



Pensions Committee

Date:	Monday, 28 June 2010
Time:	6.00 pm
Venue:	Committee Room 1 - Wallasey Town Hall

Contact Officer: Pat Phillips
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SUPPLEMENTARY AGENDA

16. ANY OTHER URGENT BUSINESS APPROVED BY THE CHAIR
17. MERSEYSIDE PENSION FUND ACCOUNTS - YEAR ENDED 31 MARCH 2010 (Pages 1 - 14)
18. AUDIT COMMISSION PROGRESS REPORT (Pages 15 - 42)
19. EXEMPT INFORMATION - EXCLUSION OF MEMBERS OF THE PUBLIC

The public may be excluded from the meeting during consideration of the following items of business on the grounds that they involve the likely disclosure of exempt information.
20. INVESTMENT MONITORING WORKING PARTY MINUTES (Pages 43 - 50)
21. MERSEYSIDE SPECIAL INVESTMENT FUND (Pages 51 - 56)

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WIRRAL COUNCIL

PENSIONS COMMITTEE

28 JUNE 2010

AUDIT AND RISK MANAGEMENT COMMITTEE

30 JUNE 2010

REPORT OF THE DIRECTOR OF FINANCE

MERSEYSIDE PENSION FUND ACCOUNTS: YEAR ENDED 31 MARCH 2010

1. EXECUTIVE SUMMARY

- 1.1 This report shows the accounts and financial statements which will in due course be contained in the Annual Report of Merseyside Pension Fund 2009/2010. They are set out in detail in the Appendix.

2 COMMENTARY

- 2.1 In preparing these accounts, I have adhered to the Audit Commission approach to materiality and triviality. For the audit of the 2009/2010 accounts, there will be a single materiality level, which for MPF, will be based on 0.5% of net assets, taken to be £4.6bn. For MPF, this means a materiality level of £23.4m, which for net assets represents a considerable reduction, with potentially more scope for mis-statements. On the other hand, for benefits and contributions, this represents an increase, in the materiality level potentially reducing the number of mis-statements.
- 2.2. The threshold for trivial items is based on the lower of 1% of the materiality level (i.e. £234,000) or £500,000, hence for MPF this is £234,000. The Committee is requested to agree this approach.
- 2.3 The majority of figures relating to investments are provided by external sources. At the time of compiling these draft accounts, as a number of final figures are still outstanding, I have had to make estimates. Should the final figures be received during the period of the audit, and the difference not be deemed trivial, any subsequent adjustments to be made in the audited accounts will be referred to as mis-statements.
- 2.4 The following update on the Audit Commission recommendations consequent to the audit of the Pension Fund Accounts for 2008/2009 is provided:-

1	Strengthen internal quality assurance to ensure that errors in the accounts are minimised.	This tends to be a standard Audit Commission recommendation. I have closed the 2009/2010 Accounts using, for first time, the Oracle Accounting platform, and so new procedures have been identified and followed. This has improved the robustness of certain aspects of the closure of accounts programme, but, with any change of this magnitude, has brought its own set of challenges. I shall conduct an internal review of this process in the autumn, in addition to any comments from the Audit Commission.
2	Members should ensure they comply with the process for making related party transactions.	Returns from Members are complete.
3	Ensure that audit trails are available to support year end balances.	This is another standard recommendation. MPF continues to diversify investments and remains heavily dependent upon the timely receipt of accurate information and evidence from an increasing number of external sources. The audit trial for a specific internal balance, identified as inadequate last year, has been strengthened.
4	Improve procedures within the Pension Fund to ensure compliance with the SoRP aided by improved communication with other pension funds and government to ensure interpretation is clear and consistent.	This has been achieved. The Financial Controller of MPF chaired a meeting of the Audit Commission and 13 selected local authority pension funds, under the auspices of CIPFA. The Department for Communities and Local Government subsequently clarifies the two remaining outstanding issues. CIPFA subsequently released the outcomes in time to inform the closure of local authority pension fund accounts for 2009/2010.

3 FINANCIAL AND STAFFING IMPLICATIONS

3.1 There are none arising directly from this report.

4. EQUAL OPPORTUNITY IMPLICATIONS

4.1. There are none arising from this report.

5. COMMUNITY SAFETY IMPLICATIONS

5.1. There are none arising from this report.

6. LOCAL MEMBER SUPPORT IMPLICATIONS

6.1. This report has no particular implications for any Members or wards.

7. LOCAL AGENDA 21 IMPLICATIONS

7.1. There are none arising from this report.

8. PLANNING IMPLICATIONS

8.1. There are none arising from this report.

9. BACKGROUND PAPERS

9.1. There are none with this report

10. RECOMMENDATIONS

10.1 That the Committee

a. Agree the levels of materiality and triviality as set out in paragraphs 2.2 and 2.3

10.2 a. That the Committee approve the accounts and financial statements of Merseyside Pension Fund for the year ended 31 March 2010

IAN COLEMAN
DIRECTOR OF FINANCE

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APPENDIX

Fund Account - for year ended 31 March 2010

	Note	2010 £'000	2009 £'000
Contributions and Benefits			
Contributions receivable	3	246,766	245,976
Transfers in		21,932	18,436
		268,698	264,412
Benefits payable	4	233,046	212,476
Leavers	5	19,658	15,121
Administration expenses		3,965	3,860
		256,669	231,457
Net additions from dealings with members		12,029	32,955
Return on Investments			
Investment Income	6	81,531	71,212
Change in market value of investments	7	1,080,503	-833,021
Investment Management Expenses	8	-9,745	-4,982
Net return on Investments		1,152,289	-766,791
Net increase (-decrease) in the Fund during the year		1,164,318	-733,836
Net Assets of the Fund at the start of the year		3,521,496	4,255,332
Net Assets of the Fund at the end of year		4,685,814	3,521,496

Net Assets Statement as at 31 March 2010

		2010 £'000	2009 £'000
Investments			
Other Investments	7	317,250	264,580
Equities		1,872,730	1,253,028
Managed and Unitised Funds		2,155,985	1,668,255
Derivative Contracts		33	130
Properties		210,225	199,535
Short Term Deposits		56,207	74,089
Other Investment Balances		57,286	41,453
		4,669,716	3,501,070
Current Assets	9	28,624	30,412
Current Liabilities	9	12,526	9,986
Net Assets of the Fund as at 31 March 2010		4,685,814	3,521,496

NOTES TO THE ACCOUNTS

1. General

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

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

2. Accounting Policies

Basis of Preparation

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

Valuation of Investments

shown at bid price, i.e. the price which the Fund would have obtained should the securities have been sold at the year end. For this purpose unlisted investments, other than direct property are included at manager's valuation. Valuations of UK private equity are consistent with the guidelines and conventions of the British Venture Capital Association. Properties have been valued independently by Colliers Erdman Lewis, Chartered Surveyors as at 31 March 2010.

Translation of foreign currencies

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

Investment income

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

Rental income

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

Contributions and benefits

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

Transfers to and from other schemes

Transfer payments relate to those early leavers whose transfers have been paid during the year plus an accrual for future payments in respect of members moving their service to other schemes under bulk transfer arrangements. One bulk transfer into MPF is included in 2009/10, for which a cash payment will be received.

Investment Management Expenses

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

Prior Period Adjustments

There are no prior period adjustments in the accounts for 2009-2010.

