

Annual governance report

Wirral Council

September 2011



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Traffic light explanation

■ Red ◆ Amber ● Green

Key messages

This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

	Traffic light
Unqualified audit opinion	
Proper arrangements to secure value for money	
Weaknesses in internal control	

Audit opinion and financial statements

This has been a very challenging year for the public sector and Wirral, like some other councils has struggled to produce accurate accounts under the new International Financial Reporting Standards (IFRS). My audit of your financial statements is substantially complete. Subject to the satisfactory clearance of a number of outstanding issues, I plan to issue an audit report including an unqualified opinion on the financial statements (including Merseyside Pension Funds statements)

- There was a material amendment of £64.8m to the cash flow statement and a number of other errors that indicate there was limited quality assurance of the accounts approved by the Director of Finance.
- There were a significant number of errors in the IFRS restatement exercise and the audit extended from January to the end of August 2011 due to the number of versions presented for audit.
- The deadline for approval of the accounts by the Director of Finance was not met. Working papers were not presented for audit to the deadline and some were not to standard.
- Non-current assets remain a major weakness in internal control and resulted in a significant number of the errors in the statements.
- The amendments have not changed the overall general fund balance.

Value for money

We have some concerns about whether Wirral Council has proper arrangements to secure value for money in its use of resources. I plan to issue a qualified opinion that draws attention to weaknesses identified in the arrangements for securing value for money in respect of the HESPE contract and other governance and internal control issues arising from whistleblowing issues and from the recording and control of assets. My opinion will, however, conclude that with the exception of these matters, I am satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

- The Council has proper arrangements in place for securing financial resilience. The Council generally achieved its saving and financial targets in 2010/11, aided by the large scale voluntary redundancy scheme that was implemented. During the year, the 'Change Programme' was not on course to deliver planned savings over the medium term although savings were delivered in 2010/11. The financial position was monitored closely during the year by a strategic budget monitoring group and the Council finished the year with a better than planned balance on its general fund and set a balanced budget for 2011/12. Progress on the 2011/12 budget is adequate but challenging with significant pressures, especially in the Department of Adult Social Services (DASS). The current budget shortfall for 2012/13 is £25.3m and the Council will shortly be considering how to close the gap. Delivery of the Change Programme is crucial to achieving this.
- We have some concerns about whether Wirral Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The Council is prioritizing its resources within tighter budgets, for example by achieving cost reductions and has delivered a number of objectives within its Corporate Plan with plans in place to deliver further improvements. However, it is not able to demonstrate that it is improving efficiency and productivity in some areas, for example in respect of the Highways and Engineering Services Procurement Exercise (HESPE) contract. We reviewed the benefits realization of the HESPE contract which has now been in operation for the last two and a half years and found that the Council is not able to determine whether it is receiving better value for the money spent.
- There are also a number of governance and internal control issues that are impacting on the efficiency and effectiveness of the Council, for example, arising from the whistleblowing issues in DASS and Technical Services. We have also raised concerns over the recording and control of assets.

Before I complete my audit

I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Audit Practice Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I identified the following threats to independence in that the son of a member of the audit team works at the Council, and the relative of another member of the team has had some dealings regarding land, buildings and planning. I applied the following safeguard that reduced these threats to an acceptably low level: no work on payroll or insurance has been carried out by the first individual and no work on land, buildings or planning by the second individual.

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

I ask you to confirm to me

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
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- approve the letter of representation, provided alongside this report, on behalf of the Council before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (Appendix 5).

Financial statements

Opinion

Subject to the satisfactory clearance of a number of outstanding issues, I plan to issue an audit report including an unqualified opinion on the financial statements. I also plan to issue an unqualified opinion on the MPF financial statements

The accounts approved by the Director of Finance and presented for audit contained a material error of £64.8m on the cash flow statement and a number of other errors.

There were a significant number of errors in the IFRS restatement exercise and a number of versions were presented for audit.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters on the Council accounts, 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.

