjusted misstatements.

- i. Collection Fund account credits of £484,000 have been netted off against debtors. These have not been adjusted for as there is uncertainty over the classification of these items as they relate to a number of individual accounts which are to be assessed in 2009/10.
- ii. A number of revaluations totaling £270,000 have been performed but not reflected in the 2008/09 accounts. These have not been adjusted due to their not being of a material value and will be incorporated with the revaluations in 2009/10.
- iii. A debtor of £240,000 was provided for in 2008/09 that was subsequently cancelled in 2009/10. This has not been adjusted for in the accounts due to it being dealt within in the new financial year.
- iv. Cash overstated and schools expenditure understated by an estimated £167,000 due to the recording of the balance held at the year end. This relates to cash spent but not reimbursed and the work to identify and adjust would be substantial for the value involved.

3. **CONCLUSIONS**

3.1 The Audit Opinion will be issued following Committee consideration of the Annual Governance Report and the approval of the amended Statement of Accounts. Once approved, the District Auditor has indicated that he will again issue an unqualified opinion and state that the accounts present fairly the financial position of the Council at 31 March 2009.

3.2 The Auditor's report is incorporated within the final version of the Statement of Accounts and enables the accounts to be agreed before the statutory deadline of 30 September 2009.

4. **COMMENTS**

4.1 The Statement of Accounts was presented to Committee before the statutory deadline of 30 June. The production of the Accounts for 2008/09 presented the Financial Services Division with a number of challenges beyond those that normally occur as a number of key staff were absent through sickness and others put in a considerable work to meet the statutory deadline. The Audit Commission view of the Councils arrangements for producing the Accounts is that they were satisfactory, produced by the target date and the working papers were deemed to be good. The experience gained from these events will assist with the preparation of future Statement of Accounts.

4.2 The 2008 Statement of Recommended Practice (SORP) introduced a number of changes to the Statement of Accounts which have been complied with. The format of the accounts will change again in 2009/10 for the implementation of the 2009 SORP when the revisions will move authorities closer towards meeting the International Financial Reporting Standards (IFRS). All local authorities will be required to comply with IFRS from 2010/11 onwards and the Council has commenced work on IFRS and this continues. This includes the asset records relating to land and buildings and infrastructure assets and Council leases referred to in the Annual Governance Report. These will be progressed as part of the Action Plan.

4.3 In seeking to improve the standards of documentation and evidence for the Statement of Accounts, as well as in financial management and control, the Finance Department will continue to work with the Audit Commission.

5. FINANCIAL AND STAFFING IMPLICATIONS

5.1 The amendments made to the Statement of Accounts 2008/09 have no impact upon the financial position as at 31 March 2009.

5.2 There are no staffing implications arising from this report.

6. EQUAL OPPORTUNITIES IMPLICATIONS

6.1. There are none arising directly from this report.

7. HUMAN RIGHTS IMPLICATIONS

7.1. There are none arising directly from this report.

8. COMMUNITY SAFETY IMPLICATIONS

8.1. There are no specific implications arising from this report.

9. LOCAL MEMBERS SUPPORT IMPLICATIONS

9.1. There are no specific implications for any Member or Ward.

10. LOCAL AGENDA 21 IMPLICATIONS

10.1. There are none arising directly from this report.

11. PLANNING IMPLICATIONS

11.1. There are none arising from this report.

12. BACKGROUND PAPERS

12.1. Annual Governance Report - Audit Commission - September 2009.

13. RECOMMENDATION

- 13.1. That Committee consider the referral from Pensions Committee on the Merseyside Pension Fund accounts for 2008/09 including the Pension Fund Annual Governance Report and Letter of Representation.
- 13.2. That Committee consider the amendments to the Statement of Accounts for 2008/09 as detailed in paragraphs 2.3 and 2.4, the Annual Governance Report and the Letter of Representation (Appendix 4 of the Annual Governance Report).
- 13.3. That, subject to the above recommendation, the revised Statement of Accounts for 2008/09 be approved.
- 13.4. That the action plan within the Annual Governance Report be agreed and regular reports be presented to this Committee on progress.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/265/09

Annual Governance Report

Wirral Council

Audit 2008/09

Date 17 September 2009

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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.
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Ladies and Gentlemen

2008/09 Annual Governance Report

I am pleased to present the final version of my report on the results of my audit work for 2008/09.

A draft of the report was discussed and agreed with the Director of Finance on 15 September 2009 and has been updated since as issues have been resolved.

The report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the Pension Fund Annual Governance report and the recommendation of the Pensions Committee
- consider the matters raised in this report before approving the financial statements (pages 4 to 15);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified which management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- take note of the VFM Conclusion and Use of Resources score;
- approve the letter of representation on behalf of the Council and for the Pension Fund before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

Yours faithfully

Michael Thomas
District Auditor
23 September 2009

Key messages

This report summarises the findings from the 2008/09 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 how well you use and manage your resources to deliver value for money and better and sustainable outcomes for local people.

Financial Statements	Results	Page
Unqualified audit opinion	Yes	7
Pre audit financial statements free from material error	No	7
Post audit financial statements free from material error	Yes	7 & 21
Material weaknesses in internal control	Yes	8
Use of resources	Results	Page
Use of resources judgements	Yes	13
Arrangements to secure value for money	Yes	15

Audit opinion

- 1 I have now substantially completed my audit work and subject to the clearance of outstanding matters I propose to give an unqualified audit on your financial statements. We are also required to issue an opinion on the Pension Fund accounts for the first time this year. Subject to satisfactory clearance of outstanding matters I plan to issue an unqualified opinion on the Pension Fund accounts. My draft audit report is attached at Appendix 1.

Financial statements

- 2 The financial statements were submitted for audit at the end of June and were supported by clear working papers prepared by finance and departmental staff.
- 3 However, I have identified three material errors which I draw to your attention in respect of:
 - £26.4m of council tax benefits incorrectly classified in the Income and Expenditure Account (I&E)
 - £16.5m of Revenue Expenditure Funded from Capital under Statute (REFCUS) accounted for on a net rather than a gross basis in the I&E.
 - Community assets overstated by £14.7m in the Balance Sheet.

Key messages

- 4 The Director of Finances has agreed to adjust the financial statements for these material errors and a number of other non-material errors and this is identified at Appendix 2. There are a number of errors that management has not adjusted and these are identified at Appendix 3.
- 5 The statement of accounts includes Merseyside Pension Fund accounts as Wirral Council is the administering authority for the Fund. The Pensions Committee has received a separate Annual Governance Report and considered the issues arising, including five material amendments. It is, however, the role of the Audit and Risk Management Committee to consider that report before approving the financial statements, noting the adjustments, agreeing to adjust any errors that management has declined to amend, approving the letter of representation and agreeing the response to the action plan.

Value for money conclusion

- 6 I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources in 2008/09. The wording of my draft report is attached at Appendix 1. There are no issues to bring to members attention.

Use of resources

- 7 I have completed my work on the new Use of Resources assessment for 2008/09. The new approach key lines of enquiry (KLOEs) reflect higher expectations than the previous assessment and include some areas not previously reviewed, including commissioning and procurement and use of natural resources. There is also a changed emphasis this year in that the focus is on being able to evidence the outcomes achieved as a result of the actions taken during the year. My assessment is that the Council is performing adequately. The formal score will be notified to the Council on 19 October 2009.

Audit Fees

- 8 My fee proposals were communicated to you in my Audit Plan for 2008/09. I issued a supplementary fee letter to the Director of Finance on 28 July indicating that the original fee was appropriate and no adjustment was required. However, the letter highlights that work on the PIDA concerning DASS has continued this year and we have received another PIDA in respect of a major contract. These issues were not anticipated when the fee was set in June 2008 and we have previously agreed that we will charge an additional fee when we complete the 2008/09 work.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion (including the Pension Fund opinion), value for money conclusion, and audit closure certificate. It 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.

9 I ask the Audit and Risk Management Committee to:

- consider the matters raised in the Pension Fund Annual Governance report and the recommendation of the Pensions Committee
- consider the matters raised in this report before approving the financial statements (pages 4 to 15);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified which management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- take note of the VFM Conclusion and Use of Resources score;
- approve the letter of representation on behalf of the Council and for the Pension Fund before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

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 the financial statements and the annual governance statement are authorised for issue.

Opinion on the financial statements

- 10** Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report. The outstanding matters are:
- review of Annual Report
 - review of amended statements
- 11** We are not expecting any of the outstanding matters to have a material effect on the accounts.
- 12** We are also required to issue an opinion on the Pension Fund accounts for the first time this year. Subject to satisfactory clearance of outstanding matters I plan to issue an unqualified opinion. The opinion is included in the draft audit report at Appendix 1.
-

Errors in the financial statements

- 13** The financial statements were submitted for audit at the end of June and were supported by clear working papers prepared by finance and departmental staff.
- 14** However, I have identified a number of material errors which I draw to your attention below. As previously reported to the Committee, we are required to report on all errors that are over the 'trivial' level which is £80k for 2008/09 (£500k in 2007/08). The Director of Finance has agreed to adjust the financial statements for the errors identified at Appendix 2. The unadjusted errors are identified at Appendix 3.
- 15** The material errors are summarised below:
- £26.4m of council tax benefits have been incorrectly classified in the Service Expenditure Analysis (SEA) in the Income and Expenditure Account (I&E). Classification of gross expenditure and income is determined by the Chartered Institute of Finance and Accountancy (CIPFA) through the Best Value Accounting Code of Practice (BVACOP). 'Other housing services' and 'central services to the public' gross expenditure and income are overstated and understated respectively by a material amount.
 - £16.5m of Revenue Expenditure Funded from Capital under Statute (REFCUS) has been accounted for on a net rather than a gross basis in the SEA in the Income and Expenditure Account. The Council has reduced gross expenditure for
-

material grant income received rather than show it as gross income in the I&E account.

- Community assets are overstated by £14.7m in Tangible Fixed Assets in the Balance Sheet. A number of operational land and buildings assets were reclassified in 2005/06 to community assets but the valuation was not changed. Operational land and buildings and community assets are measured on a different valuation basis. Therefore, the Council is showing a material overstatement of its community assets.

16 In addition, there are a number of non material errors identified in respect of provisions that should be classified as reserves, land for the Oval Sports Centre has been omitted from the balance sheet, collection fund creditors incorrectly netted off against debtors, incorrect split between long and short term investments, schools expenditure incorrectly reported as cash, school land not owned by the council, revaluations of land and buildings not reflected in the accounts and a debtor that was cancelled in 2009/10. These are detailed at Appendices 2 and 3.

17 We also identified a number of areas where disclosure notes needed to be improved and these have been amended and are noted at Appendix 2.

Recommendation

R1 Strengthen quality assurance to ensure errors on the accounts are minimised.

Material weaknesses in internal control

18 There are a number of weaknesses in relation to the adequacy of asset records, both in this year's accounts and for arrangements going forward under IFRS. The date of implementation of IFRS is 1 April 2010 but systems need to be in place from 1 April 2009 to capture information for the 2009/10 comparative figures. The errors noted above in respect of Tangible Fixed Assets are directly attributable to these weaknesses. In addition, the asset records are unable to support proper accounting treatment for disposals and subsequent expenditure on existing assets for some classes of assets. The specific issues are:

- Other land and buildings: the asset register is required to contain a relatively large amount of information in order to calculate the necessary accounting entries each year. The current system of maintaining this information is dependent upon a significant level of manual input and manual calculation. This increases the likelihood of error. The necessary volume of information required to be held on land and buildings will increase significantly under IFRS and it is unlikely that the current system will be able to support proper accounting going forward.
- Vehicles plant and equipment (VPE): the system for managing and recording VPE needs to be improved. The asset register is maintained on the basis of expenditure capitalised annually. It does not identify the underlying asset purchased or give other details as to the location of the asset or information to allow unique identification. The impact of this is that assets can not be easily identified, existence and ownership confirmed and eventual disposal be accounted for

Financial statements

properly. As a result of this, the Council has not recognised any disposals of vehicles, plant and equipment assets over the past three years and there is approximately £3.5m of fully depreciated assets

- Infrastructure assets: the asset register does not provide sufficient detail in order to properly account for subsequent expenditure or disposals. In order to capitalise expenditure on existing assets, the Council has to demonstrate enhancement and this is difficult where asset records do not identify individual assets. In addition, to capitalise expenditure on the replacement of an existing asset the Council must first recognise a disposal of that existing asset. As infrastructure assets are not identified in the asset register on a unique basis, this is currently not possible. This is also even more important going forward as under IFRS the valuation basis of infrastructure assets is likely to change and will require significant detail in the asset records.
- Community assets: as reported last year, the asset register does not yet currently identify all individual community assets, such as ceramic objects and paintings held by museums and art galleries, as full cataloguing of assets held has not been completed.

Recommendation

R2 In order to comply with accounting standards and the requirements of IFRS, the Council needs to improve asset records and should undertake a formal review of the systems used to develop a robust asset register to properly account for:

- land and buildings
- VPE, including to confirm the existence of all of its VPE assets and ensure that its asset register is suitably updated; increase the amount of information held on its asset register in respect of VPE assets. This should include location and information to allow unique identification. Review its internal processes of ensuring that all disposals are notified to Finance. This could include periodic reconciliations to other asset records and confirmations from departments as to the assets held
- Infrastructure assets, including to increase the amount of information held on infrastructure assets and ensure that individual infrastructure assets are identifiable. Review its internal processes of ensuring that all disposals are notified to Finance.
- Community assets, including complete the cataloguing of community assets held in museums and art galleries and ensure that the asset register is subsequently updated

Letter of representation

19 Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and

governance arrangements. Appendix 3 contains the draft letter of representation I seek to obtain from you.

