



## **Supplementary Agenda - Audit and Risk Management Committee**

**Date:** Monday, 26 September 2016

**Time:** 6.00 pm

**Venue:** Committee Room 1 - Wallasey Town Hall

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## **AGENDA**

- 10. EXTERNAL AUDIT FINDINGS (Pages 1 - 36)**

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# The Audit Findings for Wirral Council

# DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

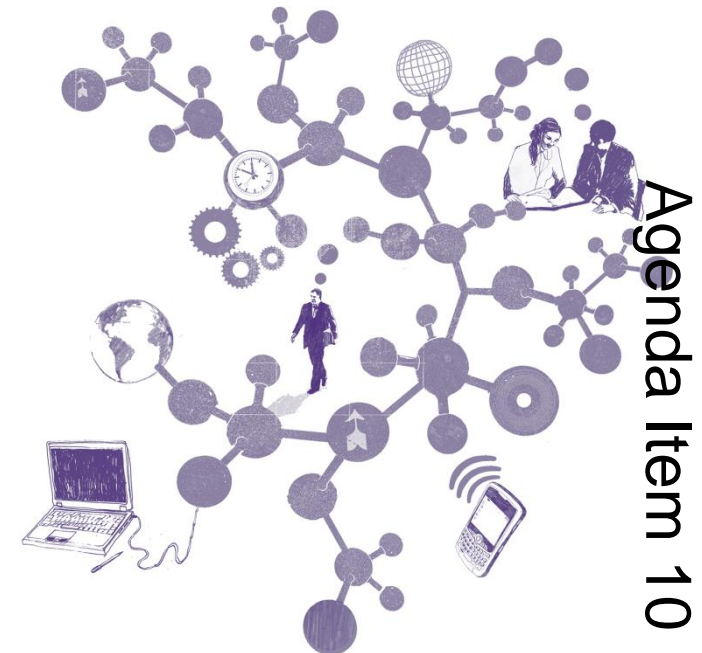
Year ended 31 March 2016

16 September 2016

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Agenda Item 10



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Dear Members of the Audit and Risk Management Committee

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**Audit Findings for Wirral Council for the year ending 31 March 2016**

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Wirral Council, the Audit and Risk Management Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Robin Baker

Engagement lead

**Chartered Accountants**

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## **Appendices**

- A Action plan
- B Audit opinion

## Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

## Purpose of this report

This report highlights the key issues affecting the results of Wirral Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

## Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated March 2016 that was presented at the Audit and Risk Management Committee on 13 June 2016.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- clearing the small number of final queries
- obtaining and reviewing the management letter of representation
- review of the Whole of Government Accounts return
- updating our post balance sheet events review, to the date of signing the opinion
- review of the final version of the financial statements, and
- consideration of matters in relation to the objection we have received on the accounts.

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

## Key audit and financial reporting issues

### Financial statements opinion

We have not identified any adjustments affecting the Council's reported financial position (details are recorded in section two of this report). As a result of our audit there have been a small number of changes to disclosure notes, including the addition of the name of the Chief Executive within Note 32 - Officers' remuneration. The detail of these changes are summarised on page 19.

The key messages arising from our audit of the Council's financial statements are:

- no significant issues were identified
- the accounts were again prepared to a good standard, however not all supporting working papers were available at the start of the audit, and
- a small number of disclosure adjustments were agreed to ensure compliance with accounting practices and to improve the presentation of the financial statements.

Further details are set out in section two of this report.

We have not identified any material errors or uncertainties and have drafted an unqualified audit opinion in respect of the financial statements (See Appendix A). However, we are currently considering the implications for our opinion arising from the objection, referred to on the following page in the section 'Other statutory powers and duties'.

### Merseyside Pension Fund

We anticipate providing an unqualified opinion on Merseyside Pension Fund's financial statements. The findings of the audit are set out in a separate report.

### Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes consideration of whether the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit. We concluded that the other information is consistent and disclosure requirements were met.

## Controls

### Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

### Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section two of this report.



## Value for Money

At the time of drafting this report our Value for money assessment is still in progress.

