



Audit and Risk Management Committee

Date:	Wednesday, 19 September 2012
Time:	6.15 pm
Venue:	Committee Room 1 - Wallasey Town Hall

Contact Officer: Mark Delap
Tel: 0151 691 8500
e-mail: markdelap@wirral.gov.uk
Website: <http://www.wirral.gov.uk>

SUPPLEMENTARY AGENDA (3)

8. ANNUAL AUDIT LETTER 2010/2011 (Pages 1 - 6)

This page is intentionally left blank

14 August 2012

Members of Wirral Council
Wallasey Town Hall
Brighton Street
Wallasey
Wirral
CH44 8ED

Direct line 0844 798 7043

Email m-thomas@audit-
commission.gov.uk

Dear Councillor

Wirral Council - Annual Audit Letter 2010/11

I am pleased to submit my Annual Audit Letter for your attention. It summarises the audit work for my 2010/11 audit of Wirral Council, including the Merseyside Pension Fund.

Public interest report

This letter has been delayed pending the findings from my consideration of a number of issues raised with me by a group of whistleblowers regarding the award and contract management of the Council's Highways and Engineering Services (HES) contract. Members will be aware that I have recently reported my findings in a public interest report. Section 8 of the Audit Commission Act 1998 (the Act) allows me to issue such a report where a matter comes to my notice that I believe needs to be considered by the Council or brought to the attention of the public. My reasons for issuing a public interest report in this instance were that this matter:

- had been and still is of significant public interest in the local media;
- needed to be brought to the attention of the public;
- needed the Council to take appropriate action; and
- needed a response from the Council following previous failures to take action or respond to concerns raised.

I identified a number of weaknesses in the Council's arrangements for the award and management of the HES contract. I reported that, whilst I did not identify any specific loss to public funds, the Council's arrangements did not, in my view, demonstrate good governance and value for money were being secured from this contract. As a result, the Council had exposed itself to significant risks. The weaknesses identified were, in my view, indicative of similar failings identified in other recent reports issued to the Council. They highlighted the need for the Council to strengthen its arrangements for demonstrating good governance and securing value for money in its use of public funds.

Audit Commission, 3rd Floor, Millennium House, 60 Victoria Street, Liverpool, L1 6LD
T 0151 233 4276 F 0151 236 3668 www.audit-commission.gov.uk

I reported that the Council needed to take action to secure improvements in a number of areas, in particular:

- to demonstrate good governance, by improving the Council's arrangements for managing and reporting risks, declaring interests, reviewing and complying with contract procedure rules, delivering internal audit, reporting to elected members and responding to whistle-blowing; and
- to demonstrate value for money, by improving the Council's arrangements for tender evaluation and contract management, including contract variation, record keeping and performance management.

The Council has begun to respond to the messages from my work. For example, improved procedures and systems for recording, managing and reporting contract variations have already been established. I have also noted the work undertaken on the Council's arrangements for demonstrating ongoing value for money, based on the Audit Commission's report 'Going the Distance'. Nevertheless, much is still to be done to mitigate a number of the risks identified by my work, for this contract, for other Council contracts and for the Council's overall arrangements for securing good governance and value for money.

The Council considered my report at its meeting on 16 July 2012, including its response to the 21 recommendations included in the action plan. I will monitor the Council's response in accordance with my responsibilities under sections 11 and 12 of the Audit Commission Act 1998 as part of my 2011/12 audit.

Opinion on the 2010/11 financial statements of Wirral Council

I issued an unqualified opinion on the Council's 2010/11 financial statements on 30 September 2011 in line with the statutory deadline. The amendments to the accounts did not change the financial position of the Council as at 31 March 2011. However, I raised a number of significant issues in my Annual Governance Report (AGR) that I presented to the Audit and Risk Management Committee on 28 September 2011:

- the financial statements were adjusted for a material amendment of £64.8m to the cash flow statement and a number of other errors that indicated there was limited quality assurance of the statements approved by the Director of Finance;
- there were a significant number of errors in the International Financial Reporting Standards restatement exercise and the audit extended from January to the end of August 2011 due to the number of accounts' versions presented for audit;
- the accounts were signed by the Director of Finance on 4 July which was after the 30 June deadline;
- not all of the working papers were presented for audit to the deadline and some were not to standard; and
- there were major weaknesses in internal controls in respect of non-current assets resulting in a significant number of the errors in the statements.