As Wirral Council is the administering authority for the Merseyside Pension Fund (MPF), the Fund's accounts form part of the Council's statement of accounts. The audit of the Pension Fund has been completed and there is a separate Annual Governance Report (AGR) that is being considered by the Pensions Committee on 19 September and the Audit and Risk Management Committee on 28 September. The Pension Fund AGR also states that subject to satisfactory clearance of outstanding matters on the MPF accounts, I plan to issue an unqualified opinion on the financial statements. Members need to be aware of the issues in the Pension Fund AGR prior to considering and the overall statement of accounts.

Outstanding matters

As at 6 September 2011 I still need to complete the following audit procedures

- supporting information for the £9.5m deficit on revaluation of Property Plant and Equipment (PPE) assets disclosed on the face of the Comprehensive Income and Expenditure Statement (CIES)
- final adjustments relating to PPE disclosures and non-agreement between the ledger and asset system
- review of information in the annual report/summary accounts to ensure consistency with the published accounts
- final check of the amended statements and the annual report
- completion of the review of Whole of Government Accounts (WGA)
- completion of review of the Annual Governance Statement (AGS).

I will update members at the Audit and Risk Management Committee on 28 September 2011, but my view is that it is unlikely that any of these issues would result in a material impact on the Council's financial position or a change to my planned opinion.

Errors in the financial statements

The accounts presented for audit contained a material error of £64.8m to the cash flow statement that has been amended by officers. The surplus on provision of services from the Comprehensive Income and Expenditure Statement (CIES) was incorrectly entered as a deficit in the first line of the cash flow statement. An incorrect balancing adjustment was then entered into line 2 of the statement. In addition, the cash flow statement did not reconcile to the cash equivalents entry on the face of the balance sheet.

The errors that were amended and affect the main statements are set out at Appendix 2 (amendments to notes are set out at the section below on quality). There is no overall change to the general fund balance from the amendments.

There is currently one unadjusted error (see Appendix 3).

- The deficit on revaluation of PPE assets line on the face of the CIES has not been fully supported. The supporting papers appear to include items which should be reported under net cost of services.

Recommendation

Members should consider whether to amend the statements for the unadjusted error. If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected error is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected error to the representation letter.

Financial statements

Wirral Council's financial statements and Annual Governance Statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the Annual Governance Statement.

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Key audit risk and our findings

Key Audit Risk

1. IFRS transition

Council rated at amber in last IFRS survey but red on leases. Progress still behind schedule. Risk that 2010/11 accounts are materially misstated as new accounting requirements have not been considered or implemented correctly by the Council. This is considered a significant risk.

Finding:

Wirral, like some other councils, has struggled to produce accurate accounts under the new International Financial Reporting Standards (IFRS) and did not meet its project plan milestones or deadlines. There were a significant number of errors in the IFRS restatement exercise and a number of versions were presented for audit. This resulted in our restatement review extending from January to the end of August 2011. The material and significant amendments to the IFRS restatement included:

- Up to 2009/10, a number of investment property assets were valued at £1 due to the valuation method used being based on peppercorn rents. On review of these assets it was found that they are being used to provide a Council service and therefore have been valued at existing use. This issue resulted in £4.15m of the total £8m recognition and amendment of asset values under IFRS.
- Note 48 gives the reader of the accounts an overview of the changes in the accounts due to IFRS. This note required a number of amendments from the version originally supplied due to the length of time required to complete the IFRS restatement.
- Capital grants unapplied decreased by £2.2m as the Council was unable to supply information on conditions relating to these grants.
- Cash and cash equivalents were amended by £3.7m as a result of a change to accounting policy between versions.

Financial statements

Key audit risks and our findings *continued*

Key Audit Risks

Finding:

2. Change in senior management

Changes to Chief Executive and Directors for Corporate Services, Regeneration, Adult Social Services, Children and Young People. Risk that disruption reduces level of supervision and review and therefore operation of high level controls.

We found no evidence of failures in high level controls but the level of errors in the statements presented for audit indicates that there was limited quality assurance on the accounts approved by the Director of Finance.

3. Financial pressures

Following significant reduction in central government funding, the Council is experiencing significantly increased financial pressures. Increased risk of financial misreporting (considered in fraud risk assessment)

We found no evidence of any fraudulent financial mis-reporting.