Based on the work we have completed to date, we have found that the Council has appropriate arrangements in place to monitor, challenge and regularly report to Members progress against in the delivery of savings targets. The Council recognises that it continues to face significant challenges to meet financial targets going forward. It has developed a Medium Term Financial Strategy (MTFS) and Savings plans that now cover a 5 year period up to 2020/21 that set out a £126million funding gap. The Council has completed a robust process to establish savings plans to support delivery of strategic objectives and acknowledge that difficult decisions have still to be made to achieve the required savings.

Overall, the Council has responded appropriately to the challenging financial environment during the year and has set out in the MTFS a clear view of what needs to be done in 2016/17 and beyond. The Council has also made progress during the year in articulating its 20 pledges for 2020 and is in the process of implementing a new senior leadership structure.

There are two issues that have arisen late in the audit that we are currently considering in terms of their potential impact on the VFM conclusion. These are:

- the objection to the Council's LOBO loans, and
- the outcome of the recent Ofsted inspection of Looked After Children in Wirral.

Further detail of our work on Value for Money is set out in section three of this report. We will provide an update to the Audit and Risk Management Committee meeting on 26 September 2016.

## Other statutory powers and duties

On 10<sup>th</sup> August 2016 we received an objection to the accounts in respect of the Council's Lender Option, Borrower Option loan borrowing. At the time of preparing this report for the 26 September 2016 Audit and Risk Management Committee, our work on this objection is on-going. As the subject matter is material to our opinion, we anticipate that we will not be able to issue our opinion and certificate until the objection has been concluded. Further details of our work on other statutory powers and duties, including background information in respect of this objection, is set out in section four of this report.

## Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2016. We will report the outcome of this certification work through a separate report to the Audit and Risk Management Committee in January 2017.

## The way forward

Matters arising from the financial statements audit and from our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources completed to date, have been discussed with the Head of Financial Services/s151 Officer.

## Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP  
September 2016

## Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

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06. Communication of audit matters

# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £13,713k (being 1.9% of gross revenue expenditure) We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality assessment.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £686k. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where, irrespective of value, we will undertake audit procedures as these are key figures/disclosures in the accounts.

Balance/transaction/disclosure	Explanation
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.
Disclosure of auditors' remuneration in notes to the statements	This is a statutory requirement and a requirement of ethical and auditing standards
Related Parties	Due to the public interest in these disclosures.
Members Allowances	Due to public interest in these disclosures and the statutory requirement for them to be made.

## Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Wirral Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Wirral Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>	<p>Our audit work included:</p> <ul style="list-style-type: none"> <li>• Review and testing of revenue recognition policies</li> <li>• Testing of material revenue estimates</li> <li>• Review of unusual significant transactions.</li> </ul> <p>Our audit work has not identified any issues in respect of revenue recognition. We have not changed our assessment that the risk of fraud arising from revenue recognition can be rebutted.</p>
2.	<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> <li>• review of entity controls</li> <li>• testing of journal entries</li> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• review of any unusual significant transactions</li> </ul>	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

# Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>Page 11</p>	<p><b>3. Valuation of property, plant and equipment</b></p> <p>The Council revalues its assets on a rolling basis over a five year period . The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value.</p> <p>The CIPFA Code of Practice has implemented IFRS 13 for the 2015/16 financial statements. The Council is required to include surplus assets within property, plant and equipment in its financial statements at fair value, as defined by IFRS13. The basis on which fair value is defined for investment property is also different to that used in previous years.</p> <p>These issues represent significant estimates and change in the estimation basis of these balances by management in the financial statements.</p> <p>There are also extensive disclosure requirements under IFRS 13 which the Council needs to comply with.</p>	<ul style="list-style-type: none"> <li>Review of management's processes and assumptions for the calculation of the estimate.</li> <li>Review of the competence, expertise and objectivity of any management experts used.</li> <li>Review of the instructions issued to valuation experts and the scope of their work</li> <li>Discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions.</li> <li>Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding.</li> <li>Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register</li> <li>Evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.</li> <li>Review of the disclosures made by the Council in its financial statements to ensure they are in accordance with the requirements of the CIPFA Code of Practice and IFRS 13.</li> </ul>	<p>The Council has a 5 year rolling programme for valuing its land and buildings assets, complying with the CIPFA Code of Practice requirements for valuation within a 'short period'. During the year the Council instructed its internal valuation team to complete the valuation of assets with a value of approximately £420m. The valuation reports were subject to review and challenge by the Council's Finance team.</p> <p>For those assets not re-valued in year, Council officers undertake an annual assessment of the carrying value of those assets to be able to satisfy themselves that the carrying value is not materially different to the fair value at the 31st March 2016. This assessment concluded that the carrying value of assets in the financial statements is materially correct.</p> <p>We have reviewed the Council's methodology and assumptions used during this review and found them to be reasonable. Our audit work to date has not identified any significant issues in relation to the risk identified.</p>

