



Audit and Risk Management Committee

Date:	Monday, 18 January 2010
Time:	6.15 pm
Venue:	Committee Room 1 - Wallasey Town Hall

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AGENDA

1. MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST

Members are asked to consider whether they have personal or prejudicial interests in connection with any item(s) on this agenda and, if so, to declare them and state what they are.

2. MINUTES (Pages 1 - 10)

To receive the minutes of the meeting held on 25 November 2009.

3. INTERNAL AUDIT UPDATE (Pages 11 - 20)

4. AUDIT COMMISSION - INTERNAL AUDIT REVIEW 2008/2009 (Pages 21 - 42)

5. AUDIT COMMISSION REVIEW OF INTERNAL AUDIT 2008/2009 AUDIT

Report of the Director of Finance to be circulated separately.

6. CORPORATE RISK AND INSURANCE MANAGEMENT (Pages 43 - 46)

7. MANAGING FRAUD

Report of the Chief Internal Auditor to be circulated separately

8. **AUDIT COMMISSION - COMMISSIONING AND PROCUREMENT REVIEW (Pages 47 - 74)**
9. **AUDIT COMMISSION - USE OF RESOURCES PLAN (Pages 75 - 88)**
10. **AUDIT COMMISSION - ANNUAL AUDIT LETTER (Pages 89 - 114)**
11. **AUDIT COMMISSION - GRANT CLAIMS AND RETURNS (Pages 115 - 132)**
12. **GRANT CLAIMS AND RETURNS: AUDIT COMMISSION REPORT (Pages 133 - 138)**
13. **AUDIT COMMISSION - AUDIT OPINION PLAN (Pages 139 - 164)**
14. **AUDIT OPINION PLAN (Pages 165 - 168)**
15. **AUDIT COMMISSION - AUDIT OPINION PLAN - MERSEYSIDE PENSION FUND (Pages 169 - 192)**
16. **MERSEYSIDE PENSION FUND - AUDIT OPINION PLAN 2009/2010 (Pages 193 - 196)**
17. **AUDIT COMMISSION - DATA QUALITY SPOT CHECKS (Pages 197 - 208)**
18. **DATA QUALITY SPOT CHECKS 2008/2009: AUDIT COMMISSION REPORT (Pages 209 - 212)**
19. **DATA QUALITY ACTION PLAN AND PROGRESS REPORT (Pages 213 - 224)**
20. **ANY OTHER URGENT BUSINESS APPROVED BY THE CHAIR**

AUDIT AND RISK MANAGEMENT COMMITTEE

Wednesday, 25 November 2009

<u>Present:</u>	Councillor	P Southwood (Chair)	
	Councillors	P Reisdorf RL Abbey	J Crabtree C Povall
<u>Deputies:</u>	Councillors	S Mountney (In place of L Fraser)	
<u>Cabinet Member:</u>	Councillor	S Holbrook	

45 MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST

Members were asked to consider whether they had personal or prejudicial interests in connection with any item(s) on this agenda and, if so, to declare them and state what they were.

Councillor Abbey declared his personal interest in agenda item 12 – Merseyside Pension Fund Risk Register (see minute 56 post) by virtue of him being a recipient of a pension from the Merseyside Pension Fund.

46 MINUTES

The Director of Law, HR and Asset Management presented the minutes of the meetings held on 23 September and 3 November 2009.

Resolved – That the minutes of the Special Meeting held on 23 September, and the ordinary meetings held on 23 September and 3 November 2009 be approved.

47 ADULT SOCIAL SERVICES - CHARGING POLICY

A. Report of the Chief Internal Auditor
Adult Social Services – Charging Policy – Service Users Residing at “In-House” Supported Living Units during the period 1997 – 2003

Further to minutes 23 (23 September 2009) and 42 (3 November 2009), the Chief Internal Auditor presented an update to his report in relation to the ‘Special Charging Policy’ applied to service users residing at ‘in-house’ Supported Living Units during the period 1997 to 2003, which had been deferred at the last meeting of the Committee in order for it to be considered in conjunction with a final statement to be provided to the Committee by Mr Morton. However, that statement had not been received within time for it to be considered for inclusion in his report.

He commented also that following the last meeting a Member had submitted a request for auditors to seek the views of the Directors of Adult Social Services of the North West Authorities to specific questions, set out in an appendix to his report, in

relation to whether those authorities had a separate charging policy for people with learning disabilities. He provided an analysis of the responses and indicated that due to the limited number of replies it had not been possible to draw a conclusion on whether the approach applied by Wirral was 'unreasonable'. He confirmed that an analysis of the documentary evidence indicated that in October 2000, some officers were aware that the charges were not in accordance with best practice. In addition, there had been a failure to submit a further report to Members on service users in Supported Living accommodation, contrary to the statement in paragraph 4.24 of the report of the Director of Social Services to the Special Social Services Committee held on 26 July 2000 (minute 43 refers).

A Member expressed the view that residents of Bermuda Road, Curlew Way and Edgehill Road had been financially disadvantaged from 1999 onwards and that the Council should reimburse those residents from that point onwards. Other Members commented that although there were clear anomalies from July 2000, the position before that time was unclear. The Director of Law, HR and Asset Management offered a personal opinion, as a lawyer and shared by the Director of Adult Social Services that the decision taken by Members in 1997 was one that a court would not have considered to be unreasonable and, the failure to implement the 'special charging policy' elsewhere did not necessarily mean that the charges levied at the three establishments in Moreton were unlawful. The Chief Internal Auditor reported that, had the charging policy for Supported Living been reviewed, Members may have implemented the wider charging policy to "in-house" Supported Living, albeit the intention was unknown. However, if this had been decided, then the reimbursement for the 16 service users who were affected for the period 4 December 2000 to 31 March 2003 would total £127,700. This was calculated by reference to records of the amounts service users paid during the period, which were in excess of the charge that would have been levied had the recommendation of the wider departmental charging policy been applied to Supported Living.

B. Statement from Mr M Morton

The Director of Law, HR and Asset Management presented a statement that had been received from Mr M Morton in relation to the 'Special Charging Policy'. The Director had redacted the statement to remove all names of present and former officers except for current Chief Officers and the Chief Internal Auditor. This had been done so as not to prejudice an ongoing independent investigation into other allegations by Mr Morton. In addition, a small number of other potentially defamatory comments had also been redacted. However, the Director confirmed that the complete document would be forwarded to the independent investigator.

In response to questions from a Member, Mr Morton provided clarification of matters contained within his statement in relation to the application of the 'special charging policy' and also, the amount of income retained by service users for their own use.

C. Report of the Director of Adult Social Services
Charging Arrangements for Supported Living in Wirral 1997 – 2003

Further to minute 43 (3 November 2009), the Director of Adult Social Services presented a report which had been deferred at the last meeting of the Committee, which set out his professional comments and views on the policies and practices with regard to Supported Living that were in place in Wirral during the period 1997 – 2003.

It was moved by Councillor Southwood and seconded by Councillor Reisdorf –

“(1) That the issues contained within the report of the Chief Internal Auditor be noted.

(2) That the statement received from Mr Morton be noted.

(3) That the Director of Adult Social Services be instructed to seek the approval of the Cabinet for the reimbursement of residents and former residents of Bermuda Road, Curlew Way and Edgehill Road, Moreton for the period dating back from March 2003 to December 2000, based on the difference between the ‘special charging policy’ and the wider review of Social Services charging approved by Members in July 2000; and/or to take any other appropriate restorative action.

(4) That the issues contained within the report of the Director of Adult Social Services be noted.”

It was moved as an amendment by Councillor Mountney and seconded by Councillor Povall –

“That the Director of Adult Social Services be instructed to seek the approval of the Cabinet for the reimbursement of residents and former residents of Bermuda Road, Curlew Way and Edgehill Road, Moreton for the period dating back from March 2003 to September 1999.”

The amendment was put and lost (2:4)

The Motion was put and carried (4:0) (Councillors Mountney and Povall abstaining)

Resolved –

(1) That the issues contained within the report of the Chief Internal Auditor be noted.

(2) That the statement received from Mr Morton be noted.

(3) That the Director of Adult Social Services be instructed to seek the approval of the Cabinet for the reimbursement of residents and former residents of Bermuda Road, Curlew Way and Edgehill Road, Moreton for the period dating back from March 2003 to December 2000, based on the difference between the ‘special charging policy’ and the wider review of Social Services charging approved by Members in July 2000; and/or to take any other appropriate restorative action.

(4) That the issues contained within the report of the Director of Adult Social Services be noted.

48 **AUDIT COMMITTEE - SELF ASSESSMENT ACTION PLAN**

Further to minute 16 (29 June 2009), the Chief Internal Auditor presented a draft action plan that had been produced to identify those actions required to address issues which had arisen from the self assessment exercise to evaluate the role and effectiveness of the Audit and Risk Management Committee. The Chair proposed a

minor amendment to recommendation 5, contained within the action plan, to ensure that a system was in operation to assess the skills and experience mix of all Members of the Audit and Risk Management Committee.

Resolved – That, subject to the minor amendment now agreed, the self assessment action plan be endorsed.

49 **DATA QUALITY ACTION PLAN AND PROGRESS REPORT**

Further to minute 33 (23 September 2009), the Deputy Chief Executive/Director of Corporate Services presented Wirral's Data Quality Action Plan and progress against the actions contained therein. It had been developed to address recommendations of the Audit Commission's assessment of data quality arrangements for 2007/2008 and included also recommendations made by internal audit during 2007/2008 and any outstanding recommendations made by the Audit Commission in 2006/2007 where appropriate.

Resolved –

- (1) That the progress against the Data Quality Action Plan be noted.**
- (2) That the action plan be amended to indicate both planned and revised completion dates.**

50 **USE OF INFORMATION - AUDIT COMMISSION LOCAL GOVERNMENT NATIONAL REPORT (JULY 2009)**

The Director of Finance reported that the local government national report by the Audit Commission "Is there something I should know? Making the most of your information to improve services", published in July 2009, considered whether Councils were equipped to improve their information. It found that almost 80 per cent of Members reported a lack of in-depth analysis as a major problem and that their analysts (officers/researchers/consultants) spent around twice as much time on producing routine reports as on value-added analysis. Findings showed also that Members complained that they received lengthy reports that lacked the information they needed. Less than five per cent of councils had excellent quality data and 65 per cent faced problems sharing data externally.

The Director highlighted the key details and recommendations from the report and commented that there was a great deal that required further thought and consideration. In the light of the Audit Commission report it would be necessary to review the way the Council worked and he commented that this would be assessed using the tools available from the Audit Commission supporting the report. Officers would work together corporately to understand any information deficits; but ultimately, it was Members and decision-makers in the Council who needed to decide for themselves what information they needed. Accordingly, the Director envisaged that this work would involve workshops with Members and senior officers to ensure Wirral had the right culture, people and standards to produce relevant, quality, well presented information upon which to make decisions.

Resolved –

- (1) That the report be noted.**
- (2) That an update report be presented to the March 2010 meeting of the Committee.**

51 AUDIT COMMISSION REPORTS

Further to minute 35 (23 September 2009), the Chief Internal Auditor presented a summary of reviews undertaken by the Audit Commission since April 2006, including additional detail regarding the nature of individual recommendations and actions taken by the Council to implement them. From 1 April 2006 to date, the Audit Commission had issued 41 final reports in respect of Wirral Council and 8 in respect of the Merseyside Pension Fund. All had been reported to appropriate Committees and assurances had been obtained that recommendations had been implemented or were in the process of being implemented.

Resolved –

- (1) That the report be noted.**
- (2) That an update report be presented to the Committee on an annual basis.**

52 COMPARISON OF AUDIT FEES

Further to minute 12 (29 June 2009), the Director of Finance reported that Audit Commission fees were based on a risk based approach to audit planning as set out in the Code of Audit Practice and reflected the audit element of the work, excluding any inspection and assessment fees. Wirral's fees for 2009/2010 were 13% above the scale fee, due to factors that placed the Council towards 'high risk' in audit terms. The Director presented a comparison with other Merseyside authorities in relation to fee levels and charges made in respect of the certification of grant claims, which had been provided in a letter, appended to his report, from the District Auditor.

The District Auditor outlined the key messages and confirmed that although the fee levels for Wirral were above the scale fee, the direction of travel was downward and the Audit Commission continued to work with the authority to further reduce fees.

Resolved –

- (1) That the findings of the comparison be noted.**
- (2) That a report be presented to the next meeting of the Committee upon action to be taken to further reduce fees.**

53 PROTECTING THE PUBLIC PURSE

The Chief Internal Auditor reported upon a review undertaken by Internal Audit of the governance and counter fraud arrangements in operation across the Council to ensure that they were working as intended and were in compliance with the 'Audit

Commission National Report: *Protecting the Public Purse: Local Government Fighting Fraud* launched in September 2009. The report considered key fraud risks and pressures faced by local authorities and related bodies and it identified good practice for fighting fraud.

He commented that the Council was fully compliant in many areas and operated some systems that were regarded as best practice. He reported also that although a number of procedures and practices had been identified as being in need of improvement, they had already been considered following a review to evaluate the effectiveness of the Council's counter fraud arrangements. A report on the exercise would be presented to the next meeting of the Committee and would include a timetable for the implementation of actions required to improve existing systems and reduce risks.

Resolved –

- (1) That the report be noted.**
- (2) That the 'Managing Fraud' report to be presented to the next meeting of the Committee be referred also to the Council Excellence Overview and Scrutiny Committee for consideration.**

54 **RISK MANAGEMENT STRATEGY**

The Director of Finance presented the annual update of the Risk Management Strategy which was agreed by the Cabinet on 24 September 2009 (minute 119 refers). He commented that there had been only minor revisions to the Strategy from that agreed by the Cabinet on 23 July 2008 and he reported that effective management of risk was recognised as an essential feature of a well-run organisation. It was particularly important at a time when the Authority was making substantial changes in the drive to improve services.

He commented that as part of the annual review the Risk and Insurance Team had referred to the Annual Governance Statement, the Audit Commission Use of Resources assessment and Action Plan and the Risk Management Strategy recently published by NHS Wirral. The risk management arrangements were rated as 3 star (performing well) by the Audit Commission as part of the Use of Resources assessment 2008 and he reported that the approach adopted in identifying, managing and reporting risks to the priorities of the Wirral Local Strategic Partnership devised by the Risk and Insurance Team and the Partnership Performance Officers had placed Wirral ahead of other areas in the region.

He set out the amendments proposed to bring the Strategy up to date and he provided details of actions planned over the next twelve months. He reported that in order to ensure that the Wirral approach strived towards best practice and, more importantly, to ensure that arrangements added value to the Authority and the wider community, a more fundamental review of the entire approach was needed in the longer term. Delivering substantial improvements was likely to require cultural change and possibly additional resources and he proposed that initially, the Risk and Insurance Team would produce a gap analysis and put forward comprehensive recommendations for consideration by Chief Officers and Members. However, it was unlikely that this exercise would be concluded before Summer 2010.

Resolved –

- (1) That the revised Risk Management Strategy be noted.**
- (2) That a report upon bringing about the cultural changes necessary to improve the effective management of risk be presented to the next meeting of the Committee.**
- (3) That, in relation to the annual exercise undertaken by Chief Officers and key Members to identify the key risks to achievement of the Council's corporate aims and the Priorities for Improvement, the Cabinet be requested to include as key members, Chairs of Overview and Scrutiny, and other Committees, as considered necessary.**

55 CORPORATE RISK AND INSURANCE MANAGEMENT

The Director of Finance reported upon recent progress made against the existing objectives for Corporate Risk and Insurance Management and the anticipated developments in the coming months.

Resolved – That the report be noted.

56 MERSEYSIDE PENSION FUND RISK REGISTER

The Director of Finance presented the Merseyside Pension Fund (MPF) risk register, which was approved by the Pensions Committee on 22 September 2009 (minute 42 refers). The Director commented that concern had been expressed nationally in relation to the risks to administering authorities associated with the administration of Pension Funds and he referred to the need to demonstrate that the Council had a process in place to ensure the management of risks was being undertaken.

Resolved – That the Merseyside Pension Fund risk register be noted.

57 INTERNAL AUDIT WORK: SEPTEMBER - OCTOBER 2009

The Director of Finance reported that in order to assist in effective corporate governance and fulfil statutory requirements, the Internal Audit Section of the Finance Department reviewed management and service delivery arrangements within the Council as well as financial control systems. Work areas were selected for review on the basis of risks identified on the Corporate Risk Register and as assessed by Internal Audit in consultation with Chief Officers and Managers. He presented a report, which identified and evaluated the performance of the Internal Audit Section and included details of the actual work undertaken during September and October 2009. He indicated that 51 audit reports were produced during the period with 49 high and 25 medium priority recommendations identified in the reports issued. Management had agreed to implement all of the recommendations made within a satisfactory timescale and there were no items of significance identified during the audit process that required action by Members.

Resolved – That the report be noted.

58 **REPORTS SUBMITTED AFTER DEADLINES - UPDATE**

Further to minute 39 (23 September 2009), which deferred consideration of this matter, the Director of Law, HR and Asset Management presented an updated monitoring report in relation to the receipt of reports by Committee Services after specified deadlines. He referred to the legal requirement for agendas and reports to be on deposit and available for inspection five clear days before a meeting, the so called 'five day rule' and he indicated that the deadlines imposed by Committee Services were intended to ensure that the rule would be adhered to. Failure to submit reports in accordance with the deadlines ran the risk that publication would be less than the statutory period laid down and could result in a decision in question being open to challenge in the courts.

He provided details of late reports, by Committee, received by Committee Services and indicated also the number of reports approved as items of 'any other urgent business'. The Committee cycle that ended with the meeting of the Council on 2 November 2009 had been used to provide the information and figures from earlier meetings were included for comparison purposes. Overall, there had been a marked decrease in the number of late reports compared to the last monitoring report.

Resolved – That the report be noted and a further monitoring report be presented to a future meeting of the Committee.

59 **TRAINING PROGRAMME FOR OFFICERS ON THE REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA)**

Further to minute 31 (23 September 2009), the Director of Law, HR and Asset Management provided a summary of the training programme for staff who may be applicants or Authorising Officers for authorisation for covert surveillance granted under the Regulation of Investigatory Powers Act 2000 (RIPA). He commented that one of the Surveillance Commissioner's recommendations was that training events for officers should focus more on the practical applications of the provisions of RIPA including in particular guidance regarding completion of applications and authorisations for covert surveillance. He indicated that the training had hitherto been concentrated on the legal requirements of RIPA with less emphasis on its practical application.

The training programme was a requirement of the Council's Policy and Guidance Document on RIPA that all authorising and applying officers should receive adequate training on the use of the Council's powers under RIPA at least once every 2 years and a training register had been kept which recorded the training received by each officer within the 2 year period. He reported that training had been provided by one of the leading experts in this field, Mr Ibrahim Hasan and included sessions on 7 October 2008, 21 April 2009, 18 May 2009 and 2 July 2009.

The Director provided an illustration of the topics covered by the training and indicated that Mr Hasan had been asked to prepare a training session for officers who were already familiar with RIPA but who would benefit from more practical guidance on how to apply the law and complete correctly the authorisation forms. He had supplied a suggested course outline to be provided early in 2010 subject to the views of the Committee and the aim of the course would be to reduce the likelihood of the recurrence of the deficiencies in the authorisations detected by the

Surveillance Inspector and described in his report of 22 July 2009. The course would also provide commentary on any changes in the Home Office Guidance on RIPA which were imminent.

Resolved – That the modifications to the RIPA training programme be approved.

60 **MEMBERS TRAINING**

The Director of Finance reported that in accordance with best practice, training had been provided to Members of the Audit and Risk Management Committee specific to their role. Initial training had been provided on 29 September 2009 by one of the authors of 'Audit Committees – Practical Guidance for Local Authorities' and he now proposed that a more advanced training session be undertaken.