3. Contributions Receivable	2010	2009
	£'000	£'000
Employers		
Normal	162,023	158,778
Augmentation	12,760	11,993
Deficit Funding	8,457	15,568
Employees		
Normal	63,526	59,637
	246,766	245,976
relating to : Administering Authority	37,705	36,524
Statutory Bodies	174,174	167,958
Admission Bodies	34,887	41,494
	246,766	245,976

Income in respect of Augmentation includes the re-imbursement by employers on a monthly basis in respect of the enhanced elements of the monthly pensioners' payroll. There are three elements of deficit funding, one-off payments (nil in 2009/10, £8m in 2008/09), regular additional contributions and the recovery of specific early retirement costs (pension strain).

4. Benefits Payable	2010	2009
	£'000	£'000
Pensions	185,971	173,545
Lump Sum Retiring Allowances	42,985	35,387
Lump Sum Death Benefits	4,090	3,544
	233,046	212,476
relating to : Administering Authority	34,342	29,784
Statutory Bodies	168,123	156,773
Admission Bodies	30,581	25,919
	233,046	212,476

5. Payments to and on Account of Leavers

Refunds to members leaving service	41	21
Payment for members joining state scheme	2	25
Income for members from state scheme	-7	-29
Individual transfers to other schemes	19,622	15,104
	19,658	15,121

6. Investment Income

Fixed Interest Securities	0	0
Index-Linked Securities	0	0
Dividends from Equities, Managed and Unitised Funds	63,112	50,297
Net Rents from Properties	16,115	16,419
Interest on Deposits	1,279	3,927
Other	1,025	569
	81,531	71,212

As at 31 March 2010, £88.4m of stock was on loan to market makers, which was covered by non-cash collateral totalling £93.6m, giving a margin of 5.7%. Income from stock lending is included within 'Other' Investment Income.

The figure of 'Dividends from Equities, Managed and Unitised Funds' includes recoverable taxation of £1.27m, (2008/09 £0.65m) plus income from profits from associate and joint ventures of £1.7m (2008/09 £7.41m). Irrecoverable taxation amounted to £2.35m (2008/09 £2.64m).

The Fund is seeking to recover tax withheld by UK and overseas tax regimes under the EU principle of free movement of capital within its borders, but is not accruing for future receipt of such income within these accounts. In 2009-2010 £225,000 was recovered, gross of fees .

7. Investments

	Market Value @ 31.3.09 £'000	Purchases at cost and derivative payments £'000	Sale Proceeds and derivative receipts £'000	Change in Market Value* £'000	Market Value @ 31.3.10 £'000
Equities	1,253,028	779,192	741,079	581,589	1,872,730
Managed and Unitised Funds	1,668,255	389,252	360,684	459,162	2,155,985
Other	264,580	89,988	67,082	29,764	317,250
Derivative Contracts	130	1,386	1,690	207	33
Properties	199,535	0	2	10,692	210,225
	3,385,528	1,259,818	1,170,537	1,081,414	4,556,223
Short Term Deposits	74,089			233	56,207
Other Investment Balances	41,453			-1,144	57,286
	3,501,070			1,080,503	4,669,716

*Note: The change in market value of investments during the year comprises all realised and unrealised appreciation and depreciation.

	2010 £'000	2009 £'000
Equities (segregated holdings)		
UK Quoted	802,581	550,034
Overseas Quoted	1,070,149	702,994
	1,872,730	1,253,028

	2010 £'000	2,009 £'000
Managed* and Unitised Funds		
UK Fixed Interest	0	172,351
UK Corporate Bonds	0	156,438
Overseas Fixed Interest	0	0
Unconstrained Bonds	359,907	0
Index-Linked Securities	477,650	442,823
UK Equities	644,224	417,468
Overseas Equities	396,049	274,907
Unlisted Securities (Private Equity)	189,895	145,314
Property Unit Trusts	88,260	58,954
	2,155,985	1,668,255

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

	2010 £'000	2009 £'000
Derivative Contracts	33	130

Type of Derivative	Expiration	Economic Exposure	Market Value
Futures			
DJ Euro STOXX			
50 Index Futures	June 2010	330	33

A Futures contract is the obligation under a legal arrangement to make or take delivery of a specified instrument at a fixed future date, at a price determined at the time of dealing. Merseyside Pension Fund's index futures contracts are externally managed and their objective is to hedge overseas investment positions against adverse index movements. Futures dealing requires the posting of margin. Initial margin must be posted before you can trade. Variation margin is the mark-to-market value of the futures contracts you have. Variation margin is exchanged daily and exists to reduce counterparty credit exposure. Collateral is held in Euro currency and the Sterling equivalent amount is £33,092.

	2010 £'000	2009 £'000
Other Investments	317,250	264,580
UK Properties		
Freehold	190,574	182,038
Leasehold	19,651	17,497
	210,225	199,535
Short Term Deposits	56,207	74,089

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

	2010 £'000	2009 £000
Other Investment Balances		
Amounts due from brokers	33	858
Amounts due to stockbrokers	-5,607	-22,413
Amounts due from stockbrokers	6,636	19,171
Outstanding dividend entitlements and recoverable	12,796	6,110
Cash deposits	43,428	37,727
	57,286	41,453

Other Investment Balances' include amounts due to and from stockbrokers and also cash with managers awaiting investment.

Disclosure Note re: Transaction Costs

Transaction costs include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, transfer taxes and duties. They have been added to purchases and netted against sales proceeds as appropriate. Transaction costs during the year amounted to £1.966m. In addition to these costs, indirect costs are incurred through the bid-offer spread on investments in pooled vehicles. The amount of indirect costs is not provided directly to the Fund.

Disclosure Note re: Icelandic Deposits

Early in October 2008, the Icelandic banks collapsed and their UK subsidiaries went into administration. The Fund had £5m deposited with Glitnir Bank at an interest rate of 6.30% which was due to mature 15 October 2008 and £2.5m deposited with Heritable Bank at an interest rate of 5.94% which was due to mature 10 December 2008.

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

The current situation with regards to recovery of the sums deposited varies between each institution. Based on the latest information available the Fund has given consideration to an impairment adjustment for the deposits, and has taken the action outlined below. As the available information is not definitive as to the amounts and timings of payments to be made by the administrators/receivers, it is likely that further adjustments will be made to the accounts in future years.

Glitnir Bank hf

The expected recovery rate for claims that have priority status is 100%. Full recovery is subject to the following uncertainties and risks:

- Confirmation that local authority deposits enjoy preferential creditor status, which is to be tested through the Icelandic Courts.
- The impact of exchange rate fluctuations on the value of assets recovered by the resolution committee and on the settlement of the Fund's claim, which may be denominated wholly or partly in currencies other than sterling.

Therefore the Fund has followed the latest Local Authority Accounting Panel recommendation that the estimated recoverable amount is based on the assumption that local authority deposits will enjoy priority status. The Fund therefore continues to assume the future recovery on the full amount of principal and interest up to 22 April 2009. However, an impairment is now made to reflect the loss of interest to the Fund until the funds are repaid.

Failure to secure preferential creditor status would have a significant impact upon the amount of the deposit that is recoverable. Therefore, if preferential creditor status is not achieved the recoverable amount is approximately 29%.

No payment is expected to be received prior to the court cases and any appeals in respect of priority status being heard. In calculating the impairment the Fund has assumed that the repayment of priority deposits will be made by June 2011.