4. Voluntary redundancy (VR)

A significant number of staff at the Council are expected to leave employment during 2010/11 and 2011/12. Risks that key staff at the Council leave thereby putting pressure on the arrangements to complete the audit, and increasing pressure on management to demonstrate VR process generates savings. We will also need to consider the accounting treatment in 2010/11 (e.g. how will severance payments be accounted for and ultimately funded as not in 2010/11 budget)

Some key finance staff have left and others have been diverted by the financial pressures and in dealing with additional work arising from the VR exercise. We have no concerns about the accounting treatment of the VR in 2010/11.

Key audit risks and our findings *continued*

Key Audit Risks

Finding:

5. Closedown arrangements

Working papers and accounts not provided on time, significant issues identified during 2009/10 were not resolved until relatively late in the audit. Risk that if repeated in 2010/11 the audit will not be completed as audit resourcing window is missed (audit team 'onsite' prior to working papers and accounts) and material issues are not resolved prior to opinion deadline

The deadline for approval of the accounts by the Director of Finance was not met. Working papers were not presented for audit to the deadline, some were not to standard although there was improvement in some working papers. The IFRS restatement exercise was not completed to deadline. This has had a significant effect on the audit resource pressures over the summer. There are a number of outstanding issues at the date of writing this Report but they are not likely to be material.

6. Manual entries in accounts

Weaknesses identified in respect of journals, off ledger adjustments, changes in senior management and deficiencies in asset records.

There are no significant concerns arising but officers should consider whether the ledger is being used to maximum effect.

7. Housing benefits (HB) expenditure and grant income

Our deadline to complete the certification of the housing benefits subsidy claim is after our opinion deadline on the accounts.

We have completed sufficient testing on the HB claim to provide us with assurance that there is no material impact on the statements or the Council's financial position

8. Previous year issues

I identified 19 non-trivial misstatements (including 3 material misstatements) in the 2009/10 audit – the risk of reoccurrence will be considered and reflected in our audit testing strategy. Issues arising included:

- PFI schools transferred to foundation status
- Statement of recognised gains and losses (STRGL)
- Balance sheet assets
- Service expenditure analysis on the income and expenditure account
- PFI - lifecycle costs

Non-current assets remains an area of significant concern

- PFI schools transferred to foundation status – a further 2 PFI schools transferred in 2010/11 and have been properly accounted for; assets have been disposed of but the liabilities remain.
- Statement of recognised gains and losses (STRGL) – this statement has been replaced under IFRS but internal inconsistencies involving reserves continued
- Balance sheet assets – this has been an area of significant concern again this year in respect of vehicles, plant and equipment (VPE)

Key audit risks and our findings *continued*

Key Audit Risks

- Bad debt provision for council tax.

9. Unadjusted misstatements identified in the 2009/10 audit

The value of unadjusted misstatements previously identified must be considered in conjunction with any misstatements identified in the 2010/11 audit.

10. Asset records

Weaknesses were identified in previous audits in relation to the Council's asset records. If no action is taken there is a risk of misstatement in the following areas:

- existence of Vehicles, Plant and Equipment (VPE)
- capitalisation of expenditure on infrastructure assets

Finding:

- Service expenditure analysis on the income and expenditure account – no significant issues arising
- PFI lifecycle costs – the Council does not have adequate information to ensure that lifecycle costs are capitalised appropriately and this is noted below under internal control
- Bad debt provision for council tax – this has been reviewed and the Council's estimate is reasonable.

I have considered the impact of unadjusted items from the 2009-10 audit on the current audit and concluded none of the items have a direct affect on the reported balances in 2010-11. However, unadjusted items for which no value could be attributed due to issues of control which have re-occurred in this audit include

- a lack of detailed analysis of PFI lifecycle costs to ensure they are appropriately capitalised. Wirral Council accountants have set up meetings with the PFI suppliers to address this issue for 2011-12.
- accurate recognition and de-recognition of PPE assets
- internal inconsistencies involving reserves

VPE - we still have significant concerns in respect of VPE and the issues are set out below.