Resolved – That the Director of Finance be requested to organise a further training course early in 2010 for Members and deputies of the Audit and Risk Management Committee.

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WIRRAL COUNCIL

AUDIT AND RISK MANAGEMENT COMMITTEE

18 JANUARY 2010

REPORT OF THE CHIEF INTERNAL AUDITOR

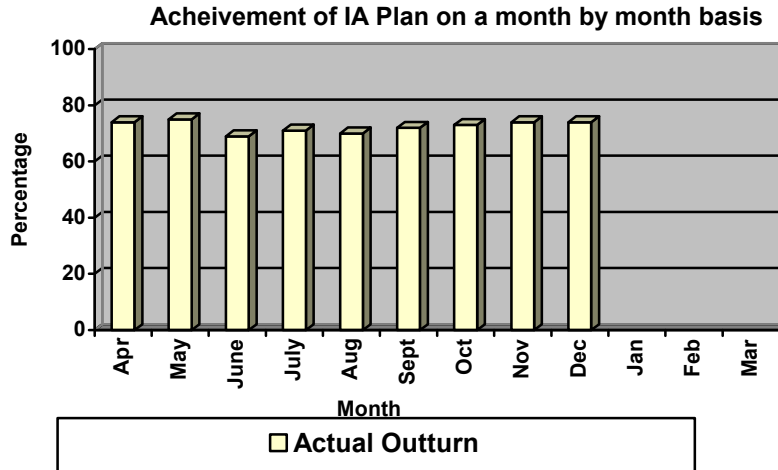
INTERNAL AUDIT WORK: NOVEMBER TO DECEMBER 2009

1. EXECUTIVE SUMMARY

- 1.1. In order to assist in effective corporate governance and fulfil statutory requirements, the Internal Audit Section of the Finance Department reviews management and service delivery arrangements within the Council as well as financial control systems. Work areas are selected for review on the basis of risks identified on the Corporate Risk Register and as assessed by Internal Audit in consultation with Chief Officers and Managers.
- 1.2. This report identifies and evaluates the performance of the Internal Audit Section at 2. and includes details of the actual work undertaken over the period and the number of 'High' risk recommendations identified in reports at 3. There are no items of significance identified during the audit process that require action by the Members for this period.

2. INTERNAL AUDIT – PERFORMANCE

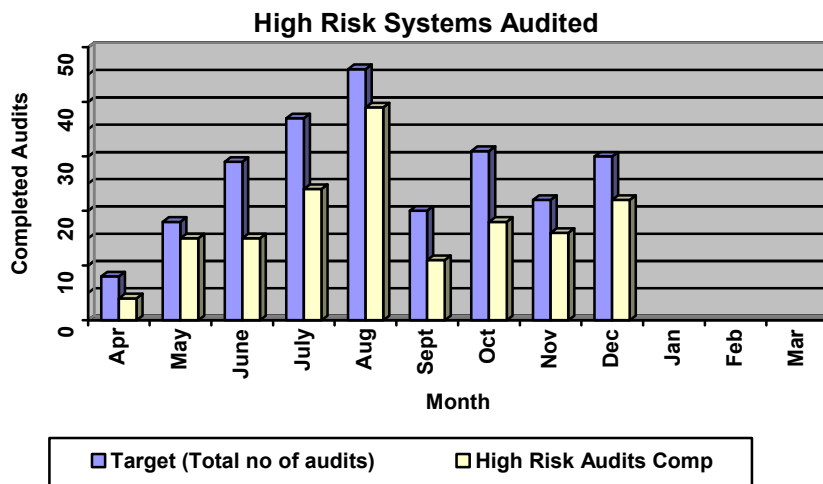
- 2.1. This report summarises the audit work completed between 1 November 2009 and 31 December 2009. The specific nature of the work that has been undertaken or is currently ongoing is identified in Appendix I. 52 audit reports were produced during this period. 56 high and 42 medium priority recommendations were identified in the reports issued. Management has agreed to implement all of the recommendations made within a satisfactory timescale. Those reports identifying high priority recommendations are analysed in more detail in section 3 of this report.
- 2.2. The Section constantly evaluates the effectiveness of its performance including a number of performance indicators in key areas as identified for the period 1st April to 31st December 2009:
 - 2.2.1. To ensure that 90% of the Internal Audit plan is completed by the 31 March 2010.



- a. This is an input based measure i.e. the estimated number of days required each month to deliver the whole of the audit plan. For the year to date achievement has averaged 74% against a target of 90%. This is primarily as a result of staffing resource problems experienced during the year. However, whilst this is an important measure, it is of more relevance for the Council to ensure that the major risks to the Authority are reviewed.
- b. The Internal Audit Plan comprises a substantial number of audits designed to review the risks to Council systems, these audits are weighted according to the significance of the risk posed and ranked as either high, intermediate, medium or low priority. It is essential that all of the high risk audits are completed in the year.

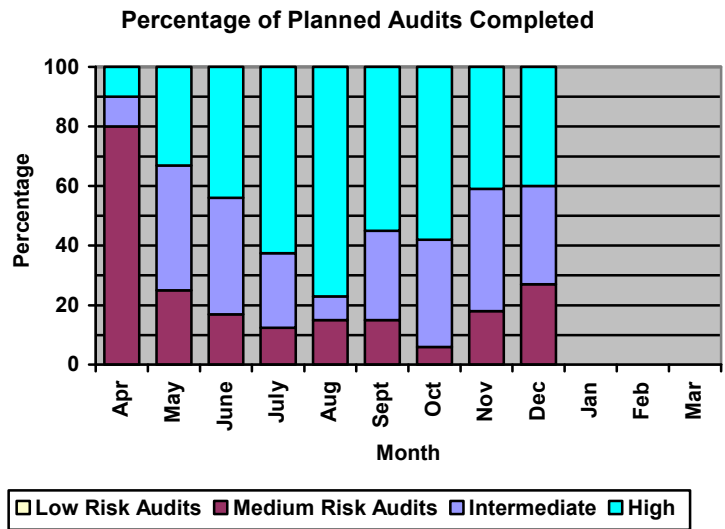
2.2.2. High Risk systems audited as a percentage of total audits completed.

- a. To ensure that all of the key risks identified in the Internal Audit Plan are reviewed, we monitor the number of high risk audits undertaken as a percentage of all audits and have prioritised the delivery of these audits and focused on these during the year. This is analysed in more detail in the chart below.



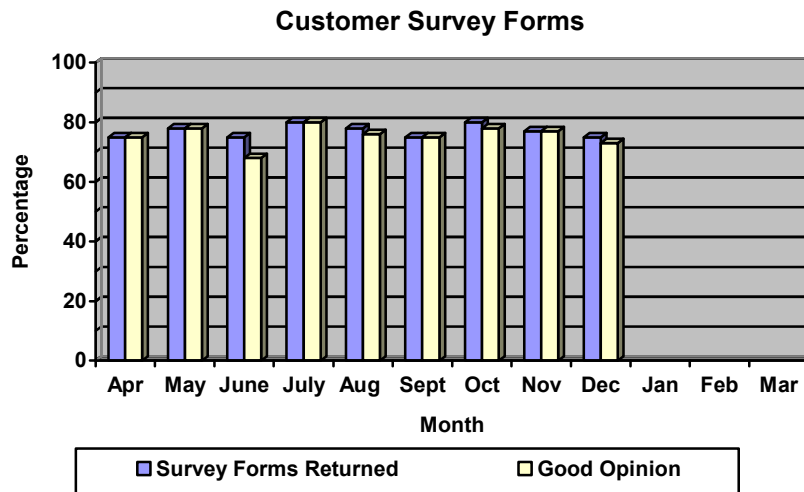
- b. The chart clearly identifies that the number of high risk audits undertaken is a reasonable proportion of the total number of audits completed at this stage of the year. The policy of the Internal Audit Section is to complete as many of these audits as early as possible, however for operational reasons a significant number of these audits cannot actually be completed until later in the year. Of the 113 high risk audits identified in the audit plan, 58 have now been completed representing 65% of the proportionate total and the Section has audits scheduled for the remainder of the year to ensure that it achieves the target of completing all of these audits by the year end.

2.2.3. Planned audits completed.



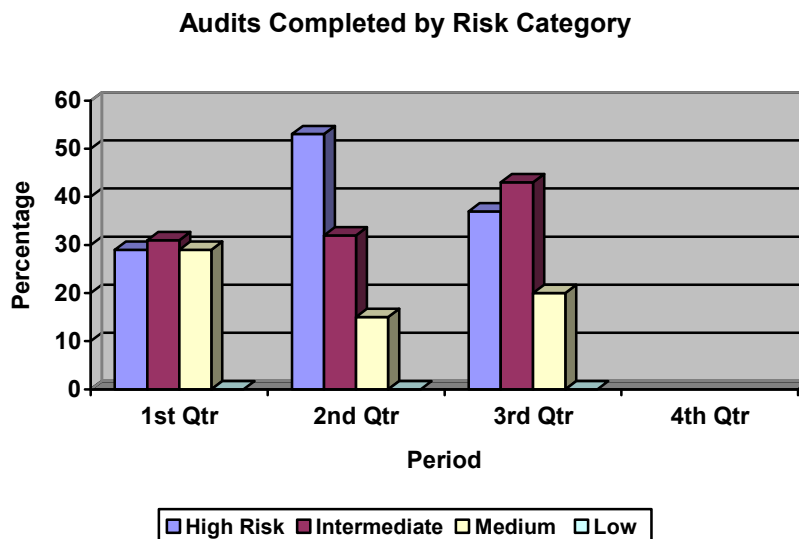
- a. I measure the estimated number of planned audit reports which will be completed each month, subject to variances arising from the changing dynamics of the Audit Plan, including requests from Chief Officers and Members for additional work. With a full complement of staff for the year it is expected that over 300 audit reports plus follow ups, some of which relate to the 2008/09 Audit Plan, will be issued. To date 171 reports have actually been produced. This figure does not though include a significant number of audits including follow ups that are currently ongoing and scheduled for completion later this period.
- b. The performance is however slightly below target for this time of the year and is primarily related to a number of staffing issues that the Section has experienced during the year. Various measures have been introduced to increase output during this time as well as numerous attempts to recruit suitably experienced staff, with some success, to ensure that the Section is able to achieve a significant proportion of the Audit Plan by the year end.

2.2.4. Percentage of Customer Satisfaction Forms returned indicating a 'good' opinion of the service.



- a. Customer survey forms are completed by the clients following the completion of an audit and pose a number of questions relating to the audit, its findings and the conduct of the auditor. The chart identifies the percentage of those forms returned that indicate a positive opinion of the service. This clearly indicates that the Internal Audit Section is viewed very positively by its clients and is regarded as adding value to the systems that it audits. Where feedback from clients identifies issues appropriate measures have been taken by management to address these and prevent any re-occurrence.

2.2.5. The percentage of audits completed by risk category.



- a. This chart clearly demonstrates that whilst it is the deliberate policy of the Internal Audit Section to ensure that all high and intermediate risk audits are completed during the year, as it is essential to the well being of the Council to address risks in these

areas, it is not always possible to complete all of this work during the early part of the year. Due to a number of factors including systems that can only be audited at the year end and the differing needs of the clients it has not been possible to focus exclusively on these audits and consequently a significant number of medium risk audits have also been completed over the period. It is anticipated that all of the high and intermediate audits and a significant proportion of the medium risk will be completed by the year-end. Any audits that are unable to be undertaken during the year will be carried forward to the Audit Plan for 20010/11 and the risk to the effectiveness of Council systems in these areas re-assessed as part of this process.

2.2.6. Follow up Audits

- a. To comply with current best practice and Audit Commission recommendations, follow-up audits are undertaken for all completed audits up to six months after the completion date, to confirm the implementation of agreed recommendations. The majority of the required follow up audits complete this period relate to work undertaken in the previous year. No significant delays have occurred in this area despite the resource problems experienced to date. No outstanding issues were identified that require the attention of the Audit and Risk Management Committee at this time.

3. **INTERNAL AUDIT PLAN - PROGRESS OF WORK**

- 3.1 The following table identifies audits undertaken over the period which include recommendations of a high priority nature. All the audits were of systems categorised as 'High Risk' except those identified with an asterix.

Audit	Total Recs Agreed	Recs Not Agreed
Managing Fraud Audit	9	-
Community Legal Service Review	2	-
File Transfer/Batch Payments Review	7	-
Pensby High School – FMSIS Review	3	-
DASS Individual Budgets / Direct Payments Review	3	-
NNDR Recovery	1	-

Pensby High School – Audit Review	15	-
St Anselms College – Audit Review	2	-
* CYPD Car Mileage Claims Review	1	-
ICT Change Programme – Business Continuity	1	-
New Brighton Children’s Centre - Final Account	1	-
Park High School - FMSIS Review	4	-
Park High School – Audit Review	5	-
Tender Control and Opening	1	-
* Instrumental Music Service	6	-

3.2 All of the action plans in respect of the audits identified have been returned fully completed and identify appropriate timescales for the implementation of agreed recommendations.

4. FINANCIAL AND STAFFING IMPLICATIONS

4.1. There are none arising from this report.

5. LOCAL MEMBER SUPPORT IMPLICATIONS

5.1. There are no local member support implications.

6. LOCAL AGENDA 21 STATEMENT

6.1. There are no local agenda 21 implications.

7. PLANNING IMPLICATIONS

7.1. There are no planning implications.

8. EQUAL OPPORTUNITIES/EQUALITY IMPACT ASSESSMENT

8.1. There are no equal opportunities implications.

9. **COMMUNITY SAFETY IMPLICATIONS**

9.1. There are no community safety implications.

10. **HUMAN RIGHTS IMPLICATIONS**

10.1. There are no human rights implications.

11. **BACKGROUND PAPERS**

11.1. Internal Audit Annual Plan 2009/10.

11.2. Audit Reports.

12. **RECOMMENDATION**

12.1. That the report be noted.

DAVID A GARRY
CHIEF INTERNAL AUDITOR

FNCE/352/09

INTERNAL AUDIT PLAN 2009/10

WORK CONDUCTED/ONGOING – 1 NOVEMBER to 31 DECEMBER 2009

1. SYSTEMS

- (a) Finance
 - NNDR
 - Council Tax
 - File Transfer/Batch Payments
 - Pensions Benefits & Payroll
 - Cashiers
 - Health and Safety
 - Housing Benefits
 - Pensions Investments
 - Debtors
 - Procurement
 - Income Control
 - Insurance
 - Manual Cheques

- (b) Law, HR and Asset Management
 - Corporate Governance
 - Electoral Registration
 - Payroll
 - Health and Safety
 - Coroners
 - Tender Control and Opening

- (c) Children & Young People
 - Schools
 - Financial Management Standard in Schools
 - Children's Centres
 - Schools – Statement on Internal Control
 - Contact Point

- (d) Technical Services
 - Final Accounts
 - Capital Contracts
 - HESPE Team

- (e) Regeneration
 - Williamson Art Gallery
 - Library Book Fund
 - Wirral Homes

- (f) Adult Social Services
 - Charging Policy (PIDA)
 - Health and Safety
 - Individual Budgets/Direct Payments

- (g) Corporate Services
 - Local Area Agreement
 - Performance Management
 - Tourism and Marketing
- (h) Corporate Systems
 - Corporate Governance
 - Annual Governance Statement
 - Risk Management
 - National Fraud Initiative
 - Health and Safety
 - Car Mileage
 - Strategic Change Program

2. SCHOOLS

- (a) 4 FMSIS Schools (incl Follow Ups)
- (b) 5 Schools audited

3. ICT

- (a) Change Program
- (b) File Transfer
- (c) Schools ICT Governance
- (d) Data Protection
- (e) Corporate Back Ups
- (f) BACS
- (g) Paperless Billing

4. PERFORMANCE AND BEST VALUE

- (a) Local Area Agreements Reward Targets
- (b) Performance Indicator's

5. ANTI-FRAUD

- (a) National Fraud Initiative
- (b) CIPFA Anti Fraud Self Assessment Exercise
- (c) Audit Commission - Protecting The Public Purse Self Assessment Exercise
- (d) IDEA Payroll Testing
- (e) Creditor Payments Exercise

6. INVESTIGATIONS

- (a) PIDA – Adult Social Services
- (b) Procurement

7. OTHER

- (a) Wirral Methodist/Family Housing Association's
- (b) 5 Final Accounts (totalling £1.3 million examined)

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Internal Audit Review

Wirral Metropolitan Borough Council

Audit 2008/09

January 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.

Introduction and background

- 1 Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
- 2 Internal Audit is one of the most important elements of a council's internal control environment, providing an independent and objective opinion on key elements of this process. As external auditors, we are required by International Standards of Auditing (ISA+ 610) to consider and understand the activities of Internal Audit, to assist us in planning the audit and developing an effective audit approach.
- 3 In practice this means we review the work of Internal Audit annually to assess the quality of its work and the strength of the control environment. We also assess Internal Audit's effectiveness in more detail every three years, to determine the extent to which it complies with CIPFA's Code of Practice for Internal Audit.
- 4 All local authorities are required to have an Internal Audit function. Overall responsibility for Internal Audit in Wirral rests with the Director of Finance as S151 Officer, who exercises this responsibility through the Deputy Director of Finance and the Chief Internal Auditor (CIA). The Deputy Director of Finance has line manager and strategic operational responsibilities for Internal Audit. The strategy of the Internal Audit section and the programme of work are presented to Members in the Annual Audit Plan.

Audit approach

- 5 The overall objective is to ensure Internal Audit is meeting its own professional and statutory requirements, as set out in CIPFA's 'Code of Practice for Internal Audit in Local Government in the United Kingdom 2006' (the Code). This sets out the eleven organisational and operational standards, as shown in Table 1 below.
- 6 A general summary of each of the standards is set out in italics at the start of our assessment on compliance, starting on page 8 of this report.

Table 1 Internal Audit Standards

Based on CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006

Organisational Standards	Operational Standards
Scope	Audit strategy
Independence	Undertaking audit work
Ethics	Due professional care
Audit Committee	Reporting
Relationships	Quality assurance
Staffing, training and development	

- 7 This review assesses how well Wirral's Internal Audit Section meets each of these standards. The Code stipulates that where local circumstances prevent full compliance, the organisation should give clear reasons why and be able to demonstrate that equivalent safeguards or measures are in place.
- 8 During 2007/08, Internal Audit completed a self assessment to assess Wirral's compliance with the standards contained within the Code. Following this exercise an action plan was developed to address the areas where Internal Audit was not considered to be fully compliant. We have used this self assessment to inform our triennial review.

Audit approach

9 Our work is based on the following.

- Review of documentation provided by the Council (including its self assessment).
- Review of six individual audit assignment files and five follow-up assignment files.
- Monitoring and review of Internal Audit work carried out on Adult Social Services Charging and the new Highways and Engineering Procurement Exercise.
- Completion of an online survey for Internal Audit staff to explore aspects of the self-assessment.
- Discussions with the Director of Finance, Chief Internal Auditor, Deputy Chief Internal Auditor and Internal Audit Team Leaders.
- Discussions with chief officers during the course of the audit.
- Information arising through other parts of our audit and certification programme.

Main conclusions

- 10 Our overall conclusion is that during 2008/09, Internal Audit generally met the requirements of CIPFA's 'Code of Practice for Internal Audit in Local Government in the United Kingdom 2006'. Our findings and areas for improvement are summarised in the following section of the report and our recommendations are included in an action plan at Appendix 1.

Table 2 Summary of compliance with standards

Wirral Council Internal Audit generally meets the requirements of CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006

Organisational Standards	Compliance
1 Scope	Met
2 Independence	Met. <ul style="list-style-type: none"> The CIA is not line managed by a member of the corporate management team. The CIA did not report in his own name during 2008/09. There is scope to better demonstrate organisational independence and enhance the status of Internal Audit.
3 Ethics	Met. <ul style="list-style-type: none"> There is scope to raise the level of trust and confidence within the section and with departments. There is scope to improve the application of knowledge, skills and experience.
4 Audit Committee	Met. <ul style="list-style-type: none"> There is scope to build on the working relationship between Internal Audit and the Audit and Risk Management Committee. There is scope for the ARMC carry out a formal review of the effectiveness of the Committee and how it has strengthened the Council's control environment.
5 Relationships	Met
6 Staffing, training and development	Not fully met <ul style="list-style-type: none"> Internal Audit has been under-resourced for a number of years according to its risk based plan and there have been problems recruiting and retaining staff.