Key areas of judgement and audit risk

20 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in Table 1.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
Large number of manual, off ledger, significant adjustments are actioned at the year end to produce the accounts. Risk of misstatement in the accounts, mainly in respect of I&E account and FRS17 entries	The allocation of all overheads is based on gross expenditure. We have recommended that the council review the basis of allocation using existing information systems to ensure a more accurate basis.
2007/08 audit identified undisclosed related party transactions. Risk of non-disclosure of politically sensitive items.	We identified 2 declarations that had not been returned at the end of May 2009.
Net cost of continuing operations - incorrect service expenditure analysis used in 2007/08. Risk of non-compliance with SoRP	Material classification error identified in the SEA in relation to Council Tax benefits. This has been raised as an error above.
We are aware that education expenditure in 2007/08 included a significant internal recharge that should have been excluded from the accounts. Risk of material misstatement within the SEA.	Recharges have been reviewed and no issues have been identified.
General market conditions are a trigger event for an impairment review. Impairment could be significant compared to previous years. Risk of material misstatement in the accounts.	Valuation of properties reviewed and no issues have been identified.
In 2007/08 we identified that the capitalisation of infrastructure assets is not strictly in line with the SoRP. We also identified that the Council had capitalised a number of other items which should have been charged to revenue as deferred charges. Risk of misstatement in the accounts.	We have reviewed a sample of infrastructure expenditure capitalised during the year. A material control weakness has been identified in respect of the adequacy of infrastructure asset records. This weakness means that it is difficult for the Council to demonstrate appropriate capitalisation of expenditure e.g. resurfacing of roads.

Financial statements

Issue or risk	Finding
<p>In 2007/08 we identified that supporting records for community assets in museums and art galleries were not all complete. Risk that they are not accurately reflected in the financial statements.</p>	<p>Although action has been taken by the Council during the year in response to this issue, not all categories of assets were found to be adequately supported. This has been raised as a material weakness above.</p>
<p>The Council is planning to write out a significant amount of fully depreciated assets in 08/09. Risk of material misstatement.</p>	<p>No write out of assets was performed during the year. Testing identified approximately £3.5m of fully depreciated assets. This issue is referred to in the material control weakness identified in relation to asset records.</p>
<p>Aspects of the bank reconciliation control has not operated consistently throughout the year. Risk of misstatement of politically sensitive item.</p>	<p>The year end bank reconciliation was reviewed. An uncertainty regarding petty cash held by schools has been identified and is reported as an error at Appendix 3.</p>
<p>Specific - "other" entries in the STRGL are not expected and, if representative of a net adjustment, may mask a significant gross error.</p>	<p>The entries in the STRGL have been reviewed and we have identified a non-material error at Appendix 2.</p>
<p>Current economic conditions suggest that an increase in the Bad Debt Provision (BDP) may be required. Risk that provision may be understated.</p>	<p>The bad debt provision has been reviewed and no issues have been identified.</p>
<p>We reported the findings of our PIDA review of DASS to ARMC in September 2008. The Council is carrying out further work to assess the finance and governance implications of the PIDA report. Risk of financial, legal and governance impact on the accounts</p>	<p>The outcome of the Council's further work will be reported to the ARMC on 23 September. We raise this issue below at Table 2.</p>
<p>We are carrying out further PIDA work on a major contract which may impact on our opinion. Risk of financial, legal and governance impact on the accounts.</p>	<p>We have not identified any financial, legal or significant governance impact on the accounts. Our report will follow shortly.</p>
<p>The Council carries out quality assurance (QA) testing on housing benefit payments in line with good practice. During 2008/09 the annual average rate of error was around 17%.</p>	<p>Audit procedures have been performed which demonstrate the financial impact of this issue is not material. We are in the process of certifying the claim for the deadline of 30 November 2009.</p>

Accounting practice and financial reporting

- 21** I consider the qualitative aspects of your accounting practices and financial reporting.
- 22** The quality of working papers provided to support the accounting statements has continued to improve and coordination arrangements during the audit worked well. Table 2 contains the issues I want to raise with you.

Table 2 Qualitative aspect of accounting practices and financial reporting

Issue or risk	Finding
<p>Members and senior officers are required to complete declarations at the year end to support the note on related party transactions within the financial statements. In 2007/08, the formal questionnaire, used by officers in preparing the disclosure for related party transactions, was not returned by 29 Members (42 per cent) and 7 (15 per cent) of senior officers at May 2008. Risk of non-disclosure of politically sensitive items.</p>	<p>The completion and return of declarations has improved significantly. We identified 2 declarations that had not been returned by members at the end of May 2009</p>
<p>The Council uses various types of property, vehicles, computer equipment and furniture financed under terms of operating leases. Risk of non-disclosure of material items if items are not included.</p>	<p>The leases note 26 and note 14 on accounting policies is not in accordance with SoRP as it did not contain property leases. We raise this issue below at Appendix 2.</p>
<p>The Council is considering the further work in response to our PIDA report on DASS at the ARMC on 23 September 2009. Risk of material impact on the accounts.</p>	<p>We seek assurance from management that there will not be a material financial impact on the accounts.</p>

Recommendation

- R3** Members should comply with the process for making related party disclosure declarations

Use of resources

I am required to consider how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and give a scored use of resources judgement.

I am also required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 23** In forming my scored use of resources judgements, I have used the methodology set out in the new [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2. The KLOEs reflect higher expectations than the previous assessment and include some areas not previously reviewed, including commissioning and procurement and use of natural resources. There is also a changed emphasis this year in that the focus is on being able to evidence the outcomes achieved as a result of the actions taken during the year.
- 24** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 25** The Council's use of resources theme scores are shown in Table 3 below. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised at Appendix 5. The Audit Commission will formally report the overall score to the Council on 19 October 2009.

Table 3 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	2
Governing the business	2
Managing resources	2

- 26** The Council manages its finances effectively and is delivering many of its strategic priorities. Financial management is sound over the short term and will be maintained over the medium to longer term if initiatives deliver expected savings. Concerns around overspending in adult social services continue. The Council has a reasonable understanding of the costs of its services and how these relate to performance and has a track record of delivering efficiencies. Over the past three years, the Council has achieved overall savings of £37.4m which exceeded target by £8m and £17.6m

savings were reported for 2008/09. The Council produces relevant, timely and reliable financial monitoring and forecasting information and uses financial and related performance information to monitor performance during the year.

- 27** The Council governs itself adequately and commissions services that provide value for money and deliver better outcomes for local people. Procurement and commissioning arrangements are satisfactory and some benefits have been realised, such as improved recycling. Wirral also leads a number of regional groups including the Merseyside Improvement Partnership. The Council produces relevant and reliable data and information to support decision making and manage performance. It has adopted, promotes and demonstrates the principles of good governance and a satisfactory ethical framework and culture. Risk management arrangements are strong, there are satisfactory arrangements in place to manage the risk of fraud and corruption and the system of internal control is generally adequate.
- 28** The Council has an understanding of its environmental impacts that allows it to focus its management on areas of high impact. Significant reductions have been achieved in its energy use and carbon dioxide emissions against a challenging target. Through its ISO 14001 certificated environmental management systems, it has identified the environmental risks in key services that could cause pollution. It also has a strategic approach to asset management and during the year developed, approved and is starting to implement its strategic asset review. The Council is working with partners and community groups to maximise the use of assets for the benefit of the local community.
- 29** The key areas for improvement are:
- concerns regarding spending in adult social services continue with an overspend in 2008/09
 - more work still needs to be done to ensure that the links between costs and performance are consistently made at service level and unit costs used to measure service performance
 - more work is required to ensure a consistent approach to procurement and commissioning is in place so that good practice is spread across the Council and that policies and procedures are followed
 - the Council needs to do further work to strengthen its corporate arrangements for governing partnerships including implementing the Partnership Toolkit which was approved in April 2009.

Recommendation	
R4	Ensure overspending in adult social services is addressed
R5	Ensure that the links between costs and performance are consistently made at service level and unit costs used to measure service performance
R6	Ensure a consistent approach to procurement and commissioning is in place so that good practice is spread across the Council and that policies and procedures are followed

Use of resources

R7 Ensure the Partnership Toolkit which was approved in April 2009 is launched, supported by training and fully implemented

Value for money conclusion

- 30** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are set out at Appendix 5.
- 31** I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources in 2008/09. Appendix 1 contains the wording of my draft report.

Appendix 1 – Draft independent auditor’s report to Members of Wirral Council

Draft independent auditor’s report to the Members of Wirral Borough Council

Opinion on the Authority accounting statements

I have audited the accounting statements and related notes of Wirral Borough Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Collection Fund and the related notes. The 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 Wirral Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Director of Finance and auditor

The Director of Finance’s responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE 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 governance statement covers all risks and controls.

Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements and related notes and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgements made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’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 accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

Opinion

In my opinion the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

Opinion on the pension fund accounts

I have audited the pension fund accounts for the year ended 31 March 2009 under the Audit Commission Act 1998. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Wirral Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Director of Finance and auditor

The Director of Finance’s responsibilities for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the pension fund accounts and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the pension fund during the year and the amount and disposition of the fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year. I also report to you whether, in my opinion, the information which comprises the commentary on the financial performance included within the Pension Fund Annual Report, is consistent with the pension fund accounts. That information comprises the Financial Statements, Statement of Responsibilities and the Audit Report.

I review whether the governance compliance statement published in the Pension Fund Annual Report reflects compliance with the requirements of Regulation 34(1)(e) of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I report if it does not meet the requirements specified by the Department of Communities and Local Government 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 governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures

I read other information published with the pension fund accounts and related notes and consider whether it is consistent with the audited pension fund accounts. This other information comprises the Explanatory Foreword published in the financial statements and the following elements of the Pension Fund Annual Report: Management Structure, Chair’s Introduction, Management Report, Investment Report, Scheme Administration Report and the Consulting Actuary’s Statement. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounts and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgements made by the Authority in the preparation of the pension fund accounts and related notes, and of whether the accounting policies are appropriate to the Authority’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 pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounts and related notes.

Opinion

In my opinion the pension fund accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the fund’s assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Conclusion on 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 regularly to review the adequacy and effectiveness of these arrangements.

Auditor’s Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority 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 in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper

arrangements. 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.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, I am satisfied that, in all significant respects, Wirral Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

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.

Michael Thomas
District Auditor, Audit Commission

The Heath Technical & Business Park, The Heath, Runcorn, Cheshire, WA7 4QF
September 2009

(An original signed copy of the Auditor’s Report can be viewed by request to the Head of Financial Services, Wirral Council, Treasury Building, Cleveland Street, Birkenhead, Wirral, CH41 6BU)

Appendix 2 – Adjusted amendments to the accounts

The following misstatements were identified during the course of my audit and the financial statements have been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities.

Table 4

Adjusted misstatements	Nature of Adjustment	Income and Expenditure Account		Balance Sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
I&E - SEA	Council tax benefit payments incorrectly classified between service headings in the SEA	26,396	26,396		
I&E - SEA	REFCUS accounted for on a net basis	16,539	16,539		
Community assets	Community assets valued incorrectly			14,703	14,703
Operational land and buildings	Oval Sports Centre land omitted from Tangible Fixed Assets in the Balance Sheet			3,463	3,463
Debtors and creditors	Collection fund debtors netted off from creditors in the Collection Fund			2,497	2,497
I&E	The I&E account is understated by £2.23m in respect of capital receipts that do not arise from the disposal of fixed assets, such as 'right to buy'	2,230 SMGFB	2,230		

Appendix 2 – Adjusted amendments to the accounts

		Income and Expenditure Account		Balance Sheet	
	receipts from the former Housing Revenue Account.				
Investments	Incorrect split between long and short term investments			1,989	1,989
Provisions and reserves in the Balance Sheet, I&E and SMGFB	Provisions of around £3.2m do not meet Financial Reporting Standard 12 criteria for classification as provisions in the Balance Sheet. These should be classified as reserves in the bottom half of the balance sheet rather than as a long-term liability in net assets. Total assets less liabilities and total equity are understated by this amount.	3,215	3,215 SMGFB	3,215	3,215
Tangible Fixed Assets – Operational Land and Buildings	School land not owned by Council included in accounts. School land valued at £1.3m is not owned by the Council and has incorrectly been included in Tangible Fixed Assets in the Balance Sheet.			1,300	1,300

We identified a number of areas where disclosure notes needed to be improved and management has agreed to amend:

- There were a number of presentational and arithmetic errors, such as:
 - quoted securities in respect of the Pension Fund still being noted at ‘mid’ rather than ‘bid’ price in the Accounting Policies section
 - Financial instruments note 32 – the carrying amount of loans and receivables did not come to the correct total.
- The Related Party Transactions note needs to be expanded to include amounts for transactions with organisations.

Appendix 2 – Adjusted amendments to the accounts

- The liquidity risk analysis of borrowing (note 34) does not reflect the correct split between years of maturity.
- We suggested an additional disclosure at note 2 to explain the increase between years in Total Grants in the I&E in respect of Area Based Grant which had previously been income in the SEA as Local Area Agreement Grant
- The leases note 26 and note 14 on accounting policies is not in accordance with SoRP as it did not contain property leases. Part of note 26 has been amended to include a significant lease of £447k. There is a remaining £544k in respect of other potential property leases that has not been identified as further analysis will be required. The note will also need to be updated to reflect the expiry analysis of property leases.

Appendix 3 – Unadjusted misstatements in the accounts

The following misstatements were identified during the course of my audit and the financial statements have not been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities. If you decide not to do so, please tell us why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Table 5

Description of error	Accounts effected	Value of error £Million
Debtors and creditors	Collection fund debtors netted off from creditors in the Collection Fund	0.484
Revaluations performed not reflected in accounts. Revaluations of operational land and buildings amounting to £0.3m have not been reflected in Tangible Fixed Assets in the Balance Sheet or the I&E	Tangible Fixed Assets – Operational Land and Buildings	0.270
Cancellation of debtor in 09/10. A debtor for £0.2m was subsequently cancelled in 2009/10 but still included in the 2008/09 balances in Adult Social Services.	Debtors and income (I&E)	0.240
Cash is overstated in the Balance Sheet and schools expenditure understated by £167k in the I&E	Cash and schools expenditure	0.167

Appendix 4 – Draft letter of representation

to Michael Thomas,
District Auditor,
Audit Commission,
The Heath Technical and Business Park,
The Heath,
Runcorn,
Cheshire,
WA7 4QF.

date 17 September 2009

your ref
my ref FA/IEC
please ask for Ian Coleman

Dear Michael,

Wirral Borough Council

- Audit for the year ended 31 March 2009

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Wirral Borough Council, the following representations given to you in connection with your audit of the Wirral Borough Council financial statements for the year ended 31 March 2009.