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

Heritable

Heritable Bank is a UK registered bank under English law. The company was placed in administration on 7 October 2008. The creditor progress report issued by the administrators Ernst and Young, dated 17 April 2009 outlined that the return to creditors was projected to be 80p in the £. To date the Fund has received three dividend payments totalling 34.98 pence in the £ which have exceeded the levels originally projected. The latest creditor progress report, dated January 2010 outlined that the return to creditors was projected to be 85p in the £. The Fund has therefore decided to decrease the impairment loss based on it recovering 85p in the £. In calculating the impairment the Fund has made the following assumptions re timing and recoveries:

June 2010	5%	September 2011	5%
September 2010	5%	December 2011	5%
December 2010	5%	March 2011	5%
March 2011	5%	June 2011	5%
June 2011	5%	September 2011	5%

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

The impairment loss recognised in the Fund Account in 2009/10, £475,532 has been calculated by discounting the assumed cash flows at the effective interest rate of the original deposit in order to recognise the anticipated loss of interest to the Fund until monies are recovered.

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

8. Investment Management Expenses

Fees paid to the eleven major investment managers amount to £8.2m, and constitute the bulk of the figure of £9.7m investment management expenses. Charges vary between fund managers and between markets and types of security. Charges are calculated as a percentage of the value of the investments. Internal investment management expenses are also included here.

9. Current Assets and Liabilities

	2010 £'000	2009 £'000
Assets		
Contributions due	17,077	20,885
Accrued and outstanding investment income	234	847
Transfer values receivable	1,700	2,357
Cash at bank	724	725
Sundries	9,039	6,071
Provision for bad debts	-150	-473
	28,624	30,412
Liabilities		
Transfer values payable	0	0
Provisions	596	541
Miscellaneous	11,930	9,445
	12,526	9,986
Total Other Assets and Liabilities	16,098	20,426

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

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

Included in 'Miscellaneous Liabilities' is an estimated £1.649m of unpaid benefits.

10. Commitments

Commitments for investments amounted to £194.017m as at 31 March 2010.

11. Related Party Transactions

Administration and investment management costs include charges by Wirral Council in providing services in its role as administering authority to the Fund, which amount to £3.838m (2009 £3.511m). Such charges principally relate to staffing required to maintain the pension service.

A specific declaration has been received from Pension Committee Members and principal officers regarding membership of, and transactions with, such persons or their related parties. A number of Members act as Board members of particular scheme employers, who maintain a conventional employer relationship with the Fund. Some principal officers act in an advisory capacity on investment bodies in which the Fund has an interest. No related party transactions have been declared.

12. Summary of Managers Portfolio Values as at 31 March 2010

	2010 £'m	%
Externally Managed		
JP Morgan	177	3.8
UBS	381	8.2
Nomura	647	13.9
Schroders	177	3.8
Legal & General (Pooled Assets)	941	20.2
Legal & General (Bonds)	183	3.9
Unigestion	138	3.0
M&G	146	3.1
TT International	139	3.0
Blackrock	143	3.1
Newton	122	2.6
	3,194	68.6
Internally Managed	1,476	31.4
	4,670	100.0

13. Additional Voluntary Contribution Investments

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

The Scheme providers are Equitable Life, Standard Life and Prudential. Individual members participating in this arrangement each receive an annual statement confirming the amounts held on their account and the movements in the year. As requested by the Local Authority Statement of Recommended Practice an aggregate breakdown between contributions, repayments and change in market value is also shown.

	2010	2009
	£000	£000
The aggregate amount of AVC investments is as follows :		
Equitable Life	3,010	3,076
Standard Life	6,823	5,833
Prudential	4,400	3,864
	14,233	12,773

Changes during the year were as follows:

Contributions	1,577
Repayments	1,879
Change in market values	1,762

14. Financial Performance

The Pension Fund is administered under a budget that is approved by Pensions Committee each January. That budget is reviewed and, if appropriate, revised the following January, based on the known and anticipated pattern of expenditure and market movements. In January 2009 a budget of £11.7m was approved for the financial year 2009/10. This was revised in January 2010 to £12.4m

The two main elements of the budget were salaries and related costs of £2.8m and investment management fees of £6.9m. The final accounts for the year ended 31 March 2010 indicate expenditure levels of £3.96m on administrative costs overall and £9.75m on all investment management expenses. Investment management expenses include, as its main element, external managers' fees, but also cover custodian fees, advisors fees and performance measurement fees. Fees of external managers and the Fund's custodian are on an ad valorem basis, and will therefore vary as the size of each portfolio changes. The overspend on external manager fees reflects the significant increase in the value of the Fund during the year. In addition, in the final accounts, the salaries and related expenses of the internal investment team are, in accordance with the Pensions Statement of Recommended Practice (the SORP), shown within investment management expenses.

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

The Fund does reserve the right to levy interest charges on late receipt of contributions from employers. In 2009/10 no such charges were levied.

Background Information

Merseyside Pension Fund operates the Local Government Pension Scheme (LGPS) which provides for the occupational pensions of employees (other than teachers, police officers and fire fighters) of the local authorities within the Merseyside Area. The current contributing employers are shown below. As at 31 March 2010, there were 50,776 active members, 40,935 pensioners and 28,848 deferred beneficiaries.

The overall responsibility for the management of MPF rests with the Pensions Committee, which for 2009/10 included ten Councillors from Wirral Council, the Administering Authority, plus one Councillor from each of the four other Borough Councils, and one member representing the other employers in the scheme. Representatives of trade unions also attend. The more detailed consideration of investment strategy and asset allocation is considered by the Investment Monitoring Working Party, which includes external advisers.

The Pensions Committee regularly reviews the Statement of Investment Principles. The principles ensure that investments continue to be determined by all relevant considerations including the fiduciary duty to employing bodies and the Council Taxpayer, rate of return, risk, environmental, social and governance considerations rather than a blanket policy of disinvestment from any specific industry or sector. The latest review was in March 2010, and is available on the website merseysidepensionfund.org.uk.

Under the LGPS Regulations, employer contributions are calculated by the Actuary, having regard to the assumptions and methodology set out in the Funding Strategy Statement (FSS). The most recent Triennial Valuation by the Actuary was as at 31 March 2007. The funding objective is to achieve and then maintain assets equal to the funding target. The funding target is the present value of 100% of projected accrued liabilities, including allowance for projected final pay. The FSS specifies a maximum period for achieving full funding of 25 years.

The funding method adopted is the projected unit method, which implicitly allows for new entrants replacing leavers.

The table below sets out the summary of the market (gilts) yields at the valuation date, together with the yields at the date of the previous valuation:

	31-Mar-07	31-Mar-04
Long-dated gilt yield	4.40%	4.60%
Long-dated index-linked gilt yield	1.30%	1.80%
Market expectation for inflation (long term)	3.10%	2.80%

The assumptions to which the valuation results are particularly sensitive are shown below:

	2007 Funding Target
Investment Return pre-retirement	6.40%
Investment Return post-retirement	5.40%
Salary increases	4.35%
Pension increases in payment	3.10%
Non-retired members mortality	<i>PA92 MC YoB tables + 2 years</i>
Retired members mortality	<i>PA92 MC YoB tables + 2 years</i>

The outcomes of the next Triennial Valuation, as at March 2010 are expected in the Autumn of 2010.