Main conclusions

Operational Standards	
7 Audit strategy	<p>Not fully met</p> <ul style="list-style-type: none"> The audit strategy and plan do not clearly demonstrate what work must be done to provide a safe opinion or how the CIA will determine what is sufficient work to give his assurance.
8 Undertaking audit work	<p>Met</p> <ul style="list-style-type: none"> There is scope to improve the recording of audit assignments and determining what specific work needs to be conducted and evidence gathered.
9 Due professional care	<p>Met</p> <ul style="list-style-type: none"> There is scope to improve audit skills, knowledge and judgement. Internal Audit should use all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base conclusions, professional judgements and recommendations.
10 Reporting	<p>Met</p> <ul style="list-style-type: none"> There is scope to improve the format of and information contained in the annual report to include performance against the plan and quality. There is scope to improve the quality assurance of reports before they are finalised and presented to officers and members.
11 Quality assurance	<p>Met</p> <ul style="list-style-type: none"> There is scope to improve quality assurance of some assignments by strengthening supervision and review.

- 11 The Council needs to improve arrangements to ensure all standards are fully met and, in the meantime, be able to demonstrate that equivalent safeguards or measures are in place.

Compliance with standards

Standard 1: Scope of Internal Audit

The scope of Internal Audit's remit includes the organisation's entire control environment. In determining where effort should be concentrated, the Head of Internal Audit should take account of the organisation's assurance and monitoring mechanisms, including risk management arrangements, for achieving the organisation's objectives.

- 12 Internal Audit meets the standard in terms of scope. Internal Audit's Terms of Reference is consistent with the Code and its remit covers the entire control environment.
- 13 Internal Audit has developed a Charter document which incorporates its Terms of Reference. Our review of the Charter together with supporting documentation gave assurance that the Terms of Reference complies with the Standard.
- 14 The CIA has taken account of the organisation's assurance and monitoring mechanisms, including risk management arrangements, for achieving the organisation's objectives in determining where effort should be concentrated. Further comment regarding the internal audit strategy and plan is detailed below at standard 7.
- 15 The CIA has reported to those charged with governance that the level of audit resources, although not at establishment has not in any way limited the scope of Internal Audit, or prejudiced the ability of Internal Audit to deliver a service consistent with the definition of internal audit. The originally agreed audit plan has been re-prioritised to ensure that the highest rated risks have been addressed.
- 16 Appropriate procedures are in place for dealing with fraud and corruption and the respective responsibilities of Internal Audit and management are clear.

Standard 2: Independence

Internal Audit should be independent of the activities which it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations. The position of the Head of Internal Audit in the management structure should reflect the influence he or she has on the control environment and he or she should not report to or be managed at a lower organisational level than the corporate management team.

- 17 Internal Audit meets the Independence standard although the position of CIA is managed at a lower organisational level than the corporate management team and he does not report in his own name. There is scope to better demonstrate organisational independence and enhance the status of Internal Audit. Declarations of interest are completed by all staff and were up to date.

Compliance with standards

- 18 Internal Audit is not shown on the Council's organisation chart in the Constitution. The CIA reports directly to the Deputy Director of Finance who then reports to the Director of Finance. It is not unusual for reporting to be to the Director of Finance but it is more usual that the CIA reports directly to a member of the corporate management team rather than a deputy director. Paragraph 2.3.1 of the Code states that 'the position of Head of Internal Audit in the management structure should ... not report to or be managed at a lower organisational level than the corporate management team'.
- 19 The CIA reports to members in the name of the Director of Finance but it is more usual for the CIA to report in his/her own name in line with paragraph 2.2.2 of the Code. During the audit, the CIA has started to report in his own name and this is now in place for 2009/10.
- 20 As part of our online survey of Internal Audit staff, we asked 'Does the status of IA allow it to demonstrate independence'. Only 63 per cent of IA staff responded 'yes' to this which means that over 30 per cent of staff feel that IA does not or may not have sufficient status to allow it to demonstrate independence.
- 21 The audit plan is determined following a risk assessment in consultation with management and is approved by 'those charged with governance', the Audit and Risk Management Committee (ARMC). Internal Audit reports to the ARMC, including quarterly performance reports and summarised details of all assignments completed within the period. The CIA has direct access to all officers and members.
- 22 Staff conflict of interest declaration forms were evident for a sample of IA staff and were up to date.

Recommendation

- R1** Strengthen the independence of internal audit
- Review the structure of the Internal Audit department and in particular management and reporting lines and ensure it is shown on the Council's organisation chart.
 - Consider the results of the IA survey in relation to independence.

Standard 3: Ethics for Internal Auditors

The CIA must ensure that auditors are regularly reminded of their ethical responsibility and the four main principles that should be observed: integrity, objectivity, competence and confidentiality.

- 23 Internal Audit complies with the Ethical standard. There is scope to raise the level of trust and confidence within the section and with departments. There is also scope to improve the application of knowledge, skills and experience.

- 24 Staff are reminded of their ethical responsibilities as part of the team briefings though these are verbal and are not formally documented. As part of our online survey to IA staff, we asked if this was taking place and 95 per cent of the respondents agreed they are reminded of their ethical responsibilities. The Internal Audit manual contains information relating to competence and confidentiality and staff are reminded of their obligations with regard to these during Key Issues Exchange meetings and team briefings.
- 25 All internal auditors should demonstrate integrity in all aspects of their work and ensure their conduct is above reproach. The relationship with colleagues, internal clients and external contacts should be one of honesty, truthfulness and fairness in order to establish an environment of trust and confidence. As part of our survey we asked staff if they thought the internal audit team had established an environment of trust and confidence. Sixty-eight per cent responded 'yes' with 18 per cent saying 'maybe' and 14 per cent saying 'no'. Management needs to consider actions to improve trust and confidence.
- 26 The scope of audit assignments is set out adequately although there is scope to improve internal audit knowledge of:
- the organisation's aims, objectives, risks and governance arrangements; and
 - the purpose, risks and issues of the service area.
- 27 Internal auditors must safeguard the information they receive in carrying out their duties. Any information gained in the course of audit work should remain confidential, without limiting or preventing Internal Audit from reporting within the organisation as appropriate. We are not aware of any breaches of confidentiality or inappropriate sharing of information.

Recommendation

R2 Strengthen arrangements for ensuring ethical standards are met.

- Consider the results of the survey in respect of improving trust and confidence.
- Improve internal audit knowledge of:
 - the organisation's aims, objectives, risks and governance arrangements; and
 - the purpose, risks and issues of the service area.

Standard 4: Audit Committees

Independent audit committees are CIPFA's preferred model for local authorities and there needs to be an effective working relationship with Internal Audit. The purpose of an audit committee is:

- *to provide independent assurance of the adequacy of the risk management framework and the associated control environment*
- *to provide independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment*
- *to oversee the financial reporting process*
- *review the Annual Governance Statement which includes the results of the review of the effectiveness of the system of internal audit.*

- 28** Wirral Council meets the standard for audit committees. The Council has established the CIPFA model and includes representation from the three main political groups. The Audit and Risk Management Committee's terms of reference and the working relationship with Internal Audit are in line with CIPFA guidance. There is scope to build on that relationship and for the CIA to meet with the Chair of the ARMC in private during the year. There is also scope for the ARMC to carry out a formal review of the effectiveness of the Committee and how it has strengthened the Council's control environment.
- 29** Wirral Council established an Audit and Risk Management Committee during 2006. Internal Audit presents quarterly reports and an annual report to the Committee. The Chair of the Committee requested that Internal Audit only report high risk recommendations as appropriate. This has streamlined the reporting by Internal Audit as it now only report issues that require action to be taken.
- 30** The Committee approves Internal Audit's plan for the year and any subsequent revisions. The IA Charter states that the CIA should attend each meeting and there is also provision in the Charter for the CIA to meet with the Chair of the Committee in private should the need arise. During the year, the CIA or Deputy CIA has attended all meetings and delivered the required reports. However, the CIA did not meet with the Committee or Chair of the Committee in private during the year although there was direct communication through emails and telephone conversations and the CIA was involved in the pre-Committee briefings. During 2009/10 there have been meetings in private to discuss a number of matters.
- 31** The Standard stipulates that the CIA should participate in the Committee's review of its own remit and effectiveness. During the year the Audit and Risk Management Committee and the CIA have considered the remit of the Committee as set out in CIPFA guidance on what it 'must do' and 'should do' and developed an action plan. However, there has been no formal review of the effectiveness of the Committee and how it has strengthened the Council's control environment. This is planned for 2009/10.

Recommendation

- R3** Carry out an annual review of the effectiveness of the Audit and Risk Management Committee to demonstrate how it has strengthened the Council's control environment.

Standard 5: Relationships

Relationships with management, staff, external auditors and other review agencies should be co-ordinated to ensure the most effective audit coverage is achieved and duplication of effort is minimised.

- 32** Internal Audit meets the Standard for relationships. There are satisfactory working relationships between Internal Audit and other auditors, management review bodies and members. There may be scope for External Audit to place additional reliance on the work of Internal Audit in the future.
- 33** Documented protocols that define working relationships with other auditors and review agencies are being developed. At present, external audit do not generally seek to rely on the work of Internal Audit due to the timing and scope of work. For example, the internal audit plan is focussed on providing assurance to management on internal control and work is generally carried out on a department basis, whilst external audit work is focussed on the audit of items in the statement of accounts and the assessment of value for money in the use of resources. We will discuss the potential for reliance on internal audit work on an ongoing basis.
- 34** The CIA has good working relationships with Chief Officers and generally Internal Audit receives good feedback from clients on each piece of work. Any feedback that requires action by Internal Audit is dealt with promptly.

Standard 6: Staffing, training and development

Internal Audit should be appropriately staffed in terms of numbers, grades, qualification levels and experience, having regard to its objectives and the CIPFA standards. Training and continuing professional development needs should be identified and included in an appropriate ongoing development programme that is recorded and regularly reviewed and monitored

- 35** Internal Audit does not fully meet the Standard in respect of staffing as it has been under-resourced compared to its risk assessed needs for some time as there have been problems with recruiting and retaining staff. However, we raise some issues regarding the strategy and risk based plan at standard 7 below which could impact on this assessment. Training and development arrangements are satisfactory.
- 36** Internal Audit has been under-resourced compared to its risk assessed needs for some time. There have also been problems with recruiting and retaining staff. The plan has been re-prioritised in line with assessed risk to alleviate staffing concerns and a job harmonisation exercise is being undertaken.

Compliance with standards

- 37 Skills and competencies have been developed for each level of auditor. Each member of staff has an annual meeting with the CIA in order for them to update their training programme which ensures that staff regularly receive appropriate training and practical experience where necessary. In support of our findings, 95% of staff responses to our online survey agreed that training and development needs are identified in an ongoing programme.

Recommendations

- R4** Review the organisational structure and staffing of Internal Audit to ensure that it is at an appropriate level to give a safe opinion to management and members on the control environment.
- R5** Review the factors that may be hindering the recruitment and retention of appropriate staff.

Standard 7: Audit strategy and planning

Internal Audit must produce an audit strategy, keep it up to date and have it approved by the Audit Committee. It should also prepare a risk-based plan to implement the strategy.

- 38 Internal Audit does not fully meet the Standard for audit strategy and planning. Although the plan to implement the strategy is risk based, the audit strategy and plan do not clearly demonstrate what work must be done to provide a safe opinion or how the CIA will determine what is sufficient work to give his assurance.
- 39 Internal Audit has developed an independent strategy document which is regularly revised. The strategy covers objectives and outcomes, the control environment, identifying local and national issues, resourcing and skills to deliver the strategy. The Strategy was approved by the Audit and Risk Management Committee during 2008.
- 40 Internal Audit's planning process includes a Risk Based Plan which is updated on a continual basis throughout the year. The plan is discussed on a quarterly basis by the Audit and Risk Management Committee to ensure all significant plan delivery issues are approved. The plan for 2008/09 was approved by the Committee on 7 April 2008.
- 41 Risks are identified and organised under departmental sections following discussions with departmental officers and then prioritised A (high risk), B, C or D (low risk). Audit assignments are then identified and prioritised and the plan comprises all the risks that can be covered using the existing staff establishment. For a number of years the plan has not been met and has needed to be re-prioritised.
- 42 The 2008/09 Plan included 323 audits to deliver Internal Audit's objectives. However, it is not clear from the strategy and the plan how the CIA will form and evidence his opinion on the control environment nor does the plan, or outturn report differentiate clearly between assurance and other work.

- 43 The CIA needs to strengthen the approach to determining the strategy and risk based planning to focus on including work in the plan to ensure he can demonstrate how he meets his responsibility to provide a safe opinion to the organisation on the control environment.
- 44 The approach to the assignments then needs to be determined to ensure that each individual assignment gives the required assurance for a safe opinion. Once the planned work has been determined, this should then be compared to resource availability and the staff requirement established for the annual plan.

Recommendation

- R6** The CIA should strengthen the approach to determining the strategy and risk based planning to focus on including work in the plan to ensure he can demonstrate how he meets his responsibility to provide a safe opinion to the organisation on the control environment. The planning process should take account of:
- the adequacy and outcomes of the organisation’s risk management;
 - performance management and other assurance processes;
 - Internal Audit’s independent risk assessment;
 - stakeholders views - they should be consulted on the draft plan - but should not determine it; and
 - the resources required to deliver the strategy and plan.
- The Plan should differentiate between assurance and other work.

Standard 8: Undertaking audit work

For each risk based audit a brief should be prepared, discussed and agreed with managers. Work must be carried out, recorded and reviewed in line with professional auditing standards.

- 45 Internal Audit meets the standard for undertaking audit work. There is scope to improve the recording of audit assignments and determining what specific work needs to be conducted.
- 46 Our review of individual assignments confirmed that an Audit Assignment Sheet is completed for every audit. However, we could not determine whether or not they had been discussed and agreed with the relevant managers. The briefs reviewed set out the objectives, scope, timing and reporting requirements for each audit in the majority of files in our sample.
- 47 Our file review indicated that a risk based audit approach is used. During the course of each audit key issues should be brought to the attention of the relevant manager to enable them to take corrective action and to avoid any surprises at the end of the audit. There is evidence to show that this is taking place in most cases. At the end of each audit, any non-accepted, medium or high priority recommendations are reported to the ARMC.

Compliance with standards

- 48 Customer Satisfaction Feedback forms are passed to the auditee at the end of each audit and are summarised to gather information, including on quality and timeliness of audits. Copies of completed forms are summarised and filed separately.
- 49 Six files from our sample of 11 were signed off as 'quality assured'. The CIA and Deputy CIA carry out a 20 per cent quality assurance check and our sample testing confirmed that this is happening.
- 50 All of the files in our sample followed a similar structure and the IA section has clearly produced a standard approach to its work, using template documents. The “evaluation record of risk, expected and actual control” form provides information on the approach and sample sizes used in testing which enables the work to be re-performed if necessary. The testing schedules, like those used in the “payroll procedures” file were good and should be consistently applied across all work as these make it clear to see exactly what has been done and where to find the evidence on file.

Recommendations

- R7 Ensure key issues are consistently brought to the attention of the relevant manager during assignments to enable them to take corrective action and to avoid any surprises at the end of the audit.
- R8 Spread good practice with regard to testing schedules, such as those used in the ‘payroll procedures’ file.

Standard 9: Due professional care

In carrying out their duties, auditors must exercise due professional care. Due professional care is:

- *working with competence and diligence – it does not imply infallibility*
 - *the use of audit skills, knowledge and judgement based on appropriate experience,*
 - *training (including CPD), ability, integrity and objectivity*
 - *respecting and understanding confidentiality.*
- 51 Internal Audit meets the standard for undertaking audit work. There is scope to improve audit skills, knowledge and judgement. Internal Audit should use all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base conclusions, professional judgements and recommendations.
- 52 Internal Audit has a range of documents that set out the requirements on all audit staff for due professional care. There is a section in the Audit Manual dedicated to Ethics for Auditors, an item in the Audit Charter, a Code of Conduct for employees, a Gifts and Hospitality Policy and an Anti Money Laundering Policy, all designed to guide auditors in exercising due professional care. Managers ensure that staff are made aware of specific items in these documents at their Key Issues Exchange meetings and also arrange for declaration forms for annual audit independence forms and gift declarations to be completed as required.

- 53 Our monitoring and review of work during the year has identified scope to improve audit skills, knowledge and judgement and to ensure sufficient evidence is obtained to support conclusions, judgements and recommendations.
- 54 The CIA has established a monitoring and review programme to ensure that due professional care is achieved and maintained. This has been complied with in most cases, for example, 8 out of 11 files showed adequate evidence of supervision and review. There are adequate systems in place for individual auditors to disclose any suspicions of fraud, corruption or improper conduct.

Recommendation

R9 Consider what training is required to improve auditor consideration of evidence, audit skills and judgement.

Standard 10: Reporting

The primary purpose of reporting is to provide an opinion on the adequacy of the internal control system and to inform management of significant findings, conclusions and recommendations.

- 55 Internal Audit meets the standard for reporting. During 2008/09 the CIA did not report in his own name but this has been implemented during the course of our audit. There is a satisfactory reporting format for individual assignments although there is scope to improve the format of and information contained in the annual report to include performance against the plan and outcomes against quality assurance measures. There is also scope to improve the quality assurance of reports before they are finalised and presented to officers and members.
- 56 Internal Audit use an agreed reporting style, which helps to provide a consistent approach to reporting. Our review of a sample of completed jobs found that reports cover relevant and important weaknesses, ensuring all aspects of the assignment link and support the conclusions made within the report. We found that although reporting circulation arrangements are generally agreed it was unclear as to whether the agreements are made at the beginning or the end of the work. There is a clear process for reporting matters of concern to the ARMC.
- 57 The CIA is required to complete an annual report. We found that this report did not compare the actual work to the planned work or differentiate between work carried out for assurance and other work. The report also briefly mentions the results of the IA quality assurance programme but is not specific and no targets were provided.

Recommendations

- R10** Review the format of and information contained in the Annual Report to clearly show the actual work completed against the planned work, differentiate between assurance and other work and how quality targets have been met.
- R11** Ensure all reports are quality assured before being finalised and reported to members.

Standard 11: Performance, quality and effectiveness

Performance, quality and effectiveness should be assessed at two levels - for each individual audit and for the internal audit service as a whole.

- 58** Internal Audit meets the standard for performance, quality and effectiveness. There is scope to improve supervision and review of audit work.
- 59** There is an Audit Manual which gives guidance on carrying out day to day audit work and complying with the Code. The manual is kept up to date by regular review to reflect changes in working practices and standards.
- 60** As part of our file sample review, we tested whether each individual file showed evidence of the assessment of the performance and effectiveness of the audit. Of the audit files, six out of the sample of six showed adequate evidence of supervision and review whilst three out of the five follow-up files did not show clear evidence of supervision and review.
- 61** An overall (internal) performance assessment of Internal Audit is made by the receipt of customer feedback forms on each individual audit. Any major issues raised by the feedback are addressed without delay and the rest of the information is assessed on a monthly basis.
- 62** The Performance Information Management System (PIMS) is used throughout Wirral Council to retain and monitor targets across all services. For Internal Audit these targets are developed from the responses from the feedback forms and are accessed via the Council's intranet. Internal Audit is also monitored monthly and the outcomes reported annually to senior officers and members.
- 63** The quality of each audit is assessed by the CIA and Deputy CIA on 20 per cent of assignments. From our file sample review, we found that only three (out of six) of the audit files and three (out of five) of the follow-up files had completed quality assurance reviews which meets Internal Audit's strategy.