Infrastructure assets - records to support capitalisation of expenditure in 2010/11 have improved but there is a lack of historical records.

Community assets – land and buildings have been reviewed as part of the IFRS restatement exercise and we have no further significant concerns.

Key audit risks and our findings *continued*

Key Audit Risks

- completeness of community assets.

Finding:

Other community assets are unlikely to be material although the Council needs to ensure that inventories are up to date.

11. Annual Governance Statement (AGS)

Concerns that the statement did not comply with CIPFA guidance and was inconsistent with our knowledge of the Council.

We are still reviewing this and will update members at the meeting on 28 September 2011.

Recommendation

Ensure that assets are valued and reported on a consistent, supported basis in line with IFRS classifications.

Ensure that recognised gains and losses reported in the statements and through the ledger are consistent with supporting information and reported consistently throughout the main statements and reserves.

Ensure that the plans to maintain control over the classification of lifecycle costs in PFI schemes are put in place and monitored

Financial statements

Significant weaknesses in internal control

Non-current assets remains a significant concern.

The level of errors in the accounts indicates that quality assurance has been limited

These weaknesses are only those I identified during the course of the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

Internal control issues and our findings

Description of weakness

Potential effect:

Management action:

Depot equipment

We found that depot equipment had not been included in the asset register or the balance sheet.

Assets and capital charges understated. Accounting policy not complied with.

None.

Vehicles

We found that we could not trace some education and gritting vehicles back to the asset register.

We cannot conclude whether they have been accounted for correctly. There is a possibility that assets and capital charges understated. Accounting policy not complied with.

Still reviewing.

Depreciation

We found that some asset lives in our sample could not be agreed between the asset register and the valuers report.

Potential for incorrect capital charges calculated and reported in the CIES and balance sheet.

For 2010/11 WMBC officers carried out further work to demonstrate the total impact this year was trivial at £36k. For future years the valuers report and asset register asset life figures will be reconciled before producing the statements.

Internal control issues and our findings

Description of weakness	Potential effect:	Management action:
<p>QA of accounts</p> <p>There was limited quality assurance of the accounts.</p>	<p>Material errors in the statements approved by the Director of Finance</p>	<p>Increase resources in future years.</p>
<p>Related Parties</p> <p>The related party disclosures rely on declaration of interest forms being returned by officers and members. There were 4 current member non returns, despite chasing by finance, and there were incomplete returns for members who left during the year.</p>	<p>Related party disclosures could be incomplete. WMBC may be unaware of existing relationships with other bodies, suppliers or contractors.</p>	<p>We have discussed improvements to the related party and declaration of interest process, including timing and ensuring that an up to date declaration is a formal part of leaving a post.</p>
<p>PFI life cycle costs</p> <p>PFI lifecycle costs are capitalised as they are incurred. Officers were able to provide total costs and a breakdown of works carried out, but could not link the two together.</p>	<p>The Council does not have adequate information to ensure that lifecycle costs are capitalised appropriately.</p>	<p>A meeting has been set up to discuss this with the PFI partner.</p>

Recommendation

Vehicles, plant and equipment (VPE) – strengthen controls over verification of VPE assets including verifying assets in the register exist and are in use as well as confirmation that assets in use are recorded in the register.

Quality assurance of the accounts – strengthen controls to ensure errors in the financial statements are minimised; there must be adequate resources and contingency to enable robust review of the accounts approved by the Director of Finance

Financial statements

Quality of your financial statements

We have identified a number of areas where policies were not complied with and financial statements disclosures were not consistent within the accounts.

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

There were a total of 53 amendments to disclosures: 14 amendments to values in disclosure notes, 39 inconsistency and rounding corrections. There were also a number of editing amendments. These are the more significant issues I want to raise with you.

Accounting practices, policies, estimates and financial disclosures

Issue

Findings and recommendations:

Disclosure note 13 – Property plant and equipment – movement on balances.

This note was not consistent with the entries in the main statements. Although the balance sheet was correct, the amendments resulted in changes to the CIES, Movement in Reserves Statement (MIRS), the Cash Flow Statement and Notes 13, 8 and 23. This was due to a variety of errors, for example in impairment, revaluation and depreciation.

