

# Annual Governance Report

Wirral Metropolitan Borough Council

Audit 2007-2008

September 2008



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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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# Summary

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## Purpose

- 1 This report summarises the findings from our 2007/08 audit, which is substantially complete. It identifies the key issues that you should consider before we issue our opinion, conclusion and certificate.
- 2 This report includes only matters of governance interest that have come to our attention in performing our audit. Our audit is not designed to identify all matters that might be relevant to you.

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## Financial statements

- 3 We expect to issue an unqualified opinion on the financial statements.
- 4 The financial statements submitted for audit were complete although they contained some errors. During the audit, management agreed to 5 adjustments to the figures in the accounts that we recommended and also made amendments to some notes to the accounts. The more significant issues included a material adjustment of £9.465m to the prior year figure for tangible fixed assets and a note to explain the treatment of an increase of £9m in the estimate of pension fund assets that we agreed should not be amended. In total the adjustments had no overall impact on revenue resources.
- 5 The arrangements for production of your financial statements are satisfactory. The draft financial statements were produced by the target date and the working papers to support the financial statements were good. This has also been a year when new and more complex accounting and reporting arrangements have been introduced, for example, the introduction of the new revaluation reserve, accounting for financial instruments and the new Annual Governance Statement. The Council has introduced these new requirements successfully whilst also improving on issues raised last year. We have made recommendations for some further improvement in quality assurance processes and internal control across the Council.

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## Value for Money

- 6 Wirral Borough Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008. We therefore propose issuing an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

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### Formal audit powers

7 There is no reason for us to propose taking any formal audit action at the Council.

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### Next steps

8 We ask the Audit and Risk Management Committee to:

- consider the matters raised in the report before approving the financial statements;
- agree to adjust the financial statements as set out in our recommendations;
- approve the representation letter on behalf of the Council before we issue our opinion, conclusion and certificate; and
- agree the proposed action plan.

# Financial statements and Annual Governance Statement

- 9 Wirral Borough 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 the financial statements and Annual Governance Statement. It is therefore important that you consider our findings before you adopt the financial statements and the Annual Governance Statement.
- 10 In planning our audit we identified specific risks and areas of judgement that we have focused on during our audit. We report to you the findings of our work in those areas.
- 11 In addition, auditing standards require us to report to you:
  - the draft representation letter which we are asking management and you to sign;
  - our views about the Council's accounting practices and financial reporting;
  - errors in the financial statements;
  - any expected modification to our report;
  - weaknesses in internal control; and
  - certain other matters.

## Key areas of judgement and audit risk

- 12 In planning our audit we identified key areas of judgement and audit risk that we have considered as part of our audit. Our findings are set out in Table 1.

**Table 1 Key areas of judgement and audit risk**

Issue or risk	Finding
Annual Governance Statement (AGS) - introduction from 2007/08 of an integrated annual governance statement which subsumes the requirements for the production of a statement on internal control (SIC). It covers all the areas previously covered by the SIC and also covers performance issues. As good governance is a precondition for delivering good services and poor service performance reflects a failure of governance the AGS should be approved and owned at a corporate level and should be confirmed by the most senior officer and the most senior member signing the statement on behalf of the council.	Wirral Borough Council has recognised the importance of the new AGS and taken corporate responsibility in its development and approval. It was signed by the Chief Executive, Leader and the Chair of the Audit & Risk Management Committee. There is scope to build on these arrangements by involving members at an earlier stage and strengthening corporate ownership.