SCHEME EMPLOYERS WITH ACTIVE MEMBERS AS AT 31 MARCH 2010

SCHEDULED BODIES

Academy of St Francis
 Arena & Convention Centre Liverpool
 Belvedere Academy
 Birkenhead Sixth Form College
 Carmel College
 Halewood Parish Council
 Hugh Baird College
 King George V College
 Knowsley Community College
 Knowsley M.B.C.
 Knowsley Parish Council
 Liverpool City Council
 Liverpool Community College
 Liverpool John Moores University
 Merseyside Fire & Rescue Authority
 Merseyside Integrated Transport Authority (MITA)
 Merseyside Passenger Transport Executive (MPTE)
 Merseyside Police Authority
 Merseyside Waste Disposal Authority
 National Probation Service
 North Liverpool Academy Ltd
 Prescot Town Council
 Rainford Parish Council
 Rainhill Parish Council
 Sefton M.B.C.
 Southport College
 St. Helens Community College
 St. Helens M.B.C.
 Valuation Tribunal Service
 Whiston Parish Council
 Wirral Council
 Wirral Metropolitan College

ADMISSION BODIES

Age UK - Liverpool
 Arriva North West
 Arvato Government Services
 Association of Police Authorities
 Balfour Beatty Workplace Ltd
 Beechwood and Ballantyne Housing Association
 Beechwood Educare Centre
 Berrybridge Housing Ltd
 Birkenhead Citizens Advice Bureau
 Birkenhead Market Services Ltd
 Birkenhead School (2002)
 Blue Coat School
 Burton Manor Residential College
 Capita Symonds (Sefton)
 Catholic Children's Society
 CDS Housing
 Cobalt Housing Ltd
 COLAS
 Care Quality Commission
 Compass (Scolarest) Liverpool Schools
 Compass (Scolarest) Wirral Schools
 Comtechsa Limited
 Enterprise Liverpool Cleansing

ADMISSION BODIES - continued

Enterprise (Liverpool Highways) Ltd
 Enterprise-Liverpool Limited
 Enterprise Liverpool Neighbourhood Grounds
 Geraud Markets Liverpool Ltd
 Glendale (Liverpool Parks Services) Ltd
 Glenvale Transport Ltd/Stagecoach.
 Greater Hornby Homes
 Greater Merseyside Connexions
 Helena Partnerships Ltd.
 Higher Education European Funding Services Ltd.
 Hochtief Liverpool Schools
 Hochtief Wirral Schools
 Kingswood Colomendy Ltd.
 Knowsley Housing Trust
 LACORS
 Lairdsid Communities Trust
 Lee Valley Housing Association Ltd
 Liberata (UK) Ltd.
 Liverpool Association for the Disabled
 Liverpool Church of England Council for Social Aid
 Liverpool Citizens Advice Bureau
 Liverpool Hope University
 Liverpool Housing Trust
 Liverpool Mutual Homes Ltd.
 Liverpool Vision Limited
 Local Government Association
 Merseyside Lieutenancy
 Merseyside Society for the Deaf
 Merseyside Welfare Rights
 Merseyside Youth Association
 Mott Macdonald (M.I.S.)
 Mouchel (2020 Liverpool/Parkman)
 Mouchel (2020 Knowsley Ltd)
 Netherley Citizens Advice Bureau
 North Huyton New Deal New Future
 North Liverpool Citizens Advice Bureau
 Novas Group
 Nugent Care
 One Vision Housing Ltd.
 Partners Credit Union
 Sefton Education Business Partnership
 Sefton New Directions Ltd.
 South Liverpool Housing Ltd
 Southern Neighbourhood Council
 Taylor Shaw Catering (St Wilfred's RC School)
 Taylor Shaw New Heys School
 The Port Sunlight Village Trust
 University of Liverpool
 Upton Hall Convent
 Vauxhall Neighbourhood Council
 Village Housing Association Ltd
 Wavertree Citizens Advice Bureau
 Welsh Local Government Association
 Wirral Autistic Society
 Wirral Council Voluntary Service
 Wirral Partnership Homes Ltd

Audit Commission Progress Report

Wirral Council

Audit 2009/10

Date **14 June 2010**

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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.

Key messages

- 1 This report provides members with an update of our ongoing work at the Council and informs you of the risks arising from the audit, under International Standard on Auditing (United Kingdom and Ireland) 300. The key messages to draw to members' attention are:

Fees

- The new coalition government has stated that it is abolishing Comprehensive Area Assessment (CAA) and so all work on updating the area assessment and organisational assessment ceased with immediate effect (paragraph 2)
- The new Code of Audit Practice and Statement of Responsibilities of Auditors and Audited bodies set out our responsibilities (paragraph 3)
- Audit fees for 2010/11 will be £370,096 but may be subject to further change (paragraphs 4 to 6)
- Inspection fees for 2010/11 will change once the implications of the abolition of CAA is confirmed (paragraph 8)
- National Fraud Initiative (NFI) fees for 2010/11 will be £4,000 for the next two year programme (paragraph 9)

Opinion 2009/10

- We have completed our work on updating our knowledge and documenting the main financial systems. There are no significant issues that we wish to bring to the notice of members. (paragraph 19)
- Specific opinion risks identified for Wirral Council have not changed since our opinion plan in January but due to the scale and complexity of the PFI schemes at the Council we have identified this as a significant risk (paragraph 22 and 24)
- The opinion plan is on target. We have updated the milestones and deadlines to show progress on the opinion audit (paragraph 30 and Table 3)

Value for money conclusion 2009/10

- We have substantially completed our work on the assessment for the value for money conclusion 2009/10 (paragraph 28)
- Our review of managing attendance is complete and will be reported to members shortly (paragraph 29)
- The value for money conclusion plan is on target. Members should note the impact of the abolition of CAA on our reporting. (Table 4)

Public Interest Disclosure Act (PIDA) work

- Work on the two PIDA disclosures continues (paragraph 31).

Grant claims and returns 2009/10

- Grant claims work is progressing to schedule (paragraph 37)

Audit team and key contacts

- The table for Wirral Council key member contacts has been updated to reflect the new administration and committee appointments (paragraph 43 and Table 7)
- We have highlighted the Audit and Risk Management Committee's responsibilities for receiving our Annual Governance Report and approving the audited accounts at the meeting on 28 September 2010 (paragraph 45).

Members' resources

- The Audit Commission has developed councillor update newsletters which are available on the website. These online resources have been developed to meet the needs of members of councils. It is hoped that they will assist you in fulfilling your challenging role (paragraph 46)

Audit plan

2010/11 plan

- 2 The letters with the proposed fees for 2010/11 for audit and assessment were agreed with officers in April and are being presented to this Committee for consideration. However, the new coalition government has stated that it is abolishing Comprehensive Area Assessment and so all work on updating the area assessment and organisational assessment ceased with immediate effect. The Commission has recently written to the Local Strategic Partnership and Council setting out what this means for individual pieces of work underway and we will update members when this is clear.

Audit fee

- 3 Alongside the audit fees letter is the Work programme and scales of fees 2010/11, the new Code of Audit Practice 2010 and the Statement of Responsibilities of Auditors and Audited bodies.
- 4 The total indicative fee for the audit for 2010/11 is £392,000 (excluding VAT), a 0.5% increase on the planned fee of £390,000 for 2009/10. This is less than the Audit Commission's anticipated 6% increase for 2010/11 for the first year of International Financial Reporting Standards (IFRS) and is in line with our commitment to reduce the 2010/11 fee as noted at meetings with officers and members.
- 5 Members should also note that the Commission has confirmed that it would subsidise the 'one-off' element of the cost of transition to International Financial Reporting Standards (IFRS) for local authorities and police and fire and rescue authorities from 2010/11. You will therefore receive a refund from the Audit Commission of £21,904 which brings the fee charged for 2010/11 to £370,096.
- 6 This will be subject to a further reduction once we are clear about the approach to providing you with a safe conclusion on the value for money element of the audit. The letter sent by the Audit Commission to the Council made it clear that we will continue to deliver the audit in line with the statutory Code of Audit Practice under which we are required to give a value for money conclusion alongside the opinion on the financial statements.