Disclosure note 48 – Impact of the adoption of International Financial Reporting Standards (IFRS)

This note was not consistent with the entries we reviewed as part of the restatement exercise.

Disclosure note 32 – Officers' Remuneration

This note originally provided incorrect information within the bandings on the statement.

Accounting practices, policies, estimates and financial disclosures

Issue

Vehicles, plant and equipment

Operating leases

Findings and recommendations:

The Council's accounting policies for capitalisation of assets was not followed in respect of some education and gritting vehicles.

The Council carried out detailed work to identify underlying leases in ongoing arrangements. While not material, the Council did find some property leases that should be classified as operating leases, but disclosed no operating leases in the disclosure note to the accounts.

Financial statements

We experienced significant difficulties during the audit due to the lateness of the IFRS restatement exercise and the approved accounts. Working papers were also late, not complete and some were not to standard

Significant difficulties encountered during the audit

The Council did not complete the IFRS restatement exercise in line with its project plan, some statements were not restated and presented to us for review prior to receipt of the 2010/11 accounts and we also received a number of versions of the restated statements which we were required to review. We received the first element of the restated accounts in January and completed our review of the exercise at the end of August 2011 following responses to our queries. This meant that we were still carrying out our review during the main audit and this impacted on our timetable and resources throughout the audit.

The accounts were approved by the Director of Finance and submitted for audit on the evening of 4 July 2011 which is after the deadline. During the year the Accounts and Audit Regulations were updated and the 2011 Regulations confirmed that the Director of Finance must approve the accounts by 30 June (previously members were required to approve the accounts by 30 June). Prior to this change, our original deadline for receiving the accounts was 20 June 2011 which was subsequently changed to 30 June 2011. This late start to the audit had some impact on our timetable and resources.

The deadline for presenting working papers was not met and they were not complete. During the year we agreed which working papers would be presented with the accounts (revised deadline of 30 June 2011). The first working papers were received on 7 July and the trial balance (required to ensure we are auditing the correct figures and to pick testing samples) was not received until 13 July 2011. Working papers for group accounts were still being requested on 17 August 2011. As working papers were late and incomplete we were not able to progress our audit efficiently and it also had a significant effect on our timetable and resources.

The standard of working papers was variable. When we received them, most working papers were adequate although some were not to standard, for example non-current assets. Working papers for financial instruments and the collection fund were good and provided early in the audit.

Recommendation

Ensure that the accounts production process has contingency time and quality assurance time built into it, to reduce the number of avoidable errors in the statements presented for audit.

Ensure that working papers are produced to support the Statement of Accounts, and that these working papers reconcile to the accounts, supporting systems and provide the agreed information. This would give the Council greater assurance that the financial statements are accurate, reduce the time taken to complete the audit and reduce the volume of queries to officers during the audit.

Significant matters that were discussed or subject to correspondence with management

During the year, officers kept me informed of the plans for and progress on the redundancy exercise. We raised no concerns regarding the accounting treatment in 2010/11.

Other significant matters relevant to the reporting process

The Council is planning to produce an Annual Report/Summary of Accounts document following completion of the audit. We will need to review this to ensure it is consistent with the published statements.

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 6 contains the draft letter of representation.

Value for money

Value for money conclusion

I have identified weaknesses in your arrangements to secure value for money in your use of resources and plan to issue a qualified opinion.

The Council has adequate systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future, although delivery of the Change Programme is crucial to ensuring financial resilience.

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

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

I have some concerns about whether Wirral Council has proper arrangements to secure value for money in its use of resources. I plan to issue a qualified opinion that draws attention to weaknesses identified in the arrangements for securing value for money in respect of the HESPE contract and other governance and internal control issues arising from whistleblowing issues and from the recording and control of assets. My opinion will, however, conclude that with the exception of these matters, I am satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Value for money criteria and our findings

Criterion

1. Financial resilience

The organisation has proper arrangements in place to secure financial resilience.