Recommendation

- R12** Ensure adequate supervision and review of all work.

Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	<p>R1 Strengthen the independence of internal audit.</p> <ul style="list-style-type: none"> Review the structure of the Internal Audit department and in particular management and reporting lines and ensure it is shown on the Council's organisation chart. Consider the results of the IA survey in relation to independence 	2				
10	<p>R2 Strengthen arrangements for ensuring ethical standards are met.</p> <ul style="list-style-type: none"> Consider the results of the survey in respect of improving trust and confidence. Improve internal audit knowledge of: <ul style="list-style-type: none"> the organisation's aims, objectives, risks and governance arrangements; and the purpose, risks and issues of the service area. 	2				

Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
12	R3 Carry out an annual review of the effectiveness of the Audit and Risk Management Committee to demonstrate how it has strengthened the Council's control environment.	2				
13	R4 Review the organisational structure and staffing of Internal Audit to ensure that it is at an appropriate level to give a safe opinion to management and members on the control environment.	3				
13	R5 Review the factors that may be hindering the recruitment and retention of appropriate staff.	2				
14	R6 The CIA should strengthen the approach to determining the strategy and risk based planning to focus on including work in the plan to ensure he can demonstrate how he meets his responsibility to provide a safe opinion to the organisation on the control environment. The planning process should take account of: <ul style="list-style-type: none"> the adequacy and outcomes of the organisation's risk management; performance management and other assurance processes; Internal Audit's independent risk assessment; stakeholders views - they should be consulted on the draft plan - but should not determine it; and 	3				

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<ul style="list-style-type: none"> the resources required to deliver the strategy and plan. <p>The Plan should differentiate between assurance and other work.</p>					
15	R7 Ensure key issues are consistently brought to the attention of the relevant manager during assignments to enable them to take corrective action and to avoid any surprises at the end of the audit.	1				
15	R8 Spread good practice with regard to testing schedules, such as those used in the 'payroll procedures' file.	1				
16	R9 Consider what training is required to improve auditor consideration of evidence, audit skills and judgement.	2				
17	R10 Review the format of and information contained in the Annual Report to clearly show the actual work completed against the planned work, differentiate between assurance and other work and how quality targets have been met.	2				
17	R11 Ensure all reports are quality assured before being finalised and reported to members.	2				
17	R12 Ensure adequate supervision and review of all work.	2				

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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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WIRRAL COUNCIL

AUDIT & RISK MANAGEMENT COMMITTEE

18 JANUARY 2010

REPORT OF THE DIRECTOR OF FINANCE

CORPORATE RISK AND INSURANCE MANAGEMENT

1. EXECUTIVE SUMMARY

- 1.1. This report provides information to Members on recent progress made against the existing objectives for this service and anticipated developments in the coming months.

2. INSURANCE MANAGEMENT PROGRESS

- 2.1. Formal liability statistics have not been scheduled for production during the period covered by this report. Ad hoc reporting shows that the account continues to perform in line with the positive recent patterns. The repudiation rate remains good and the Authority has been successful in all the cases run to trial in this period.
- 2.2. Responses to the invitations to tender for the Liability and Computer Insurance and Liability Claims Handling contracts were received by the deadline of 30 November 2009. Site visits and interviews with the three companies competing were undertaken in the week commencing 7 December 2009. A report containing recommendations for the award of the contracts was submitted to Cabinet on 14 January 2010. Managing the liability tender has been a very significant demand on the resources of the Risk & Insurance Team but once again the innovative approaches adopted appear to have been successful. Subject to Cabinet approval, the outcomes of these tenders will provide further encouraging financial news for the next report.
- 2.3. Six companies submitted Pre-Qualification Questionnaires for the Legal Defence Services contract and four were evaluated as having exceeded the threshold to go forward in the process. Invitations to tender were sent out to those companies on 4 January 2010. Following approaches from other local authorities who have noted the successful management of this contract over the last five years, and the highly detailed procurement process adopted by the Risk & Insurance Team, the new contract will be issued on a collaborative basis allowing others to utilise the contract terms and achieving greater scale efficiencies.

- 2.4. The insurance budgets for 2010-11 for each individual school have now been produced. This is a time consuming process but allows the Council to charge each school an equitable premium reflecting their individual risk exposures. The purchase of insurance is a traded service and therefore schools can opt out of the Council scheme and purchase cover from the commercial market if they wish. It is pleasing to note that overall school premiums reduce by £340,000 representing a 22% saving to schools. The schools insurance programme continues to offer excellent value to participating schools, and some who have previously opted out of the corporate programme are now seeking to rejoin.
- 2.5. The output from the Civil Justice Council litigation costs review project should be published in January. Following involvement in this project over the last few months, the Deputy Risk and Insurance Officer has been invited by Lord Justice Jackson, the Master of the Rolls, to participate in the formal publication event at the Royal Courts of Justice. It is hoped that this work will influence the medium term reduction of litigation costs.
- 2.6. Information has been provided to Zurich Municipal to enable preparation of renewal terms for the Motor Insurance policy ahead of its expiry on 31 March 2010.
- 2.7. The enforcement proceedings taken to recover legal fees in the case of Kelly v Wirral have produced a significant result. The claimant has made a payment of £99,500. Officers have given the claimant a further three months to pay the remaining balance of approximately £16,500.

3. **CORPORATE RISK MANAGEMENT – PROGRESS**

- 3.1. Individual meetings have been held with members of the Local Strategic Partnership (LSP) Management Group with a view to collating information needed to analyse the refreshed series of risks to the LSP and create a fully populated over-arching risk register. That document will be put to the LSP Executive Board in February.
- 3.2. Work has also been undertaken with the lead officers for each of the six LSP themes to refresh and improve the individual risk registers for each priority area.
- 3.3. Assistance with the implementation of the Strategic Change Programme continues including support for the Department of Law, Human Resources and Asset Management with risk management arrangements for the new HR and Payroll IT system.

- 3.4. Statements of the principal risks facing each department in the forthcoming financial year have been incorporated into the Departmental Plans submitted to Cabinet on 14 January 2010. An enhancement for 2010/11 is that plans now clearly show the contributions from each department to improvements in the management of each corporate risk.

4. INSURANCE MANAGEMENT – ISSUES FOR NEXT PERIOD

- 4.1. Liability claim statistics for the quarter ending 31 December 2009 will be produced.
- 4.2. Historic abuse claims are expected to continue to provide a significant workload with the publicity surrounding a number of recent successful cases expected to increase the volume of such complex claims.
- 4.3. The companies selected to provide Liability and Computer Insurance and Liability Claims Handling Services from 1 April 2010 onwards will be confirmed and the handover to any new suppliers managed and service expectations agreed.
- 4.4. The deadline for receipt of tenders for the Legal Defence Services contract is 15 February 2010. The evaluation of written responses and site visits and interviews with the short listed companies will be undertaken. A report containing recommendations is to be presented to Cabinet on 18 March 2010.
- 4.5. Terms for the renewal of the Motor Insurance and the Engineering Inspection and Insurance policies will be agreed with insurers.

5. RISK MANAGEMENT – ISSUES FOR NEXT PERIOD

- 5.1. Reviews will be undertaken of the register of over-arching risks to the objectives of the Local Strategic Partnership (LSP) as well as the registers of risks to individual priority areas.
- 5.2. Progress in the management of the Corporate Risks will be reviewed by the Corporate Improvement Group and by Chief Officers and included in the 2009/10 Third Quarter Performance and Financial Review to be reported to Cabinet.
- 5.3. Assistance will continue to be given in relation to the implementation of the Strategic Asset Review in working with the Department of Law, Human Resources and Asset Management.

6. FINANCIAL IMPLICATIONS

- 6.1. There are none arising directly from this report.

7. STAFFING IMPLICATIONS

7.1. There are none arising directly from this report.

8. EQUAL OPPORTUNITIES/EQUALITY IMPACT ASSESSMENT

8.1. There are none arising directly from this report.

9. ENVIRONMENTAL IMPACT STATEMENT

9.1. There are none arising directly from this report.

10. LOCAL MEMBER SUPPORT IMPLICATIONS

10.1. There are none arising directly from this report.

11. BACKGROUND PAPERS

11.1. Data from the Figtree claims database

11.2. Liability claim statistics.

12. PLANNING IMPLICATIONS

12.1. There are none arising directly from this report.

13. RECOMMENDATION

13.1. That the report be noted.

IAN COLEMAN
DIRECTOR OF FINANCE

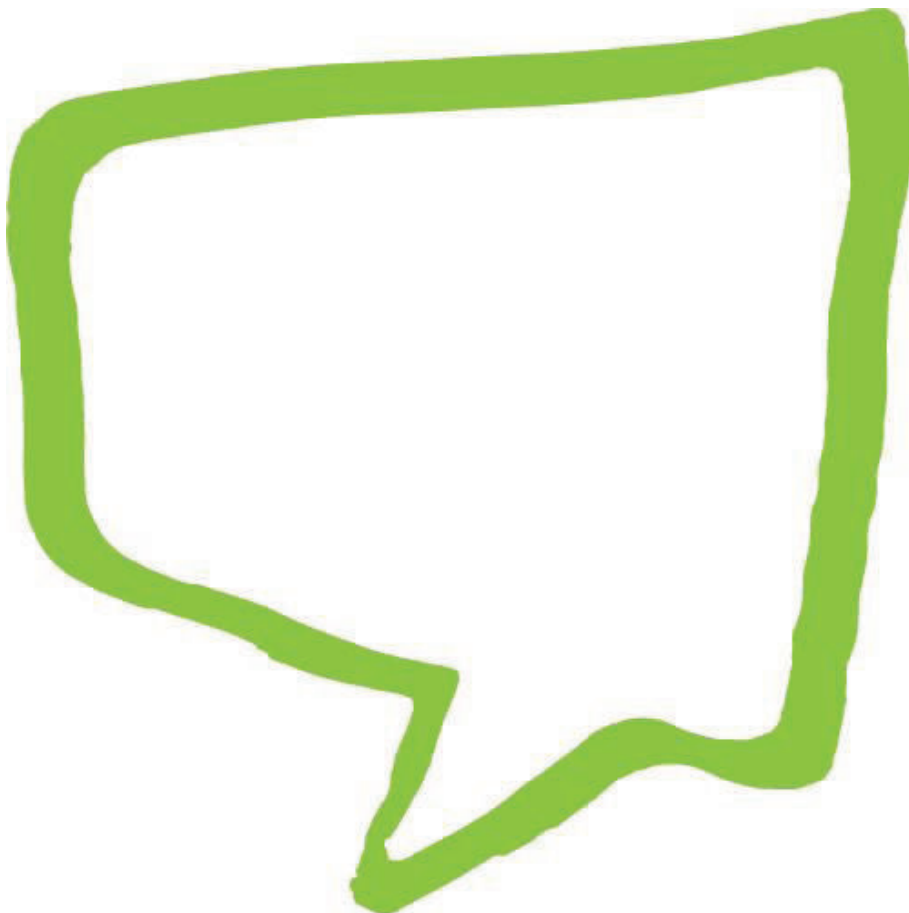
FNCE/1/10

Commissioning and Procurement Review

Wirral Metropolitan Borough Council

Audit 2008/09

December 2009



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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.

Introduction

- 1 The Local Government and Public Involvement in Health Act 2007 introduces a clear focus on local public sector partners working together to provide better outcomes for local communities. A key means of delivering these better outcomes will be through the use of commissioning and procurement.
- 2 Commissioning and procurement are terms without commonly accepted definitions across the public sector. The terms are currently used differently both across and within sectors, and on occasions are used interchangeably. For the purpose of this review, the definitions of commissioning and procurement will be those used in the Audit Commission's 2007 report 'Hearts and Minds: Commissioning from the Voluntary Sector'.
- 3 Commissioning is defined as the entire cycle of assessing the needs of people in a local area, designing services and then securing them.
- 4 Procurement is defined as covering the specific activities within the commissioning cycle that focus on the process of buying services, from the initial advertising through to the final contract arrangements.
- 5 In all sectors, commissioning and procurement are critical mechanisms for delivering value for money (VfM) and sustainable outcomes for communities. Collaboration, partnerships and shared services are becoming more commonplace and while they offer more potential for value for money, there are considerable risks.

Background

- 6 The 2005 Corporate Assessment stated in respect of Wirral that "the approach to modern procurement is becoming more established, with a good revised procurement strategy very recently agreed; there is considerable activity by the corporate procurement unit to develop the contribution that procurement makes to improvement and efficiency."
- 7 The annual audit and inspection letter issued in March 2008 referred to two issues in respect of procurement. Firstly, issues had arisen regarding tendering compliance with EU procurement directives identified during the audit of four final ERDF claims. The second reference was in respect of the Council tendering exercise for the award of the schedule of rates contracts, particularly in respect of the electrical maintenance contract.
- 8 The Use of Resources assessment 2007/08 found some good examples of procurement in Wirral as it continues to enhance its procurement practices and deliver savings both through its own services and also through working with other authorities across Merseyside. However, the use of resources assessment 2008/09 will be more focussed on achievement of outcomes that focus on quality services and supplies, respond to local need and deliver sustainable outcomes and value for money.

Scope and objectives

- 9 The scope of this review is on procurement and commissioning as defined in the background section above.
- 10 We have examined the corporate arrangements for procurement during the period to 31 March 2009, then tested their application using two tracers from within specific services.
- 11 Our work has included the following.
 - The extent to which the Council has a clear vision of intended outcomes for local people which shapes its commissioning and procurement, and is based on an ongoing understanding of needs.
 - Examined the extent to which local people, partners, staff and suppliers were involved in the commissioning of tracer services.
 - Whether improvements to customer experience, quality and value for money have resulted from the procurement exercises reviewed.
 - The extent to which the Council has redesigned services and maximised the use of IT alongside the procurement exercises reviewed.
 - The extent to which the Council understands the supply market and uses this information in the decision making process.
 - Examined the extent to which the Council adheres to its procedures and evaluates options for procuring services and supplies.
 - Evaluated the Council's understanding of the competitiveness of services and achieves value for money while meeting wider social, economic and environmental objectives.

Audit approach

- 12 We have interviewed key staff within the corporate procurement team and managers within relevant service departments.
- 13 We have selected two contracts: one from highways and one from social care services and examined the working paper files.
- 14 We have taken into account any relevant evidence from other inspectorates. For example, the Care Quality Commission assesses commissioning adult social services in its Annual Performance Assessment.

Key messages

- 15 The Council has invested resources to continue to develop its corporate arrangements for procurement and is actively involved in both regional and sub-regional collaborative ventures. Procurement has resulted in financial savings but it is too early to fully assess the impact on sustainable outcomes for local people. There is a need to drive procurement forward more to maximise the benefits across the organisation.
- The Council has a high level awareness of intended outcomes for local people based on an understanding of needs which shapes its commissioning and procurement. At a more detailed level opportunities exist to develop the involvement of stakeholders in the commissioning and procurement of services.
 - There is mixed involvement of local people, partners, staff and suppliers in commissioning and procurement.
 - Improvement in customer experience, quality and VfM has either not been fully evaluated or more time is needed for the benefits to materialise.
 - Redesign of services and use of IT is being used alongside procurement. There has been significant investment in ICT by the Council which provides the platform for e-procurement. However, the system is under-utilised and therefore the benefits are not being maximised.
 - The Council has an adequate understanding of the supply market and uses this to inform procurement strategy and tendering. This should be enhanced once a new system for sourcing and contract management is implemented. Wirral is the last council in the Merseyside collaboration to implement the system.
 - Although the Council has generally put in place a sound framework of policies and procedures these are not always followed or fully comprehensive.
 - The Council evaluates options for procuring services and supplies. Corporate Procurement Procedures incorporate best practice techniques, including option appraisals.
 - The Council is developing its understanding of the competitiveness of services and VfM while meeting wider social, economic and environmental objectives.

Main conclusions

- 16 The Council has put in place corporate arrangements that provide a sound foundation for basic procurement practice across the organisation. Resources have been invested by the Council to develop its arrangements for procurement. This has increased capacity through the creation and subsequent development of a Corporate Procurement Unit (CPU). The CPU has led the implementation of a Corporate Procurement Strategy (CPS), supported with detailed procedures and guidelines. The Council also has other guidelines relevant to the governance of procurement, such as policy on Code of Conduct by officers and Conflict of Interest procedures.
- 17 However, there is a need to drive procurement forward more to maximise the benefits across the Council, including schools. The Procurement Strategy is not supported with an action plan with milestones to provide the basis for effective performance monitoring. Hence there is no clear basis for effectively monitoring delivery of the CPS.
- 18 Also, commissioning and procurement are currently seen as separate and therefore not fully integrated. This is a missed opportunity to align commissioning with procurement to produce synergy which should ultimately help to achieve better outcomes for service users and improved VfM. The CPS should include a clear link between commissioning and procurement activity to ensure consistency.
- 19 The Council evaluates options for procuring services and supplies. Corporate Procurement Procedures incorporate best practice techniques such as Gateway Reviews. Also, price and quality evaluation models are routinely used to award contracts, which is a sound basis for decision making. Other techniques such as option appraisals and whole life approach are also routinely used. This ensures options for procuring goods and services are identified and reviewed.
- 20 The Council is actively involved in both regional and sub-regional collaborative ventures, facilitated through the Improvement and Efficiency Partnerships. This provides the opportunity to take advantage of joint procurement initiatives and sharing of intelligence, with consequential financial savings and other benefits. Significant financial savings are envisaged from this work, for instance £8m is expected to be delivered during 2008-2011 by the Merseyside Collaboration. To date, savings of £20m has been achieved by Merseyside authorities through collaborative procurement working.
- 21 The Council has an adequate understanding of the supply market and uses this to inform procurement strategy and tendering. Collaboration through the Improvement and Efficiency Partnerships will provide access to electronic solutions for sourcing and contract management, such as the 'Due North' initiative. Once implemented this will provide access to regional wide contracts which should result in substantial financial savings. There are also other benefits, such as enhancing the Council's existing knowledge of the supply market and providing access to data for benchmarking. Wirral is one of the last councils in Merseyside to implement 'Due North'. However, this has recently been brought forward from April 2010 to December 2009.

Main conclusions

- 22 The 'Due North' initiative will also enable existing and potential suppliers to have better access to contract opportunities. This will support the Council's objective of sustainable procurement. Also this initiative and others such as the 'Construction Employment Integrator' are designed to encourage the use of local labour, which directly links to the Council's priorities. To date, the achievement of targets relating to local labour content within relevant contracts has been mixed.
- 23 More needs to be done to align collaboration work with the development of the CPS, to clearly show how procurement activity will be addressed in the medium to longer term. This will help to embed collaboration work within day to day procurement activity, thereby helping to ensure the Council's resources are effectively managed, with efficiencies maximised and overlap minimised.
- 24 The Council has a high level awareness of intended outcomes for local people based on an understanding of needs which shapes its commissioning and procurement. The Sustainable Community Strategy (SCS) is kept up to date with priorities intended to reflect the inequalities and diversity of local communities. The Council's Corporate Plan is developed using a needs analysis and is aligned with the SCS. The objectives in the Corporate Plan are cascaded to departmental plans which broadly inform delivery and commissioning activity. Also, the Procurement Strategy has been mapped against the Council's priorities to ensure alignment.
- 25 At a more detailed level opportunities exist to develop the involvement of stakeholders in the commissioning and procurement of services. Our detailed work found mixed involvement of local people, partners, staff and suppliers in commissioning and procurement. Strengthening involvement of stakeholders would ensure the links between corporate priorities and procurement are sound. Also it should help to formulate timely performance measures which can subsequently be used to monitor delivery of outcomes. The Council will then be better able to demonstrate improvement in customer experience, quality and ultimately VfM.
- 26 Post contract evaluation of envisaged benefits is part of routine procurement procedures. This should demonstrate improvement in customer experience, quality and VfM. However, this needs to be more robust and used consistently. Our detailed work found improvement has either not been fully evaluated or more time is needed for the benefits to materialise.
- 27 Although there is evidence of procurement resulting in financial savings and better services for local people there remains significant opportunity to improve performance. Greater focus on delivery of sustainable outcomes and better VfM is required, rather than purely financial savings. As stated above clearer deliverables need to be identified during the commissioning and procurement of services to provide a sound basis for subsequent evaluation of outcomes for local people and VfM.