I made a number of recommendations to secure required improvements for 2011/12, in particular to ensure that:

- sufficient and appropriate capacity is applied to producing the financial statements by the statutory deadline and getting them right first time; and
- delivery against the milestones and deadlines in the closedown and audit plans is monitored.

I also issued an unqualified opinion on the Council's 2010/11 whole of government accounts return in early October 2011.

Opinion on the 2010/11 financial statements of the Merseyside Pension Fund

I issued unqualified opinions on the Merseyside Pension Fund 2010/11 financial statements included in the Council's accounts and in the Pension Fund Annual Report. I reported to the Audit and Risk Management Committee on 28 September 2011 two material errors in the accounts - the omission of a Net Assets Statement as at 1 April 2009 and a mis-classification of £273m pooled investments as equity – that Pension Fund officers had amended.

2010/11 value for money conclusion

I issued a qualified value for money conclusion on 30 September 2011. I concluded that the Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources, except for its inability to provide information on activity and performance for the HES contract. The 'public interest report' section of this letter above refers.

I also reported by exception in relation to weaknesses in the Council's arrangements for promoting and demonstrating the principles and values of good governance and for managing risks and maintaining a sound system of internal control, reflecting in particular my consideration of a number of whistleblowing issues and from the Council's inadequate arrangements for recording and controlling vehicles, plant and equipment assets.

Claims and returns

Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of government departments, make arrangements for certifying claims and returns. I reported my assessment of the Council's arrangements for preparing claims and returns and information in March 2012 and in a supplementary report in June 2012.

In 2010/11, I certified ten claims and returns with a total value of over £260 million. Of these, I carried out a limited review of three claims and a full review of seven claims. I:

- amended eight claims;
- qualified five claims;
- assessed that the control environment could not be relied upon for seven of the ten claims and returns submitted for certification; and
- made 32 recommendations to improve arrangements (20 high and 12 medium priority).

My findings have continued to emphasise the need for the Council to secure improvements in its arrangements for maintaining sound governance and for securing value for money, not least in the findings of my certification work on the award of a repair contract as part of the West Kirby Marine Lake Protection Works claim.

Fees

I outline below the revision to the audit fee for the audit of the Council that I have now agreed with the Acting Chief Executive and Director of Finance. The revised audit fee reflects:

- £32,000 additional fee for work in respect of the financial statements audit - the AGR outlined the difficulties experienced during the audit; and,
- £75,000 additional fee for work in respect of my consideration of the HES contract.

Table 1 Fees – Wirral Council

	Planned fee 2010/11 (£)	Actual fee 2010/11 (£)
Audit	392,000	499,000
Claims and returns	128,000	123,000
Non-audit work (National Fraud Initiative)	2,000	2,000
Total	522,000	624,000

The above excludes fee rebates received by the Council from the Audit Commission directly of £34,609.

The actual audit fee for the Pension Fund of £54,065 was in line with the planned fee.

Closing remarks

I have discussed and agreed this letter with the Acting Chief Executive and Acting Director of Finance. While this has been another challenging year for the Council, I wish to thank Members and staff for the positive and helpful approach they have taken to my audit. I also wish to thank senior management and the Audit and Risk Management Committee for their support and co-operation during the audit.

I look forward to continuing to work with members and officers – and with the recently established Improvement Board - during the 2011/2012 audit to monitor the Council's progress in implementing the required improvements to the Council's financial, performance and governance arrangements that are set out in this letter and the related reports.

Yours sincerely

Michael Thomas
District Auditor

Annex 1

Reports issued during the year:

Table 2 2010/11 reports

Report	Council	Pension Fund
Audit fee letter	April 2010	June 2010
Audit plan	December 2010	December 2010
Pre-statements memo	June 2011	
Annual Governance Report Supplement/update Final position	September 2011	September 2011
Grants and returns report Supplement	March 2012 June 2012	
Report in the Public Interest – Highways and Engineering Services contract	June 2012	
Progress reports to Audit and Risk Management Committee	June, September and November 2010; January, March, June, September and November 2011; and February, March and June 2012.	June, September and November 2010; January, March, June, September and November 2011; and February, March and June 2012.

This page is intentionally left blank