Compliance with the statutory authorities

I acknowledge 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: A Statement of Recommended Practice which present fairly the financial position and financial performance of the Council and for making accurate representations to you.

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the report are not material to the financial statements, either individually or in aggregate. The misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows;

- a) Within the Collection Fund £484,000 of debtors and creditors are stated as being netted-off. There is uncertainty over the classification of these items and, as the sum is not material, no adjustment has been made.
- b) The revaluation of assets is performed annually and the £270,000 error identified for 2008/09 will be incorporated within the 2009/10 revaluations.
- c) A debtor for £240,000 raised by Adult Social Services in 2008/09 was cancelled in the 2009/10 accounting year. No adjustment has been made in the 2008/09 accounts as it is not considered material.
- d) The amount of petty cash spent, but not yet reclaimed to restore to the level of the imprest holding, at the end of each financial year is variable from year-to-year. This is not considered to be a material sum.

Supporting records

All the accounting records have 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 accounting records. All other records and related information, including minutes of all Council, Cabinet and other Committee meetings, have been made available to you.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud and error.

There have been no:

- a) irregularities involving management or employees who have significant roles in the system of internal accounting control;
- b) irregularities involving other employees that could have a material effect on the financial statements; or
- c) communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- a) 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; and
- b) 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.

Appendix 4 – Draft letter of representation

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

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. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. I confirm:

- a) the appropriateness of the measurement method;
- b) the basis used by management to overcome the presumption under the financial reporting framework;
- c) the completeness and appropriateness under the financial reporting framework; and
- d) subsequent events do not require adjustment to the fair value measurement.

Assets

The following have been properly recorded and when appropriate adequately disclosed in the financial statements:

- a) losses arising from sale & purchase commitments;
- b) agreements and options to buy back assets previously sold; and
- c) assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts and we have no other lines of credit arrangements.

Contingent liabilities

The Council is considering the implications of the Adult Social Services - Public Interest Disclosure Act report. The findings may impact upon the financial position of the Council but are not considered to be material.

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- a) there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- b) there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- c) no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information provided regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded, and where appropriate, adequately disclosed in the financial statements.

Post balance sheet events

Since the date of approval of the financial statements by the Audit and Risk Management Committee, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Specific representations

There are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements.

Signed on behalf of Wirral Borough Council

I confirm that this letter was agreed by the Audit and Risk Management Committee of Wirral Borough Council on 23 September 2009.

Name Ian Coleman
Position Director of Finance
Date

Appendix 5 – Use of resources key findings and conclusions

The following tables summarise the key finding and conclusions for each of the three use of resources themes. The overall score will be formally reported to the Council by the Audit Commission on 19 October 2009.

Table 6 Managing finances

Theme score 2	
Key findings and conclusions	
Wirral Council manages its finances effectively to deliver value for money	
KLOE 1.1 (financial planning)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
The Council manages its finances effectively and is delivering many of its strategic priorities. Financial management is sound over the short term and will be maintained over the medium to longer term if initiatives deliver expected savings. The outturn for 2008/09 was in line with the plan and balances were maintained to within £200k. Concerns remain around overspending in adult social services.	

<p>KLOE 1.2 (understanding costs and achieving efficiencies)</p> <p>Score VFM criterion met</p>	<p>2 Yes</p>
<p>Key findings and conclusions</p> <p>The Council maintains a reasonable understanding of the costs of its services and how these relate to performance. However, more work still needs to be done to ensure that the links between costs and performance are consistently made at service level and unit costs used to measure service performance. The Council has established a track record of delivering efficiencies. Over the past three years, the Council has achieved overall savings of £37.4m which exceeded target by £8m and £17.6m savings were reported for 2008/09. Over the last year, the Council has taken some difficult decisions in traditionally high cost service areas and progressed a number of important strategic projects with the aim of achieving savings. The impact of these initiatives is yet to be felt as the projected savings form part of the Council's financial plans for 2009/10.</p>	
<p>KLOE 1.3 (financial reporting)</p> <p>Score VFM criterion met</p>	<p>2 Yes</p>
<p>Key findings and conclusions</p> <p>The Council produces relevant, timely and reliable financial monitoring and forecasting information and uses financial and related performance information to monitor performance during the year. Financial reports are clear and since September 2008 have been presented in a combined financial and performance report to members on a quarterly basis. The Council's 2007/08 accounts complied with statutory requirements, regulatory timetables, and relevant accounting and reporting standards and an unqualified opinion was given. We are planning to give an unqualified opinion on the 2008/09 accounts. The most recent published accounts for 2008/09 and the annual audit letter for 2007/08 are available to the public and appeared on the Council's website on a timely basis and in accessible formats.</p>	

Appendix 5 – Use of resources key findings and conclusions

Table 7 Governing the business

<p>Theme score 2</p>	
<p>Key findings and conclusions</p> <p>Wirral Council adequately governs itself and commissions services that provide value for money and deliver better outcomes for local people.</p>	
<p>KLOE 2.1 (commissioning and procurement)</p>	
<p>Score</p>	<p>2</p>
<p>VFM criterion met</p>	<p>Yes</p>
<p>Key findings and conclusions</p> <p>The Council is performing adequately. However, it is generally too early to demonstrate the achievement of sustainable outcomes that result in quality services and supplies, respond to local need and deliver better value for money. More time is required to enable the benefits of procurement and commissioning initiatives to be realised although there are some positive outcomes, such as improved recycling. Wirral is also actively involved with collaborative working across Merseyside and the North West Region using the Merseyside Procurement Group to take forward the joint initiatives and leads a number of regional groups including the Merseyside Improvement Partnership. Our detailed work on procurement and commissioning is largely complete. More work is required to ensure a consistent approach to procurement and commissioning is in place so that good practice is spread across the Council and that policies and procedures are followed.</p>	

<p>KLOE 2.2 (data quality and use of information)</p> <p>Score 2</p> <p>VFM criterion met Yes</p>	<p>Key findings and conclusions</p> <p>The Council produces relevant and reliable data and information to support decision making and manage performance. Understanding of needs of decision makers is improving. Data security is satisfactory. Performance is monitored against priorities and targets and underperformance being addressed.</p>
<p>KLOE 2.3 (good governance)</p> <p>Score 2</p> <p>VFM criterion met Yes</p>	<p>Key findings and conclusions</p> <p>The Council has a good understanding of the key ethical governance issues that it faces and the action needed to promote and maintain standards. It has adopted, promotes and demonstrates the principles of good governance and a satisfactory ethical framework and culture. The administration has set out clear purpose and vision in its strategic priorities and this is communicated to both within the Council and with external stakeholders. The Ethical Governance diagnostic survey findings were encouraging - and more positive than the average in many areas. The Council needs to do further work to strengthen its corporate arrangements for governing partnerships although many outcomes from working in partnership are positive.</p>

Appendix 5 – Use of resources key findings and conclusions

<p>KLOE 2.4 (risk management and internal control)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p> <p>Risk management arrangements are strong and the Council can demonstrate areas where risks have been successfully identified and mitigated. There are satisfactory arrangements in place to manage the risk of fraud and corruption. The system of internal control is generally satisfactory</p>	

Table 8 Managing resources

Theme score 2	
Key findings and conclusions	
Wirral Council manages its natural resources and its physical assets adequately to meet current and future needs and deliver value for money	
KLOE 3.1 (use of natural resources)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
<p>The Council has an understanding of its environmental impacts that allows it to focus its management on areas of high impact. It has high level summary information on energy use across its main properties and plans to implement more detailed monitoring. Significant reductions have been achieved in its energy use and carbon dioxide emissions against a challenging target. The Council has met its target to reduce its carbon emissions by 20 per cent by 2010, achieving this two years early in 2008. From 2006/07 to 2007/08 the Council reported a 'weather corrected' saving of £69k. Through its ISO 14001 certificated environmental management systems, it has identified the environmental risks in key services that could cause pollution.</p>	

Appendix 5 – Use of resources key findings and conclusions

<p>KLOE 3.2 (strategic asset management)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p> <p>The Council has a strategic approach to asset management and during the year developed, approved and is starting to implement its strategic asset review. Once implemented, the Council expects to make annual revenue savings of £3.1 m from the closure buildings and £1m from rationalising office accommodation – as well as providing improved services and reducing the impact of Council buildings on the environment. The Council is working with partners and community groups to maximise the use of assets for the benefit of the local community</p>	

Appendix 6 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	Annual Governance Report 2008/09 - Recommendations					
	R1. Strengthen quality assurance to ensure errors on the accounts are minimised.	2	Head of Financial Services	Yes	Arrangements reviewed annually and incorporate AGR findings.	January 2010
	R2 In order to comply with accounting standards and the requirements of IFRS, the Council needs to improve asset records and should undertake a formal review of the systems used to develop a robust asset register to properly account for: <ul style="list-style-type: none"> land and buildings VPE, including to confirm the existence of all of its VPE assets and ensure that its asset register is suitably updated; increase the amount of information held on its asset register in respect of VPE assets. This should include location and information to 	3	Head of Financial Services (to co-ordinate). L&B: Director of Law, HR and Asset Management. VPE: Head of Financial Services.	Yes	Co-ordinating role as delivered by the projects below. L&B: Assessing options for implementing in 2009/10. VPE: Specific project being undertaken in 2009.	March 2010

Appendix 6 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<p>allow unique identification. Review its internal processes of ensuring that all disposals are notified to Finance. This could include periodic reconciliations to other asset records and confirmations from departments as to the assets held</p> <ul style="list-style-type: none"> Infrastructure assets, including to increase the amount of information held on infrastructure assets and ensure that individual infrastructure assets are identifiable. Review its internal processes of ensuring that all disposals are notified to Finance. Community assets, including complete the cataloguing of community assets held in museums and art galleries and ensure that the asset register is subsequently updated 		<p>Infrastructure: Director of Technical Services</p> <p>Community assets: Director of Regeneration</p>		<p>Infrastructure: Working group set-up and awaiting technical guidance due in 2009/10.</p> <p>Community assets: Museum task now expected to be completed 2009/10.</p>	
	R3. Members should comply with the process for making related party disclosure	2	Director of Law, HR and Asset	Yes	Importance to be reinforced for all to	March 2010

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	declarations		Management		respond in time.	
	R4. Ensure overspending in adult social services is addressed	3	Director of Adult Social Services	Yes	Actions continue to be taken to remain within budget	March 2010
	R5. Ensure that the links between costs and performance are consistently made at service level and unit costs used to measure service performance	2	Director of Finance and Director of Corporate Services	Yes	Work continues to link performance and management in the Council.	Ongoing
	R6. Ensure a consistent approach to procurement and commissioning is in place so that good practice is spread across the Council and that policies and procedures are followed	2	Director of Finance	Yes	Messages continue to be reinforced to minimise the risk of non-compliance.	March 2010
	R7. Ensure the Partnership Toolkit which was approved in April 2009 is launched, supported by training and fully implemented	2	Director of Law, HR and Asset Management	Yes	The arrival of the new Head of Legal Services will help progress in this area.	November 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, on tape, or in a language other than English, please call 0844 798 7070.

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WIRRAL COUNCIL

AUDIT AND RISK MANAGEMENT COMMITTEE

23 SEPTEMBER 2009

REPORT OF THE DIRECTOR OF FINANCE

AUDIT COMMISSION – FINANCIAL MANAGEMENT REVIEW

1. EXECUTIVE SUMMARY

- 1.1 The Council has made some significant steps to improve and integrate financial and performance management over recent years and in 2009 the Audit Commission has undertaken two pieces of work in this area to help deliver further improvements.
- 1.2 The 'Improvement through better financial management' report from the Audit Commission was issued in September 2009 and was initially undertaken as a separate review to inform the Use of Resources assessment in 2008/09.
- 1.3 The Commission then commenced a Performance Management Review focused upon how performance management is applied consistently across departments and examined progress and highlighted areas of good practice, as well as identifying further opportunities for improvement. The outcome of the first stage of this review and the next steps is reported elsewhere on this agenda.
- 1.4 It is intended that the messages from the Financial Management review will be integrated with the second stage of the Performance Management Review.

2. BACKGROUND

- 2.1 Financial management is integral to the success of any organisation and seeks to ensure that resources are used to successfully deliver the agreed aims and objectives. Clearly there are strong links with performance and Wirral continues to develop the linkages as reported to Cabinet on 9 April 2009 on the Financial and Performance Management arrangements for 2009/10.
- 2.2 Wirral has strengthened its approach to financial and performance management, which can be evidenced by:-
 - The 2008 Comprehensive Performance Assessment (CPA) assessed Wirral as a 3 star council – improving well. This reflected the increase in score for financial management, financial standing and internal control which all increased from 2 stars to 3 stars.
 - Revisions to both the format and timetable of reports to Members combining financial, performance and risk information to enable effective decision making.

- The year-end position for the 2008/09 financial year resulted in an overall reduction in the General Fund balance of £0.2 million. This included the funding of additional pressures within Adult Social Services.
 - The budget for 2009/10 was agreed in March 2009 and included an increase in Council Tax of 4.46%.
 - Regular budgetary projections for future years are presented to Members which complement and update the information contained within the Medium Term Financial Strategy.
- 2.3. The latest direction of travel statement from the Audit Commission reflected the improvements made stating that 'The Council continues to develop its capacity for future delivery and has improved its arrangements for managing its resources. Ambitions and priorities for the area have been clarified and performance management arrangements are being strengthened.'
- 2.4. The Council recognises there is further work to be done, and will continue to develop financial and performance management arrangements to drive further improvements. The Audit Commission review aimed to ensure that the Council continues to develop and strengthen its financial management arrangements to support the delivery of the desired outcomes.