- 28 Redesign of services and use of IT is being used alongside procurement. There has been significant investment in ICT by the Council which has provided i-procurement functionality as part of implementing the 'One Business' Oracle based system. This provides the platform for the Council to obtain the many benefits of e-procurement, such as corporate contracts and lower transactional costs. Also, ICT facilitates redesign of processes which can result in better services and efficiencies. Our detailed work confirmed the Council is using procurement to support service redesign, both back office and customer facing. Also, better use of ICT alongside procurement is being used to bring about improvement and deliver savings.
- 29 However, the i-procurement system is under-utilised, hence the benefits are not being maximised. Analysis of expenditure shows too much procurement is processed outside the system. More work is needed to ensure compliance and reduce spend where no order has been raised or manual systems have been used.
- 30 Although the Council has generally put in place a sound framework of policies and procedures these are not always followed or fully comprehensive. Our work found some examples where there was non-compliance, such as notes of meetings not being recorded during tender exercises. Also, some procedures lacked clarity eg separation of duties relevant to in-house bids.
- 31 The importance of compliance with procurement procedures and governance more generally needs to be strengthened to ensure the Council promotes the right culture. This is necessary to ensure the risk of external challenge is managed and the benefits of procurement initiatives are not put at risk. Compliance with procedures alongside robust governance are fundamental requirements of effective procurement. Weaknesses could jeopardise the achievement of benefits resulting from good procurement.
- 32 Operational departments such as social care, technical services, and leisure undertake a significant proportion of procurement within the Council using their own purchasing staff. There are 44 nominated Purchasing Co-ordinators based in seven departments who undertake this work. This can have an adverse effect on consistency and compliance with procedures. There is a significant volume of payments where no order has been created or manual systems used. The role of CPU regarding compliance with procedures and governance is not clear and where appropriate needs to be strengthened.
- 33 The Council is developing its understanding of the competitiveness of services and VfM while meeting wider social, economic and environmental objectives. Competitiveness of services and achievement of VfM is assisted by tendering procedures using quality as well as price to determine contract award. Also this is reinforced by post contract reviews to ensure financial and non-financial benefits are delivered.

Main conclusions

- 34 Expenditure continues to be collected using a proprietary database tool. This is helping to improve the consistency of data which should assist benchmarking, and support performance management and checks on compliance with procedures. There has only been relatively limited benchmarking of procurement to date, albeit with evidence of savings eg benchmarking of franking machines has delivered £80k. By strengthening the use of benchmarking the Council will be more able to evaluate the competitiveness of services and demonstrate achievement of VfM.
- 35 A policy on sustainable procurement has been approved by Cabinet and is being implemented as part of routine procurement procedures. Also, the Council is aware of equality and diversity issues and is taking action on an incremental basis to incorporate this agenda into routine procurement procedures and practice.

Detailed report

The review has focussed on the following areas.

- Procurement strategy.
- Corporate procurement arrangements.
- E-procurement.
- Collaboration.
- Training.
- Highways and Engineering Services Procurement Exercise (HESPE).
- Assistive technology.

The following section identifies the main issues and findings in these areas.

Procurement Strategy

- 36** The Council has an approved Corporate Procurement Strategy (CPS) but it is not clear how implementation will be monitored. The CPS was approved by Cabinet in December 2003. The strategy has since been updated in October 2005 and September 2008 when the current strategy was approved. This covers the period 2008-2011. The updated strategy is designed to move the procurement activity of the Council forward to achieve efficiencies and savings. However, it is not clear from the strategy how this will be achieved. A key weakness of the Council's strategy is not being supported with an action plan and milestones. Hence there is no clear basis to monitoring delivery of the CPS effectively.
- 37** Despite this the Procurement Strategy provides for monthly progress reports to the Director of Finance (DoF), and monthly reporting of relevant performance indicators (PIs) within the performance management system along with progress against 'Procurement Key Priorities'. Also, there is provision for quarterly reporting of progress to the Corporate Improvement Group (CIG), and six-monthly reporting to Committee detailing the number and type of contracts which have been let and progress against the key priorities. Some but not all of these reporting requirements are being satisfied. Also, there is less focus on procurement through the CIG than in the past when the Strategic Procurement Board operated. However, the current arrangement may be more cross cutting. Reporting and monitoring arrangements need to be re-visited to ensure responsibility for monitoring delivery of the CPS is clear and effective.
- 38** The Council is aware of intended outcomes for local people at a high level. The Sustainable Community Strategy (SCS) is kept up to date with priorities intended to reflect the inequalities and diversity of local communities. The Council's Corporate Plan is developed using a needs analysis and is aligned with the SCS. The objectives in the Corporate Plan are cascaded to departmental plans which broadly inform delivery and commissioning activity.

Detailed report

- 39 Also, the relationship between the Council's Corporate Objectives and Procurement Objectives has been set out in the current CPS to demonstrate alignment. Also, the strategy is based on best practice eg takes account of the sustainability agenda. The CPS refers to the government's procurement agenda but this is not mapped across and therefore may not be fully aligned.
- 40 Also, the current Procurement Strategy does not have an effective link to commissioning. The two themes are currently seen as separate rather than recognising the potential synergy between commissioning and procurement. Future updates of the CPS need to provide clarity on the Council's approach, with a view to helping deliver better outcomes for service users and VfM. This should include facilitating closer working between CPU and commissioning activity.
- 41 CPU has worked more closely with DASS and Children's Service more recently. This has helped to integrate corporate procurement and commissioning activity and provide a greater focus on governance and commercialism. Both DASS and Children's Services have their own Contracts Teams.
- 42 Reference to the Third Sector is included in the Procurement Strategy approved by Cabinet. This is seen as a first step for the Council with further development ongoing. A similar approach is being used for equalities eg the Head of Procurement will be doing training for equalities as part of a wider equalities assessment within the Council. This follows a task group on equalities and diversity in procurement, which resulted in a policy that Equality Impact Assessments be conducted on all relevant procurement contracts.
- 43 The Procurement Strategy includes expanding the scope of Prince 2 and includes the principles of Gateway Procedures, where appropriate, for high cost and/or high risk procurement projects. Options appraisals are highlighted as key elements of procurement within the Procurement Strategy. This helps to ensure options for procuring services and supplies are identified and reviewed. Our detailed work confirms these techniques are being adopted in practice.
- 44 Post contract monitoring is stated as essential in the Procurement Strategy. The use of output specifications is designed to put the onus on the contractor to take responsibility for the end product, and Best Value clauses in contracts mean that the contractor is responsible for a continuous improvement in service. However, there is no specific requirement to undertake formal post contract evaluation reviews to ensure the benefits of procurement exercises are delivered.
- 45 The development and use of performance measures are promoted as part of the Procurement Strategy. It is intended that procurement PIs be used for regional and sub-regional benchmarking. Performance information will be used to improve and measure procurement outcomes and reported on accordingly. These arrangements are still in the course of being implemented and developed.

Recommendation

- R1** Update the Corporate Procurement Strategy (CPS) to address the following.
- Create an action plan with milestones to drive the implementation of the strategy and provide the basis of subsequent performance monitoring.
 - Ensure procurement and commissioning are aligned to optimise outcomes for service users and deliver better VfM, and facilitate closer working between CPU and commissioning activity.
 - Map the CPS against the government's procurement agenda to ensure alignment.
 - Ensure there are robust performance measures for subsequent performance reporting, including delivery of sustainable outcomes and VfM.
 - Specify the requirements for reporting progress and responsibility for monitoring implementation of the CPS.
 - Require robust post contract evaluations to be undertaken, for contracts over a pre-determined value, to ensure envisaged benefits are delivered.

Corporate procurement arrangements

- 46** The Procurement Strategy states that the corporate procurement function will be developed to act as the centre of expertise in procurement, and support a structured approach to education, training and development for all members and officers with procurement responsibilities. Also to underpin the strategy with operational procedures and guidance documents that reflect good practice, provide sufficient flexibility to ensure best value, provide adequate control and are communicated to all those involved in procurement. This has been achieved by developing a suite of policies and procedures with supporting guidelines and placing these on the intranet/internet. The Council also has other guidelines relevant to the governance of procurement, such as policy on Code of Conduct by officers and Conflict of Interest procedures.
- 47** The Leader of the Council is the lead member for commissioning and procurement and acts as champion. This helps to ensure there is support for procurement related matters. The Director of Finance (DoF) has responsibility for the development and delivery of the CPS.
- 48** Resources have been invested by the Council to develop its corporate arrangements for procurement. Up to 2003 the Council used the Wirral and North Wales Purchasing Consortium. When this organisation was disbanded some of the staff transferred to Wirral Council. Also, the current Head of Procurement joined the Council in November 2003. This was in line with a recommended 'way forward' proposed by the Institute of Public Finance (IPF), who had been commissioned to provide advice to the Council. At this stage the Corporate Procurement Unit (CPU) was primarily responsible for providing support rather than operational. Since then the department has increased resources and developed their role eg corporate contracts are 'owned' by the CPU.

Detailed report

- 49 The CPU was made responsible for delivery of the Procurement Strategy at the same time as the strategy was approved in 2005. CPU has been developed over time from an initial four staff to now 16 with a mix of specialist, qualified staff and trainees. The department has also been restructured and merged with Payments to form the Procure to Pay Section within Finance department. This has been done alongside implementation of the Oracle procurement and payments system.
- 50 Operational service departments still undertake a significant proportion of the procurement activity within the Council using their own purchasing staff eg social care, construction and leisure. Over time CPU have been able to exert more influence over purchasing in service areas. This was helped approximately three years ago when all Chief Officers were instructed to circulate relevant reports through the Head of Procurement before going to committee. This has helped CPU to be more aware but there is still an issue over advice and guidance by CPU, regarding what is deemed mandatory by service departments. The role and authority of CPU across the Council needs to be clearer. This would help to address fundamental issues such as responsibility for creation and retention of tender documentation e.g. to enable the Council to refute challenge from external bodies, such as contractors who question award of contract decisions.
- 51 Equality and diversity issues are specifically contained within the Procurement Strategy and human rights to a lesser extent. The use of partnership working is also taken into account within the Strategy.
- 52 Equality and Diversity in Procurement was reported to Cabinet in April 2009 which shows the Council is aware and taking incremental action to ensure these themes are incorporated into its procurement procedures.
- 53 Sustainability and whole life approach are included in the Procurement Strategy. Also the Council has adopted a policy on sustainable procurement as part of its contract procedures. The policy which was approved at the end of 2004 is supported by sustainable procurement objectives and guidance notes. The Corporate Procurement procedures include a Supplier Questionnaire as part of the tender process. Section 9 of the questionnaire, paragraph F, covers Environmental Matters. This includes relevant questions other than impact of CO2. The information is used within the quality part of the tender evaluation.

Recommendations

- R2** Clarify the role and authority of CPU regarding provision of advice and guidance to service areas.
- R3** Clarify responsibility for creation and retention of contract documentation, pre and post contract award.
- R4** Continue to embed sustainable procurement, alongside the development of equality and diversity within procurement procedures and practice.

E-procurement

- 54 The implementation of the 'One Business' Oracle based system provided both i-procurement and i-payment functionality across the Council. This included the introduction of on-line catalogues which have been developed over time. The implementation of i-procurement required processes to be redesigned as services moved from using various systems to one single corporate ICT system. As a result the new system provided the opportunity for more consistency. To assist the change a Purchasing Co-ordinator role was created. They can raise non-catalogue orders using the system, in addition to designated 'requisitioners' who can order items using the on-line catalogues.
- 55 The rollout of 'One Business' has provided the platform to obtain the many benefits of e-procurement. However, it is recognised that the Council needs to get better at using the system. The level of take-up ie use of the Oracle e-procurement system is below expectation and therefore the benefits are not being maximised.
- 56 There are 44 Purchasing Co-ordinators based in seven departments. This can have an adverse effect on consistency and compliance with procedures. An analysis of transactions highlights there is a significant volume of payments to suppliers where no orders have been created or manual systems are still being used. To address this corporate control over the co-ordinator function is proposed, starting with a pilot scheme in Finance. The date of the pilot has not yet been agreed. All non-compliant areas will be identified and, where appropriate, incorporated into the on-line catalogue process. Other areas of high volume non-catalogue spend will be targeted and contracts put in place. This should address 'maverick' spend in Finance. The results of the pilot will then be considered in relation to the rest of the Council.
- 57 Spikes Cavell is an online database containing expenditure data that is used as a standard analysis tool. The 'Observatory' as the database is known delivers tools, intelligence and procurement data needed to reduce costs, realise collaboration opportunities, improve contract compliance, and drive continuous improvements in spend and supplier management. This is intended to help realise the benefits of reduced maverick purchasing, increased use of corporate contract arrangements, and transactional savings from use of electronic catalogues.
- 58 To date only limited benchmarking has been undertaken by CPU such as fuel, car leasing and mobile phones. Positive outcomes have been achieved in milk and bread, furniture, first aid supplies and franking machines eg saving of £80k pa.
- 59 Two years of financial data has been collected using the Spikes Cavell database with 2008/09 available soon. This will provide increasing volumes of accurate and consistent data covering comparable years. This should help to increase the level of benchmarking of performance eg year on year, and enable comparison with other authorities in the region and sub-region.

Detailed report

- 60 A report on procurement co-ordination and control by the Procure to Pay Section issued to the CIG on 22 July 2008 highlighted the need to increase the level of transactions through the i-procurement system. Also, the level of 'maverick' spend ie outside authorised contracts and multiple suppliers was reported to the CIG on 14 May 2008. This highlighted the need for further work to increase the level of orders/spend processed through the i-procurement system. Under-utilisation of the system is still an issue.
- 61 Internal Audit has raised issues with recommendations for improving the use of i-procurement as part of their routine audit work in DASS.
- 62 There is a clear expectation in the Procurement Strategy that effective strategies will be in place to enable, support and encourage schools to become informed, effective purchasers of services. Also, the Council will ensure that the procurement skills of schools are developed and supported, promoting their capacity to choose, buy and evaluate services independently and effectively within the context of Best Value.
- 63 Schools do not make use of the Council's e-procurement system. This follows a pilot exercise in some primary schools during November 2007. This concluded that the technical issues were so significant that to overcome them would require a comprehensive review of the technology used in schools. However, a joint evaluation with Sefton Council is currently in progress to assess the possible use of the OPEN (Online Procurement for Educational Needs) e-procurement system.

Recommendations

- R5** Routinely monitor expenditure to ensure orders, wherever appropriate, are processed using the Oracle procurement system to ensure the benefits of using e-procurement are maximised across the Council, including schools.
- R6** Investigate and take relevant action, where appropriate, to address expenditure which has not been processed through the Oracle procurement system.
- R7** Establish targets for the utilisation of Oracle to form the basis of performance monitoring to help maximise the use of e-procurement.
- R8** Continue to develop benchmarking as a tool for improving procurement and basis of monitoring performance.

Collaboration

- 64 The Council is actively working in partnership with other relevant bodies across Merseyside and the wider region. This is helping to increase procurement capacity and secure VfM. However, there needs to be greater clarity over the role of collaboration as a means of using procurement to deliver efficiency and other benefits to the Council.
- 65 The North West Improvement and Efficiency Partnership (NWIEP) and Merseyside Improvement and Efficiency Partnership (MIEP) are supporting procurement collaboration, including funding, across relevant bodies including Wirral Council. The collaboration has resulted in additional resources to concentrate on joint procurement initiatives.

- 66 The regional wide partnership includes 47 bodies supported by the MIEP sub-regional body. Progress to date and future plans at a regional and sub-regional level are not fully incorporated into the CPS. Collaboration should be reflected in the next refresh of CPS to help embed this within day to day procurement activity, thereby ensuring the Council's resources are effectively managed, with efficiencies maximised and overlap minimised.
- 67 Collaboration originally commenced in 2004 when Wirral and four other Merseyside councils formed the Merseyside Procurement Group (MPG). Other authorities such as fire have now joined the group which has been renamed Merseyside Authorities Procurement (MAP). Progress was initially facilitated by the North West Centre of Excellence and subsequently by NWIEP and MIEP. The MAP members including Wirral are represented at NWIEP and MIEP by Knowsley Council. Wirral's Chief Executive is the portfolio holder for procurement on NWIEP.
- 68 Major pieces of work are being undertaken, for instance implementing the 'Due North' platform with regional wide contracts eg consultancy contracts. This should also provide greater understanding of the supply market to build on the Council's existing knowledge. Wirral are one of the last councils in the sub-region to implement 'Due North' with rollout planned for April 2010. However, 'Go Live' has now been brought forward to 1 December 2009.
- 69 The 'Due North' initiative will also enable existing and potential suppliers to have better access to contract opportunities. This will support the Council's objective of sustainable procurement. Also this initiative and others such as the 'Construction Employment Integrator' are designed to encourage the use of local labour, including 'hard to reach' people. This directly links to the Council's priorities. To date, the achievement of targets related to local labour content within relevant contracts awarded by Technical Services has been mixed.
- 70 Cashable savings are one of the key deliverables of the procurement collaboration. For the period 2008-2011 the Merseyside sub region has a saving target of £108m which is expected to be delivered from procurement. During this period £20m has been submitted by the collaboration for projected procurement savings. This is related to local initiatives and other sources such as the Office of Government Commerce. Of this amount £8m is reported as directly attributed to the Merseyside Collaboration. To date, savings of £20m has been achieved by Merseyside authorities through collaborative procurement working.

Recommendation

- R9** Clarify the financial and other benefits of collaboration, including impact on the Council's procurement arrangements, including resources. This should be used to inform the CPS and to monitor progress and delivery of outcomes.

Training

- 71 During 2008/09 procurement staff attended various courses covering a range of training requirements. This included 27 corporate courses such as Prince 2, equal opportunities and diversity, health and safety, staff induction etc. Professional training was provided to nine staff members along with training related to continuing professional development. Relevant training has also taken place within Children's Service, DASS, and Technical Services.
- 72 Three supplier events have been held this year either locally or regionally eg 'Boost your Business'. A further two events are planned, including training as part of the implementation of 'Due North'.
- 73 Procurement Co-ordinators have been provided with training as part of the initial roll out of the Oracle system. The need for refresher training should be considered to ensure users are fully utilising the benefits of the system, in addition to reinforcing compliance with procedures.
- 74 There has been limited training regarding procurement for members. Also there has only been limited interest in the Procurement Strategy by members. It is recognised that training needs to be increased to achieve greater member involvement in procurement.

Recommendations

- R10 Consider providing refresher training to users of the i-procurement system to ensure the full benefits of the system are utilised, in addition to reinforcing compliance with procedures.
- R11 Provide relevant members with training regarding procurement.

Highways and Engineering Services Procurement Exercise (HESPE)

- 75 The HESPE contract provides the Council with an opportunity to improve services at the same time as delivering financial savings. The tender process has employed best practice techniques and contemporary contracting practice. It is too early to determine if the envisaged benefits will be realised although procedures are being refined to ensure this is monitored.
- 76 The Council's objectives and priorities have been specifically recognised as part of the HESPE procurement process. This is to ensure the new contract contributes to the achievement of the Council's aims going forward. The new contract is intended to make best use of available resources and achieve an enhanced and responsive customer focused service. The contract covers various aspects of maintenance work on highways, drainage and coastal infrastructure. It is too early to confirm that the contract is delivering improvement to customer experience, quality and VfM.