Issue or risk	Finding
<p>There is a risk that members and officers in councils are not aware of the corporate nature of the new AGS.</p>	
<p>New revaluation reserve - introduction from 2007/08 of a revaluation reserve which records the accumulated gains for each individual fixed asset held by the council arising from increases in value, as a result of inflation or other factors. During the consultation stage local government respondents stated that their asset registers did not have the necessary information to operate a Revaluation Reserve in the way outlined in the Statement of Recommended Practice (SoRP) 2007. Councils may not therefore have upgraded existing systems or purchased and tested new asset management systems. Councils may also not understand the accounting implications of the guidance.</p>	<p>Wirral Borough Council reviewed its fixed asset system and made appropriate changes to it in order to support the revaluation reserve and understands the accounting guidance set out in the SORP 2007.</p>
<p>Financial instruments - From 2007/08, the 2007 SoRP requires local authorities to adopt the presentation and accounting requirements for financial instruments of FRS 25, 26 and 29. To mitigate the effects on council tax of FRS 26's measurement provisions, the department for Communities and Local Government (CLG) introduced regulations, which provide statutory overrides. There is a risk that councils may make material misstatements in their accounts by incorrectly restating opening balances, using measurement bases, accounting for premiums and discounts or applying the statutory overrides.</p>	<p>Wirral has introduced these complex requirements well and we have no concerns with presentation and accounting for financial instruments.</p>
<p>Statement of Total Recognised Gains and Losses (STRGL) - this was a new and complex statement introduced in 2006/07 and following last year's audit our technical section raised queries about how well councils had understood and reconciled balances.</p>	<p>We raised no concerns about the STRGL for 2006/07 or 2007/08.</p>

## Financial statements and Annual Governance Statement

Issue or risk	Finding
<p>Single Status - the impact of single status has been significant for all councils. There is a risk that adequate arrangements and provisions and reserves to fund liabilities will not be made.</p>	<p>Back pay has now largely been paid to individuals and a capitalisation direction was obtained from the government, allowing the Council to spread these costs over a number of years rather than impact on revenue balances in one year. Adequate provisions and reserves have been made for the remaining back pay liability and the impact of the local pay review for 2007/08 and going forward.</p>
<p>Community Fund - the constitution of the legal agreement is under consideration and may be amended to reallocate the available balance. The impact on Wirral's 2007/08 accounts is uncertain.</p>	<p>There have been no changes to the constitution of the legal agreement.</p>
<p>Classification of reserves and provisions - amendments were made to the accounts last year to reclassify between reserves and provisions. There is a risk that classification issues remain.</p>	<p>Overall, reserves and provisions have been classified prudently.</p>
<p>Classification between debtors and creditors - amendments were made to the accounts last year for debtors and creditors that had been incorrectly netted off or incorrectly stated. There is a risk that classification issues remain.</p>	<p>Arrangements have improved and we have no significant concerns regarding the classification of debtors and creditors.</p>
<p>Tangible fixed assets - last year we raised concerns about the records for community assets not being up to date.</p>	<p>Records for community assets are not all complete. We have raised concerns at Table 2 in relation to the valuation of infrastructure assets and at Appendix 2 in relation to deferred charges on land and buildings.</p>
<p>Value for money conclusion - there is a risk that the Council will not be able to demonstrate sound financial management if it cannot link priorities to spending. The Council also identified a significant budget gap of £25.5m for 2008/09.</p>	<p>The Council finalised the corporate plan in March 2008 and updated other plans, including the medium term financial plan in the context of the updated priorities. The Council managed resources within budget for 2007/08 and set a balanced budget for 2008/09.</p>

### Recommendations

- R1** Build on your arrangements for the AGS by involving members at an earlier stage and strengthening corporate ownership:
- present the AGS to the Audit and Risk Management Committee at a separate meeting to the approval of the accounts to provide members with more opportunity to consider and challenge the issues raised in the statement
  - ensure the drafting of the AGS is done by a corporate group rather than being the responsibility of Internal Audit within the Finance Directorate.
- R2** Ensure supporting records for community assets are complete and are accurately reflected in the financial statements.

### Draft representation letter

- 13** Before we issue our opinion, auditing standards require us to obtain from you and management, written representations that:
- you acknowledge your collective responsibility for preparing financial statements in accordance with the applicable financial reporting framework;
  - you have approved the financial statements;
  - you acknowledge your responsibility for the design and implementation of internal controls to prevent and detect fraud and error;
  - you have told me the results of your assessment of the risk that the financial statements might be materially misstated because of fraud;
  - you have told me any actual or suspected fraud by management, employees with significant roles in internal control or others (where the fraud could have a material impact on the financial statements);
  - you have told me of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
  - you have told me about all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements;
  - you have assessed the reasonableness of significant assumptions, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council where relevant to the fair value measurements or disclosures;
  - you are satisfied that all related parties requiring disclosure in the financial statements have been disclosed and that the disclosure is adequate;
  - you are satisfied that the individual or collective impact of errors we have identified, but that you have not corrected, is not material; and



## Financial statements and Annual Governance Statement

- cover areas where other sufficient appropriate evidence cannot reasonably be expected to exist, for example the completeness of the disclosure of contingent liabilities.