Grant claims and returns fee

- 7 The planned fee for grant claims and returns is £125,000.

Assessment and inspection fee

- 8 The fee letter agreed with officers in April showed the total indicative fee for inspection as £49,153 (£16,630 for the managing performance organisational assessment and £32,523 for the economic development inspection). Although CAA has been abolished, the letter sent by the Audit Commission to the Council made it

clear that risk-based inspections under way or programmed will continue. The implication for the inspection fee will be updated when the position has been agreed.

National Fraud Initiative (NFI)

- 9 The consultation on the proposed work programme and scale of fees for (NFI 2010/11 ran between 30 November 2009 and 19 February 2010. The Audit Commission has now confirmed the work programme and scale of fees for NFI 2010/11. This is attached to this report and confirms that the rate for metropolitan borough councils remains at the 2008/09 rate of £4k. The NFI is run over a two-year period, so the scale of fees covers the two financial years 2010/11 and 2011/12. We will bill for these fees in two equal annual instalments.

2009/10 plan

- 10 We issued our initial audit fees letter for 2009/10 to Cabinet on 23 April 2009 and the Audit and Risk Management Committee on 29 June 2009, which set out the work that we proposed to undertake in order to satisfy our responsibilities under the Audit Commission's Code of Audit Practice. The fee for the audit of the financial statements and the value for money conclusion was confirmed in the Annual Audit Letter as £390,000. The planned fee for grant claims and returns is £128,000.
- 11 We are working with officers to reduce the fee for future years. The actions that the Council can take to help to reduce the fee include:
 - Manage and respond to issues and complaints raised within the Council and by members of the public to reduce the issues brought to our attention
 - Manage and mitigate significant audit risks
 - Demonstrate that there is a sound control environment
 - Provide us with complete and materially accurate financial statements and other evidence
 - with good supporting working papers
 - within agreed timeframes.
- 12 We prepared a detailed 2009/10 opinion plan and value for money plan that has been discussed with and agreed with officers and presented to the Audit Committee on 24 March 2010.

2008/09 plan

- 13 Our fee for 2008/09 was £406,650 for our opinion audit and value for money conclusion.
- 14 Our proposed fee for grant claims was £136,960 and our final fee can now be confirmed as £114,304 due to a reduced number of claims required to be audited than originally planned.

Public interest disclosure act (PIDA) work

- 15** We have continued to carry out work on the PIDA in respect of DASS and we received a further PIDA on procurement. These issues were not anticipated when the fees were originally set and we have previously agreed that we will charge an additional fee when we complete the work.

Opinion 2009/10

- 16** The District Auditor is required to issue an audit report by 30 September 2010 giving his opinion on whether the Council's accounts give a true and fair view of the financial position of the Authority as at 31 March 2010. Our Opinion Plan presented to members in January 2010 sets out in more detail the audit work we propose to carry out in relation to the audit of the financial statements 2009/10 for Wirral Council, including the audit of the Whole of Government Accounts. We have also updated the timetable and the table of audit risks below.
- 17** There is a separate Opinion plan and progress report in respect of Merseyside Pension Fund's financial statements.
- 18** Our work is split into 3 elements:
- updating and documenting our knowledge of the main financial systems;
 - interim controls testing; and
 - audit of the financial statements.

Knowledge of the main financial systems and controls testing

- 19** We have completed our work on updating our knowledge and documenting the main financial systems. There are no significant issues that we wish to bring to the notice of members.

Reliance on internal audit

- 20** We have discussed our respective audit approaches with Internal Audit with the aim of placing reliance on some areas of its work in 2010/11.

Audit of the financial statements

- 21** Our audit of the approved financial statements will commence shortly and we are carrying out some early testing where appropriate.
- 22** We have considered the additional risks that are appropriate to the current financial statements audit and have set these out below. Due to the scale and complexity of the PFI schemes at the Council we have identified this as a significant risk.

Table 1 Specific and significant risks

Specific opinion risks identified for Wirral Council have not changed since our opinion plan in January but due to the scale and complexity of the PFI schemes at the Council we have identified this as a significant risk.

Risk Area	Assertions	Audit response
Risks relevant for all councils		
The Statement of Recommended Practice (SORP) 2009 requires that Private Finance Initiative (PFI) schemes and service concessions are to be accounted for under IFRS. Relevant entries will therefore generally be required to be recognised on balance sheet. As the Council has a significant PFI scheme, there is a risk that the new accounting arrangements are incorrectly applied and the balance sheet is misstated.	Valuation and allocation	Ongoing discussions with Council officers to assess impact of change. Accounting treatment followed will be reviewed to ensure that it meets the requirements of SORP 2009.
General market conditions are a trigger event for an impairment review. Impairment could be significant compared to previous years. Risk that the carrying value of assets are materially misstated at the year end.	Valuation and allocation	Movement of Council asset values recognised in the accounts to be compared against general market information provided by independent chartered surveyors.
Current economic conditions suggest that an increase in the Bad Debt Provision (BDP) may be required. Risk that provision may be understated.	Valuation and allocation	Aged debtor and debt recovery analysis reviewed to support reasonableness of BDP calculation.
Increased risk of fraudulent financial reporting due to current economic environment and increased financial pressures, for example overspends in DASS.	All	Discussions with senior Council officers regarding controls that mitigate the risk of fraud. Letters of assurance to be obtained from management and those charged with governance (TCWG) Monitoring of the Council's reported financial performance. Completion of a fraud risk assessment. Review of the Letter of

Risk Area	Assertions	Audit response
		Representation.
The Council is reviewing a number of accounting areas as part of the transition to IFRS work. There is a risk that detailed review of accounting entries may identify errors under UK Generally Accepted Accounting Practice (UK GAAP).	All	Ongoing discussions with finance officers regarding progress in the transition to IFRS.
Housing benefits expenditure and grant income are material entries in the accounts. Our deadline to complete the certification of the housing benefits subsidy claim is after our opinion deadline on the accounts.	All	We will agree amounts in the housing benefits system to the general ledger at the year end. We will complete sufficient work on the housing benefit subsidy claim to demonstrate that the claim is not materially misstated.
Risks specific to Wirral		
Large number of manual, off ledger, significant adjustments actioned at the year end to produce the accounts. Risk of misstatement in the accounts, mainly in respect of the income and expenditure (I&E) account and Financial Reporting Standard (FRS)17 entries	Accuracy Completeness	All material journals will be reviewed. Review audit trail between accounts and ledger produced to identify entries requiring testing. FRS17 entries to be agreed to actuarial confirmation.
A material weakness was identified in 2008/09 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 - completeness of community assets	Existence, valuation and allocation, completeness	Progress against the action plan agreed in the 2008/09 Annual Governance Report (AGR) will be monitored throughout the year. Year end substantive testing will be performed specifically addressing the risk areas identified.
2008/09 audit identified undisclosed related party transactions. Risk of non-disclosure of politically sensitive items in the accounts approved by members in June 2010.	Completeness	All declarations of interests made in year will be reviewed. Other audit procedures will be made to ensure that all disclosures have been made, for example Companies House searches and following up