Findings:

The Council has proper arrangements in place for securing financial resilience. The Council generally achieved its saving and financial targets in 2010/11, aided by the large scale voluntary redundancy scheme that was implemented. During the year, the 'Change Programme' was not on course to deliver planned savings over the medium term although savings were delivered in 2010/11. The financial position was monitored closely during the year by a strategic budget monitoring group and the council finished the year with a better than planned balance on its general fund and set a balanced budget for 2011/12.

Value for money criteria and our findings

Criterion

Focus for 2010/11:
The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

Findings:

Progress on the 2011/12 budget is adequate but challenging and the Council is currently predicting a general fund balance of £7.4m (£11.5m at June 2011). However, there are significant pressures across the Council, especially in the Department of Adult Social Services (DASS) where the predicted overspend is currently £7m (August 2011). Although there is currently a satisfactory level of balances to mitigate this for 2011/12, they cannot be relied on longer term. Leadership and management of the financial position will be vital to ensure a balanced budget in 2012/13 and this will be even more challenging due to the planned retirement of the current director and recruitment of a new director.

The current budget shortfall for 2012/13 is £25.3m and the Council will shortly be considering how to close the gap. Delivery of the Change Programme is crucial to achieving financial resilience.

Value for money

Value for money conclusion

I have identified weaknesses in your arrangements to secure value for money in your use of resources.

The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions but is not able to demonstrate that it is improving efficiency and productivity in some areas, for example in respect of the HESPE contract.

Value for money criteria and our findings *continued*

Criterion

2. Securing economy efficiency and effectiveness

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

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Findings:

We have some concerns about whether Wirral Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. Although cost reductions are generally being achieved it is not clear whether efficiency and productivity are being improved.

The Council has delivered a number of objectives within its Corporate Plan and there are plans in place to deliver further improvements. For example, the market management review in DASS is reducing the payments to care home providers to bring back to the average for the sector and putting in place arrangements to assess the efficiency and effectiveness of the service going forward.

However, there are a number of Change Programme projects currently assessed as 'red' (at June 2011), such as Looked after Children, Learning Disabilities, Disposal of Assets, Office Rationalisation and some areas of Procurement. In addition, there are a number of indicators that are currently assessed as 'red', for example the indicator for financial assessments completed within 30 days is significantly under target.

Value for money criteria and our findings *continued*

Criterion

Findings:

We reviewed the benefits realization of the Highways and Engineering Services Procurement Exercise (HESPE) contract which has now been in operation for the last two and a half years and found that the Council is not able to provide information on activity and performance to determine whether it is receiving better value for the money spent.

Report by exception

The Audit Commission requires me to report by exception where significant matters come to my attention, which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

There are a number of governance and internal control issues that are impacting on the efficiency and effectiveness of the Council. For example, arising from the whistleblowing issues in DASS and Technical Services that have been or are in the process of being reported to members. We have also raised concerns over the recording and control of assets over a number of years and although there is some improvement there are still major weaknesses in internal control, especially in respect of vehicles, plant and equipment.

Recommendation

Ensure there are robust plans in place to ensure financial resilience going forward, and that the change Programme is delivered.

Ensure there is strong leadership and management in DASS during the changeover of the Director post to ensure that the overspending is managed

Ensure there are robust systems in place to manage and monitor performance to assess Value for Money.

Appendix 1 – draft Auditor’s Report

DRAFT INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF WIRRAL BOROUGH COUNCIL

Opinion on the Authority accounting statements

I have audited the accounting statements of Wirral Borough Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Wirral Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Finance is responsible for the preparation of the Authority’s Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation

of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Wirral Borough Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Wirral Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Finance is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

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

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of qualified conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We reviewed the benefits realization of the Highways and Engineering Services Procurement Exercise (HESPE) contract which has now been in operation for the last two and a half years and found that the Council is not able to provide information on activity and performance to determine whether it is receiving better value for the money spent.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, with the exception of the matter reported in the basis for qualified conclusion paragraph above, I am satisfied that in all significant respects Wirral Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

The Audit Commission's guidance also requires me to report by exception on any other significant additional matters that come to my attention and which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in the use of resources. Such a matter has come to my attention relating to significant weaknesses in governance and internal control arrangements for whistleblowing issues arising in DASS and Technical Services and in the control of assets.