3. THE FINANCIAL MANAGEMENT REVIEW

- 3.1 The work was based upon the Chartered Institute of Public Finance and Accountancy (CIPFA) financial management model and the revised Use of Resources approach. It involved an on-line survey tailored to specific groups namely Councillors, budget-holders and those within financial services.
- 3.2 The report which brings together the survey results from the groups is attached as an Appendix and this report plus the separate surveys for each of the groups will be available in the virtual committee.
- 3.3 The survey was distributed to 412 individuals with 154 responses received, giving a good response rate of almost 40%, with the overall messages being positive.
- 3.4 The survey highlighted a number of areas which support the progress the Council has made, as recognised in the CPA 2008, in that:-
- The budget is prepared in line with the agreed objectives, strategies and Corporate Plan with the CPA recognising that the Medium Term Financial Strategy, budgets and capital programme are soundly based and designed to deliver the corporate priorities.
 - The financial monitoring information made available to Members and finance / non finance staff is a strength. The CPA recognised that the Council manages spending within the available resources and performance against budgets.
 - The policies, procedures and guidance is recognised as being good and the financial skills are available, and maintained, in order to support others to manage the finances.

- 3.5 Whilst these messages are positive, one of the key aims was to identify areas for further investigation and improvement. The Audit Commission has set out some issues which, based upon the responses, could be probed further and which are also linked to the approach to identifying and delivering savings:-
- The approach to savings is perceived to be more of a short-term nature resulting in unsupported plans which make delivery challenging.
 - Greater use of comparisons with others, if available, to inform decision making by comparing and benchmarking costs and performance.
 - Awareness and understanding of the Medium Term Financial Plan linked to understanding the service planning and budget setting process.

4. NEXT STEPS

- 4.1 In taking forward the key messages these will be integrated with those from the Audit Commission Performance Management Review and will involve a series of focus groups with managers and Elected Members. These will be prior to an improvement planning session facilitated by the Audit Commission, focused upon any issues raised, with the purpose being to enhance existing financial and performance management arrangements within Wirral.
- 4.2 The Finance Department provides financial training to those engaged with this area of work throughout the Council with an extensive programme completed during 2008/09. This has since been revised to address some of the issues raised around awareness of the budgetary processes and related linkages with other Council strategies.
- 4.3 The Council continues to use a variety of sources to compare cost and performance with this varying to reflect departmental circumstances as evidenced by the work by Adult Social Services in respect of charges and commissioning and by Technical Services regarding streetscene which has produced recycling improvements and delivered savings. The use of the Audit Commission Value for Money profiles, the CIPFA benchmarking site and the more specific areas for Social Services are now being supplemented by the involvement with the PWC (Price Waterhouse Coopers) benchmarking club.

5. FINANCIAL IMPLICATIONS

- 5.1. There are none arising directly from this report.

6. STAFFING IMPLICATIONS

- 6.1. There are none arising directly from this report.

7. EQUAL OPPORTUNITY IMPLICATIONS

- 7.1. There are none arising directly from this report.

8. COMMUNITY SAFETY IMPLICATIONS

8.1. There are none arising directly from this report.

9. HUMAN RIGHTS IMPLICATIONS

9.1. There are none arising directly from this report.

10. LOCAL AGENDA 21 IMPLICATIONS

10.1. There are none arising directly from this report.

11. PLANNING IMPLICATIONS

11.1. There are none arising directly from this report.

12. MEMBER SUPPORT IMPLICATIONS

12.1. There are none arising directly from this report.

13. BACKGROUND PAPERS

13.1 'Improvement through better financial management' - Audit Commission September 2009.

14. RECOMMENDATION

14.1 That the messages from the financial management review be integrated with the Audit Commission review of Performance Management to reflect and build upon the improvements made towards integrating performance and financial management.

IAN COLEMAN
DIRECTOR OF FINANCE

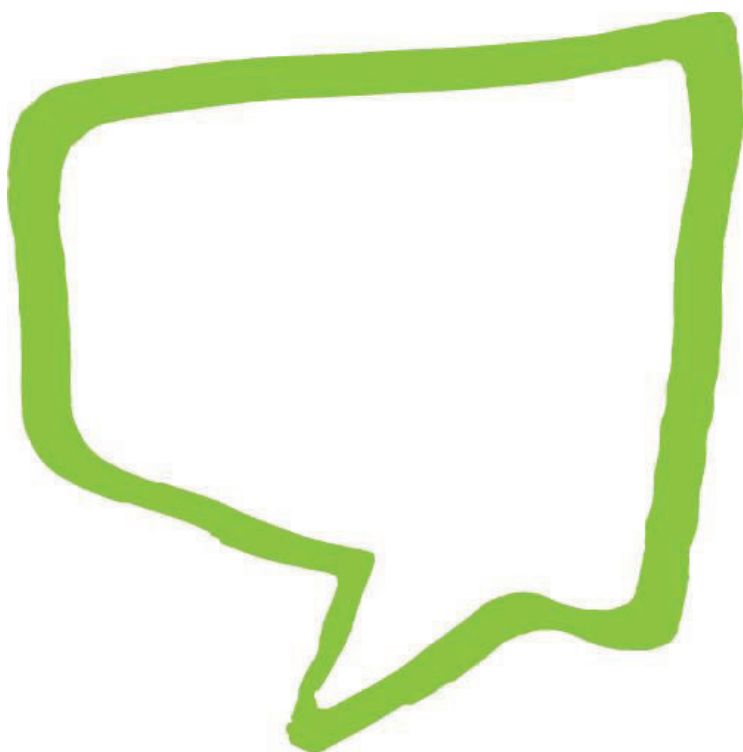
FNCE/257/09

Improvement Through Better Financial Management

Wirral Metropolitan Borough Council

Audit 2008/09

September 2009



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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.

Summary report

Introduction

- 1 Financial management is a key element of a local authority's overall corporate management arrangements. Strong financial management is essential to the efficient use of resources and is a pre-requisite to successful service delivery. The constraints placed upon local authorities require them to have effective methods to prioritise and monitor their finances. It is essential that robust systems of control are in place if services are to meet citizens' local needs.
- 2 Good practice financial management establishes a set of financial policies and principles which provide a sound basis for maintaining the financial integrity of the Council over the medium term, including longer term financial strategies which allow more time for consideration of policy options to address funding gaps.
- 3 The Gershon Report has stated that a significant amount of the funding for the increases in local authority spending in the Comprehensive Spending Review is envisaged to come from efficiency savings. The report identifies a need to release resources into frontline services to meet the public's priorities and to improve the ability of frontline professionals to meet the needs of their customers.
- 4 Local authorities therefore need to be clear about their objectives and their arrangements for achieving them. Effective financial management should:
 - take account of the needs of local communities so people can influence the services they receive;
 - help to drive corporate priorities and achieve sustainable efficiency gains;
 - support the integration of service and financial plans with all the other plans and strategies of the Council; and
 - include systems to ensure that proper controls are in place to prevent the misuse of public funds.
- 5 Effective financial management requires a culture that recognises that financial management is the responsibility of the whole organisation and not just the Finance Department. Clear accountability for finance issues needs to be in place to reinforce this message.

Background

- 6 The 2006 and 2007 Use of Resources assessments judged that the Council's financial management arrangements were 'adequate', highlighting a number of areas for further improvement. In response the Council has continued to develop the Medium Term Financial Strategy, improved links to corporate objectives and priority areas, improved budget management arrangements through the introduction of action plans to address material variances and developed better reporting to Members. The Council also made a significant investment in the new finance system which was implemented in April 2006.
- 7 Our 2008 use of resources assessment recognised the improvements and assessed the arrangements as 'good'. However, the Council continues to face significant financial challenges. The Director of Finance has reported that the current base budget is not sustainable and difficult decisions will need to continue to be taken to balance the budget over the medium to longer term. The Council has agreed measures to reduce its budget and the Cabinet has agreed an efficiency plan target to achieve £30m savings during 2008 to 2011.
- 8 In the context of these financial challenges the Council recognises that the continued development of robust financial management arrangements is essential to ensure that scarce resources are channelled into key priorities and outcomes are achieved. A main part of such arrangements is to maintain an effective medium term strategic plan, which expresses the corporate plan and acts as an essential driver for change. This highlights the importance of the on-going steps the Council is taking to develop its Medium Term Financial Plan.
- 9 The 2008/09 use of resources assessment considers how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people. It is structured into three themes that focus on the importance of sound and strategic financial management, strategic commissioning and good governance, and the effective management of natural resources, assets and people. The work in this report will substantially inform our assessment of the financial management theme and is based on the principles set out in the Commission's publication World Class Financial Management and its research identified in the Audit Commission report 'Improvement through better financial management' (IBFM).
- 10 The assessment for 2008/09 is more demanding than in previous years and will focus more on value for money achievements, outputs and outcomes rather than on processes.

Audit approach

- 11 The overall objective for this review was to ensure that the Council continued to develop and strengthen its financial management and ensure that resource allocation and financial monitoring support the delivery of corporate objectives and achieve outcomes. Our work aimed to both challenge whether the Council's approach includes all the building blocks of effective financial management, and, to support the Council in developing effective financial management.

Summary report

- 12** We based our work on IBFM including the Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management model and the new use of resources approach as a source of best practice. This enables us to identify strengths and areas for improvement and allows progress to be tracked over time. In the short term it will allow priorities for improvement to be established in conjunction with the development of an action plan. Our aim is to help the Council to understand and clarify improvement opportunities and how these can be integrated into continuous improvement work across the organisation.
- 13** We agreed to work with the Council to facilitate and support self-assessment and diagnostic work using a survey of members, budget holders and finance staff as part of a general review of financial management arrangements.
- 14** The Audit Commission conducted the survey on financial management at Wirral Council in March 2009. This captured the views of relevant staff, senior managers and councillors to ensure as complete a picture as possible is captured. The survey was designed to collect personal views and experiences of financial management within the Council. This is intended to help the Council understand where it is doing well and what needs to improve for the future.
- 15** The survey was tailored for three specific groups as set out below.

 - Councillors - survey was sent out to a total of 66 councillors and we received 26 responses (39 per cent).
 - Budget holders - survey was sent out to a total of 305 budget holders and we received 97 responses (32 per cent).
 - Financial staff - survey was sent out to a total of 41 financial staff and we received 31 responses (76 per cent).
- 16** The key messages emerging from the survey will be explored in further detail in focus groups with a range of officers. This will provide a better understanding of views expressed in the survey. It will also identify opportunities to share good practice across the Council and areas for improvement, leading to more focused planning of improvement solutions. As part of this stage of the project we will consider the messages alongside the messages from the survey on performance management.

Main conclusions

17 The responses to the survey questions are positive overall and encouragingly the response rate for all groups surveyed was good. In particular, a number of strengths were identified.

Strengths

- All groups agreed that:
 - the Council prepares its budgets in accordance with its corporate objectives, strategies and medium term financial plan;
 - Councillors receive regular budget monitoring information to identify variances in spending and ensure savings are realised; and
 - budget holders and financial staff receive budget monitoring reports during the financial year which provide reliable forecasts of projected outturn so they can take early action to address potential overspends.
- Budget holders and financial staff agreed that finance staff have appropriate skills and experience to support managers/budget holders in managing finance, understand the business they support and provide a satisfactory service.

Areas for improvement and further exploration:

- Budget holders and financial staff:
 - assessed that the council does not always take a medium-term approach to delivering savings rather than short-term expedients, such as pro rata cuts, which ensures budgets are sustainable and any impact on services is minimised;
 - assessed that service areas are not always given adequate resources to deliver the required level of service to achieve the Council's objectives and priorities;
 - do not always feel that annual service planning and budget preparation is sufficiently integrated;
 - responded that cost reductions, growth and savings options are not always identified and supported with detailed plans which are reliably costed as part of the budget process; and
 - responded that unit costs, activity costs, benchmarks and other financial performance measures are not always available and used to inform decisions to maintain or change current services.
- All groups identified the need to improve the review of the cost and performance of services, including Finance, and test them against internal and external benchmarks to identify improvements.
- Councillors and budget holders identified the need for further financial and budget training.

Summary report

- 18** In addition, there were a number of areas - in particular in relation to awareness and understanding of the medium term financial plan (MTFP) - that require further exploration as some of the survey responses were 'don't know'. A number of budget holders and finance staff responded 'don't know' to the following.
- The Medium Term Financial Plan (MTFP) is consistent with the Council's aims and objectives and takes account of local and national priorities, including the Local Area Agreement (LAA)
 - The MTFP and departmental service plans are clearly linked with new investment supported by outcome targets to measure the benefits of additional funding
- 19** A number in all groups responded 'don't know' to the following.
- The MTFP gives a clear direction for allocation of resources to service areas and helps to ensure resources are redirected in line with priorities, with budgets that are sustainable in the longer-term.
- 20** The responses to each of the surveys are available on the Council intranet.
- 21** We shared the results of the surveys with officers in May and met to discuss the way forward in July 2009. We are aware that officers are planning to use the results of the survey to inform further member and budget holder training and to explore the results further at the performance management workshops planned for the autumn.

Recommendation

- R1** Consider the responses from all the surveys and:
- analyse the survey results in further depth to establish whether particular groups are outliers;
 - explore the results of the survey in more depth using focus groups/workshops involving relevant members;
 - compare existing improvements plans against the areas for improvement; and
 - identify gaps in existing improvement plans and take appropriate action.

Financial Management Survey Councillors

22 The survey was sent out to a total of 66 members and we received 26 responses (39 per cent) as follows.

- Four Cabinet
- Three Audit and Risk Management Committee
- Eighteen Overview and Scrutiny Committee
- Seven Planning
- Six Licensing
- Two Standards
- Two Employment and Appointments
- One Other

23 The response by political party was as follows.

- Eighteen Administration (Labour and Liberal Democrat)
- Six Opposition (Conservative and Other)
- Two Prefer not to disclose

24 Copies of the detailed responses are available on the Council intranet.

Strengths

25 The survey highlights that the Council has a number of strengths, as follows.

Budget Setting

- I understand how the budget is set based on the council's key priorities
- I understand how the budget takes account of key financial risks.

Budget Monitoring

- I receive regular budget monitoring information to identify variances in spending and ensure savings are realised.

Linking Financial Management

- Financial management is effectively linked to strategic decision making.

Financial Management Survey Councillors

Financial Management

- I understand the framework of financial accountability throughout the council
- I understand how the key financial risks impact on the council.