# Audit findings against significant risks continued

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>Page 12</p>	<p><b>4. Valuation of pension fund net liability</b>                      The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<ul style="list-style-type: none"> <li>• Documentation of the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated.</li> <li>• Walkthrough of the key controls to assess whether they were implemented as expected and mitigate the risk of material misstatement in the financial statements.</li> <li>• Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation.</li> <li>• Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>• Review of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>For LGPS we undertook a review of the actuary's (Mercer) work to satisfy ourselves that the pension liabilities are fairly stated in the financial statements. In doing so we engaged our own independent actuary to assess the methodology and assumptions used by the schemes actuary. We confirmed with the LGPS auditor that the controls over membership data were operating as intended.</p> <p>The pension fund liabilities are most sensitive to changes in the following key assumptions:</p> <ul style="list-style-type: none"> <li>- discount rate;</li> <li>- mortality;</li> <li>- inflation; and</li> <li>- future salary increases.</li> </ul> <p>For the LGPS we have reviewed the assumptions used for each of these variables. Our own independent actuary has also confirmed that they are comfortable that the assumptions used by Mercer are reasonable for the purpose of valuing the pension fund liabilities as at 31 March 2016.</p>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Employee remuneration</b>	Employee remuneration accruals understated (Remuneration expenses not correct)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding</li> <li>substantive testing of a sample of payroll payments made to employees</li> <li>applied analytical techniques to compare expected payroll costs with actual payroll costs for the full financial year</li> <li>substantive testing of senior officers remuneration and other pay disclosures</li> <li>reviewed payroll reconciliations, including those at the year end.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified  Our testing included selecting a random sample of 36 employees and confirming that the pay costs agreed with the payslip and appointment confirmations.
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period (Operating expenses understated)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding</li> <li>Reconciliation of accounts payable systems to general ledger and financial statements</li> <li>Substantive testing of a sample of non-pay expenditure</li> <li>Review of accruals process and substantive testing of a sample of manual accruals</li> <li>Sample testing of payments around the year end</li> <li>Review of SeRCOP expenditure allocations</li> <li>Review and testing of other items of expenditure and disclosures including MRP and members allowances.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified  Our work included testing a sample of 67 payments, selected at random and agreed the payments to source documentation to ensure the payment was valid expenditure, VAT was correctly recorded and the payment was correctly accounted for in 2015/16. We tested a sample of 13 payments after the year-end to ensure the transactions were recorded in the correct financial year.

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# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 14</p> <p><b>Revenue recognition</b></p>	<ul style="list-style-type: none"> <li>Income is recognised in the financial year in which goods and services are received or provided. The amounts included are based on actual invoices raised after the year end and where actual amounts are not known estimates are included based on an assessment of the value of goods and services rendered.</li> <li>Income from Council Tax and National Non-Domestic Rates is recognised within the Comprehensive Income and Expenditure Account as the amount due to the Council for the financial year, including its share of the Collection Fund balances for these items at the end of the financial year</li> <li>Interest receivable on investments is accounted for as income based on the effective interest rate for the relevant financial instrument rather than the cash flows set out by contract.</li> <li>Government grants and other contributions are accounted for on an accruals basis and recognised in the accounting statements when the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received.</li> </ul>	<ul style="list-style-type: none"> <li>The Council's policy is appropriate and consistent with the relevant accounting framework – the CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code).</li> <li>The main elements of the Council's revenues are predictable and there is minimal judgement required from the Council.</li> <li>The accounting policies are appropriately disclosed in note 1 to the financial statements.</li> </ul>	<p style="text-align: center;">● Green</p>
<p><b>Judgements and estimates</b></p>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> <li>PPE Valuations</li> <li>pension liabilities</li> <li>Provisions and accruals, including provision for NNDR appeals</li> <li>Impairments</li> <li>Useful lives of PPE</li> </ul>	<ul style="list-style-type: none"> <li>The Council's accounting policies for key estimates and judgements are appropriate and consistent with the relevant accounting framework – the CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code).</li> <li>The accounting policies are appropriately disclosed in notes to the financial statements.</li> <li>Our audit testing of key estimates and judgements has considered the extent of judgement involved, the potential impact of different assumptions and the range of possible outcomes. We are satisfied that the key estimates and judgements are appropriate and adequately disclosed.</li> </ul>	<p style="text-align: center;">● Green</p>