14 We need specific representations from you about:

- The Prior Period Adjustment note as explained at paragraphs 19 and 20 below
- The valuation of pension fund assets as noted at paragraphs 21 and 22 below
- The capitalisation of infrastructure assets as noted at table 2 below
- 3rd party confirmation on an £8m loan. We sought third party confirmation on all investments and received satisfactory replies for all loans with the exception of an £8m loan held with a major bank. Despite significant effort by finance staff and ourselves, this confirmation is still outstanding from the bank at the date of writing this report. Although we have received evidence of ownership from the Council, we would ask you to provide further assurance and confirm the loan in the letter of representation.

15 Appendix 1 contains the draft of the letter of representation we seek from you.

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### Accounting policies and financial reporting

16 We consider the qualitative aspects of your financial reporting. Table 2 contains the issues we want to raise with you. Overall our assessment is that the annual accounts have been produced in accordance with relevant standards and timetables, supported by good working papers. We found a number of small errors and inconsistencies in the text of the statement of accounts that management has amended.

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**Table 2      Accounting practice and financial reporting**

Issue or risk	Finding
Compliance with SoRP	We agreed some amendments to the statements to ensure SoRP disclosure requirements are met. We also identified that the capitalisation of infrastructure assets is not strictly in line with the SoRP. The SoRP states that definable major assets or components within an infrastructure system or network with determinable finite lives should be treated separately and depreciated over their useful economic lives. The Council's underlying records are not yet sufficiently detailed to allow this and all infrastructure assets are depreciated over 50 years. In this instance, the SoRP generally requires further expenditure to be charged to revenue.

## Financial statements and Annual Governance Statement

Issue or risk	Finding
	In 2007/08 an amount of £3.6m has been capitalised but records are not sufficiently detailed to show that this approach is appropriate. We will work with the Council over the coming year to review how the underlying records can be improved to enable full compliance with the SoRP. In the meantime, we ask you to provide further assurance about the value of infrastructure assets in the letter of representation.
Reserves and provisions	Overall, reserves and provisions have been classified prudently. However, we identified some minor classification issues.
Whole of Government Accounts (WGA)	We have not yet received the WGA consolidation pack and are unable to conclude if it is consistent with the statements nor give our report to the department by 1 October 2008.
Annual Report	The Annual Report is to be presented to a future Cabinet meeting. We are required to check that it is consistent with the statement of accounts. We will carry out this review when we receive the Annual Report.

Recommendations
<b>R3</b> Consider the issues at paragraph 14 where we have asked for specific representations and respond in the letter of representation.
<b>R4</b> Further improve the quality assurance processes that underpin the production of information for the statement of accounts.
<b>R5</b> Review the underlying records and the accounting treatment of infrastructure assets to ensure strict compliance with the SoRP.
<b>R6</b> Review reserves and provisions to ensure they are at an appropriate level and remain prudent.
<b>R7</b> Ensure the Whole of Government Accounts consolidation pack is produced earlier in future years to ensure the department's deadline is met.

### Adjustments to the financial statements

- 17 We identified errors in the financial statements (other than those of a trivial nature) and reported these to management.
- 18 Management has agreed to adjust the financial statements for the 5 errors identified at Appendix 2. In total the adjustments had no overall impact on revenue resources. Because of the weakness in internal control process that caused the errors and adjustments we are reporting them to you and have noted the most significant issue below. We have also agreed with Management that there is no need to adjust for a material error in respect of the Pension Fund and this is detailed below.
- 19 The most significant error is a material amendment of £9.5m to the Prior Period Adjustment (PPA) for the value of fixed assets which was in the accounts for £6.7m. During 2006/07 the Council's Valuer increased the value of a number of assets which he classified as finance leases and then subsequently reversed this for 2007/08 as these assets should not be shown at market value. Valuation lists now show that the value of the assets has reduced by £16.1m between 2006/07 and 2007/08 and the PPA should be for this amount.
- 20 Management has agreed to adjust the statement to reflect the full PPA for asset valuations. Although there is further impact on other parts of the statement for the prior year figures, we have agreed that the full adjustments do not need to be made and that a note is adequate to explain the effect. However, we ask you to consider whether you should adjust further for the impact of this error and if not, to confirm why in the representation letter.
- 21 Management has not adjusted the financial statements for an error identified in respect of Financial Reporting Standard 17 (FRS 17) Accounting for Retirement Benefits. The Standard requires the Council to show its outstanding liability to the Pension Fund in its accounts rather than just the payments made into the Pension Fund in the year. During our audit we found that the estimate made for investment performance for the year by the actuary was -3.04%. The actual performance achieved by the Fund for the year was -1.3%. The effect for Wirral Borough Council is that its share of Fund assets would increase by £9m from £575m to £584m.
- 22 We agreed with management that a note explaining the updated estimate would be satisfactory and would be more concerned if assets were understated. However, we ask you to consider whether you should adjust this error and if not, to confirm why in the representation letter.