Certificate

I certify that I have completed the audit of the accounts of Wirral Borough Council and Merseyside Pension Fund in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

[Signature]

Michael Thomas, Officer of the Audit Commission

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

September 2011

Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Adjusted misstatement	Nature of adjustment	Comprehensive income and expenditure statement		Balance sheet	
		Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Depreciation amount charged through asset note and asset register different to that charged through income statement and reserves. A manual reversal of the final quarter depreciation for a disposed of asset had been made in error. The correct amount had already been processed through the asset register	The adjustment corrects this incorrect posting in the CIES, through the MIRS, in the Cash Flow statement and in the various notes and unusable reserves where the incorrect depreciation figure has been used.	74			n/a – affects MIRS
An asset was included as an addition in the asset register at an incorrect value and the accounts reflected this and the subsequent impairment to report the total balance at the correct value.	The adjustment reduces the additions figure and the impairment figure, adjustments which net each other off and leave the correct totals.			42	42
Revaluation reversals of previous impairment had been taken to the revaluation reserve without first reversing the impact of impairment charged to CIES	An element of revaluation that represents reversal of impairment credited to CIES. The effect on the reserves is written out through the revaluation reserve reported in the MIRS, and therefore amends total unusable reserves reported on the balance sheet.		875	875	

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
The surplus on provision of services from the CIES was incorrectly entered as a deficit in the first line of the cash flow statement. An incorrect balancing adjustment was then entered into line 2 of the statement	Cash flow statement line 1 £(64,800)k adjustment, Cash flow statement line 2 £64,800k adjustment.	n/a		n/a	
The cash flow statement did not reconcile to the cash and cash equivalents on the face of the Balance Sheet	The Cash Flow statement has been restated and the cash and cash equivalents figure amended to agree to the Balance Sheet figure.	n/a		n/a	
The staff leave accrual was understated in the statements in error and did not reflect the supporting calculations.	Increase the accrual to the correct value by debiting expenditure against service lines in the CIES. The opposite entry is required to increase the accrual held on the balance sheet.	1,290			1,290
The loss on disposal figure included in the CIES was not consistent with the loss on disposals reported elsewhere in the statements. The CIES required a correction of 607k.	The CIES figure is adjusted by 607k. The adjustment corrects an inconsistency between CIES and the MIRS, resulting in no net impact on the balance sheet.	607		n/a	

Appendix 3 – Unadjusted misstatements in the financial statements

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements. If you decide not to amend, please tell me 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.

Unadjusted misstatement	Nature of required adjustment	Comprehensive income and expenditure statement		Balance sheet	
		Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
The deficit on revaluation of PPE assets line on the face of the CIES has not been fully supported. The supporting papers appear to include items which should be reported under net cost of services	Not yet known (awaiting further response)	not known		n/a	

Appendix 4 –Glossary

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Appendix 4 -Glossary

Materiality and significance

The Accounting Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Appendix 4 -Glossary

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission. The criteria set by the Audit Commission for 2010/11 cover financial resilience and economy, efficiency and effectiveness.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. **These** comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

Appendix 5 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
5	Members should consider whether to amend the statements for the unadjusted error. If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected error is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected error to the representation letter	3				
10	Ensure that assets are valued and reported on a consistent, supported basis in line with IFRS classifications.	2	Reg Huyton Finance Tony Simpson Law, HR and Asset Management	Yes	Work is undertaken each year to value the Councils assets. This will involve looking across asset categories to ensure consistency and compliance with IFRS classifications.	March 2012