**Assessment**



● Marginal accounting policy which could potentially attract attention from regulators  
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient



# Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<b>Going concern</b>	The s151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	 <b>Green</b>
<b>Other accounting policies</b>	We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	 <b>Green</b>

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**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

## Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit and Risk Management Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>From the work we carried out, we have not identified any related party transactions which have not been disclosed.</li> <li>The Council requires that Members provide an annual declaration of their relevant interests. Our testing confirmed that 5 members had not made the required updated declaration.</li> </ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
4.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council.</li> </ul>
5.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested direct confirmations from the PWLB and seven financial institutions for loans. We also requested, with management permission, direct confirmation from fifteen financial institutions and six public sector bodies for bank and investment balances. All requests have been returned with positive confirmation, apart from one investment where we are still awaiting a response from the financial institution.</li> </ul>
6.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found a number of minor disclosure issues which are outlined later in this report and included the addition of the name of the Chief Executive to Note 32 – Officers' remuneration.</li> </ul>

## Other communication requirements continued

	Issue	Commentary
7.	<b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> <li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit</li> <li>• The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading.</li> </ul> <p>We have no issues to report.</p>
8.	<b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold of £350m we are required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>This work is not yet completed. We plan to complete this work by 30 September.</p>

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## Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses as set out on page 13 above. We also undertook our annual review of the IT control environment. The recommendations from this year's review will be discussed with management.

## Adjusted misstatements

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

No adjustments to the draft accounts have been identified as a result of the audit process. There are no non-adjusted misstatements.

## Amendments, misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £m	Account balance	Impact on the financial statements
1 Misclassification	£2.1	Note 21 - Creditors	Our testing identified that a £2.1m creditor balance relating to National Insurance had been wrongly classified under “other entities and individuals” rather than “Central Government Bodies”.  The Council have made the necessary correction with no impact on the total short term creditor balance.
2 Amendment	Various	Note 28 – Amounts reported for Resource allocation decisions	A number of non material amendments to figures in Note 28 were agreed with officers to ensure that amounts disclosed were consistent with corresponding figures in the Comprehensive Income and Expenditure Statement.
3 Amendment	Various	Note 43 - Defined Benefit pension scheme	A number of amendments were required to ensure that the figures in the Defined Benefit pension scheme disclosure note were consistent with the figures provided in the Actuary’s statement. These changes did not impact on the net liability of the pension fund.
4 Disclosure	N/a	Various	A small number of disclosure adjustments were agreed to ensure compliance with accounting practices and to improve the presentation of the financial statements.

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# Section 3: Value for Money

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## Background

We are required by section 21 of the Local Audit and Accountability Act 2014 (the Act) and the NAO Code of Audit Practice (the Code) to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

## Risk assessment

We carried out an initial risk assessment in March 2016 and identified the following significant risk, which we communicated to you in our Audit Plan dated March 2016:

- The delivery of the required savings and the establishment of revised financial governance arrangements represent a significant challenge to the Council.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We have continued our review of relevant documents and information up to the date of giving our report.

We are currently considering whether the objection received has any impact on our VFM conclusion. We are also considering any potential impact on our VFM conclusion of the outcome of the recent Ofsted inspection of Looked after Children that will report to the Council on 20 September 2016. Aside from these considerations, we carried out further work only in respect of the significant risk we identified from our initial and ongoing risk assessment.