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### The audit report

- 23 We plan to issue an unmodified report including an unqualified opinion on the financial statements and certify that we 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. Appendix 3 contains a copy of our draft Auditor's Report which also refers to our statutory report on the audit of the authority's best value performance plan which was issued in December 2007. A signed copy of the Auditor's Report will be available to view at the Council's Finance Department.

**Material weaknesses in internal control**

- 24 We have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.
- 25 We have, however, identified some weaknesses in internal control and draw these to your attention to strengthen the control environment. These weaknesses are set out in Table 3.

**Table 3 Weaknesses in internal control**

Issue or risk	Finding
Payroll	We identified some instances of lack of separation of duties in the approval of payroll timesheets and in the control over starters and leavers.
School bank balances	<p>We carried out direct confirmation of schools bank balances and have raised a query about whether a bank account in the name of a school should be consolidated within the Council's accounts. Finance officers are currently progressing the query with the school. Although the amount is only £227k, cash and bank balances could be susceptible to misappropriation and fundraising within the school should not be confused with school funds.</p> <p>We have sought direct confirmation from banks for the balances held by schools. We have not received direct confirmation in respect of £2.227m out of the total school balances of £4.6m and are relying on the council's internal records for our assurance.</p>
Related party transactions	Related party transactions disclosures were not received from one member and two officers and were not included in the approved accounts at 30 June 2008. In addition, the review of the Audit Commission's National Fraud Initiative (NFI) data matches identified non-disclosure of an interest in an organisation by one member.

Recommendations	
<b>R8</b>	Ensure classification and valuation of assets is robust and that valuation and finance staff take joint responsibility to ensure assets are correctly reflected in the statement of accounts.
<b>R9</b>	Discuss with Merseyside Pension Fund how a more accurate estimation of the value of Fund assets can be made whilst still meeting deadlines for financial reporting.
<b>R10</b>	Improve internal controls in respect of payroll procedures and ensure consistent compliance across the Council.
<b>R11</b>	Review schools bank accounts to ensure funds are held and applied for proper purposes.
<b>R12</b>	Ensure all related party transactions returns are received from members and officers to be included in the accounts approved by 30 June and test disclosure .

- 26** We have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made. We have reported only those matters which have come to our attention because of the audit procedures we have performed.

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### Other matters

- 27** We have identified the following matter that we require you to consider. We have recently published a report 'Adult Social Services - Follow up of Public Interest Disclosure Act (PIDA) Disclosure' which reviews arrangements for the commissioning and monitoring of contracts for Supported Living and Supported People services and the application of the Department of Health's Fairer Charging policy. This report is being presented to the Audit and Risk Management Committee today and management is currently considering what, if any, implications the findings of the report could have on the Council's financial position and on internal controls. Members are asked to consider the report in respect of their finance and governance responsibilities.

Recommendation	
<b>R13</b>	Consider the finance and governance implications of the PIDA report.

# Value for money

- 28 We are required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. We assess your arrangements against twelve criteria specified by the Commission. Our conclusion is informed by our work on Use of Resources, a scored judgement reported to the Audit Commission.
- 29 We have assessed the arrangements of the Council as adequate in all twelve areas and we therefore propose to issue an unqualified conclusion which is included in the draft Auditor's Report at Appendix 3. The areas assessed are included at Appendix 4.