Areas for improvement and further exploration

26 The survey has also highlighted areas for improvement or further exploration, as detailed below.

Budget Setting

- I believe that there is public confidence that the council delivers value for money.
- I believe that the council effectively engages with local people, service users and the third sector which informs the budget setting process.

Linking Financial Management

- Financial management is effectively linked to Performance management.
- Financial management is effectively linked to Governance.
- Financial management is effectively linked to Efficiency and VFM agenda.

Financial Management

- I know when and how to access financial advice and receive a satisfactory service
- My learning needs for financial management have been assessed and have been addressed with training or other support
- There is a culture of effective financial management within the Council
- The Council reviews the cost and performance of services, including Finance, and tests them against internal and external benchmarks to identify improvements
- A joined-up/cross cutting approach is adopted for plans which are reflected in budgets and accountability.

Mixed/'don't know' responses

27 There are some areas of the survey with mixed responses which should be explored in further detail.

Budget Setting

- I feel that my views are taken account of during the budget setting process.
- I think that the council plans effectively show resources are allocated to different services and activities aligned with Council priorities.

Budget Monitoring

- Timely and effective action is taken to address financial pressures which arise during the financial year.

Way forward

28 The Council needs to consider the responses from the members' survey.

Financial Management Survey Budget Holders

29 The survey was sent out to a total of 305 budget holders and we received 97 responses (32 per cent) as follows.

- Four Chief Officers/Management Team Member.
- Thirty-one Senior Management Team Member.
- Fifty-one Cost Centre Managers.
- Twelve Other.

30 The response by department was as follows.

- Nine Corporate Services.
- Two Department of Law, HR and Asset Management.
- Twenty-six Adult Social Services.
- Fifteen Children and Young People.
- Twenty Finance.
- Eighteen Regeneration.
- Six Technical Services.

31 Copies of the detailed responses are available on the Council intranet.

Strengths

32 The survey highlights that the Council has a number of strengths, as follows.

Corporate and Financial Planning

- The Council's corporate plan clearly sets out the organisation's aims/objectives and priorities to provide a robust basis for allocation of resources.
- The Council engages with local communities and other stakeholders, such as the third sector, as part of financial planning processes.
- Performance and cost measures are used by the Executive and senior managers to indicate business areas where radical rethinking of delivery is necessary, where appropriate making use of benchmarking.

Budget Setting

- The Council prepares its budgets in accordance with its corporate objectives, strategies and medium term financial plan.

Financial Reporting and Monitoring

- I receive budget monitoring reports during the financial year which provide reliable forecasts of projected outturn so I can take early action to address potential overspends.
- As a budget holder I feel I have sufficient skills to interpret and challenge the financial information I receive.
- Value for money improvement outcomes within my service areas are reported upon.

Competencies, Training and Performance Review

- I am aware of my duties and effect I have on the good financial management of the Council.
- Finance staff have appropriate skills and experience to support managers/budget holders in managing finance.
- Finance staff understand the business they support and provide a satisfactory service.

Policies, Procedures and Guidance

- Financial policies and guidance are communicated to managers, widely understood and consistency applied.
- The authority's financial regulations give me clear and comprehensive guidance on the financial procedures I should follow.
- The organisation provides support, guidance and clear documentation to ensure that managers who are budget holders are aware of their responsibilities.

Areas for improvement and further exploration

33 The survey has also highlighted areas for improvement or further exploration, as detailed below.

Corporate and Financial Planning

- The council takes a medium-term approach to delivering savings rather than short-term expedients, such as pro rata cuts, which ensures my budget is sustainable and any impact on services is minimised.

Budget Setting

- I am satisfied with my involvement in the budget setting process for my service area.
- I am aware how the budget allocated to me has been derived and what is included.
- My service area is given adequate resources to deliver the required level of service to achieve the Council's objectives and priorities.
- I feel that annual service planning and budget preparation is sufficiently integrated.
- Cost reductions, growth and savings options are identified and supported with detailed plans which are reliably costed as part of the budget process.
- Unit costs, activity costs, benchmarks and other financial performance measures are available to me and used to inform decisions to maintain or change current services.

Financial Reporting and Monitoring

- Financial information is clearly presented, timely and comprehensive to the non-financial reader.
- The reports I receive make it easy for me to relate finance with performance and activity information.
- I regularly reviews costs and performance and compare with internal or external Benchmarks.

Competencies, Training and Performance Review

- Post holders who are responsible for resources are required to have specified financial competencies and these are reflected in individual job descriptions and personal specifications.
- I am assessed on the financial competencies for my job as part of the key issues exchange process for staff.
- Financial training needs are identified from staff inductions and appraisals or from service plans, and are addressed in a structured and timely manner with training outcomes evaluated.
- The authority has provided effective financial training for my role as a budget holder.

Mixed/'don't know' responses

34 There are some areas of the survey with 'don't know' responses which should be explored in further detail.

Corporate and Financial Planning

- The medium term financial plan (MTFP) is consistent with the Council's aims and objectives and takes account of local and national priorities, including the Local Area Agreement (LAA).
- The MTFP gives a clear direction for resources in my service area and helps to ensure resources are redirected in line with priorities, with budgets that are sustainable in the longer-term.
- The MTFP and my department's service plan are clearly linked with new investment supported by outcome targets to measure the benefits of additional funding.

Budget Setting

- Cost reductions, growth and savings options are identified and supported with detailed plans which are reliably costed as part of the budget process.

Way forward

35 The Council needs to consider the responses from the budget holders survey.

Financial Management Survey Financial Staff

36 The survey was sent out to a total of 41 budget holders and we received 31 responses (78 per cent) as follows.

- Eighteen Corporate Finance
- Five Finance Staff - Adult Services
- Three Finance Staff - Children's Services
- Three Finance Staff - Other
- Two Finance Staff – not disclosed

37 Copies of the detailed responses are available on the Council intranet.

Strengths

38 The survey highlights that the Council has a number of strengths, as follows.

Corporate and Financial Planning

- The Council's Corporate Plan clearly sets out the organisation's aims/objectives and priorities to provide a robust basis for allocation of resources.

Budget Setting

- The Council prepares its budgets in accordance with its corporate objectives, strategies and medium term financial plan.

Financial Reporting and Monitoring

- Financial information is clearly presented, timely and comprehensive to the non-financial reader.
- Budget monitoring reports are issued during the financial year which provide reliable forecasts of projected outturn so early action can be taken to address potential overspends.

Competencies, Training and Performance Review

- Financial training needs are identified and are addressed in a structured and timely manner with training outcomes evaluated.
- The organisation has a structured training scheme for finance qualification.
- Finance staff are engaged in continuing professional development to keep skills up-to date.
- Finance staff understand the business areas they support and have appropriate skills and experience to effectively support managers/budget holders in managing finance.

Areas for improvement and further exploration

39 The survey has also highlighted areas for improvement or further exploration, as detailed below.

Corporate and Financial Planning

- The council takes a medium-term approach to delivering savings rather than short term expedients, such as pro-rata cuts, which ensures that budgets are sustainable and any impact on services is minimised.

Budget Setting

- Service areas are given adequate resources to deliver the required level of service to achieve the Council's objectives and priorities.
- Annual service planning and budget preparation is sufficiently integrated.
- Cost reductions, growth and savings options are identified and supported with detailed plans which are reliably costed as part of the budget process.
- Unit costs, activity costs, benchmarks and other financial performance measures are available and used to inform decisions to maintain or change current services.

Competencies, Training and Performance Review

- The finance specialism has sufficient status to attract high flyers and talent.
- Technology frees finance staff from transaction processing to focus on their skilled professional contribution.
- Qualified staff focus on challenge, interpretation and advice, rather than on extracting and reorganising information.
- There are effective forums to enable finance staff located corporately and within business groups to network and exchange good practice.

Policies, Procedures and Guidance

- The organisation provides support, guidance and clear documentation to ensure that managers who are budget holders are aware of their responsibilities.

Mixed/'don't know' responses

40 There are a number of areas within the survey with 'don't know' responses which should be explored in further detail.

Corporate and Financial Planning

- The Medium Term Financial Plan (MTFP) is consistent with the Council's aims and objectives and takes account of local and national priorities, including the Local Area Agreement (LAA).
- The MTFP gives a clear direction for allocation of resources to service areas and helps to ensure resources are redirected in line with priorities, with budgets that are sustainable in the longer-term.
- The MTFP and departmental service plans are clearly linked with new investment supported by outcome targets to measure the benefits of additional funding.
- Performance and cost measures are used by the Executive and senior managers to indicate business areas where radical rethinking of delivery is necessary, where appropriate making use of benchmarking.

Financial Reporting and Monitoring

- Budget holders regularly review costs and performance and compare with internal or external benchmarks.
- Value for money improvement outcomes within service areas are reported upon.

Competencies, Training and Performance Review

- The organisation's workforce strategy includes succession planning measures to ensure that it attracts and retains sufficient good quality finance staff.

Way forward

41 The Council needs to consider the responses from the financial staff survey.

Appendix 1 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	IBFM					
7	<p>R1 Consider the responses from all the surveys and:</p> <ul style="list-style-type: none"> analyse the survey results in further depth to establish whether particular groups are outliers; explore the results of the survey in more depth using focus groups/workshops involving relevant members; compare existing improvements plans against the areas for improvement; and identify gaps in existing improvement plans and take appropriate action. 	2	Head of Financial Services	Yes	<p>Finance has analysed the survey results and is planning to explore the results further at the performance management workshops in the Autumn. There are also plans to include the issues in further budget holder and member training.</p>	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.

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WIRRAL COUNCIL

AUDIT AND RISK MANAGEMENT COMMITTEE

23 SEPTEMBER 2009

REPORT OF THE DIRECTOR OF FINANCE

MERSEYSIDE PENSION FUND: AUDITED ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2009

1. EXECUTIVE SUMMARY

- 1.1 This report presents the final audited accounts for Merseyside Pension Fund for the year ended 31 March 2009.

2. FINANCIAL IMPLICATIONS

- 2.1 On 18 June 2009, Pensions Committee formally approved the accounts (Minute 3 refers) prior to their submission to the Audit Commission, who undertook an audit of the accounts and will now report back to this meeting of the Pensions Committee. This has been the first year in which the Pension Fund accounts were prepared in accordance with the new Pensions Statement of Recommended Practice (the Pensions SORP), but the audit was completed with regard also to the Local Authority SORP. The levels at which the Auditor need not report on issues of triviality reduced from 10% to 1% of materiality, meaning levels of £24k for expenses and benefits, and £352k for investments. This would be expected to lead to an increase in the number of items which are reported.
- 2.2 Following the audit, the accounts have been amended, and are attached as an appendix. The net assets of the Fund have decreased from £3,524.219 million to £3,521.496 million, a net decrease of £2.723million.
- 2.3 The changes to these figures are the results both of late, but critical information received from external sources, regarded as adjusted post balance sheet events, and of agreed changes reflected in the Auditor's Report to Those Charged with Governance.
- 2.4 The following is an analysis of those changes which have affected the value of the Fund:
- a net increase in investment management fees of £341k, being the inclusion of a late creditor, and an overprovision for another.
 - a reduction in the valuation of 2 alternative investments, totalling £1.834m
 - an increase in lump sum benefits paid after year end of £1.129m, due to extending the period covered
 - a reduction in debtors of £43k, following closer analysis

- a net reduction in the value of derivatives of £10k, following further clarification from the investment manager
- an increase of £634k in the value of the Fund following revised guidance on the impairment re Icelandic banks, and a reduction in the calculated loss of interest

2.5 The following amendments have affected the analysis but have no impact on the overall value of the Fund:

- revised classification as investment assets (£19.8m) and investment liabilities (£22.8m) of monies due from and to stockbrokers, which have previously been shown in current assets and liabilities
- revised classification of cash balances of £40.7m with investment managers from current assets to investment assets
- revised classification of a loss on exchange of £2.922m to be shown as current asset of £0.325m from "Contributions Due" to "Sundries".
- separate identification of Provision for Bad Debt of £473k within the Current Assets and Liabilities section (Note 9)
- A sub-category of Augmentation within "Employers' Contributions" is now shown, with corresponding reductions in "Normal" and "Deficit Funding" headings (Note 3)

In these cases, a Prior Period Adjustment has been made in respect of the accounts for year ended 31 March 2008.

2.6 In addition to the amended notes relating to the changes indicated in paragraphs 2.4 and 2.5 above, Note 11 has been amended or added to reflect a recalculation of the recharges from the Administering Authority.

2.7 I have prepared a Letter of Representation on behalf of the Committee which gives assurances to the District Auditor on various aspects relating to the Fund.

2.8 Draft guidance on the detailed content of the Annual Report was received from CLG after the submission of the draft accounts this Committee on 18 June 2009. At the time of writing, final guidance is still awaited, but I have included as a final note (note 14) a commentary on the financial performance of the Fund, with particular reference to the budgetary position.