- 77 An important part of the HESPE procurement process has been the consolidation of various packages of work delivered through a number of contracts into one single contract. This was intended to provide more competitive contract pricing, along with internal efficiencies resulting from streamlined contract management arrangements. Relevant budgets have been reduced to reflect anticipated financial savings resulting from the new contract which commenced in April 2009.
- 78 A Project Initiation Document (PID) has been used to provide a structured basis for managing the HESPE procurement process. Also, Gateway Reviews have been undertaken throughout the project to ensure the process was in line with best practice and identify lessons learnt. Gateway Reviews were previously used on the revised environmental waste services contract.
- 79 The HESPE procurement exercise has taken account of various potential contract strategies. This was the basis of the decision to move from a traditional contract to a partnering form of contract. An outline business case was prepared along with other supporting documentation, including an options appraisal. External consultants were employed to ensure a comprehensive review was undertaken, including taking into account the arrangements used by other councils.
- 80 Where relevant consultants have continued to be used to supplement lack of capacity within the Council. Additional external resources have been used during the early stages of the procurement process and subsequent tender exercise following agreement of the contract strategy. Also consultancy support is being used during the early part of the contract management stage following commencement of the contract. This requires the ordering, delivery and management of services to be redesigned.
- 81 The HESPE tender exercise included a comprehensive quality element in addition to consideration of cost. Method statements were used to assess the quality of bids, including use of ICT to provide a better customer service, plus use of innovation and technology to drive continuous improvement.
- 82 Expressions of interest leading to submission of tenders were received from a number of external contractors. An in-house bid was also submitted by the Operational Services Department (OSD). A price and quality 'model' was used to evaluate the tenders received. A 70 per cent cost and 30 per cent quality split was used to support the award of contract decision. The winning bid from Colas was clearly better than the others in terms of both cost and quality.
- 83 Governance was given specific attention during the HESPE process. For instance a reporting hierarchy was created to link the Project Team to members via a Project Board. Internal Audit were commissioned to undertake reviews of the process and made permanent members of the Project Team. Detailed procedures were also created such as separate arrangements for evaluating the cost and quality elements of tenders. Also specific governance arrangements were approved by Cabinet for the in-house bid. However, our work has found examples where procedures lacked clarity eg separation of duties relevant to the in-house bid or there was non-compliance eg notes of meeting not being created. Compliance with procedures and robust governance are fundamental requirements of effective procurement. This is necessary to ensure the risk of external challenge is managed. Weaknesses could jeopardise the achievement of benefits resulting from good procurement.

Detailed report

- 84** Risk management has been undertaken as part of the HESPE procurement process. Also, risk management has been rolled forward to the contract management stage following contract award. Both high level risks and detailed commercial risks are being addressed. These risks are to be routinely reported to the Colas/Wirral Partnering Board meeting which is held on quarterly basis. Detailed risk management issues are considered at the monthly Colas/Wirral Liaison meeting.
- 85** The performance of the HESPE contract in providing a responsive service to meet statutory obligations and customer requirements is to be monitored and driven through the Performance Management Framework with Key Performance Indicators (KPIs) under four headings: Planned Work, Reactive Work and Emergency Response, Contract Management and Customer Focus.
- 86** The first five KPIs come into effect from the 1 July 2009 and cover reactive elements, emergency works, Priority 1 and 2 work. These PIs will be monitored in detail each week and then feed into the monthly Liaison Meeting with the contractor. Other PIs are subsequently to be developed as part of contract management. This should ensure there is a focus on improving relevant highway condition Best Value/National Indicators. At present it is too early to determine whether the contract will deliver the envisaged improvements.
- 87** Colas are to be invited to give a presentation on the first six months of the HESPE contract to the Sustainable Communities Overview and Scrutiny Committee.
- 88** A benefits realisation process is an integral part of the HESPE procurement exercise. A procedure has been drafted to ensure there is a formal methodology in place for measuring the delivery of anticipated benefits during the life of the contract. An external consultant is providing additional capacity during the initial contract management stages.
- 89** Part of this work includes firming-up the project objectives to establish measurable targets to enable a robust evaluation of benefits to be undertaken. Ownership of specific aspects of the benefits realisation programme is also being assigned. This includes action by the client, where applicable, to enable Colas to deliver benefits eg upgrade of ICT systems, timely agreement of budgets and specification of works by the Council to enable jobs to be planned and packaged efficiently by Colas.

Recommendations

- R12** Ensure the HESPE contract is routinely evaluated to ensure the financial and other benefits are delivered over the life of the contract. Ensure attention is given to the role of the client, in addition to the contractor, to ensure benefits are delivered.
- R13** Continue to develop risk management as part of the contract management arrangements for the HESPE contract, in particular risk associated with delivery of financial and other benefits.
- R14** Ensure the performance management arrangements for the HESPE contract are fully implemented.
- R15** Strengthen the governance arrangements relevant to procurement activity and ensure compliance, in particular clarify roles and ensure full compliance with policies and procedures.

Assistive technology

- 90 The Assistive Technology contract is not clearly linked to the key priorities of the Council at corporate level or the DASS transformation programme at service level. However, the initiative is clearly in line with government policy. A review of financial savings resulting from using this technology has been undertaken but outcomes for service users have not been fully evaluated to date.
- 91 The Assistive Technology service provides telecare to enable service users to remain independent. This was initially funded for two years by the Preventive Technology Grant between 2006-2008 but is now funded through the mainstream DASS budget. Also, the Assistive Technology contract is partly funded by Wirral PCT. Furthermore a request for funding from Merseyside Fire & Rescue Service (MF&RS) has been made to cover a potential over-commitment of the budget.
- 92 Procurement strategy options were considered as part of the Preventive Technology Plan 2006/08. The extent to which partners were involved in the commissioning process are not clear. Also, there is no evidence of involvement by service users.
- 93 An options appraisal has been undertaken for the Assistive Technology procurement in the form of a project evaluation in 2007. This helps to demonstrate the Corporate Procurement Strategy regarding use of options appraisals is followed in practice. Also, the Assistive Technology contract makes reference to Human Right, Equal Opportunities & Information which is also part of the Procurement Strategy.
- 94 A good response was received to the invitation to tender. However, of the 24 providers who expressed an interest only four submitted completed tenders. A scoring mechanism was used to assess the tenders. The winning bid was first for quality and second for price but with the best overall weighted score. The contract is for a three year period commencing 1 April 2008. However, the contract was only formally signed retrospectively in September 2008.
- 95 The impact of the Assistive Technology project was reviewed along with lessons learnt within the Project Evaluation in 2007. During the contract progress reports have been presented to Senior Leadership Team (SLT) within DASS to enable the Assistive Technology project to be monitored. Also, a cost benefits analysis has been undertaken to support assumptions regarding notional savings. However, it is not clear what service redesign has resulted from the project.
- 96 Reports to SLT include details of service 'take-up'. This shows that the rate of installation has exceeded targets. Also, efficiency hypothesis in the proposals for the service have been reviewed. This has been based on outcome evaluation forms completed by ordering officers. Much of the evaluation is based on notional savings and professional opinion rather than an exact science. Despite this performance reports have been able to identify on a case by case basis some actual savings i.e. preventing increases or supporting reductions in individual care packages. However, a number of factors have mitigated against being able to provide comprehensive evaluation of savings, such as data not being entered on the SWIFT IT system used by DASS, and SWIFT not being able to report on potential savings i.e. services that have not been provided as a result of telecare.

Detailed report

- 97** A cost/ benefits evaluation has been undertaken which concludes that proposed potential efficiencies to the Health & Social Care system of approximately £470k by the end of 2011 will be achieved in the first year (2008/09). However, the outcomes for service users have not been evaluated which is a key weakness. As a result we are unable to determine whether customer experience and quality have improved. Therefore it is unclear whether financial savings have also resulted in better VfM.
- 98** Performance measures should have been determined during the procurement exercise in order to provide a basis to monitor the delivery of outcomes. This should seek to demonstrate achievement of VfM while meeting wider social, economic and environmental objectives.

Recommendations

- R16** Ensure all relevant contracts make provision for performance measures to subsequently monitor the delivery of outcomes. This should include outcomes for service users in addition to financial savings in order to demonstrate VfM, while meeting wider social, economic and environmental objectives.
- R17** Review the delivery of financial and other outcomes resulting from the current Assistive Technology contract.

Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Agreed Date
14	<p>R1 Update the Corporate Procurement Strategy (CPS) to address the following.</p> <ul style="list-style-type: none"> • Create an action plan with milestones to drive the implementation of the strategy and provide the basis of subsequent performance monitoring. • Ensure procurement and commissioning are aligned to optimise outcomes for service users and deliver better VfM, and facilitate closer working between CPU and commissioning activity. • Map the CPS against the government's procurement agenda to ensure alignment. • Ensure there are robust performance measures for subsequent performance reporting, including delivery of sustainable outcomes and VfM. • Specify the requirements for reporting progress and responsibility for monitoring implementation of the CPS. • Require robust post contract evaluations to be undertaken, for contracts over a pre-determined value, to ensure envisaged benefits are delivered. 	H	<p>Corporate Procurement Manager</p> <p>Chief Executive</p> <p>Corporate Procurement Manager</p> <p>Corporate Procurement Manager</p> <p>Corporate Procurement Manager</p> <p>Corporate Procurement Manager</p>	<p>Agreed</p> <p>Agreed</p> <p>Agreed</p> <p>Agreed</p> <p>Agreed</p> <p>Agreed</p>	<p>Will amend CPS to show baseline and set milestones to achieve priorities to measure performance.</p> <p>This will be taken forward through COMT</p> <p>Match Government agenda with CPS to ensure alignment and identify progress.</p> <p>We will identify performance measures and reporting protocols to incorporate within the CPS.</p> <p>To be reviewed and reinforced.</p> <p>Include benefits realisation process within CPS for high value, high risk projects and monitor to ensure compliance.</p>	31 December 2009

Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Agreed Date
15	R2 Clarify the role and authority of CPU regarding provision of advice and guidance to service areas.	H	Director of Finance	Agreed	Written instructions will be issued.	31 December 2009
15	R3 Clarify responsibility for creation and retention of contract documentation, pre and post contract award.	H	Corporate Procurement Manager	Agreed	In concert with R2 above, Corporate Procurement to oversee, produce checklists and retain central files.	31 December 2009
15	R4 Continue to embed sustainable procurement, alongside the development of equality and diversity within procurement procedures and practice.	L	Corporate Procurement Manager	Agreed	In progress.	31 December 2010
17	R5 Routinely monitor expenditure to ensure orders, wherever appropriate, are processed using the Oracle procurement system to ensure the benefits of using e-procurement are maximised across the Council, including schools.	H	Corporate Procurement Manager	Agreed	Action plan to include identification of non system transactions and bringing onto system were appropriate. Measure progress against target.	31 June 2010
17	R6 Investigate and take relevant action, where appropriate, to address expenditure which has not been processed through the Oracle procurement system.	H	Corporate Procurement Manager	Agreed	In concert with R5.	31 March 2010
17	R7 Establish targets for the utilisation of Oracle to form the basis of performance monitoring to help maximise the use of e-procurement.	H	Corporate Procurement Manager	Agreed	In concert with R5 and R6.	31 December 2009
17	R8 Continue to develop benchmarking as a tool for improving procurement and basis of monitoring performance.	M	Corporate Procurement Manager	Agreed	In progress, CIPFA/KPMG Benchmarking Club. Progress other areas through Merseyside/Northwest IEPs.	30 June 2010

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Agreed Date
18	R9 Clarify the financial and other benefits of collaboration, including impact on the Council's procurement arrangements, including resources. This should be used to inform the CPS and to monitor progress and delivery of outcomes.	M	Corporate Procurement Manager	Agreed	Progress with Merseyside partners and report. To be incorporated within the CPS and action plan.	31 December 2009
19	R10 Consider providing refresher training to users of the i-procurement system to ensure the full benefits of the system are utilised, in addition to reinforcing compliance with procedures.	L	Corporate Procurement Manager	Agreed	In progress, fourth training course since September 2009 and continuing timetable for 2010 being produced	31 December 2010
19	R11 Provide relevant members with training regarding procurement.	L	Corporate Procurement Manager	Agreed	Within action plan for CPS.	31 December 2010
21	R12 Ensure the HESPE contract is routinely evaluated to ensure the financial and other benefits are delivered over the life of the contract. Ensure attention is given to the role of the client, in addition to the contractor, to ensure benefits are delivered.	M	Head of Streetscene & Waste Services	Agreed	The delivery of the qualitative and quantitative benefits for the contract as set out in the Benefits Management Strategy approved by the Colas Wirral Partnering Board in February 2009 will be monitored via formal Annual Review reports to the Council's Cabinet and Overview & Scrutiny Committee and supported by a formal OGC Gate 5 Benefits Realisation Review in summer 2010.	With immediate effect
21	R13 Continue to develop risk management as part of the contract management arrangements for the HESPE contract, in particular risk associated with delivery of financial and other benefits.	M	Head of Streetscene & Waste Services	Agreed	Risk management arrangements have been strengthened as part of the revised Partnership Management and Governance Arrangements approved by the Partnering Board in November 2009 and risk reports to the Partnering Board now include explicit links to the Benefits Management Strategy.	With immediate effect

Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Agreed Date
21	R14 Ensure the performance management arrangements for the HESPE contract are fully implemented.	M	Head of Streetscene & Waste Services	Agreed	The Performance Management Framework for the contract approved by the Colas Wirral Partnering Board in February 2009 is monitored via regular Liaison and Partnering Board meetings and forms part of the Benefits Management Strategy to be monitored formally on an annual basis as described in R12	With immediate effect
21	R15 Strengthen the governance arrangements relevant to procurement activity and ensure compliance, in particular clarify roles and ensure full compliance with policies and procedures.	H	Director of Technical Services/ Corporate Procurement Manager	Agreed	In concert with R2 above, Corporate Procurement to strengthen arrangements and ensure compliance in collaboration with Internal Audit.	31 December 2009
23	R16 Ensure all relevant contracts make provision for performance measures to subsequently monitor the delivery of outcomes. This should include outcomes for service users in addition to financial savings in order to demonstrate VfM, while meeting wider social, economic and environmental objectives.	M	Director of Adult Social Services Corporate Procurement Manager	Agreed Agreed	New contracts for Residential/Nursing, Personal Support and Supported Living to be developed in 2010, to focus on outcomes and better value. Corporate Procurement to produce guidance, policies and procedures for departments and, monitor through the electronic contracts management process	31 December 2010 30 June 2010
23	R17 Review the delivery of financial and other outcomes resulting from the current Assistive Technology contract.	M	Director of Adult Social Services	Agreed	Contract evaluation completed in 2009 in terms of outcomes and efficiencies. This will now be benchmarked against national pilots - with proposal to submit a joint 'Invest -to-save bid' across Health and Social Care to be completed by January 2010.	31 January 2010

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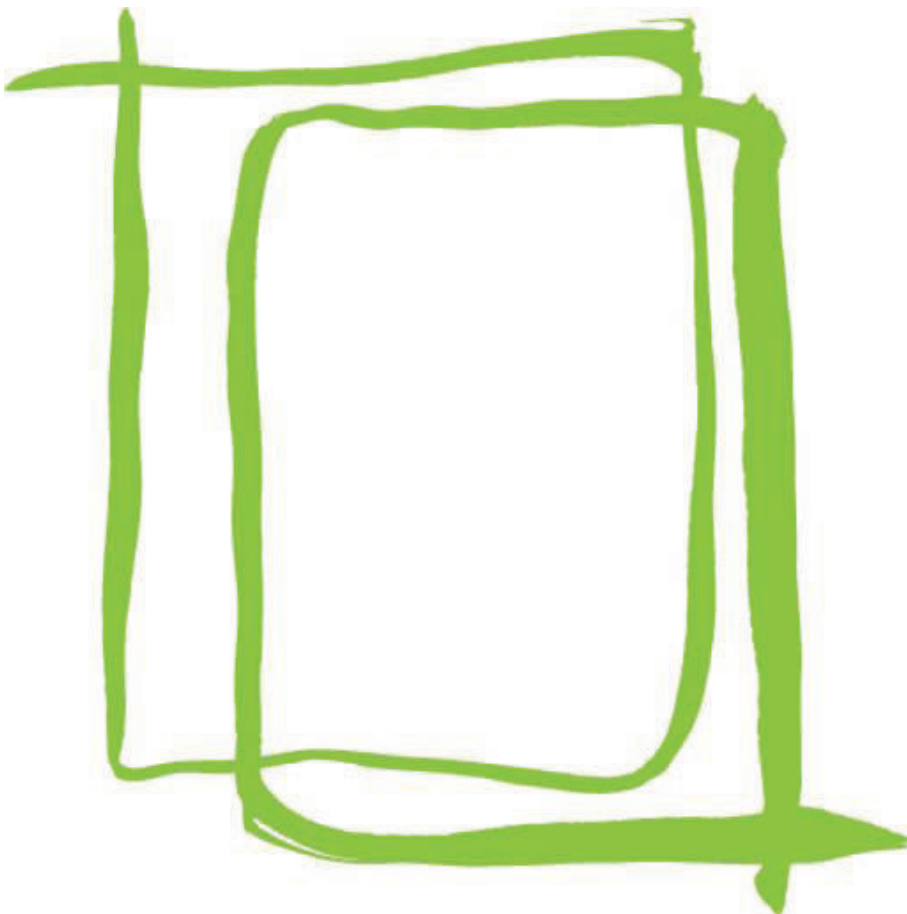
Use of Resources Plan

Audit plan

Wirral Metropolitan Borough Council

Audit 2009/10

January 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.

Introduction

- 1 2009/10 is the sixth use of resources (UoR) assessment to be undertaken at councils but is the second under the new approach that focuses more on outcomes achieved. The UoR assessment forms part of the Comprehensive Area Assessment (CAA) organisational assessment and will also feed into other relevant performance assessment frameworks as appropriate. The UoR key lines of enquiry (KLOE) will also be the 'relevant criteria' for the value for money conclusion that is part of our work under the Code of Audit Practice.
- 2 This plan outlines the approach we will take to the UoR assessment at Wirral Council, who the key contacts will be and the reporting arrangements. The Audit Commission published the overall approach and KLOE in May 2008 and this has been updated to October 2009 <http://www.audit-commission.gov.uk/localgov/audit/UoR/approach/Pages/20091030uorframework.aspx>. It has also prepared guidance for auditors to support them in carrying out their assessments and made this available to audited bodies on its website at the following link <http://www.audit-commission.gov.uk/localgov/audit/uor/pages/guidance.aspx>.

Background

- 3 The Audit Commission review of 2008/09 found that the Council's arrangements had continued to improve in some areas although the test and scoring has been more demanding during the period of assessment, from April 2008 to March 2009. The overall score, theme scores and individual KLOE were assessed as level 2.
- 4 The 2009/10 UoR assessment will consider how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people. It is structured into three themes that focus on the importance of sound and strategic financial management, strategic commissioning and good governance, and the effective management of natural resources, assets and people. It will be applied to all local government bodies, including police and fire authorities, and to primary care trusts in the NHS.
- 5 The KLOE within each of the themes are shown in the table below.