# Formal audit powers

30 We have:

- a power to issue a public interest report. We do so where we believe this is necessary to draw a matter to your attention, or to that of the public;
- a power to apply to court for a declaration that an item in the Council's accounts is contrary to law;
- a power to issue an advisory notice. An advisory notice requires the Council to meet and consider the notice before:
  - making a decision that might give rise to unlawful expenditure; or
  - taking an unlawful course of action that would give rise to a loss; or
  - making unlawful entry in the accounts; and
- a power to seek judicial review of a decision of the Council.

31 We have not and do not propose to exercise these powers.

# Independence

- 32** The Code of Audit Practice and the Audit Practice Board's (APB's) Ethical Standards with which auditors must comply require that auditors act, and are seen to act, with integrity, objectivity and independence.
- 33** We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 34** We communicate to you:
- any relationships between us and the Council, its members and senior management that might affect our objectivity and independence and any safeguards put in place;
  - total fees charged to you for audit and non-audit services; and
  - our arrangements to ensure independence and objectivity.

## Relationships with the Council

- 35** We have identified no relationships that might affect objectivity and independence.

## Audit fees

- 36** We reported our fee proposals as part of the Audit Plan for 2007/08. The table below reports the outturn fee against that plan.

**Table 4      Audit fees**

	<b>Plan 2007/08</b>	<b>Actual 2007/08</b>
Financial statements and Annual Governance Statement	259,700	259,700
Value for Money	119,300	119,300
National Fraud Initiative	1,200	1,200
Total Audit Fees	380,200	380,200
Other work	0	0



## Independence

- 37 The analysis above shows that we contained our audit fee within the totals you have already agreed. However, during the year we were required to respond to concerns raised under the Public Interest Disclosure Act in relation to Adult Social Services (see paragraph 27). The total cost of this review was £15,250 but as we had planned to deal with some issues of this nature as a normal part of the audit we are able to utilise some of the existing fee. We now propose to charge you an additional fee of £7,250 to the fee that was agreed in March 2006 as noted above.
- 38 Under the Audit Commission's advice and assistance power it may provide non-audit services to the Council. We have not carried out any work under this power during 2007/08.

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### Our arrangements to ensure independence and objectivity

- 39 We have comprehensive procedures to ensure independence and objectivity. These are outlined in the table below.

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**Table 5 Arrangements to ensure independence and objectivity**

Area	Arrangements
Independence policies	<p>Our policies and procedures ensure that professional staff or an immediate family member:</p> <ul style="list-style-type: none"><li>do not hold a financial interest in any of our audit clients;</li><li>may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client; and</li><li>may not enter into business relationships with UK audit clients or their affiliates.</li></ul> <p>Our procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none"><li>the general requirement to carry out work independently and objectively;</li><li>safeguarding against potential conflicts of interest;</li><li>acceptance of additional (non-audit) work;</li><li>rotation of key staff;</li><li>other links with audited bodies;</li><li>secondments;</li><li>membership of audited bodies;</li><li>employment by audited bodies;</li><li>political activity; and</li><li>gifts and hospitality.</li></ul>

Area	Arrangements
Code of Conduct	The Code of Conduct forms part of the terms and conditions of all Audit Commission employees. The Code of Conduct states that staff have to comply with ethical guidance issued by their relevant professional bodies.
Confidentiality	All staff are required to sign an annual undertaking of confidentiality as a condition of employment.

# Appendix 1 – Draft Letter of Representation

to Michael Thomas, date 26 September 2008  
District Auditor,  
Audit Commission,  
The Heath Business and Technical Park,  
Runcorn,  
Cheshire,  
WA7 4QF.

your ref  
my ref FA/IEC

— please ask for Ian Coleman

Dear Sir,

## **Wirral Borough Council - Audit for the year ended 31 March 2008**

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 2008.

### **Compliance with 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 which present fairly the financial position and financial performance of the Council 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 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.

### **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:

- 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
- subsequent events do not require adjustment to the fair value measurement.

## Appendix 1 – Draft Letter of Representation

### 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 recently received Adult Social Services - Public Interest Disclosure Act report. The findings may impact upon the financial position of the Council.

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.