### Significant qualitative aspects

We focused our work on the significant risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The Council recognises that it continues to face significant financial challenges going forward. The 2016/17 quarter 1 (June 2016) revenue monitoring report set out a forecast overspend of some £1.1m. The 2016/17 revenue budget included a budget contingency of £12m to mitigate the financial risks associated with demand pressures and the delivery of previously agreed savings. Continuing budgetary pressures relating to Adult Social services, Children's services and Transformation and Resources have led to £11.1m of that contingency being allocated early in the financial year.
- In July 2015 the Council approved a new Wirral Council Plan: A 2020 Vision. The Plan sets out the key priority areas and desired outcomes for both people and place and underpinning the priorities are twenty outcomes to be delivered by 2020. The Council acknowledges that, given the challenging financial position, difficult decisions remain to be made to ensure both the successful delivery of the Wirral Plan and achievement of statutory responsibilities.
- The Council has a track record of delivering required savings to date although the challenges faced going forward are arguably getting tougher. Appropriate arrangements are in place to plan finances effectively alongside reliable financial reporting to support the delivery of the Council's strategic priorities. Overall, the Council has responded positively to the challenging financial environment during the year and has set out in the MTFs a clear view of what needs to be done in 2016/17 and beyond.

- The Council remains committed to actively exploring alternative means to deliver services alongside supporting local redevelopment and regeneration through a range of planned actions. The Council is actively involved in supporting the Devolution plans of the Liverpool City Region Combined Authority.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work later in this section.

### Overall conclusion

We will provide an update on our overall conclusion to the Audit & Risk Management committee at the meeting on 26 September 2016.



## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p><b>Delivery of the required savings and the establishment of revised financial governance arrangements</b></p> <p>The Council's medium term financial strategy (MTFS) has now been developed to cover the period 2015/16 – 2020/21 to align with the Wirral Plan. The MTFS sets out a challenging financial position with an anticipated funding gap of £129 million over the five years of the plan and included a £28million funding gap in 2016/17.</p> <p>The Council has now set the 2016/17 revenue budget and the budget process included a review of 2015/16 as the Council recognised the significant challenge to implement the £38 million of savings required in 2015/16. This review has resulted in revisions to the proposed savings required in 2016/17 to £31.5 million.</p> <p>Savings plans are in place and progress in delivery will be monitored through a combination of existing arrangements and the development of a Transformation Programme that will report to Cabinet on a quarterly basis.</p> <p>The delivery of the required savings and the establishment of revised financial governance arrangements represent a significant challenge to the Council.</p>	<p>We will review the Council's arrangements for identifying and agreeing savings plans alongside the communication of key findings to Cabinet and Council.</p> <p>We will review the financial governance arrangements established by the Council to consider how the Council is managing and monitoring these key financial risks.</p>	<p>The Council has delivered its required financial savings to date and now has a Medium Term Financial Strategy (MTFS) in place that covers a 5 year period, up to 2020/21, which is consistent with the delivery period and scope of the Corporate Plan Wirral 2020. Between 2011/12 and 2014/15 the Council achieved savings of some £134m and the 2015/16 budget set out required savings of £38m.</p> <p>The Council went through a robust process ahead of finalising a balanced budget for 2016/17 that required savings of some £26.8m including an clear recognition of the difficulties faced by the council in trying to deliver the 2015/16 savings requirement. The Council identified that almost £18 million of the projected 2016/17 budget gap of £24 million could be met through generating more income and making changes in how the Council operates. This includes the implementation of a Council Tax rise and Adult Social Care Precept as well as increases in housing and business rates, re-assessment of the assumptions regarding such as pay, reductions in the Council's liabilities in relation to pension and national insurance, projected rebates on contracts and reductions in levies and waste funds and changes in treasury management is completed.</p> <p>Detailed revenue and capital budget monitoring reports are provided to Members with the revenue reports clearly and succinctly setting out the budget pressures faced by directorates. The Council recognise that the delivery of agreed savings is critical to it's financial health and progress is tracked at both a Council wide and Directorate level. Reports to Members set out progress achieved against the annual budget implementation plan incorporating a RAG rating.</p> <p>The Council reported a £1.3m underspend against the revised revenue budget for 2015/16. However the original 2015/16 revenue budget was revised during the year to increase the planned use of balances and reserves. The Budget for 2015/16 acknowledged that the savings programme was "ambitious". At the end of Quarter 1 it was recognised that £28 million of savings would be achieved with a potential shortfall of £9.6 million. Cabinet recommended to Council that the shortfall in savings be re-profiled to 2016/17 and the shortfall was met from Reserves (£5.4 million) and from Balances (£4.2m) in 2015/16.</p> <p>During 2015/16 the Capital Programme was regularly reviewed and the programme was re-profiled, with schemes being deferred to 2016/17 along with the supporting funding. This action continued to deliver one-off Treasury Management savings through a reduction in the borrowing requirement for 2015/16. The capital spend for the year was £36.1 million compared to the Revised Programme of £46.9 million.</p>