2.9 The accounts as now shown will form the basis of the Annual Report for the year ended 31 March 2009.

2.10 The Audit Commission has provisionally indicated that the audit was completed within its financial estimate.

3. **STAFFING IMPLICATIONS**

3.1 There are no implications as a result of this report.

4. **EQUAL OPPORTUNITY IMPLICATIONS**

4.1 There are none arising directly from this report.

5. HUMAN RIGHTS IMPLICATIONS

5.1 There are none arising directly from this report.

6. COMMUNITY SAFETY IMPLICATIONS

6.1 There are no specific implications arising from this report.

7. LOCAL MEMBER SUPPORT IMPLICATIONS

7.1 There are no specific implications for any Member or Ward.

8. LOCAL AGENDA 21 IMPLICATIONS

8.1 There are no specific implications arising from this report.

9. PLANNING IMPLICATIONS

9.1 There are no specific implications arising from this report.

10. BACKGROUND PAPERS

10.1 Pensions Committee June 2009, Agenda Item 3: Pension Fund Accounts for Year Ended 31 March 2009.

11. RECOMMENDATION

11.1 That the Committee receives the audited accounts for the year ended 31 March 2009.

**IAN COLEMAN
DIRECTOR OF FINANCE**

FNCE/268/09

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FINANCIAL STATEMENTS

FUND ACCOUNT*For the year ended 31 March 2009*

	Note	2009 £000	2008 £000
Contributions and Benefits			
Contributions receivable	3	245,976	216,773
Transfers in		18,436	21,168
		<u>264,412</u>	<u>237,941</u>
Benefits payable	4	212,476	195,130
Leavers	5	15,121	13,764
Administration Expenses		3,860	3,348
		<u>231,457</u>	<u>212,242</u>
Net additions from dealings with members		<u>32,955</u>	<u>25,699</u>
Return on Investments			
Investment income	6	71,212	71,505
Change in market value of investments	7	-833,021	-137,888
Exchange		0	0
Investment Management Expenses	8	-4,982	-4,961
Net return on Investments		<u>-766,791</u>	<u>-71,344</u>
Net increase (- decrease) in the Fund during the year		<u>-733,836</u>	<u>-45,645</u>
Net Assets of the Fund at start of year		4,255,332	4,300,977
Net Assets of the Fund at end of year		<u>3,521,496</u>	<u>4,255,332</u>

NET ASSETS STATEMENT AS AT 31 MARCH 2009

	Note	2009 £000	2008 £000
Investments			
Fixed Interest Securities	7	0	0
Index-linked Securities		0	0
Other Investments		264,580	216,073
Equities		1,253,028	1,124,734
Managed or Unitised Funds		1,668,255	2,434,630
Derivative Contracts		130	0
Properties		199,535	295,350
Short Term Deposits		74,089	100,778
Other Investment balances		41,453	64,452
		<u>3,501,070</u>	<u>4,236,017</u>
Current Assets	9	30,412	27,463
Current Liabilities	9	9,986	8,148
Net Assets of the Fund as at 31 March 2009		<u>3,521,496</u>	<u>4,255,332</u>

NOTES TO THE ACCOUNTS

1 **GENERAL**

Although the Scheme is exempt from the requirements of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, the financial statements have been prepared in accordance with these regulations and with the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes (the SORP) May 2007

The financial statements record the transactions of the Scheme during the year and summarise the net assets at the disposal of the Managers at the end of the financial year. They do not take account of obligations to pay pensions and benefits which fall due after the end of Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the statement by the Actuary on pages 00 to 00 and these financial statements should be read in conjunction with it.

2 **ACCOUNTING POLICIES**

* **Basis of Preparation**

The financial statements are prepared in accordance with applicable UK accounting standards and with the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes.

* **Valuation of Investments**

Investments are stated at market value. For this purpose unlisted investments are included at manager's valuation and properties at professional valuation. For listed securities the stock exchange values are used. The values as at March 2009 are shown at bid price, i.e. the price which the Fund would have obtained should the securities have been sold at 31 March 2009. The equivalent values as at 31 March 2008 are still as stated in the 2007-2008 accounts, at mid price. No retrospective reduction has been made as the estimated average adjustment of 0.25% is not deemed material. Properties have been valued independently by Colliers Erdman Lewis, Chartered Surveyors as at 31 March 2009.

* **Translation of foreign currencies**

Assets and liabilities in foreign currencies are translated into sterling at rates ruling at the year end. Foreign income received during the year is translated at the rate ruling at the date of receipt. All resulting exchange adjustments are included in the revenue account.

* **Investment income**

Interest on fixed interest stocks and on short term deposits has been accounted for on an accruals basis. Income from equities is accounted for when the related investment is quoted "ex-dividend".

* **Rental income**

Rental income from properties is taken into account by reference to the periods to which the rents relate and is shown net of related expenses. The Fund accrues rent up to 24 March each year. Rent received on the Quarter Day, 25 March, is accounted for in full in the following year.

* **Contributions and benefits**

Contributions are accounted for on an accruals basis. Benefits payable represent the benefits paid during the financial year and include an estimated accrual for lump-sum benefits outstanding as at the year end.

* **Transfers to other schemes**

Transfer payments relate to those early leavers whose transfers have been paid during the year plus an accrual for future payments in respect of members moving their service to other schemes under bulk transfer arrangements.

* **Investment Management Expenses**

In accordance with the SORP, costs in respect of the internal investment team are classified as investment management expenses rather than as administrative expenses.

* **Prior Period Adjustments**

As these are the first accounts produced under the 2007 Pensions SORP, the opportunity has been taken to revise the accounting treatment of certain transactions. Such changes are indicated in the appropriate note to the accounts.

		<u>2009</u> <u>£'000</u>	<u>2008</u> <u>£'000</u>
3	CONTRIBUTIONS RECEIVABLE		
	Employers		
	Normal	158,778	152,576
	Augmentation	11,993	11,931
	Deficit Funding	15,568	532
	Employees		
	Normal	59,637	51,734
		<u>245,976</u>	<u>216,773</u>
	relating to:		
	Administering Authority	36,524	32,018
	Statutory Bodies	167,958	158,507
	Admission Bodies	41,494	26,248
		<u>245,976</u>	<u>216,773</u>

There are two elements to deficit funding. A one-off payment of £8m was received upon the admission of a transferee employer. Early retirement costs (pensions strain) are recovered from employers over periods of up to 5 years. Income in respect of Augmentation includes the re-imburement by employers on a monthly basis in respect of the enhanced elements of the monthly pensioners' payroll. A prior period adjustment has been made in respect of this new category.

4	BENEFITS PAYABLE		
	Pensions	173,545	164,286
	Lump sum retiring allowances	35,387	28,885
	Lump sum death benefits	3,544	1,959
		<u>212,476</u>	<u>195,130</u>
	relating to:		
	Administering Authority	29,784	28,008
	Statutory Bodies	156,773	145,569
	Admission Bodies	25,919	21,553
		<u>212,476</u>	<u>195,130</u>

5	PAYMENTS TO AND ON ACCOUNT OF LEAVERS		
	Refunds to members leaving service	21	39
	Payment for members joining state scheme	25	35
	Income for members from state scheme	-29	-44
	Individual transfers to other schemes	15,104	13,734
		<u>15,121</u>	<u>13,764</u>

6	INVESTMENT INCOME		
	Fixed interest securities	0	515
	Index-linked securities	0	0
	Dividends from equities, managed and unitised funds	50,297	44,789
	Net rents from properties	16,419	18,337
	Interest on deposits	3,927	7,432
	Other	569	432
		<u>71,212</u>	<u>71,505</u>

As at 31 March 2009, £61.6m of stock was on loan to market makers, which was covered by non-cash collateral totalling £65m, giving a margin of 5.5%. Income from stock lending is included within "Other" Investment Income.

The figure of "Dividends from Equities, managed and unitised funds" includes recoverable taxation of £0.65m, (2007/08 £0.74m) plus income from profits from associate and joint ventures of £7.41m (2007/08 £7.90m). Irrecoverable taxation amounted to £2.65m (2007/08 £16.5m). The Fund is seeking to recover tax withheld by UK and overseas tax regimes under the EU principle of free movement of capital within its borders, but is not providing for receipt of any such income within these accounts.

7 **INVESTMENTS**

	Market Value @ 31.3.08	Purchases at cost and Derivative Payments	Sale Proceeds and Derivative Receipts	Change in Market* Value	Market Value @ 31.3.09
	£'000	£'000	£'000	£'000	£'000
Fixed Interest Securities	0	0	0	0	0
Index-Linked Securities	0	0	0	0	0
Equities	1,124,734	925,904	470,417	-327,193	1,253,028
Managed & Unitised Funds	2,434,630	329,767	730,340	-365,802	1,668,255
Other	216,073	155,833	65,821	-41,505	264,580
Derivative Contracts	0	0	0	130	130
Properties	295,350	0	0	-95,815	199,535
	4,070,787	1,411,504	1,266,578	-830,185	3,385,528
Short term deposits	100,778			-772	74,089
Other investment balances	64,452			-2,064	41,453
	4,236,017			-833,021	3,501,070

*Note: The change in market value of investments during the year comprises all realised and unrealised appreciation and depreciation. The high volume of sales and purchases reflects changes of external managers during the year. The figure in respect of "Other investment balances" was previously shown as "Exchange" on the Fund Account.

	2009 £'000	2008 £'000
Fixed Interest Securities (segregated holdings)*		
UK Fixed Interest	0	0
UK Corporate Bonds	0	0
Overseas Fixed Interest	0	0
	<u>0</u>	<u>0</u>
Index-Linked Securities (segregated holdings)	<u>0</u>	<u>0</u>
Equities (segregated holdings)		
UK Quoted	550,034	424,028
Overseas Quoted	702,994	700,706
	<u>1,253,028</u>	<u>1,124,734</u>
Managed* and Unitised Funds		
UK Fixed Interest	172,351	276,419
UK Corporate Bonds	156,438	244,601
Overseas Fixed Interest	0	0
Index-Linked Securities	442,823	522,052
UK Equities	417,468	755,235
Overseas Equities	274,907	449,261
Unlisted Securities (Private Equity)	145,314	121,844
Property Unit trusts	58,954	65,218
	<u>1,668,255</u>	<u>2,434,630</u>
Derivative Contracts	<u>130</u>	<u>0</u>

* All fixed interest / bond holdings are in managed and unitised funds
 * Other than Corporate Bonds, all are public sector securities.

Type of Derivative	Expiration	Economic Exposure	Market Value
DJ Euro STOXX 50 Index Futures	Jun-09	<u>997</u>	<u>130</u>

A Futures Contract is the obligation under a legal agreement to make or take delivery of a specified instrument (for example, a bond or a financial index) at a fixed future date at a price determined at the time of dealing. Merseyside Pension Fund's index futures contracts are externally managed and their objective is to hedge overseas investment positions against adverse index movements. Futures dealing requires the posting of margin. Initial margin which must be posted before you can trade and variation margin, the mark-to-market value of the futures contracts you have. Variation margin is exchanged daily and exists to reduce counterparty credit exposure. Collateral is held in Euro currency and the sterling equivalent amount is £130,607.

Other Investments	<u>264,580</u>	<u>216,073</u>
UK properties		
Freehold	182,038	247,472
Leasehold	17,497	47,878
	<u>199,535</u>	<u>295,350</u>
Short term Deposits	<u>74,089</u>	<u>100,778</u>

Short term deposits only covers cash balances held by the Fund. Cash held by investment managers awaiting investment is now shown under "Other Investment Balances".

	<u>2009</u> <u>£'000</u>	<u>2008</u> <u>£'000</u>
Other investment balances		
Amounts due from brokers	858	0
Amounts due to Stockbrokers	-22,413	-461,736
Amounts due from Stockbrokers	19,171	494,166
Outstanding dividend entitlements and recoverable withholding tax	6,110	6,814
Cash deposits	37,727	25,208
	<u>41,453</u>	<u>64,452</u>

"Other investment balances" now includes amounts due to and from stockbrokers, and also cash with managers awaiting investment. These were previously shown under current assets and liabilities, and a prior period adjustment has been made.

Disclosure note re Transactions Costs

Transaction costs include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. They have been added to purchases, and netted against sales proceeds as appropriate. Transaction costs during the year amounted to £1,213,660. In addition to these costs, indirect costs are incurred through the bid-offer spread on investments in pooled vehicles. The amount of indirect costs is not provided directly to the Fund.

Disclosure Note Icelandic Deposits

Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. The Fund had £7.5m deposited across two of these institutions, with varying maturity dates and interest rates as follows:

Bank	Date Invested	Maturity Date	Amount Invested (£000)	Interest Rate	Carrying Amount (£000)	Impairment (£000)
Glitnir	17/10/07	15/10/08	5,000	6.30%	5,523	0
Heritable	23/07/08	10/12/08	2,500	5.94%	1,830	772

All monies within these institutions are currently subject to the respective administration and receivership processes. The amounts and timing of payments to depositors such as the Fund will be determined by the administrators/receivers.

Glitnir Bank

Glitnir Bank hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (new Glitnir) with the management of the affairs of Old Glitnir being placed in the hands of a resolution committee. Old Glitnir's affairs are being administered under Icelandic law. Old Glitnir's latest public presentation of its affairs was made to creditors on 6 February 2009 and can be viewed on its website. This indicates full recovery of the principal and interest is likely to be achieved. Recovery is subject to the following uncertainties and risks:

- Confirmation that deposits enjoy preferential creditor status which is likely to have to be tested through the Icelandic Courts.
- The impact of exchange rate fluctuations on the value of assets recovered by the resolution committee
- Settlement of the terms of a 'bond' which will allow creditors of Old Glitnir to enjoy rights in New Glitnir

Act No 44/2009 has now come into force in Iceland. Under this act, the Fund can claim interest up to 22 April 2009. The Fund's maturity date is before 22 April 2009 and therefore interest between the maturity date and 22 April 2009 will be credited at a penalty rate. The Fund has applied the Iceland's penalty rate at 22%. The Fund has therefore decided not to recognise an impairment based on it recovering the full amount of principal and interest up to 22 April 2009 in the future. The October maturity date and the 22% penalty rate is sufficient to offset the loss of interest to the Fund until the monies are repaid.

Failure to secure preferential creditor status would have a significant impact upon the amount of the deposit that is recoverable. The total assets of the bank only equate to 40% of its liabilities, assuming that the Bond remains at its current estimated value. Therefore, if preferential creditor status is not achieved the recoverable amount may only be 40p in the £.

No information has been provided by the resolution committee about the timing of any payments to depositors. Since the value of deposits is small compared to the total asset value of the bank, the Fund has therefore made an assumption that the repayment of priority deposits will be made by 31 March 2010.

Recoveries are expressed as a percentage of the Fund's claim in the administration, which, it is expected, may validly include interest accrued up to 22 April 2009.

Heritable Bank

Heritable Bank is a UK registered bank under English law. The company was placed in administration on 7 October 2008. The creditor progress report issued by the administrators Ernst and Young, dated 13 August 2009 outlined that the return to creditors was projected to be 80p in the £ by the end 2012 with the first dividend payment of 16.13p in the £ paid in July 2009. The Fund has therefore decided to recognise an impairment based on it recovering 80p in the £. It is anticipated that there will be some front loading of these payments and a final sale of assets will take place after the books have been run down to the end of 2012. Therefore calculating the impairment the Fund has been made the following assumptions re timing and recoveries:

July 2009	– 16.13%
December 2009	– 10%
July 2010	– 20.22%
July 2011	– 19.22%
July 2012	– 7.22%
July 2013	– 7.21%

Recoveries are expressed as a percentage of the Fund's claim in the administration, which includes interest accrued up to 6 October 2008

Overall Impact

The impairment loss recognised in the Fund Account in 2008/09, £772,129, has been calculated by discounting the assumed cash flows at the effective interest rate of the original deposit in order to recognise the anticipated loss of interest to the Fund until monies are recovered.