Audit plan

Risk Area	Assertions	Audit response
		National Fraud Initiative (NFI) matches.
Our PIDA work on the DASS charging policy applied at in-house supported living units from 1997 is unresolved. Risk of financial, legal and governance impact on the accounts.	Regularity	Liaison with the Monitoring Officer and S151 Officer. Review of IA work on further investigation of issues and quantifying any financial, governance and legal implications
Our PIDA work on the HESPE contract is unresolved. Risk of financial, legal and governance impact on the accounts.	Regularity	Liaison with the Monitoring Officer and S151 Officer. Review of HESPE contract.
<p>13 non-trivial errors were identified during the 2008/09 audit, including the following three material errors:</p> <ul style="list-style-type: none"> - classification within the Best Value Accounting Code of Practice (BVACOP) analysis - netting off of Revenue Expenditure Funded from Capital Under Statute (REFCUS) in the service expenditure analysis (SEA) - valuation basis of community assets <p>We also identified 5 disclosure errors.</p> <p>There is a risk that the process that led to these errors will reoccur, leading to misstatement in 2009/10 accounts.</p>	All	All errors identified in the 2008/09 audit will be carried forward and specifically considered in 2009/10.
The Council must produce its accounts by the end of June 2010 and we have planned for the majority of our work to be completed during July 2010. Any delay in the production of the accounts or supporting working papers will impact on our ability to complete the audit by the deadline and report to members.	All	Key milestones and timetable communicated in the 2009/10 opinion plan and updated in progress reports.

The assertions are explained in the Opinion Plan presented to members in January 2010

Chief Accountants' workshops

- 23** The Audit Commission runs workshops every year for chief accountants to ensure that consistent messages about technical issues are shared with audited bodies. Key finance officers attended the workshop at Warrington on 4 February 2010.

International Financial Reporting Standards (IFRS)

- 24** 2010/11 is the first year that the accounts need to be prepared under IFRS. However, councils are required to implement some elements for the 2009/10 accounts in relation to Private Finance Initiatives (PFI) and service concessions such as where buildings are not owned by councils but the service provided is controlled by councils. The Council has sought specialist advice on the new accounting treatment required and we have also brought in one of our technical experts to review this. This is also highlighted as a significant risk in the table above.

Update to opinion plan

- 25** The tables below update our opinion plan for members and show progress on the audit is as planned.

Table 2 Planned outputs

The planned outputs from the opinion audit are set out below.

Planned output	Indicative date	Update and progress
Opinion audit plans	31 December 2009	Completed
Update to opinion audit plans and feedback on interim audits (if appropriate)	March 2010	Update in progress report. No interim issues to bring to members attention
Annual governance reports	30 September 2010	For ARMC 28 September
Auditor's reports giving an opinion on the financial statements	30 September 2010	As planned

Table 3 Key milestones and deadlines

The audit is progressing as planned and committee dates have been confirmed

Task	Deadline	Update and progress
Agreement of Opinion Plan with officers	Draft by end of November Final by mid December	Completed to plan
Progress meetings - pre statements	Six weekly	In progress

Audit plan

Task	Deadline	Update and progress
Presentation of Opinion Plan to ARMC Finance to present covering report including explanation of the final accounts process and the roles of the Pensions Committee and Audit and Risk Management Committee	18 January 2010 (papers by 29 December)	Completed to plan
ISA+ 315 knowledge of the entity	January 2010	Completed to plan
Control testing	February 2010	Completed to plan
ARMC consider draft Annual Governance Statement Update of Opinion Plan presented to ARMC	24 March 2010 (papers by 10 March)	AGS considered at ARMC March 2010 No update of opinion plan required
ARMC member training (proposed)	May/early June 2010	In progress
Early substantive pre-statements testing	Mid June 2010	In progress
Receipt of pre-audit accounts by ARMC and auditor	14 June 2010	Expected to plan
Working papers provided to the auditor	By 30 June 2010	Expected to plan
Pensions Committee to challenge accounts and make recommendations to ARMC	Before ARMC meeting (by 30 June 2010)	Pensions Committee meeting planned for 28 June 2010
ARMC to challenge and approve accounts, including Annual Governance Statement and Pension Fund Statements. Finance to present pre-audit statement of accounts and covering report	By 30 June 2010 (papers out by 16 June)	ARMC meeting planned for 30 June 2010
Start of detailed testing on main statements	30 June 2010	Expected to plan
Completion of fieldwork on main statements	6 August 2010	Expected to plan
Receipt of WGA and working papers	8 July 2010	Expected to plan
Completion of fieldwork on WGA	6 August 2010	Expected to plan
Progress meetings - post statements	Weekly	Expected to plan
Agreement of errors and uncertainties	20 August 2010	Expected to plan

Task	Deadline	Update and progress
for Finance to complete covering reports and amend statements		
Draft Annual Governance Reports from Audit Commission to officers	3 September 2010	Expected to plan.
Meeting with officers to agree final AGRs (Finals AGRs will highlight any outstanding issues that will be updated at meetings with members)	Meetings by 8 September 2010 Final AGRs by 13 September 2010	Expected to plan. Any ongoing issues at 13 September will be highlighted in the reports.
Pensions Committee - to consider the Pension Fund AGR and any action plan, any amendments to statements and the Letter of Representation - to make recommendations to ARMC	Before ARMC meeting below (by 30 September 2010) Papers out by 13 September	Now confirmed for 27 September 2010
ARMC to receive Annual Governance Reports, including any verbal update on outstanding issues (Wirral and MPF) Finance to present covering reports and post-audit statements	By 30 September 2010 Papers out by 13 September 2010	Now confirmed for 28 September 2010
Final check of post-audit statements	By 30 September 2010	Expected to plan
Issue of opinions by the District Auditor	By 30 September 2010	Expected to plan
Audited accounts published by the Council	By 30 September 2010	Expected to plan
Whole of Government Accounts return submitted	1 October 2010	Expected to plan

Value for money conclusion 2009/10

- 26** We agreed a value for money conclusion plan with officers and presented it to the Audit Committee in March 2010. We have updated the timetable below to show progress to date and changes to our original plan.
- 27** Every year the Audit Commission applies a proportionate approach to the work and has determined that we will not be doing any work on one of the criteria at any councils this year - natural resources - and will carry forward the assessment of 'yes' on that criteria for 2009/10. This will be the first year that we assess whether the Council plans, organises and develops its workforce effectively to support the achievement of its strategic objectives.
- 28** We have substantially completed our work on the assessment for the value for money conclusion 2009/10. We met with the Director of finance on 20 April 2010 to discuss preliminary feedback and will be reporting the outcome in our annual governance report to the Audit Committee and Risk Management Committee on 28 September 2010. We will also report any significant findings in the annual audit letter but will not be reporting a score for the use of resources.

Managing attendance

- 29** As part of our work to inform the value for money conclusion we have completed a review of how the Council manages attendance. The final report has been agreed with officers and we are awaiting completion of the action plan before we finalise the report and present it to members.

Update to value for money conclusion plan

- 30** The value for money conclusion plan is progressing to targets. Members should note the impact of the abolition of CAA on our reporting.