**Key findings**

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings and conclusions
<p><b>Delivery of the required savings and the establishment of revised financial governance arrangements - continued</b></p>	<p>The 2016/17 revenue budget monitoring report for quarter 1 ( June 2016) sets out a forecast overspend of some £1.1m. This revenue budget included a budget contingency of £12m to mitigate the financial risks associated with demand pressures and the delivery of previously agreed savings. Continuing budgetary pressures relating to Adult Social services, Children's services and Transformation and Resources have led to £11.1m of that contingency being allocated</p> <p>Savings plans are in place and progress is being monitored through a combination of arrangements established ahead of 2015/16 alongside the development of a Transformation Programme that reports to Cabinet on a quarterly basis. These savings plans are based on relevant assumptions and our review confirmed that proposed savings were subject to rigorous challenge process to test both the planned savings proposed and the assumptions on which they were based. Finance staff provided support throughout this exercise to co-ordinate the process and ensure consistent standards were applied across the Council including provision of consistent advice and assistance to Directorates. Results from Scrutiny committee findings were fed into Cabinet's considerations and informed its final budget recommendations to Council in March 2016. The impact of Council scrutiny embedded within the budget-setting process has led to proposals being either supported, rejected or re-shaped as a result of the feedback received. This ensures decisions taken through the annual budget setting process are informed by constructive challenge as well as the priorities articulated by local residents. Once finalised the Council then engaged consultants in to scrutinise the overall savings plans</p> <p>Members and management team have maintained a focus on financial requirements and take a clear lead on the achievement of required savings. Financial reporting has a high profile especially through the revenue monitor and savings tracker reports that are provided to Members. As part of the Council's budget setting process the Policy &amp; Performance committees conducted scrutiny of the Council's budget proposals in January 2016. The model adopted by the Council allowed Scrutiny Members to choose which budget proposals they wished to examine in detail. This was facilitated through a series of dedicated workshops to better understand the rationale behind proposals, as well as examining in detail the potential impact, risks and possible mitigation.</p> <p>The responsibility for managing risk is through the Audit and Risk Management Committee. Corporate risk register includes financial resilience and other related financial issues. During the year internal audit completed a review of risk management arrangements and identified that they were developing well.</p> <p><b>We concluded that the Council has proper arrangements to plan finances effectively and provide reliable financial reporting to support the delivery of its strategic priorities. Overall, the Council has responded appropriately to the challenging financial environment during the year and has set out in the MTFS a clear view of what needs to be done in 2016/17 and beyond.</b></p>

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**Significant difficulties in undertaking our work**

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

**Significant matters discussed with management**

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

**Any other matters**

Ofsted have recently completed an inspection of Looked after children services in Wirral. We understand that the results of that inspection will be reported to the Council on 20 September 2016.