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
10	Ensure that recognised gains and losses reported in the statements and through the ledger are consistent with supporting information and reported consistently throughout the main statements and reserves.	2	Jenny Spick Finance	Yes	During 2011/12 working papers to support the Statement of Accounts will be developed to include verifications and cross referencing of figures within the statements.	June 2012
10	Ensure that the plans to maintain control over the classification of lifecycle costs in PFI schemes are put in place and monitored	2	Reg Huyton Finance Tom Quigley Children and Young Peoples Department	Yes	In preparation for the 2011/12 Statement of Accounts details will be sought from our PFI schools contractor. The aim of this is to identify and monitor lifecycle costs.	Ongoing
13	Vehicles, plant and equipment (VPE) – strengthen controls over verification of VPE assets including verifying assets in the register exist and are in use as well as confirmation that assets in use are recorded in the register.	3	Reg Huyton and Jenny Spick Finance All Council Departments	Yes	Procedures will be developed and implemented to verify VPE assets. This will involve seeking assurances from all Council departments.	June 2012
13	Quality assurance of the accounts – strengthen controls to ensure errors in the financial statements are minimised; there must be adequate resources and contingency to enable robust review of the accounts approved by the Director of Finance.	2	Tom Sault Finance	Yes	The arrangements for quality assurance will be reviewed and updated. For 2011/12 we will look to increase the level of resources dedicated to this aspect of the production of the Statement of Accounts.	June 2012

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
17	Ensure that the accounts production process has contingency time and quality assurance time built into it, to reduce the number of avoidable errors in the statements presented for audit.	2	Tom Sault Finance	Yes	Quality Assurance time is always built into the timetable. For 2011/12 closedown it is important that this time is realised and effectively used.	June 2012
17	Ensure that working papers are produced to support the Statement of Accounts, and that these working papers reconcile to the accounts, supporting systems and provide the agreed information. This would give the Council greater assurance that the financial statements are accurate, reduce the time taken to complete the audit and reduce the volume of queries to officers during the audit.	2	Jenny Spick and Group Accountants Finance	Yes	For the 2011/12 work will be undertaken to develop working papers that link through to the Statement of Accounts through the use of electronic files/spreadsheets and the Council financial package.	June 2012

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
21	Ensure there are robust plans in place to ensure financial resilience going forward, and that the change Programme is delivered.	3	Chief Executive and Directors	Yes	Budget predictions are reported to Cabinet and the Change programme is regularly monitored. Work is currently underway to examine options to improve financial resilience through the budget process for 2012/13 and the Medium Term Financial Plan.	Ongoing
21	Ensure there is strong leadership and management in DASS during the changeover of the Director post to ensure that the overspending is managed	3	Chief Executive	Yes	The post is currently out to advert with a closing date of 14 th September 2011.	March 2012
21	Ensure there are robust systems in place to manage and monitor performance to assess Value for Money	3	Chief Executive and Directors	Yes	The Councils systems for managing and monitoring Value for Money will be developed in 2011/12.	Ongoing

Appendix 6 – Draft Letter of Representation

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

date 28 September 2011

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

–
DRAFT

Dear Sir,

Wirral Borough Council - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Wirral Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011.

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 which give a true and fair view of the financial position and financial performance of the Council, and for making accurate representations to you.

Uncorrected misstatements

Either

There are no uncorrected financial statements misstatements.

OR

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;

Details to be included etc.

I also confirm that the adjustments have no impact upon the level of balances, reserves or provisions of the Council at 31 March 2011.

Supporting records

All relevant information and access to persons within the Council has been made available to you for the purpose of your audit, and all the transactions undertaken by the Council have been properly reflected and recorded in the financial statements.

Irregularities

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

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;

- b) my knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others; and
- c) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

I confirm:

- a) the appropriateness of the measurement method, including related assumptions and models, the consistency in application of the process;
- b) the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council, where relevant to the accounting estimates and disclosures;
- c) the appropriateness of the carrying value of Council fixed assets;
- d) the completeness and appropriateness under the financial reporting framework; and

- e) subsequent events do not require adjustment to accounting estimates and disclosures included within the financial statements.

Use of Experts

The Council has used experts in specific areas to assist in the preparation of the Statement of Accounts, and discussed and disclosed these to you during the audit.

Financial Guarantees

The Council has given no financial guarantees in financial year to 31 March 2011.

Related party transactions

I confirm that I have disclosed the identity of Wirral Council related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of Wirral Borough Council

I confirm that this letter was agreed by the Audit and Risk Management Committee of Wirral Borough Council on 28 September 2011.

Name	Ian Coleman
Position	Director of Finance
Date	28 September 2011