I confirm that the asset valuations going forward are correct and in accordance with the valuations presented by the appointed Asset Manager. There has been a Prior Period Adjustment relating to a number of community assets classed as being under finance leases. I confirm that this change required an adjustment to the opening asset valuations as at 31 March 2007 and that as there was no impact upon the revenue position no further adjustments were made.

The amount included in the financial statements in respect of pension liabilities is based upon information provided from an actuarial assessment. The assessment involved estimated information for part of the year and the actual final position showed a marginal variation. I confirm that as this is reflective of a position in time and market conditions have since changed that a note to this effect has been included but the statements have not been amended to reflect this change.

I confirm the statements include an accurate assessment reflecting the valuation of infrastructure assets as at 31 March 2008.

I also confirm that as at 31 March 2008 the Council had £8 million invested with the Bank of Scotland as evidenced by supporting records although third party confirmation has not been provided by the Bank concerned to the Commission.

Signed on behalf of Wirral Borough Council

Name	Ian Coleman
Position	Director of Finance
Date	

## Appendix 2 – Adjusted errors

Item of account	Value disclosed £'000	Description of error or uncertainty	Debit £'000	Credit £'000	Corrected Y/N	What is the reporting consequence?
Prior period adjustment	6,670	Understated prior period adjustment (PPA). The actual prior period adjustment should be £16,135k. An explanation of the amendment is at paragraphs 19 and 20.	9,465	9,465	Y	Opening balances on fixed assets overstated by £9.465m. We have agreed there will be no further amendments to prior year revenue balances. No impact on revenue balance.
Fixed assets impairments – land and buildings	33,642	As a consequence of the above PPA, impairments included at Note 19 overstated by £2.885m in respect of assets that should have been re-valued.	2,885	2,885	Y	Impairments overstated. No impact on revenue balances.
Fixed assets – expenditure on land and buildings	15,154	The Council has capitalised a number of items which should have been charged to revenue as deferred charges. £2.975m has been incorrectly capitalised and impaired in the balance sheet and should have been charged to revenue and reversed through the Statement of Movement in General Fund Balances.	2,975	2,975	Y	Overstatement of capital expenditure in year. No impact on revenue balances

## Appendix 2 – Adjusted errors

Item of account	Value disclosed £'000	Description of error or uncertainty	Debit £'000	Credit £'000	Corrected Y/N	What is the reporting consequence?
Collection fund	55,201	Income collectable from Business Rate Payers has been understated and payments to the pool understated.	351	351	Y	Understatement of Business rate payers in the collection fund. No impact on collection fund balances.
Creditors and Note 33	75,829	An accrual of £3.371m has incorrectly been made in respect of the Standards Fund and income and expenditure are both overstated by this amount. Of this, £1.54m should be classified as a receipt in advance on the balance sheet and the balance of £1.831m reduced from both debtors and creditors.	£3,371	3,371	Y	Income and expenditure reduced by £3.371m. Reclassification within the creditors note for £1.54m. No impact on overall creditor balance. Debtors and creditors reduced by £1.831m No overall impact on revenue balances.



# Appendix 3 – Draft auditor's report

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## Opinion on the accounting statements

I have audited the Authority accounting statements, pension fund accounts and related notes of Wirral Borough Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority accounting statements comprise the Authority Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority Balance Sheet, the Authority Statement of Total Recognised Gains and Losses, the Authority Cash Flow Statement, the Collection Fund and the related notes. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The Authority accounting statements and 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 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

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## Respective responsibilities of the Director of Finance and auditor

The Director of Finance's responsibilities for preparing the financial statements, including the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the Authority accounting statements, 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 Authority accounting statements and the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007:

- the financial position of the Authority and its income and expenditure for the year; and

- 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 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 Authority accounting statements, pension fund accounts and related notes and consider whether it is consistent with the audited Authority accounting statements. This other information comprises the Explanatory Foreword and the Pension Fund Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority accounting statements, pension fund accounts and related notes. My responsibilities do not extend to any other information.

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### 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 Authority accounting statements, pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority accounting statements, 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 Authority accounting statements, 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 Authority accounting statements, pension fund accounts 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 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended; and
- The pension fund accounts and related notes present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial transactions of the Pension Fund during the year ended 31 March 2008, and the amount and disposition of the fund's assets and liabilities as at 31 March 2008, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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### 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 December 2006, 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 2008.