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

## Section 4: Other statutory powers and duties

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We set out below details of other matters which we, as auditors, are required by the Act and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Public interest report</b>	<ul style="list-style-type: none"> <li>We have not to date identified any matters that would require a public interest report to be issued. See related reference under 'Objection' below.</li> </ul>
2.	<b>Written recommendations</b>	<ul style="list-style-type: none"> <li>We have not made any written recommendations that the Council is required to respond to publicly.</li> </ul>
3.	<b>Application to the court for a declaration that an item of account is contrary to law</b>	<ul style="list-style-type: none"> <li>We have not used this duty to date. See related reference under 'Objection' below.</li> </ul>
4.	<b>Issue of an advisory notice</b>	<ul style="list-style-type: none"> <li>We have not used this duty.</li> </ul>
5.	<b>Application for judicial review</b>	<ul style="list-style-type: none"> <li>Confirm we have not used this duty.</li> </ul>
6.	<b>Objection</b>	<ul style="list-style-type: none"> <li>On 10 August 2016, we received an objection to the accounts under sections 26 and 27 of the Local Audit and Accountability Act 2014. The objector has requested that we prepare a public interest report and apply to the courts for a declaration that Wirral Council's Lender Option, Borrower Option loan borrowing as referenced in the 2015-2016 accounts is unlawful.</li> <li>In keeping with objections received by several authorities the objector raises concerns in respect of the <ul style="list-style-type: none"> <li>- rationality of the decision to borrow on LOBO terms;</li> <li>- adequacy of the information on which the Council based their decisions to enter into LOBO arrangements;</li> <li>- scale of borrowing on LOBO terms and associated exposure to interest rate increases;</li> <li>- alleged improper speculation on future interest rate changes; and</li> <li>- use of advisers with alleged undisclosed financial incentives to promote LOBOs.</li> </ul> </li> <li>Our work in respect of the objection is on-going. We will provide a verbal update to the 26 September Audit and Risk Management Committee.</li> </ul>

## Section 5: Fees, non-audit services and independence

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We confirm below our final fees charged for the audit and provision of non-audit services.

## Fees

	Proposed fee £	Final fee £
Council audit	159,863	159,863
Grant certification	24,920	24,920
<b>Total audit fees (excluding VAT)</b>	<b>184,783</b>	<b>184,783</b>

## Fees for other services

Service	Fees £
<b>Audit related services:</b>	
• Certification of Teachers Pension Return	4,200
• Report on Skills Funding Agency Sub contracting arrangements	3,950

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The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

### Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

### Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

## Section 6: Communication of audit matters

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# Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment>).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

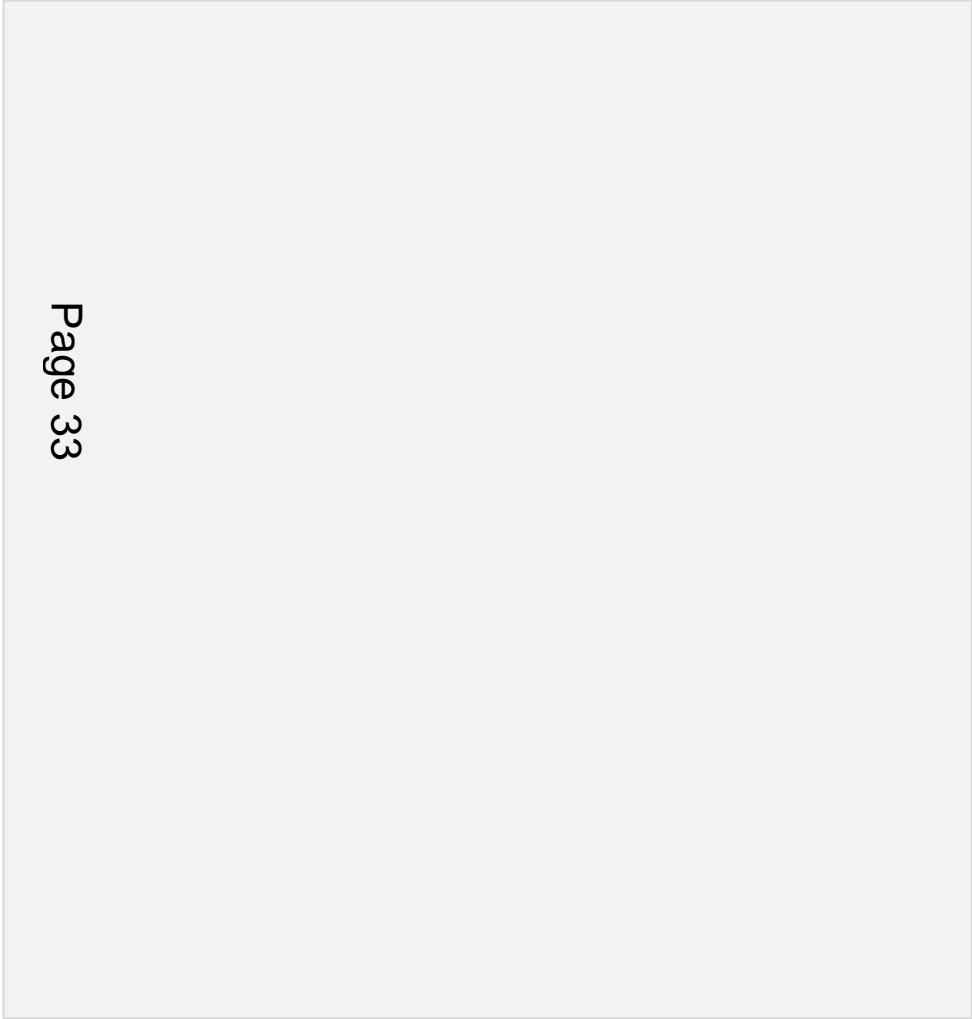
It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