Table 1 Use of resources KLOE 2009/10

The use of resources is split into three themes and ten KLOE

Managing finances	Governing the business	Managing resources
1.1 Financial planning & financial health	2.1 Commissioning & procurement	3.1 Natural resources (not selected for 2009/10)
1.2 Understanding costs & performance	2.2 DQ & use of information	3.2 Asset management
1.3 Financial monitoring & reporting	2.3 Good governance & ethical behaviour	3.3 Workforce planning (1st assessment 2009/10)
	2.4 Risk management & internal control	

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Scope and objectives

- 6 The 2009/10 KLOE, as shown at Table 1 on the previous page, are broadly based and embrace wide resource issues such as the use of natural resources and workforce. The KLOE focus on value for money achievements, outputs and outcomes rather than on processes, and are strategic rather than detailed. They are supported by characteristics of performance, which are used as an aid to the exercise of the auditors' professional judgment. The underlying characteristics are indicative of differing levels of expected performance, and are not criteria to be complied with in all circumstances.
- 7 The KLOE and supporting characteristics are based upon published best practice, standards and professional guidance, where available, and the principles set out in the Commission's publication World Class Financial Management.
- 8 A proportionate approach will be applied to the assessment of the KLOE. The Audit Commission has specified in its annual work programme which KLOE are to be assessed over the coming year. The specified KLOE differ for each sector in order to reflect sector priorities. In 2008/09, we assessed nine of the ten KLOE at single tier and county councils - KLOE 3.3 on workforce was not assessed last year. For 2009/10 we will again assess nine of the ten KLOE, including KLOE 3.3 for the first time.
- 9 KLOE 3.1 on natural resources, which was assessed for the first time last year, will not be assessed this year. However, KLOE 3.1 is still a relevant criterion for the purposes of the vfm conclusion and the 2008/09 assessment of 'yes' (the council is making effective use of natural resources) will be carried forward to 2009/10. We will also keep up to date with the Council's progress in this area generally and in particular in respect of the new environmental standards expected for 2010/11 during our ongoing discussions with officers and review of committee and Council minutes.
- 10 The objectives of our work are to:
 - Make a judgement about whether we are satisfied that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources - the value for money conclusion in the statutory audit report that we give under The Code of Audit Practice. We will apply a yes/no judgement against the criteria to indicate whether the Council has proper arrangements in place or not. A 'no' judgement is equivalent to a UoR score of 1 and a 'yes' judgement is equivalent to a score of at least 2.
 - Assess how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people which is part of the organisational assessment under CAA.
 - Provide intelligence to inform the 'managing performance' organisational assessment and the area assessment under CAA (Appendix 3 shows the key questions and themes for the area assessment and managing performance organisational assessment).
 - Inform other areas of our work such as the opinion and grant claims and returns.

Audit approach

- 11 The emphasis of the assessment will be on a rounded professional judgement against the headline KLOE – ‘top down’ rather than ‘bottom up’ approach using illustrative characteristics of performance included within the guidance. Most importantly, there is less focus on prescriptive arrangements and process and more focus on outcomes and what difference the arrangements have made.
- 12 There is a four level scoring system, with levels 2 and 3 representing broad descriptions of 'getting the basics right' and 'performing well' respectively. Scores of 4 will be reserved for excellence and genuine leading edge performance. Level 1 represents a failure to meet the minimum requirements at level 2.
- 13 The Audit Commission has updated sections 1 - 6 of the UoR auditor guidance to clarify the approach to the 2009/10 assessment. Section 1.3 summarises the key changes. Section 7: Setting the scene and Section 8: KLOE guidance will be updated during November. The key changes are summarised at Appendix 2.
- 14 To support learning for the 2009/10 assessment the Commission will publish examples of strong performance and outcomes in mid December. The Audit Commission is also reviewing and updating the value for money (VFM) profile tools to reflect the developing CAA framework. It will launch new tools to support the 2009/10 UoR assessment for councils, police authorities and fire and rescue authorities in January 2010.
- 15 To ensure continuity for year two of the assessment, the UoR framework, including KLOE, has not been changed by the Audit Commission. We will take a proportionate and risk-based approach that builds on the baseline established in 2008/09, against which we will assess progress, focussing on two questions.
 - What has changed in 2009/10?
 - What difference have those changes made to outcomes in practice?
- 16 We will also carry out detailed work on key areas that will inform a number of KLOEs as well as other areas of our work.
 - Sail project (KLOE 1.2, 1.3, 2.1, 2.2, 2.4, 3.2).
 - Performance management (all KLOE).
 - Sickness absence (KLOE 1.2, 2.2, 3.3).
- 17 The Audit Commission has brought forward the 2009/10 timetable for completing auditors' UoR work at councils, police authorities and fire and rescue authorities. This is to enable auditors to complete most of the work by the end of the financial year to which their assessment relates. This will reduce overlap with the final accounts audit and smooth the workload to lessen the burden on audited bodies and auditors during September. We will carry out the fieldwork from November 2009 to March 2010. Scores will be notified to the Council in the autumn of 2010. Key dates for the 2010 assessment are shown at paragraph 21.

Audit approach

- 18 The key contacts for the audit team and the Council are shown at paragraphs 23 and 26.
- 19 We will carry out the work through:
- Review of key documents - to be agreed with key contacts. The following link to the guidance gives suggested sources of evidence for each KLOE <http://www.audit-commission.gov.uk/useofresources/2009guidance.asp>.
 - Interviews/workshops with officers and members.
 - Surveys.
 - Ongoing discussions and review of minutes and media.
- 20 There is no requirement for a self assessment. However, if the discussion document from 2008/09 is updated, formally or informally, it will help us to make a quick and robust assessment and ensure that all relevant information is taken into account. We will discuss whether this will be provided at the individual KLOE level.

Reporting and timescales

- 21 The UoR assessment and value for money conclusion 2009/10 will be based on the same KLOE and will be reported in the Annual Governance Report alongside the opinion on the statement of accounts. The deadline for this is 30 September 2010. The following timetable is provisional at this stage and will be kept up to date throughout the audit.

Date	Activity/milestone
November 2009	Draft plan to Council.
December 2009	Agree plan with Lead Director.
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.
November - March 2010	Fieldwork.
January 2010	VFM profile tools available.
January 2010	Plan to the Audit & Risk Management Committee
March 2010	Cheshire/Mersey local quality assurance.
Early April	Interim feedback to Lead Director.
21 April 2010	Indicative scores submitted by audit team to Audit Commission.
10 - 21 May 2010	Audit team area QA and internal challenge.
June/July 2010	Consideration of final evidence of outcomes and agreement of draft value for money conclusion.
30 July 2010	Final scores submitted to Audit Commission.
2 - 27 August 2010	National quality assurance process.
End August 2010	Agreement of final value for money conclusion and scored UoR judgements.
Early September	Draft Annual Governance Report.
Mid September	Final Annual Governance Report.
Late September 2010	Audit & Risk Management Committee (papers out 2 weeks before).
October/November 2010	Draft organisational assessment report shared with the Council.
Late November 2010	Final organisational assessments reported as part of CAA reporting. Issue annual audit letter.

Audit personnel and key contacts

22 Responsibilities of auditors and council officers are set out below and at Appendix 1.

23 The following Audit Commission staff will be involved with the work.

Name	Contact details
Mike Thomas, District Auditor Overall responsibility for the audit	m-thomas@audit-commission.gov.uk 0844 7987043 or 07879 667712
Liz Temple-Murray, Audit Manager Lead contact for UoR Manager for KLOEs 1.1, 1.2, 1.3, 2.1, 2.2, 2.3, 2.4, Sail review	l-temple-murray@audit-commission.gov.uk 0151 666 3483 or 07769 887358
Dave Wilson, Performance Manager Manager for KLOE 3.2, 3.3 and performance management review	da-wilson@audit-commission.gov.uk 0844 7987333 or 0774 8930598
Rob Metcalf, Principal Auditor Fieldwork 1.1, 1.3, 2.2, 2.3, 2.4	r-metcalf@audit-commission.gov.uk 0151 666 3484
Kath Johnson, Performance Specialist Fieldwork 3.3, sickness absence review and performance management review	ka-johnson@audit-commission.gov.uk 0844 7983579
Phil Kuehnle, Performance Specialist Fieldwork 1.2, Sail review	p-kuehnle@audit-commission.gov.uk 0844 798 3663
Tony Whitehead, Performance Specialist Fieldwork 2.1, 3.2	t-whitehead@audit-commission.gov.uk 0151 666 3509

24 The following staff will be our key contacts for the UoR work overall and for the individual KLOE. Ian Coleman and Tom Sault will be lead director and lead contact respectively, responsible for liaising with the audit team on a regular basis and coordinating the work, feedback and messages within the Council. The Lead Director will keep management up to date with progress on issues through the monthly Corporate Improvement Group (CIG).

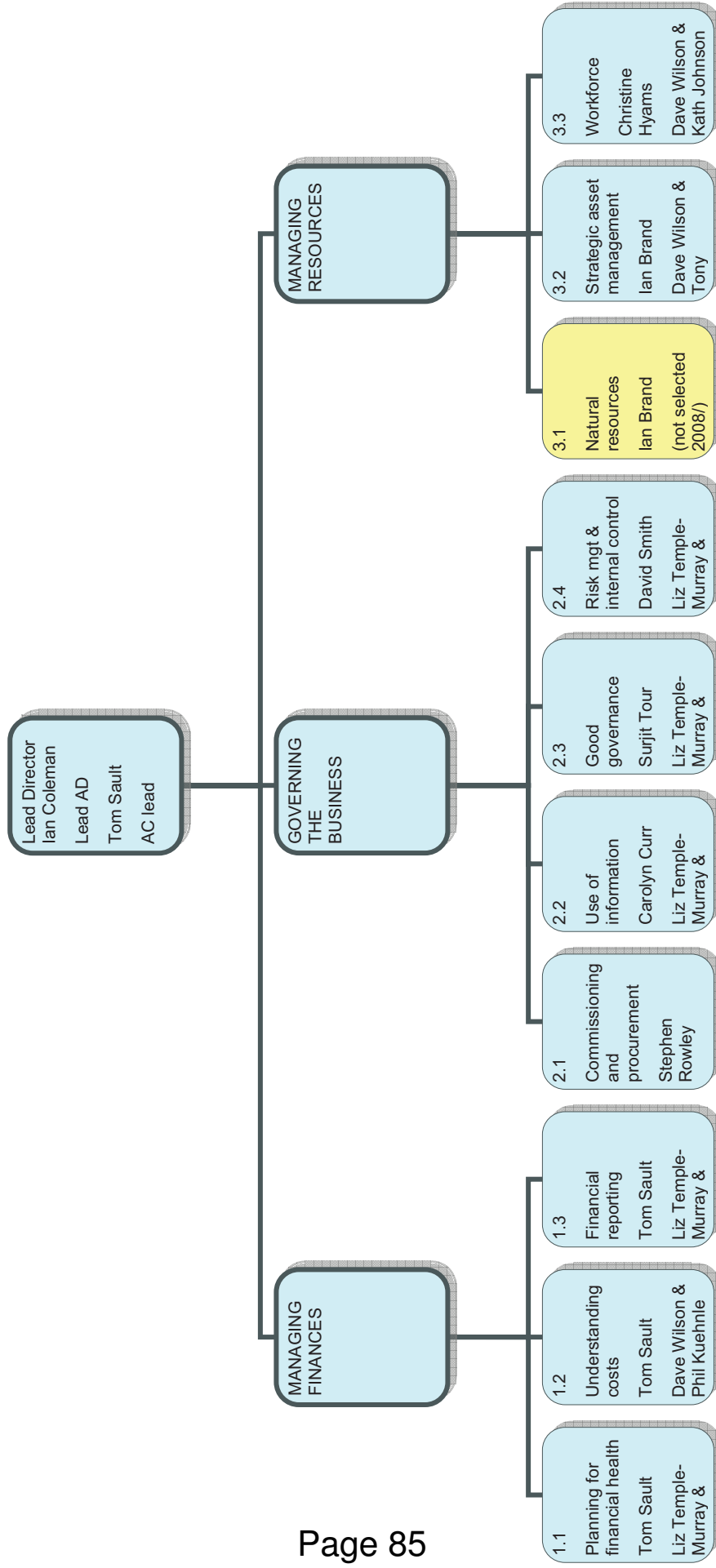
25 We have agreed key contacts for each of the individual KLOE. It is the responsibility of each of the key contacts to ensure that their line managers and the responsible Directors as well as the lead Director and Lead contact are kept up to date with issues arising on individual KLOE.

26 Wirral Council contacts for the audit are set out below.

Name	Contact details
Ian Coleman, Director of Finance Lead director for UoR overall Responsible Director 1.1, 1.2, 1.3, 2.1, 2.4	iancoleman@wirral.gov.uk 0151 666 3056
Tom Sault, Head of Financial Services Lead contact for UoR overall Key contact for KLOEs 1.1, 1.2 and 1.3	tomsault@wirral.gov.uk 0151 666 3407
Jim Wilkie, Deputy Chief Ex and Director Corporate Services Responsible Director 2.2, Sail review, Performance Management review	jimwilkie@wirral.gov.uk 0151 691 8183
Bill Norman, Director Law, HR and Asset Management Responsible Director 2.3, 3.1, 3.2, 3.3	billnorman@wirral.gov.uk 0151 691 8498
Stephen Rowley, Head of Support Services, Finance Key contact for KLOE 2.1	stephenrowley@wirral.gov.uk 0151 666 3525
Carolyn Curr, Head of Policy, Corporate Services Key contact for KLOE 2.2 (also Stephen Rowley)	carolyncurr@wirral.gov.uk 0151 691 8152
Surjit Tour, Head of Legal Services, Dept of Law, HR & Asset Mgt Key Contact for KLOE 2.3	surjittour@wirral.gov.uk 0151 691 8569
David Smith, Deputy Director, Finance Key contact for KLOE 2.4	davidsmith@wirral.gov.uk 0151 666 3491
Ian Brand, Head of Asset Management, Dept of Law, HR & Asset Mgt Key contact for KLOEs 3.1 and 3.2	ianbrand@wirral.gov.uk 0151 691 8686
Christine Hyams, Head of Human Resources, Dept of Law, HR & Asset Mgt Key contact for KLOE 3.3, Sickness absence review.	christinehyams@wirral.gov.uk 0151 691 8590

27 This plan was agreed with the Director of Finance on 22 December 2009.

Appendix 1 – Responsibilities



Appendix 2 – Key changes to the guidance for the 2009/10 assessment

The following table sets out the key changes for the 2009/10 assessment.

Section	Update
Section 1: Updates to the guidance	No key updates.
Section 2: About the guidance	No key updates.
Section 3: The assessment framework	<p>Section 3.3 (new) – guidance added on assessing level 3 performance.</p> <p>Section 3.5.1 – updated guidance on the approach to assessing value for money.</p> <p>There have not been any updates to the KLOE or KLOE focus points.</p>
Section 4: Delivering the assessment	<p>Section 4.1 (new) - guidance about taking a proportionate approach for year 2.</p> <p>Section 4.2 (new) – guidance on connecting audit and CAA work, including liaising with the CAAL.</p> <p>Section 4.4 (new) – guidance on assessing audited bodies with joint management arrangements.</p> <p>Section 4.6 – updated guidance on reporting the results of UoR work to those charged with governance.</p> <p>Section 4.8 – updated with key stages in the 2009/10 timeline.</p>
Section 5: Quality assurance	This section will be updated with the arrangements for 2009/10 quality assurance in due course.
Section 6: Knowledge management	No key updates.
Section 7 and 8	These sections will be updated in due course.

Appendix 3 – CAA

Area assessment

To carry out the area assessment, we will consider three key overarching questions across the area.

- How well do local priorities express community needs and aspirations?
- How well are the outcomes and improvements needed being delivered?
- What are the prospects for improvement?

We will consider each of the questions in relation to each of the key local priorities covering the following themes and also check to see whether key national priorities are being adequately addressed where improvement or focused attention is needed.

1. how safe is the area?
2. how healthy and supported are people?
3. how well kept is the area?
4. how environmentally sustainable is the area?
5. how strong is the local economy?
6. how strong and cohesive are local communities?
7. how well is inequality being addressed?
8. how well is housing need met?
9. how well are families supported?
10. how good is the wellbeing of children and young people?
11. sustainable communities, general
12. adult social care, general

Managing performance organisational assessment

We will assess how well the Council is performing in delivering its priority services, outcomes and improvements that are important to local people. The KLOE focuses on whether the Council is:

- effective in identifying and delivering priority services and outcomes;
- improving the services and outcomes for which it is responsible;
- contributing to wider community outcomes; and
- tackling inequality and improving outcomes for people in vulnerable circumstances.

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Annual Audit Letter

Wirral Council

Audit 2008/09

December 2009



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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

This report summarises the findings from our 2008/09 audit in respect of Wirral Council and Merseyside Pension Fund. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Audit opinion

- 1 I issued an unqualified opinion on Wirral Council's financial statements and on the Pension Fund accounts on 30 September 2009. My draft audit reports were included at Appendix 1 of my Annual Governance Reports on the Council and Merseyside Pension Fund presented to the Audit and Risk Management Committee on 23 September 2009.
-

Financial statements

Wirral Council

- 2 Wirral Council's financial statements were submitted for audit at the end of June and were supported by clear working papers prepared by finance and departmental staff. The statements presented for audit contained three material and a further ten other significant errors and a number of areas where disclosure notes needed to be improved. The Director of Finance adjusted the financial statements for the material errors, six of the significant errors and the disclosure notes. The Council confirmed in the representation letter that the effect of the uncorrected errors, individually and collectively (£1.1m) is immaterial. The adjusted and unadjusted errors did not result in any overall adjustment to net expenditure or the Council's reserves and balances.
- 3 We identified a number of material control weaknesses in relation to the adequacy of the Council's asset records, both in this year's accounts and for arrangements going forward under International Financial Reporting Standards (IFRS).

Merseyside Pension Fund

- 4 Merseyside Pension Fund's financial statements were submitted for audit in June and were supported by adequate working papers prepared by pension fund finance staff. The statements presented for audit contained five material and a further eleven other significant errors, a number of areas where disclosure notes needed to be improved and three areas of uncertainty that were explained adequately in the representation letter. The Director of Finance adjusted the financial statements for the errors identified prior to the issuing of my audit opinion. The overall effect of the adjusted errors was a reduction in the pension scheme net assets of £3.357m in both the Fund account and the Net assets statement.

Value for money

- 5 I am required to consider how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and give a scored use of resources judgement that is published as part of the organisational assessment under the Comprehensive Area Assessment (CAA).
- 6 I issued an unqualified value for money conclusion on 30 September 2009 stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources in 2008/09.

Use of resources

- 7 My use of resources judgement is based on the same key lines of enquiry (KLOE) as the value for money conclusion. A new set of criteria were put in place for the 2008/09 use of resources work that focused more on delivery of outcomes and introduced a number of areas not reviewed before; commissioning and procurement and natural resources.
- 8 In addition to detailed assessment of the KLOE, I completed a number of reviews during the year to inform my value for money conclusion and use of resources assessment. A range of projects were completed as set out below:
 - improvement through better financial management;
 - governance of partnerships;
 - ethical governance diagnostic;
 - triennial review of Internal Audit;
 - data quality spot checks;
 - performance management;
 - community cohesion; and
 - procurement and commissioning.
- 9 Recommendations arising from these reviews are included in our use of resources judgement and have been, or are in the process of being, reported separately to the Audit and Risk Management Committee and other committees as appropriate.
- 10 I concluded that the theme and KLOE scores reflect a council that is performing adequately against the standards specified by the Audit Commission - level 2 performance.

Comprehensive Area Assessment and organisational assessment

- 11 The Audit Commission introduced a new assessment regime during 2009, Comprehensive Area Assessment. This aims to review the performance of local partners in delivering better outcomes for local people. The assessment is designed to focus attention on areas that need attention in order to deliver additional and sustained improvement. Our work in this area is being led by the local Comprehensive Area Assessment Lead (CAAL). The CAAL has shared findings with officers and formally reported on 9th December 2009. Alongside the CAA report we issued our organisational assessment which combines our judgements on your use of resources and managing performance. Any issues arising will be discussed with you and planned into future years' audit and assessment activity.

Other risk based work

- 12 The Public Interest Disclosure Act 1998 (PIDA) created a framework for whistle-blowing across the private, public and voluntary sectors. The Audit Commission and its appointed auditors are prescribed persons for disclosures relating to the proper conduct of public business, value for money, fraud and corruption in local government and health service bodies. During the year we have carried out work on two PIDA disclosures in respect of adult social services and procurement.