### Best Value Performance Plan

I have issued our statutory report on the audit of the authority's best value performance plan for the financial year 2007/08 on 17 December 2007. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

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### 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, Officer of the Audit Commission

Audit Commission, Heath Business Park, Runcorn, Cheshire, WA7 4QF

Date:

[A signed copy of the Auditor's report can be viewed at: Wirral Borough Council, Finance Department, Treasury Building, Cleveland Street, Birkenhead CH14 6BU]

# Appendix 4 – Value for Money Conclusion Criteria

The Audit Commission has published, in accordance with the Code of Audit Practice, 12 criteria on which auditors are required to reach a conclusion on the adequacy of an audited body’s arrangements for economy, efficiency and effectiveness in its use of resources. The Code criteria are linked to the use of resources assessment (UoR) key lines of enquiry (KLoEs). A score of Level 2 or higher under the KLoEs will result in an assessment that the Authority has adequate arrangements in place for the purposes of the Code criteria. The Code criteria and the linked KLoEs are show in the table below.

Our overall assessment is that Wirral Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008.

<b>Code criteria</b>	<b>Description</b>	<b>Associated UoR KLoE</b>	<b>Assessment for Vfm Conclusion</b>
1	The Body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	N/a	Adequate
2	The Body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	N/a	Adequate
3	The Body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	N/a	Adequate

## Appendix 4 – Value for Money Conclusion Criteria

Code criteria	Description	Associated UoR KLoE	Assessment for Vfm Conclusion
4	The Body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	N/a Data quality Stage 1 work (management arrangements)	Adequate
5	The Body has put in place arrangements to maintain a sound system of internal control.	KLOE 4.2 (IC)	Adequate
6	The Body has put in place arrangements to manage its significant business risks.	KLOE 4.1 (IC)	Adequate
7	The Body has put in place arrangements to manage and improve value for money.	KLOE 5.2 (VFM)	Adequate
8	The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	KLOE 2.1 (FM)	Adequate
9	The Body has put in place arrangements to ensure that its spending matches its available resources.	KLOE 3.1 (FS)	Adequate
10	The Body has put in place arrangements for managing performance against budgets.	KLOE 2.2 (FM)	Adequate
11	The Body has put in place arrangements for the management of its asset base.	KLOE 2.3 (FM)	Adequate
12	The Body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	KLOE 4.3 (IC)	Adequate

# Appendix 5 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	<p>R1 Build on your arrangements for the AGS by involving members at an earlier stage and strengthening corporate ownership:</p> <ul style="list-style-type: none"> <li>present the AGS to the Audit and Risk Management Committee at a separate meeting to the approval of the accounts to provide members with more opportunity to consider and challenge the issues raised in the statement</li> <li>ensure the drafting of the AGS is done by a corporate group rather than being the responsibility of Internal Audit within the Finance Directorate.</li> </ul>					
8	R2 Ensure supporting records for community assets are complete and are accurately reflected in the financial statements.					
10	R3 Consider the issues at paragraph 14 where we have asked for specific representations and respond in the letter of representation.					
10	R4 Further improve the quality assurance processes that underpin the production of information for the statement of accounts.					

## Appendix 5 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
10	R5 Review the underlying records and the accounting treatment of infrastructure assets to ensure strict compliance with the SoRP.					
10	R6 Review reserves and provisions to ensure they are at an appropriate level and remain prudent.					
10	R7 Ensure the Whole of Government Accounts consolidation pack is produced earlier in future years to ensure the department's deadline is met.					
13	R8 Ensure classification and valuation of assets is robust and that valuation and finance staff take joint responsibility to ensure assets are correctly reflected in the statement of accounts.					
13	R9 Discuss with Merseyside Pension Fund how a more accurate estimation of the value of Fund assets can be made whilst still meeting deadlines for financial reporting.					
13	R10 Improve internal controls in respect of payroll procedures and ensure consistent compliance across the Council.					
13	R11 Review schools bank accounts to ensure funds are held and applied for proper purposes.					



## Appendix 5 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
13	R12 Ensure all related party transactions returns are received from members and officers to be included in the accounts approved by 30 June and test disclosure.					
13	R13 Consider the finance and governance implications of the PIDA report.					

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# 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, covering the £180 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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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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