Table 4 Update to and progress on value for money timetable

The timetable has been updated for actions completed and changes to the plan.
Members should note the impact of the abolition of CAA on our reporting.

Date	Original activity/milestone	Update and progress
November 2009	Draft plan to Council	Completed to plan
December 2009	Agree plan with Lead Director	Completed to plan
Mid December 2009	Audit Commission national report 2008/09 including scores and examples of strong performance and outcomes to support learning for the 2009/10 assessment	Completed to plan

November - March 2010	Fieldwork	Completed to plan
January 2010	VFM profile tools available from the Audit Commission	Slight delay but now complete
January 2010	Plan to the Audit & Risk Management Committee	Completed
March 2010	Cheshire/Mersey local quality assurance	Completed to plan
Early April	Interim feedback to Lead Director	Completed 20 April 2010
21 April 2010	Indicative scores submitted by audit team to Audit Commission	Completed to plan
10 - 21 May 2010	Audit team area QA and internal challenge	Completed to plan
May 2010	Issue and agree draft managing attendance report. Finalise report by the end of May 2010.	Partially complete. Report discussed and final agreed subject to completion of action plan.
June/July 2010	Consideration of final evidence of outcomes and agreement of draft value for money conclusion	In progress
30 July 2010	Final scores submitted to Audit Commission	CAA abolished and we will not be scoring UoR
2 - 27 August 2010	National quality assurance process	Cancelled
End August 2010	Agreement of final value for money conclusion and scored UoR judgements	Agreement of final value for money conclusion in progress. We will not be scoring UoR
Early September	Draft Annual Governance Report to officers	Required 3 September 2010
Mid September	Final Annual Governance Report to members	Required 13 September 2010
Late September 2010	Audit & Risk Management Committee (papers out 2 weeks before)	Now confirmed as 28 September
October/November 2010	Draft organisational assessment report shared with the Council	CAA abolished - work on organisational assessment has stopped

Value for money conclusion 2009/10

Late November 2010	Final organisational assessments reported as part of CAA reporting. Issue annual audit letter.	CAA abolished so no reporting. Annual audit letter as planned.
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PIDA work

- 31** Work on two PIDA disclosures in respect of adult social services and procurement continues.

Adult social services

- 32** We are continuing to monitor the Council's progress in responding to our 2007/08 report: *Adult Social Services - Follow up of PIDA Disclosure* which was considered by the Audit and Risk Management Committee in September 2008.
- 33** A key issue was in respect of the charging policy applied at three supported living units. Following a number of reports by Internal Audit, the Audit and Risk Management Committee has recommended to Cabinet that users at these units should have been charged at lower rates and should be reimbursed back to December 2000 for the amounts overcharged.
- 34** Cabinet has also commissioned an independent investigation into the whistleblower's allegations of bullying and harassment.
- 35** The Director of Adult Social Services has reported to members on progress against the original action plan in our PIDA report. The Council is taking forward the actions and we will continue to review and monitor the actions as part of our on-going work with the Council. Our review and subsequent reviews by the Council have confirmed the whistleblowers concerns around charging, financial control, compliance with policies and procedures and governance between 1997 and 2006.

Procurement of highways and engineering services

- 36** During 2008/09 we received a PIDA disclosure in respect of the process for awarding the Highways and Engineering Services Procurement Exercise (HESPE) contract. The review is still progressing and we will be reporting to members shortly.

Grant claims and returns 2009/10

37 The 2008/09 grant claims and returns report was presented to the March 2010 meeting of the Audit and Risk Management Committee. We have started the 2009/10 programme and it is progressing to schedule:

- Housing and Council Tax Benefits Scheme - received from the Council 30 May 2010. We are carrying out early testing and are progressing well on this. Audit deadline 30 November 2010.
- National non-domestic rates grant - expected from Council 25 June 2010. Audit deadline 25 September 2010.
- Teachers' pensions return - expected from Council 30 June 2010. Audit deadline 30 November 2010.
- Disabled facilities grant - expected from Council 30 June 2010. Audit deadline 30 September 2010.
- Single programme grants - 4 grant claims expected from Council 30 June 2010. Audit deadline 30 September 2010.
- General Sure Start grant - expected from Council 31 July 2010. Audit deadline 31 October 2010.

Annual Audit Letter 2008/09

Key findings

38 The Annual Audit Letter, presented to the Audit Committee meeting in March 2010 reported the outcome of the 2008/09 audit programme:

- Wirral Council Opinion and Value for Money Conclusion - unqualified opinion and value for money conclusion given 30 September 2009;
- Merseyside Pension Fund Opinion - unqualified opinion given 30 September 2010
- use of resources assessment - scored 2 for all criteria (performing adequately).

39 The reports completed to support our findings and dates of issue are shown below. All reports are presented to the Audit and Risk management Committee and copies can be obtained from the Council. Internal Audit follows up progress on the action plans.

- Annual Governance Report 2008/09 - Wirral Council, September 2009
- Annual Governance Report 2008/09 - Merseyside Pension Fund, September 2009
- Auditor's report 2008/09 containing opinion on Wirral Council's accounts and value for money conclusion, 30 September 2009
- Auditor's report 2008/09 containing opinion on Merseyside Pension Fund's accounts, 30 September 2009
- Improvement through better financial management 2008/09, September 2009
- Governance of partnerships 2008/09, June 2009
- Ethical governance diagnostic 2008/09, June 2009
- Triennial review of Internal Audit 2008/09, December 2009
- Data quality spot checks 2008/09, December 2009
- Performance management interim report 2008/09, August 2009
- Community cohesion 2008/09, September 2009
- Procurement and commissioning 2008/09, November 2009
- Grant claims and returns (2007/08 programme), December 2009
- Annual audit letter 2008/09, December 2009
- Grant claims and returns 2008/09, March 2010

The audit team and key contacts

- 40** The key members of the audit team for the 2009/10 audit have not changed from that set out in our opinion and value for money plans. The current team is shown in the table below.
- 41** I can confirm that the audit is being carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence and there are no conflicts to report to members.

Table 5 Audit team

Name	Contact details	Responsibilities
Mike Thomas District Auditor	m-thomas@audit-commission.gov.uk 0844 7987043 or 07879 667712	Overall delivery and reporting of the audits of the Council and Merseyside Pension Fund including quality and outputs. Signing the opinion, conclusion and certificate. Liaison with the Director of Finance and Chief Executive.
Liz Temple-Murray Audit Manager	l-temple-murray@audit-commission.gov.uk 0151 666 3483 or 07769 887358	Manages, quality assures and coordinates the different elements of the audit work on Wirral Council (including liaison with the Pension Fund Audit Manager). Key point of contact for the Director of Finance, Head of Finance, Head of Pensions and Chair of the Audit and Risk Management Committee. Annual Governance Report for Wirral Council.
Caroline Davies Audit Manager	caroline-davies@audit-commission.gov.uk 0151 666 3481	Supports the Audit Manager on Wirral Council. Manages, quality assures and coordinates the different elements of the audit work on Merseyside Pension Fund. Key point of contact for the Head of Pensions, the Financial Controller and the Chair of the Pensions Committee. Annual Governance Report for

Name	Contact details	Responsibilities
		Merseyside Pension Fund.
Rob Metcalf Audit Team Leader	r-metcalf@audit-commission.gov.uk 0151 666 3484	Leads fieldwork and audit team on opinion and value for money conclusion work. Key point of contact for and liaison with the Head of Finance and the Chief Accountants.
Dave Wilson Performance Manager	da-wilson@audit-commission.gov.uk 0844 7987333 or 0774 8930598	Manages, quality assures and coordinates some elements of the audit work on the value for money conclusion
Kath Johnson Phil Kuehnle and Tony Whitehead Performance Specialists	ka-johnson@audit-commission.gov.uk 0844 7983579 p-kuehnle@audit-commission.gov.uk 0844 798 3663 t-whitehead@audit-commission.gov.uk 0151 666 3509	Complete audit work on the value for money conclusion. Kath Johnson carries out the Managing Attendance review.