Adjustments to the assumptions will be made in future accounts as more information becomes available.

8 INVESTMENT MANAGEMENT EXPENSES

Fees paid to the 11 major investment managers amount to £3.980m, and constitute the bulk of the figure of £4.982m investment management expenses. Charges vary between fund managers, and between markets and types of security. Charges are calculated as a percentage of the value of the investments. Internal investment management expenses are also included here.

9 CURRENT ASSETS AND LIABILITIES

	<u>2009</u> <u>£'000</u>	<u>2008</u> <u>£'000</u>
Assets		
Contributions due	20,885	16,341
Accrued and outstanding investment income	847	2,353
Due from stockbrokers	0	0
Transfer values receivable	2,357	2,357
Cash at Bank	725	416
Sundries	6,071	6,106
Provision for bad debts	-473	-110
	<u>30,412</u>	<u>27,463</u>
Liabilities		
Due to stockbrokers	0	0
Transfer values payable	0	0
Provisions	541	507
Miscellaneous	9,445	7,641
	<u>9,986</u>	<u>8,148</u>
Total Other Assets and Liabilities	<u>20,426</u>	<u>19,315</u>

Amounts due to and from stockbrokers in respect of trades not settled at close of business on 31 March 2009 are now included within "Other Investment Balances" and shown within Note 7.

The figure of debtors does not include future payments from employers who are making special additional payments in respect of early retirement costs over an agreed number of years.

"Provision for Bad Debts" is now separately reported, and relates to property rental income.

Included in "Miscellaneous Liabilities" is £4.080m of unpaid benefits

10 COMMITMENTS

Commitments for investments amounted to £ 217.914m as at 31 March 2009.

11 RELATED PARTY TRANSACTIONS

Administration and investment management costs include charges by Wirral Council in providing services in its role as administering authority to the Fund, which amount to £3.511m (2008 £3.275m). Such charges principally relate to staffing required to maintain the pension service. A specific declaration has been obtained from principal officers and Pension Committee members regarding membership of and transactions with such persons or their related parties. No declarable related party transactions have been reported.

12 SUMMARY OF MANAGERS' PORTFOLIO VALUES AS AT 31 MARCH 2009

	£m	%
Externally Managed		
J P Morgan	119	3.4
UBS	264	7.5
Nomura	421	12.0
Schroders	157	4.5
Legal & General (Pooled Assets)	745	21.3
Legal & General (Bonds)	172	4.9
Unigestion	100	2.9
M & G	93	2.7
T T International	93	2.7
Blackrock	94	2.7
Newton	89	2.5
	2,347	67.0
Internally Managed	<u>1,154</u>	<u>33.0</u>
	<u>3,501</u>	<u>100.0</u>

These values now include cash with managers awaiting investment, sums due to and from stockbrokers, and accrued investment income.

13 ADDITIONAL VOLUNTARY CONTRIBUTIONS INVESTMENTS

The Committee holds assets invested separately from the main fund. In accordance with Regulation 5 (2) (c) of the Pensions Schemes (Management and Investment of Funds) Regulations 1998, these assets are excluded from the Pension Fund accounts.

The Scheme providers are Equitable Life, Standard Life and Prudential. Individual members participating in this arrangement each receive an annual statement confirming the amounts held on their account and the movements in the year. As requested by the Local Authority Statement of Recommended Practice (2007-08) an aggregate breakdown between contributions, repayments and change in market value is now available for the balances as at 31 March 2009.

The aggregate amount of AVC investments is as follows:	2009 £000	2008 £000
Equitable Life	3,076	3,464
Standard Life	5,833	7,593
Prudential	3,864	<u>3,615</u>
	<u>12,773</u>	<u>14,672</u>

Changes during the year were as follows:

Contributions	1,502
Repayments	-2,023
Change in market values	<u>-1,378</u>
Change in value from 2007/08 published accounts	<u>-1,899</u>

Note 14: Financial performance

The Pension Fund is administered under a budget that is approved by Pensions Committee each January. That budget is reviewed, and if appropriate revised the following January, based on the known and anticipated pattern of expenditure and market movements. In January 2008, a budget of £10.95m was approved for the financial year 2008-2009, which was revised downwards in January 2009 to £9.1m, primarily because of temporary lower costs following the transition of a large UK equity portfolio.

This composite budget covers both administration and investment related expenditure.

The 2 main elements of the revised budget were salaries and related costs of £2.35m and investment management fees of £4.5m. The final accounts for the year ended 31 March 2009 indicate expenditure levels of £3.860m on administrative costs overall, and £4.982m on all investment management expenses. Investment management expenses include, as its main element, external managers' fees, but also cover custodian fees, advisors fees and performance measurement fees. In addition, in the final accounts, the salaries and related expenses of the internal investment team are, in accordance with the Pensions Statement of Recommended Practice (the SORP), shown within investment management expenses.

Applying the normal rules of budgetary control to investment management fees can be problematic. Basic fees and performance fees are negotiated individually with each fund manager, but the actual charge will vary according to the monthly value of the individual portfolio of each manager. In most cases, the effects of general moves in stock markets are more influential than the managers' performance. However, in certain cases, in addition, performance fees are payable when the fund manager exceeds the selected benchmark by an agreed percentage, which can include out-performance in falling markets. However, any increased cost of investment management fees beyond the budget is far outweighed by the positive impact on the Fund's assets. Other factors influencing the level of expenditure on investment management fees include the number of portfolios that are actively or passively (i.e. index trackers) managed, and segregated or pooled funds. Other budgets similarly affected include custodian fees, which vary, within an agreed framework, according to both the value of the investments and the number of transactions undertaken.

There is no budget as such for the Fund itself. The payment of pensions is in accordance with the Regulations. Receipts of employers' contributions are in accordance with the Triennial Valuation. Consequently, basic pensions transactions, e.g. income from employers and employees contributions, benefits payable, transfers in and out are only contained in the fund account, and do not form part of the budget. However, the scale and timing of such transactions are taken into account for cash flow management purposes.

The Fund does reserve the right to levy interest charges on late receipt of contributions from employers. In 2008 2009 no such charges were levied.

Annual Governance Report

Merseyside Pension Fund

Audit 2008/09

September 2009

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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 and 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.

Ladies and Gentlemen

2008/09 Annual Governance Report

I am pleased to present the final version of my report on the results of my audit work for 2008/09.

A draft of the report was discussed and agreed with the Director of Finance on 15 September 2009 and has been updated since as issues have been resolved.

The report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before recommending the approval of the financial statements to the Audit and Risk Management Committee (ARMC), (pages 4 to 10);
- take note of the adjustments to the pension fund's accounts which are set out in this report (Appendix 2);
- agree to adjust the errors in the pension fund's accounts I have identified, which management has declined to amend or set out the reasons for not amending the errors; (Appendix 3);
- approve and recommend to the ARMC the letter of representation on behalf of the Council before I issue my opinion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 5).

Yours faithfully

Michael Thomas
District Auditor

22 September 2009

Key messages

This report summarises the findings from the 2008/09 audit which is substantially complete. It includes the messages arising from my audit of your financial statements.

Financial Statements	Results	Page
Unqualified audit opinion	Yes	7
Pre-audit financial statements free from material error	No	7
Post-audit financial statements free from material error	Yes	7 & 14
Material weakness in internal control	No	8

Audit opinion

- 1 I have now substantially completed my audit work and subject to the clearance of outstanding matters I propose to give an unqualified audit on your financial statements. My draft audit report for the Annual Report is attached at Appendix 1.

Financial statements

- 2 The financial statements were submitted for audit in June and were supported by adequate working papers prepared by pension fund finance staff.
- 3 However, there are five material adjustments which I draw to your attention in respect of:
 - £40.7m cash balances incorrectly classified as current assets should have been shown within investment assets;
 - £19.8m balances due from stockbrokers incorrectly classified as current assets should be shown within investment assets;
 - £22.8m balances due to stockbrokers incorrectly classified as current liabilities should be shown within investment liabilities; and
 - £2.9m Exchange income has been reclassified during the audit to 'change in value of market value of investments'.
 - £6.8m investment income debtor was reanalysed from current assets to investment assets within the net assets statement.
- 4 The Director of Finance has agreed to adjust the financial statements for these material errors and a number of other non-material errors which are identified at Appendix 2. There is one error and a number of uncertainties which are drawn to your

Key messages

attention at Appendix 3. We seek specific assurances from management in the Letter of representation for two of the uncertainties and the reason for not adjusting the error.

Audit fees

- 5 My fee proposals were communicated to you in my Audit Plan for 2008/09. I am satisfied that the audit fee was appropriate and no adjustment is required.

Next steps

This report identifies the key messages that you should consider before I issue my opinion on the pension fund's accounts, which forms part of my report on the Council's financial statements. It 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.

6 I ask the Pension Committee to:

- consider the matters raised in the report before recommending the approval of the financial statements to the Audit and Risk Management Committee (ARMC), (pages 4 to 10);
- take note of the adjustments to the pension fund's accounts which are set out in this report (Appendix 2);
- agree to adjust the error in the pension fund's accounts I have identified, which management has declined to amend or set out the reasons for not amending the errors; (Appendix 3);
- approve and recommend to the ARMC the letter of representation on behalf of the Council before I issue my opinion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 5).

Financial statements

The Pension Fund's accounts are important means by which the Fund accounts for its stewardship of pension funds. As Merseyside Pension Fund members you have a responsibility to review and recommend the statements to Wirral Council members who have the final responsibility for these statements. It is important that you consider my findings before you make this recommendation and the financial statements are authorised for issue.

Opinion on the financial statements

- 7 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report on the Council's financial statements that includes an unqualified opinion on the Pension Fund's accounts. Appendix 1 contains a copy of my draft audit report for the Annual Report on the Pension Fund Accounts. The outstanding matters are:
- review of the Annual Report
 - completion of disclosure note testing
 - review of amended statements
 - response by officers to the action plan.
-

Errors in the financial statements

- 8 The financial statements were submitted for audit in June and were supported by adequate working papers prepared by Pension Fund finance staff.
- 9 I have identified a number of material errors which I draw to your attention below. As previously reported to the Committee, we are required to report on all errors that are over the 'trivial' level which is £24k for the Fund Account and £352K for investments in 2008/09 representing 1% of the respective materiality levels (10% in previous years). The Director of Finance has agreed to adjust the financial statements for the errors identified at Appendix 2. The unadjusted error and a number of uncertainties are identified at Appendix 3.
- 10 The five material errors are summarised below.
- The Pensions SoRP provides for asset and liability balances relating specifically to investments to be disclosed within the Investments Assets section of the Statement of Accounts. These will include cash held for investment by investment managers and sums due to and from stockbrokers. In the Merseyside Pension Fund Statement of Accounts these have been shown under current assets and liabilities. The impact of this is that current assets is overstated and investment assets understated for cash and balances due from stockbrokers by £40,727k and £19,818 respectively; and current liabilities overstated and investment liabilities understated by balances due to stockbrokers by £22,844k.
-

- The £40.7m cash balance is incorrectly classified as current assets should have been shown within investment assets. A prior period adjustment (PPA) is required for the re-analysis of the 2007/08 balance.
 - £19.8m balances due from stockbrokers incorrectly classified as current assets should be shown within investment assets. A prior period adjustment is required for the re-analysis of the 2007/08 balance.
 - £22.8m balances due to stockbrokers incorrectly classified as current liabilities should be shown within investment liabilities. A prior period adjustment is required for the re-analysis of the 2007/08 balance.
 - Exchange income on investments of £2.9m has been reclassified during the audit to income from ‘change in value of market value of investments’.
 - An investment income debtor of £6.8m was reanalysed during the audit from current assets to investment assets within the net assets statement
- 11 In addition, there are a number of non material errors and uncertainties identified in respect of investments, derivatives, debtors, creditors and the bad debt provision. These are included at Appendices 2 and 3.
- 12 We also identified a number of areas where disclosure notes needed to be improved and these have been amended and are noted at Appendix 2.
- 13 The overall effect of the adjusted errors is a reduction in the pension scheme net assets of £3,357k in both the Fund account and the Net assets statement.

Recommendation

R1 Strengthen internal quality assurance to ensure errors in the accounts are minimised.

Material weaknesses in internal control

- 14 I have not identified any areas of material weakness in the Pension Fund systems of internal control.
- 15 My audit work included testing of controls in the main financial systems. Where appropriate I placed reliance on these controls in order to reduce substantive testing of the statement of accounts.

Letter of representation

- 16 Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation I seek to obtain from the Council.

Financial statements

Key areas of judgement and audit risk

17 In planning the audit specific risks were identified and areas of judgement were considered as part of the audit. The findings are set out in Table 1.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
The introduction of new reporting requirements under the revised Statement of Recommended Practice (SoRP). Risk of not implementing leading to material misstatement.	We have raised some significant issues and these are reflected in the adjusted errors. We have also raised some issues regarding the qualitative aspects of your financial reporting and disclosure notes below.
The introduction of a new investment accounting system via the Custodian, State Street, in 2008/09.	The arrangements put in place and working papers produced provided good assurance that there were appropriate arrangements to ensure that the transfer of the Investment Ledger from Shareholder to SSB was effective and did not give rise to risk of material misstatement.
Merseyside Pension Fund invested £7.5m in Icelandic banks. Risk of not recognising and accounting properly for the impairment.	The year end substantive testing found the impairment was satisfactory following the guidance available during the audit. We identified an error regarding the debtor for interest at Appendix 3

Accounting practice and financial reporting

18 I consider the qualitative aspects of Merseyside Pension Fund's (MPF) financial reporting. Table 2 contains the issues I want to raise with you.