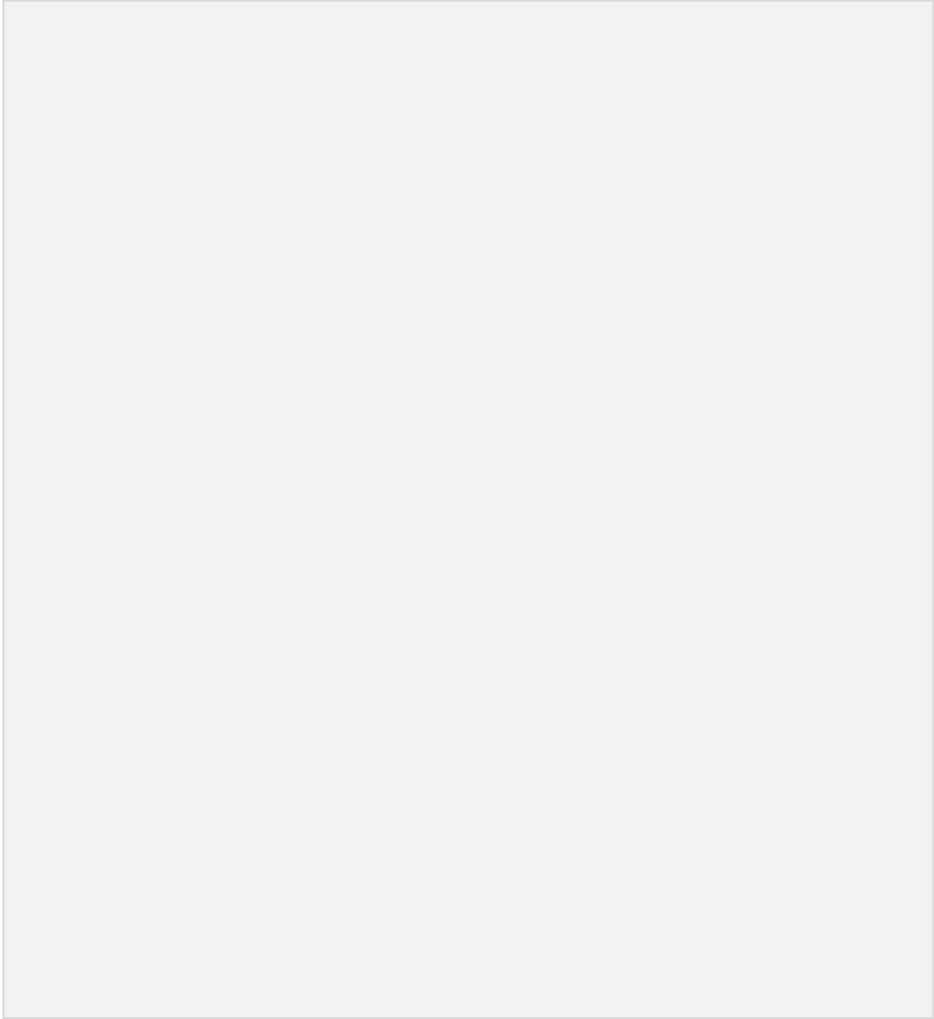
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# Appendix A: Audit opinion

**To Follow**



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