42 Wirral Council key officer contacts for the audit are set out in the table below.

Table 6 Wirral Council key officer contacts

Key officers of the Wirral Council team

Name	Contact details	Responsibilities
Stephen Maddox Chief Executive	stephenmaddox@wirral.gov.uk 0151 691 8589	Accountable Officer Governance framework and signing the Annual Governance Statement.
Ian Coleman Director of Finance	iancoleman@wirral.gov.uk 0151 666 3056	Section 151 Officer Preparation and certification of accounts that present fairly the financial position of Wirral Council at 31 March 2010. Preparation and certification of accounts that present fairly the

The audit team and key contacts

Name	Contact details	Responsibilities
		financial position of Merseyside Pension Fund at 31 March 2010. Agreement of final AGRs. Lead officer for the value for money conclusion.
Bill Norman Director of Law, Asset Management and HR	billnorman@wirral.gov.uk 0151 691 8498	Monitoring Officer Considering the legality of transactions.
Tom Sault Head of Financial Services	tomsault@wirral.gov.uk 0151 666 3407	Preparation and quality assurance of Wirral Council's accounts. Agreement of draft AGR for Wirral Council. Key contact for the value for money conclusion.
Jenny Spick Chief Accountant - Operations	jennyspick@wirral.gov.uk 0151 666 3582	Preparation of accounts and coordination and liaison during the audit.
Dave Garry Chief Internal Auditor	davegarry@wirral.gov.uk 0151 666 3387	Review of and assurance on risk management, corporate governance and financial control.

Wirral Council

43 Wirral Council key member contacts for the audit are set out below:

Table 7 Wirral Council key member contacts

Key members involved in the audit have changed with the new administration

Name	Contact details	Responsibilities
Councillor Jeff Green Council Leader	jeffgreen@wirral.gov.uk	Governance framework and signing the Annual Governance Statement
Councillor Simon Mountney Chair of the ARMC	simonmountney@wirral.gov.uk	Approves and signs the accounts on behalf of the Council

Wirral Council

- 44** In addition, all members of the Audit & Risk Management Committee are responsible for:
- Considering both the Council's and MPF's statements of accounts prior to approval by 30 June
 - The responsibilities of the Council under section 151 of the Local Government Act 1972 to make proper provision for its financial affairs.
- 45** At the meeting in September members will need to consider the post audit financial statements and our Annual Governance Reports which set out the key issues that you should consider before we complete the audits. Members will be required to:
- consider the matters raised in the reports before approving the financial statements
 - take note of any adjustments to the financial statements set out in the reports
 - agree to adjust any errors in the financial statements which management has declined to amend or set out the reasons for not amending the errors
 - approve the letters of representation on behalf of the Council before the District Auditor issues his opinions and value for money conclusion; and
 - agree the Council's response to the proposed action plans

Members' resources

Audit Commission information for members

- 46** The Audit Commission has developed councillor update newsletters which are available on the website. These online resources have been developed to meet the needs of members of councils. It is hoped that they will assist you in fulfilling your challenging role.

Councillor Update newsletters

- 47** These newsletters are aimed specifically at councillors and are available at the following link <http://www.audit-commission.gov.uk/localgov/keepmeuptodate/Pages/councillorupdate.aspx> . They summarise information about the Commission and its' activities. To ensure you receive Councillor Update as soon as it is published, you can [subscribe to future editions](#). The latest edition (March 2010) contains the following relevant information:

Upcoming reports

- National Fraud Initiative 2008/09. This report will set out the successes of NFI in helping protect 'UK PLC' from fraud and wrongful payments, explain what more could be done by government and participants and detail how NFI will develop to meet new fraud challenges.
- Financial implications of personalised social care budgets. We are looking at the costs and benefits of giving individuals control of social care budgets; what would it mean for accountability and councillors?
- Older teenagers not in education, employment or training. How much do we spend on young people who are 'NEET' from council, college, training, police and Department of Work and Pensions budgets? We could join up budgets and save costs.
- Strategic financial management. This looks at the role of finance directors, audit committees, cabinets and backbench councillors in spending and accounting for public money. This study builds on our previous report: World Class Financial Management.

Published reports:

- Countdown to IFRS - Identifying and accounting for leases, 17 March 2010. Councillors have a part to play in preparing for International Financial Reporting Standards (IFRS), especially those on finance and audit committees. Alongside a general briefing on IFRS, the Commission published a checklist for members with finance responsibilities. See below.



- By mutual agreement, 16 March 2010. Severance deals serve councils and the taxpayer. But our research shows that not all pay-offs are justified. Competent chief executives sometimes lose their jobs needlessly, and less effective individuals have been paid-off rather than dismissed.



- Healthy balance, 11 March 2010. Does your ward have a high number of teenage pregnancies, or is there growth in childhood obesity? This briefing says the NHS allocated £21 billion in 2009/10 on the basis of inequalities in health between areas. The impact of the spending is unclear.



- The truth is out there: A discussion paper, 5 March 2010. Information is essential: it helps you make better decisions. Making more and better information available to the public should help them evaluate the decisions their elected representatives are making, what public money is spent on and with what result. This discussion paper looks at how councils and health trusts, social workers, doctors and police can improve data and analysis made available to the public.



- Under pressure: Tackling the financial challenge for councils of an ageing population, 18 February 2010. Councils need to understand the nature and needs of residents who are ageing. The report stresses growth in the number of older citizens affects all services. We need better working across boundaries.



- Giving children a healthy start: A review of health improvements in children from birth to five years, 3 February 2010. Have the large sums spent on young children from 1999 to 2009 improved their health? The study examines local service planning and delivery, and how councils and primary care trusts can improve services and access for vulnerable groups, lone and teenage parents and black and minority ethnic communities.



48 The following link will also take you to the most up to date list of national studies <http://www.audit-commission.gov.uk/localgov/nationalstudies/pages/default.aspx>

Countdown to IFRS - a checklist for members

- 49 This report is included in the list above and is brought to members' attention as it is a fundamental change in financial reporting. From 2010/11 local government will be required to prepare accounts in accordance with international accounting standards (IFRS). A failure to achieve successful transition to IFRS would cause significant reputational damage not only to individual authorities but to the local government sector as a whole.
- 50 Poor preparation will heighten the risk that accounts will not meet requirements and so attract a qualified auditor's opinion or be published late. At a practical level, there is a risk that avoidable additional costs will be incurred if the implementation timetable is not well managed or is allowed to slip. The transition process is a real test of self regulation by local government.
- 51 The audit committee (or its equivalent) needs to be sufficiently aware of the requirements of IFRS to ensure the transition project is on track. In order to help members discuss their IFRS transition plan with relevant officers we have set out a number of suggested questions in a checklist available at the following link:
<http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/financialmanagement/ifrs/Pages/ifrsmemberbriefing.aspx>

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.

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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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