Table 2

Issue or risk	Finding
Senior officers and members are required to complete declarations of interest for related parties transactions information.	One former Pensions Committee member has failed to provide the declaration requested by officers
Year end debtors need to be supported by a detailed audit trail. Risk of uncertainty.	MPF was unable to provide a detailed analysis of debtor invoices that Wirral Council is administering on its behalf as it is a live system and no record was retained as at 31 March 2009.

Issue or risk	Finding
The Pension Fund is required to compile the financial statements and disclose information in line with the SoRP. Risk of omission of or incorrect information required by SoRP	The material adjustments to the financial statements occurred because of non compliance with the Pension SoRP.

Recommendations
R2 Members should ensure they comply with the process for making related party declarations
R3 Ensure audit trails are available to support year end balances
R4 Improve procedures within the pension fund to ensure compliance with the SoRP aided by improved communication with other pension funds and government to ensure interpretation is clear and consistent.

Appendix 1 – DRAFT Independent auditor’s report on Merseyside Pension Fund to Members of Wirral Council

Independent auditor’s report on Merseyside Pension Fund to Members of Wirral Council

I have audited the pension fund accounts for the year ended 31 March 2009 under the Audit Commission Act 1998. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Wirral Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Director of Finance and auditor

The Director of Finance is responsible for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008. In preparing this pension fund accounts, the Director of Finance is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgements and estimating that were reasonable and prudent;
- keeping proper accounting records which were up to date;
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

My responsibility is to audit the pension fund accounts and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the pension fund during the year and the amount and disposition of the fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year. I also report to you whether, in my opinion, the information which

comprises the commentary on the financial performance included within the Pension Fund Annual Report, is consistent with the pension fund accounts. That information comprises the Financial Statements, Statement of Responsibilities and the Audit Report.

I review whether the governance compliance statement published in the Pension Fund Annual Report reflects compliance with the requirements of Regulation 34(1)(e) of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I report if it does not meet the requirements specified by the Department of Communities and Local Government 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 governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the pension fund accounts and related notes and consider whether it is consistent with the audited pension fund accounts. This other information comprises the Explanatory Foreword published in the financial statements and the following elements of the Pension Fund Annual Report: Management Structure, Chair’s Introduction, Management Report, Investment Report, Scheme Administration Report and the Consulting Actuary’s Statement. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounts and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgements made by the Authority in the preparation of the pension fund accounts and related notes, and of whether the accounting policies are appropriate to the Authority’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 pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounts and related notes.

Opinion

In my opinion the pension fund accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the fund’s assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Michael Thomas

District Auditor, Audit Commission

The Heath Technical & Business Park, The Heath, Runcorn, Cheshire, WA7 4QF

September 2009

(An original signed copy of the Auditor’s Report can be viewed by request to the Financial Controller, Merseyside Pension Fund, PO Box 120, Castle Chambers, 43 Castle Street, Liverpool L69 2NW)

Appendix 2 – Adjusted amendments to the draft Pension Fund’s accounts

The following misstatements were identified during the course of my audit and the financial statements have been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities.

Table 3

Adjusted misstatements	Nature of Adjustment	Fund Account		Net assets statement	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Current assets and investment assets in the Net assets statement	£40.7m cash balances incorrectly classified as current assets and should have been shown within investment assets. No overall impact on net assets of the Fund.			40,700	40,700
Current assets and investment assets in the Net assets statement	£19.8m balances due from stockbrokers incorrectly classified as current assets and should have been shown within investment assets. No overall impact on net assets of the Fund			19,800	19,800
Current assets and investment assets in the net assets statement	£6.8 m investment income debtors were incorrectly classified as current assets. No overall impact on net assets of the Fund.			6,800	6,800

Appendix 2 – Adjusted amendments to the draft Pension Fund’s accounts

Current liabilities and investment liabilities in the Net assets statement	£22.8m balances due to stockbrokers incorrectly classified as current liabilities and should have been shown within investment liabilities. No overall impact on net assets of the Fund.			22,800	22,800
Return on investments on the Fund Account	Exchange income on investments has been reclassified by officers during the audit to income from ‘change in value of market value of investments’ by £2,922k. No overall impact on net assets of the Fund.			2,922	2,922
Derivatives in the Net assets statement	There was a misclassification between investment categories as a result of the incorrect accounting treatment of the derivative valuations. Investment manager cash should be reduced and investment assets increased by £3,001k. No overall impact on net assets of the Fund.			3,001	3,001
Creditors in the Net assets statement	During the review of the year end lump sum creditors and the cut-off of year end lump sum payments, we note that the cut-off has not been applied correctly, resulting in an understatement of year end creditors of £1,129k	1,129			1,129
Investments in the Net assets statement	Investments were initially overstated by £934k in respect of venture valuations	934			934

Appendix 2 – Adjusted amendments to the draft Pension Fund’s accounts

Investments in the Net assets statement	Alternative investments were initially overstated by £900k	900			900
Creditors in the Net assets statement	Prior to the start of the audit, MPF identified a fund management expenditure invoice £650k relating to 2008-09 where it had failed to accrue for.	650			650
Bad debt provision within Debtors in the Net assets statement	Bad debt provisions £473K were initially incorrectly analysed as year end creditors			473	473
Debtors in the Net assets statement	Year end debtors and contributions income needed to be reduced by £43k	43			43
Debtors in the Net assets statement	Balances due from stockbrokers overstated by £647k			647	647
Creditors in the Net assets statement	Balances due to stockbrokers overstated £431k			431	431
Creditors in the Net assets statement	Year end creditors were overstated by £309k in respect of an invoice which had been incorrectly accrued for twice at the year end.		309	309	
Derivatives in the Net assets statement	Derivatives were incorrectly valued in the year end balance sheet. There was a net reduction of scheme assets of £10k	10			10

Appendix 2 – Adjusted amendments to the draft Pension Fund’s accounts

We identified a number of areas where disclosure notes were improved and management amended.

- Note 12 to the financial statements gives a summary of the sums managed by individual managers. However, the values shown initially excluded £43m in respect of cash and sums due to and from stockbrokers (see material errors noted above).
- Due to an initial miscoding of administration costs, the related party disclosure note 11 for this was initially misstated by £225k.
- Prior period adjustment disclosures are required for the re-analysis of fund manager cash, balances due to and from stockbrokers in the net assets statement and the reanalysis of the investment income debtor into investment assets(see material errors noted above).
- Fund account note 3 was amended to reflect augmentation income of £19,993k (2007/08 £11,931k) with a corresponding reduction in the ‘Normal’ and ‘Deficit funding’ income categories. Comparatives for 2007/08 were changed and a prior period adjustment disclosure needs to be made.

Appendix 3 – Unadjusted uncertainties in the accounts

The following uncertainties were identified during the course of my audit and the financial statements which need to be considered by management. No amendments are required. I bring these to your attention to assist you in fulfilling your governance responsibilities. Uncertainties are summarised below.

Table 4

Description of uncertainty	Accounts effected	Value of uncertainty £000s
We were not able to obtain 3 rd party confirmation for a Structured investment of £2.4m. We accepted assurance from internal records but seek assurance from management in the Letter of representation.	Investment assets in the Net assets statement	2,408 (uncertainty)
There is uncertainty over the exact amount of monies recoverable from the year end tax debtor. We seek assurance from management in the Letter of representation.	Current assets in the Net assets statement	752 (uncertainty)
Different sources of valuation information provided different values on alternative investments. This arose from use of market data from different price sources, rather than Bloomberg and Reuters.	Investment assets in the net assets statement	500 (uncertainty)

Appendix 3 – Unadjusted uncertainties in the accounts

Description of error	Accounts effected	Value of error/uncertainty £000s
The year end Icelandic impairment was correctly applied against the capital value of investments, but the interest element was included in investments rather than a debtor in current assets.	Net assets statement	67

Appendix 4 – Draft letter of representation

To:

Michael Thomas
District Auditor
Audit Commission
The Heath Technical & Business Park
Runcorn
Cheshire
WA7 4QF

Merseyside pension Fund - Audit for the year ended 31 March 2009

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors, officers, officials of Merseyside Pension Fund, the following representations given to you in connection with your audit of Merseyside Pension Fund's financial statements for the year 31/3/09. All representations cover Merseyside Pension Fund's accounts.

Compliance with the statutory authorities

I acknowledge 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: A Statement of Recommended Practice and the Pensions SoRP 2007-08, which present fairly the financial position and financial performance of the Pension Fund and for making accurate representations to you.

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements misstatement listed below is not material to the financial statements. The Auditor's finding is that the year end Icelandic Bank impairment was correctly applied against the capital value of investments, but the interest element was included in investments rather than a debtor in current assets. This misstatement has been discussed with those charged with governance within the Council and the reason for not correcting this is set out below:

- The amount and treatment in the pre-audit statements is based on guidance that was issued prior to approval of the accounts in June. This guidance has recently been updated and the suggested amount of the amendment (£67k) will change. We are considering the impact of this but it would not be material.

Appendix 4 – Draft letter of representation

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Pension Fund have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all relevant meetings, have been made available to you.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

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; and
- 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.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Pension Fund.

The Pension Fund has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair values

I confirm the reasonableness of the significant assumptions within the financial statements. I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;

- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events require adjustment to the fair value measurement.

Contingent liabilities

There are no contingent liabilities. In particular:

- there is no significant pending or threatened litigation;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Post balance sheet events

Since the date of approval of the financial statements by the Pensions Committee, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

The Pension Fund has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Specific representations (see Appendix 3 above):

We are satisfied the Harewood structured investment balance of £2,408k has been properly recorded and disclosed in the financial statements.

We are satisfied that the tax debtor of £752k recorded in the year end financial statements is collectable from Her Majesty's Revenue and Customs.

Signed on behalf of Wirral Borough Council

I confirm that the this letter has been discussed by the Pensions Committee on 22 September 2009 and agreed by the Audit and Risk Management Committee of Wirral Council on 23 September 2009

Signed

Ian Coleman

Director of Finance, Wirral Council

Date [usually the date of the audit opinion]

Appendix 4 – Draft letter of representation

Guidance notes (will be deleted in final copy)

The ISA (UK&I) 580 requirement is only that management need sign. Those TCWG must acknowledge their collective responsibility for the compilation of the financial statements and arguably this would include considering the adequacy of the LoR.

The audited body should ensure that representations are only provided by those competent to give them, such that;

- acknowledgement of the responsibilities of “directors” for the financial statements is made by those in whom the responsibilities are vested; and,
- management representations on matters material to the financial statements are made by persons who have the knowledge of the facts or who are authorised to make the judgement to express an opinion (for instance a legal officer may be best placed to make representations about contingent liabilities).

Representations should usually be given by the Responsible Financial Officer.

Appendix 5 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	Annual Governance Report 2008/09 - Recommendations					
8	R1: Strengthen internal quality assurance to ensure errors in the accounts are minimised.	3	Financial Controller	Yes		
11	R2: Members should ensure they comply with the process for making related party declarations	2	Financial Controller	Yes		
11	R3: Ensure audit trails are available to support year end balances	2	Financial Controller	Yes		
11	R4: Improve procedures within the pension fund to ensure compliance with the SoRP aided by improved communication with other pension funds and government to ensure interpretation is clear and consistent.	2	Financial Controller	Yes		

Ian Coleman BSc, CPFA
Director of Finance
PO Box No 2,
Treasury Building,
Cleveland Street,
Birkenhead, Wirral,
Merseyside. CH41 6BU
telephone: 0151-666 3056
Email: iancoleman@wirral.gov.uk

to Michael Thomas,
District Auditor,
Audit Commission,
The Heath Technical and Business Park,
The Heath,
Runcorn,
Cheshire,
WA7 4QF.

date 17 September 2009

your ref
my ref FA/MPF/IEC
please ask for Ian Coleman

Dear Sir,

Merseyside Pension Fund - Audit for the year ended 31 March 2009

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors, officers, officials of Merseyside Pension Fund, the following representations given to you in connection with your audit of Merseyside Pension Fund's financial statements for the year 31/3/09. All representations cover Merseyside Pension Fund's accounts.

Compliance with the statutory authorities

I acknowledge 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: A Statement of Recommended Practice and the Pensions SORP 2007-08, which present fairly the financial position and financial performance of the Pension Fund and for making accurate representations to you.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Pension Fund have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all relevant meetings, have been made available to you.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

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; and
- 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.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Pension Fund.

The Pension Fund has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair values

I confirm the reasonableness of the significant assumptions within the financial statements. I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events require adjustment to the fair value measurement.

Contingent liabilities

Other than those already disclosed in regards to private equity investments, there are no contingent liabilities. In particular:

- there is no significant pending or threatened litigation;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

Other than the one case of non-disclosure referred to in the Annual Report on Governance, I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Post balance sheet events

Other than those referred to in my current report to the Committee, since the date of approval in June 2009 of the financial statements by the Pensions Committee, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

The Pension Fund has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Specific representations

I am satisfied the Harewood structured investment balance of £2,408k has been properly recorded and disclosed in the financial statements.

I am satisfied that the tax debtor of £752k recorded in the year end financial statements is collectable from Her Majesty's Revenue and Customs.

Signed on behalf of Wirral Borough Council

I confirm that the this letter has been discussed by the Pensions Committee on 22 September 2009 and agreed by the Audit and Risk Management Committee of Wirral Council on 23 September 2009

Signed

Ian Coleman

Director of Finance, Wirral Council

Date

Appendix 5 – Action plan Annual Governance Report 2008/09 - Recommendations

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R1: Strengthen internal quality assurance to ensure errors in the accounts are minimised.	3	Financial Controller	Yes	Internal communications will be improved to ensure the Accounting team receives and obtains all relevant information.	March 2010
11	R2: Members should ensure they comply with the process for making related party declarations	2	Director of Law, HR and Asset Management	Yes	The importance of all Members to respond in a timely manner will be reinforced.	March 2010
11	R3: Ensure audit trails are available to support year end balances	2	Financial Controller	Yes	Further pressure will be put on external suppliers of information to ensure data is received.	March 2010
11	R4: Improve procedures within the pension fund to ensure compliance with the SORP aided by improved communication between LGPS.	2	Financial Controller	Yes	There will be a review of various headings where different accounting treatment is possible, plus an attempt to reach consistency between Funds regarding the treatment of certain LGPS transactions.	March 2010