Adult social services

- 13 During the year we monitored 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.
- 14 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.
- 15 Cabinet has also commissioned an independent investigation into the whistleblower's allegations of bullying and harassment but this has not yet taken place.
- 16 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

- 17 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 in early 2010.

Grant claims and returns

- 18 Under Section 28 of the Audit Commission Act 1998, the Audit Commission makes arrangements for certifying claims and returns in respect of grants and subsidies received by the Council. The Commission, rather than its appointed auditors, has the responsibility for making certification arrangements, and the auditors act as agents of the Commission in this respect.
- 19 During the year we completed the 2007/08 certification programme. As a result of our work there was a net increase to the amount of grant claim or value of return of £491k. We are currently completing our 2008/09 programme and will report to members in early 2010.

Audit fees

- 20 Our proposed audit fees were agreed with you in our 2008/09 Audit and Inspection Plan in June 2008. The table below sets out our actual fees against our proposals.

Table 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£274,300	£274,300	£0
Value for money	£132,350	£132,350	£0
Total audit fees	£406,650	£406,650	£0
Non-audit work - data quality workshop	£3,550	£3,550	£0
Total	£410,200	£410,200	£0
Grant claims and returns 2007/08	£175,000	£145,000	£30,000
Grant claims and returns 2008/09	still continuing	£136,960	-
National fraud initiative	£4,000	£4,000	£0

- 21 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 fee was set in June 2008 and we have previously agreed that we will charge an additional fee when we complete the work.

Key messages

Actions

- 22 Recommendations are contained in our detailed reports, referred to within the body of this report and have been agreed with the Audit and Risk Management Committee and other committees and officers within the Council as appropriate.
-

Independence

- 23 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Financial statements and annual governance statement

Wirral Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds. We were also required to issue a separate audit opinion on Merseyside Pension Fund accounts for the first time this year.

Significant issues arising from the audit

24 I issued an unqualified audit on your financial statements. We were also required to issue a separate audit opinion on the Pension Fund accounts for the first time this year. I issued an unqualified opinion on the Pension Fund accounts.

Wirral Council's statements

25 The financial statements were submitted for audit at the end of June and were supported by clear working papers prepared by finance and departmental staff. I identified three material errors, a further ten other significant errors including in respect of tangible fixed assets and a number of areas where disclosure notes needed to be improved. The Director of Finance adjusted the financial statements for the material errors, six of the significant errors and the disclosure notes. The Council confirmed in the representation letter that the effect of the uncorrected errors, individually and collectively (£1.1m) is immaterial. The material errors were in respect of:

- £26.4m of council tax benefits incorrectly classified in the Income and Expenditure Account (I&E);
- £16.5m of Revenue Expenditure Funded from Capital under Statute (REFCUS) accounted for on a net rather than a gross basis in the I&E; and
- Community assets overstated by £14.7m in the Balance Sheet.

26 The errors did not result in any overall adjustment to net expenditure or the Council's reserves and balances. However, it is important that the statements accurately reflect gross income and expenditure and correctly attribute them to services and that balances are correctly stated. We made recommendations for the Council to strengthen quality assurance to ensure errors on the accounts are minimised.

Financial statements and annual governance statement

Merseyside Pension Fund's statements

- 27 The financial statements were submitted for audit in June and were supported by adequate working papers prepared by pension fund finance staff. I identified five material adjustments and a further eleven other significant errors, a number of areas where disclosure notes needed to be improved and three areas of uncertainty that were adequately explained in the representation letter. The Director of Finance adjusted the financial statements for the sixteen errors and the disclosure notes. The material errors were in respect of:
- £40.7m cash balances incorrectly classified as current assets which should have been shown within investment assets;
 - £19.8m balances due from stockbrokers incorrectly classified as current assets which should have been shown within investment assets;
 - £22.8m balances due to stockbrokers incorrectly classified as current liabilities which should have been shown within investment liabilities;
 - £2.9m Exchange income which was reclassified during the audit to 'change in value of market value of investments'; and
 - £6.8m investment income debtor which was reanalysed from current assets to investment assets within the net assets statement.
- 28 The overall effect of the adjusted errors was a reduction in the pension scheme net assets of £3,357k in both the Fund account and the Net assets statement. We made recommendations for the Pension Fund to strengthen quality assurance to ensure errors on the accounts are minimised.

Material weaknesses in internal control

- 29 A number of weaknesses were identified in relation to the adequacy of the Council's asset records, both in respect of the 2008/09 and the 2009/10 year's accounts and for arrangements going forward under IFRS. The date of implementation of IFRS is 1 April 2010 but systems need to be in place from 1 April 2009 to capture information for the 2009/10 comparative figures. The errors noted above in respect of tangible fixed assets are directly attributable to these weaknesses. In addition, the asset records were unable to support proper accounting treatment for disposals and subsequent expenditure on existing assets for some classes of assets. In order to comply with accounting standards and the requirements of IFRS, the Council needs to improve asset records and should undertake a formal review of the systems used to develop a robust asset register to properly account for all classes of assets.
- 30 I did not identify any significant weaknesses in Merseyside Pension Fund's internal control arrangements.

Accounting Practice and financial reporting

- 31 I considered the qualitative aspects of your financial reporting for the Council and Pension Fund and identified a number of areas for improvement. These are detailed in my Annual Governance Report and will be monitored by the ARMC.
-

International Financial Reporting Standards (IFRS)

- 32 In March 2008 the Treasury announced that the annual financial statements of government departments and other public sector bodies would be prepared using International Financial Reporting Standards (IFRS) from 2009/10 onwards. For local government bodies the first full year of application is the 2010/11 financial statements but the starting period for this (the transition date) is 1 April 2009. Local government bodies will be required to produce their 2009/10 Whole of Government Accounts return on an IFRS basis.
- 33 As part of my 2008/09 audit I have completed an Audit Commission survey on the Council's progress in preparing for the implementation of the IFRS. Whilst the Council has started its preparations for IFRS it is at an early stage. Officers have identified the key risk areas for Wirral, undertaken an initial analysis to assess the work and resources required and are in the process of preparing detailed methodologies for the various work areas. The key risk areas include property plant and equipment, leases and Public Finance Initiative schemes. Officers recognise that, in keeping with many councils, considerable further work will be needed during 2009/10 to ensure required timeframes are met.
-

Treasury management

- 34 As part of my 2008/09 audit, I completed an Audit Commission return on the Council's Treasury Management arrangements. The Council and the Pension Fund had investments with Icelandic banks in 2008/09 and progress on the recovery of assets has been regularly reported to members. There were no key issues identified in my review.
-

Value for money and use of resources

I considered how well Wirral Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 35** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 36** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work. The KLOEs reflect higher expectations than the previous assessment and include some areas not previously reviewed, including commissioning and procurement and use of natural resources.
- 37** The Council's use of resources theme scores are shown in the table below. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised at Appendix 5 of my Annual Governance Report.

Table 2 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	2
Governing the business	2
Managing resources	2

Annual Governance Report - September 2009

- 38 The Council manages its finances effectively and is delivering many of its strategic priorities. Financial management is sound over the short term and will be maintained over the medium to longer term if initiatives deliver expected savings. Concerns around overspending in adult social services continue. The Council has a reasonable understanding of the costs of its services and how these relate to performance and has a track record of delivering efficiencies. Over the past three years, the Council has achieved overall savings of £37.4m which exceeded target by £8m and £17.6m savings were reported for 2008/09. The Council produces relevant, timely and reliable financial monitoring and forecasting information and uses financial and related performance information to monitor performance during the year.
- 39 The Council governs itself adequately and commissions services that provide value for money and deliver better outcomes for local people. Procurement and commissioning arrangements are satisfactory and some benefits have been realised, such as improved recycling. Wirral also leads a number of regional groups including the Merseyside Improvement Partnership. The Council produces relevant and reliable data and information to support decision making and manage performance. It has adopted, promotes and demonstrates the principles of good governance and a positive ethical framework and culture. Risk management arrangements are strong, there are satisfactory arrangements in place to manage the risk of fraud and corruption and the system of internal control is generally adequate.
- 40 The Council has an understanding of its environmental impacts that allows it to focus its management on areas of high impact. Significant reductions have been achieved in its energy use and carbon dioxide emissions against a challenging target. Through its ISO 14001 certificated environmental management systems, it has identified the environmental risks in key services that could cause pollution. It also has a strategic approach to asset management and during the year developed, approved and is starting to implement its strategic asset review. The Council is working with partners and community groups to maximise the use of assets for the benefit of the local community.
- 41 The key areas for improvement are:
- concerns regarding spending in adult social services continue with an overspend in 2008/09;
 - more work still needs to be done to ensure that the links between costs and performance are consistently made at service level and unit costs used to measure service performance;
 - more work is required to ensure a consistent approach to procurement and commissioning is in place so that good practice is spread across the Council and that policies and procedures are followed; and
 - the Council needs to do further work to strengthen its corporate arrangements for governing partnerships including implementing the Partnership Toolkit which was approved in April 2009.

VFM conclusion

- 42 I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are set out at Appendix 1.
- 43 I issued an unqualified conclusion stating that Wirral Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.
- 44 I completed a number of reviews during the year to inform my value for money conclusion and use of resources assessment:
- improvement through better financial management;
 - governance of partnerships;
 - ethical governance diagnostic;
 - triennial review of Internal Audit;
 - data quality spot checks;
 - performance management;
 - community cohesion; and
 - procurement and commissioning.

Improvement through better financial management (IBFM)

- 45 We based our work on Audit Commission research on IBFM, the Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management model and the new use of resources approach as a source of best practice. Our review was based around a survey of finance managers, budget holders and members.
- 46 The responses to the survey questions are positive overall and encouragingly the response rate for all groups surveyed was good. In particular, a number of strengths were identified in relation to the preparation and monitoring of budgets so managers can take early action to address potential overspends. Budget holders and financial staff agreed that finance staff have appropriate skills and experience to support managers/budget holders in managing finance, understand the business they support and provide a satisfactory service.
- 47 Areas for improvement and further exploration were identified and these are being taken forward through focus groups and action planning sessions. For example, budget holders and financial staff assessed that the council does not always take a medium-term approach to delivering savings rather than short-term expedients, such as pro rata cuts, which ensures budgets are sustainable and any impact on services is minimised. All groups also identified the need to improve the review of the cost and performance of services, including Finance, and test them against internal and external benchmarks to identify improvements.

- 48 In addition, there were a number of areas - in particular in relation to awareness and understanding of the medium term financial plan (MTFP) - that require further exploration.

Governance of partnerships

- 49 The Council generally works well with partners and there are some examples of positive outcomes noted in our previous reports, including good use of partnerships to provide access to public services that are helping to improve the quality of life for local people and enable local people to access services at a single point of contact. Wirral Local Strategic Partnership also demonstrates a number of key strengths, including a good understanding of local cohesion issues.
- 50 The Council has done work to strengthen its corporate arrangements for governing partnerships and needs to maintain this momentum. Action has been taken since we reported our previous work and fieldwork in 2008 and the Council is currently rolling out the new Partnership Toolkit.
- 51 A clear corporate picture of the partnerships the Council is involved in and how much money and other resources it invests in them is being developed but was not available at the time of our fieldwork. Some partnerships are being reviewed to strengthen accountability, manage risks and rationalise working arrangements but this is not consistent across the Council. With the exception of the LAA, our review of a sample of partnerships of a different size and strategic importance found limited evidence of monitoring and evaluation of the contribution of these partnerships to the achievement of the Council's and partners' objectives and value for money. Information was not sufficient for robust decision making and reporting to members.
- 52 A basic corporate framework with integrated supporting arrangements needed to be established and launched effectively throughout the Council, with partners, service users and the wider public. A Partnership Risk Management Toolkit has been established. This is based on a proprietary package purchased externally and tailored to Wirral's circumstances.
- 53 It is important that the significant capacity issues which have delayed action to improve the framework and maintain existing systems do not cause further delays.

Ethical governance diagnostic

- 54 The Council has a good understanding of the key ethical governance issues that it faces and the action needed to promote and maintain standards. The Members' Code of Conduct is generally operating effectively and the behaviour of members and officers is mostly appropriate. Members and officers work well together to achieve the Council's common goals and both the Leader and Chief Executive are considered to be role models in promoting the ethical agenda.

Value for money and use of resources

- 55 The survey findings were encouraging, and more positive than the average in many areas. They also pinpoint issues where further work and clarity is needed. In particular the findings suggest that some members and officers could be helped to develop a better understanding of ethical governance in the Council. For example, members and officers have different perceptions about how members abide by the Code of Conduct and the extent to which communication between them is constructive. The survey results suggest that greater communication about the ethical framework and a wider understanding of each other's role would strengthen working relationships and improve delivery of the ethical agenda.
- 56 Other areas for development include the following.
- Raising the profile of the Council's Standards Committee through proactive work and ensuring that all members of the Committee have access to the right information to carry out all its functions effectively.
 - Reviewing the level of training for members and officers on the ethical agenda.
 - Creating a culture in which members and officers can:
 - make allegations of misconduct by a member or an officer without fear of reprisal and be confident in the action they should take;
 - challenge member recommendations and council decisions to improve openness and transparency; and
 - be assured that inappropriate behaviour is suitably dealt with.
 - Clarifying the use of council resources for political and non-political purposes.
 - Raising trust and confidence in local government and democracy.
 - Increasing awareness of the Whistleblowing Policy and re-enforcing assurances that reporting through this mechanism can be done without fear of reprisal.

Triennial review of Internal Audit

- 57 Our overall conclusion is that Internal Audit generally meets the requirements of CIPFA's 'Code of Practice for Internal Audit in Local Government in the United Kingdom 2006'.
- 58 Nine of the eleven standards have been met although we identified some improvement opportunities in seven of these standards. Internal Audit does not fully meet two out of the eleven standards:
- audit strategy and planning: the audit strategy and plan do not clearly demonstrate what work must be done to provide a safe opinion or how the CIA will determine what is sufficient work to give his assurance; and
 - staffing: Internal Audit has been under-resourced compared to its risk assessed needs for some time as there have been problems with recruiting and retaining staff.
- 59 The Council needs to improve arrangements to ensure all standards are fully met and, in the meantime, be able to demonstrate that equivalent safeguards or measures are in place.

Data quality spot checks

- 60 During 2008/09 we assessed the arrangements for data quality and use of information at KLOE 2.2 in the use of resources (UoR) assessment and this is summarised above. We also carried out spot checks of selected data, based on our knowledge of local risks, as evidence to support this KLOE judgement. This integrated approach to use of resources and data quality replaces the previous approach to data quality work which was undertaken separately.
- 61 Our detailed review of housing benefit data and the national and local indicators we selected supports our conclusion that overall, the Council produces relevant and reliable data and information to support decision making and manage performance.
- 62 However, the results of our spot checks of benefits data have raised some concerns about the high level of errors identified through the Council's quality assurance process which could result in claimants not receiving the correct payment of benefit. In addition, the indicator for the number of undisputed invoices paid by the authority within 30 days was not accurate until the latter part of the year but our testing confirmed that data quality had improved by the end of the year.

Performance management

- 63 The first stage of our review was a baseline assessment supported by a questionnaire covering corporate direction, contributing to a shared vision, embedding a culture of continuous improvement, improving services, improving performance management and improving people management. The second stage of focus group and action planning workshops will inform our 2009/10 use of resources and value for money conclusion.
- 64 Interim findings reflect a number of positive areas and areas for further investigation.

Table 3 Performance management – interim findings

Interim findings reflect a number of positive areas and areas for further investigation

Positive areas	Areas for further investigation
The sustainable community strategy and corporate plan are generally recognised as strategic drivers.	Staff awareness and sense of the shared vision. How to improve the way in which key documents are 'made real' to staff.
Key issues exchanges are clearly given high priority throughout the Council and provide an effective means of promoting ownership of corporate and partnership priorities.	The consistency and strength of the approach to business planning, particularly at service and team level.
All departments are working in a wide range of partnerships and delivering many national and regional imperatives.	Alignment of national and local priorities and how potential conflicts are considered and resolved during business planning,

Value for money and use of resources

Positive areas	Areas for further investigation
The Council has a generally strong approach to people management.	Longer term workforce planning and the extent to which workforce planning consistently forms part of business planning. Clarity about the action being taken by the Council to make the workforce representative of the local community.
Arrangements for monitoring, managing and challenging service performance are clearly being developed within all departments.	The extent to which arrangements in departments are at different stages. The role of elected members in challenging performance.

Performance Management baseline assessment and survey 2008/09

65 The areas for further investigation have recently been considered by focus groups and an action planning workshop held to take forward the issues. Participation in this second stage has been very positive and we will present the final report to members in 2010.

Community cohesion

66 The Wirral Local Strategic Partnership has a good understanding of local cohesion issues. Partners share a commitment to developing cohesive communities. A draft Comprehensive Engagement Strategy (CES) has been developed, a key theme of which is community cohesion. Through the CES a joint definition for a cohesive community has been developed.

67 Leadership for community cohesion is developing at a partnership and strategic level.

- A Community Cohesion Forum is being established that brings together public, private and voluntary sectors to provide strategic leadership for cohesion and manage potential risks to cohesion.
- A Cohesion Stakeholder Group is also being developed and will bring together community leaders and representatives, frontline staff and community development staff to identify and monitor risks to cohesion, provide a place for airing community grievances and act as an advisory body.
- Partner capacity to support cohesion will be co-ordinated via a Cohesion Project Group, led by the Council's Corporate Equality and Cohesion Manager. This group will also ensure the implementation of Wirral's Cohesion Action Plan.

- 68 Achievements in developing cohesive communities include good progress in engaging with specific seldom heard groups, and increasing economic activity. Challenges for the future include:
- ensuring leadership and partner commitment to developing cohesive communities is visible and sustained and that myths and rumours are challenged;
 - prioritising key issues and actions to improve community cohesion;
 - ensuring best use of partner resources; and
 - measuring success and managing risks effectively.

Procurement and commissioning

- 69 The Council has invested resources to continue to develop its corporate arrangements for procurement and is actively involved in both regional and sub-regional collaborative ventures. Procurement has resulted in financial savings but it is too early to fully assess the impact on sustainable outcomes for local people. There is a need to drive procurement forward more to maximise the benefits across the organisation.
- The Council has a high level awareness of intended outcomes for local people based on an understanding of needs which shapes its commissioning and procurement. At a more detailed level opportunities exist to develop the involvement of stakeholders in the commissioning and procurement of services.
 - There is mixed involvement of local people, partners, staff and suppliers in commissioning and procurement.
 - Improvement in customer experience, quality and VfM has either not been fully evaluated or more time is needed for the benefits to materialise.
 - Redesign of services and use of IT is being used alongside procurement. There has been significant investment in ICT by the Council which provides the platform for e-procurement. However, the system is under-utilised and therefore the benefits are not being maximised.
 - The Council has an adequate understanding of the supply market and uses this to inform procurement strategy and tendering. This should be enhanced once a new system for sourcing and contract management is implemented. Wirral is the last council in the Merseyside collaboration to implement the system.
 - Although the Council has generally put in place a sound framework of policies and procedures these are not always followed or fully comprehensive.
 - The Council evaluates options for procuring services and supplies. Corporate Procurement Procedures incorporate best practice techniques, including option appraisals.
 - The Council is developing its understanding of the competitiveness of services and VfM while meeting wider social, economic and environmental objectives.

Other work

Risk based work

70 The Public Interest Disclosure Act 1998 (PIDA) created a framework for whistleblowing across the private, public and voluntary sectors. The Audit Commission and its appointed auditors are prescribed persons for disclosures relating to the proper conduct of public business, value for money, fraud and corruption in local government and health service bodies. During the year we have carried out work on two PIDA disclosures in respect of adult social services and procurement.

Adult social services

- 71 During the year we monitored 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.
- 72 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.
- 73 Cabinet has also commissioned an independent investigation into the whistleblower's allegations of bullying and harassment but this has not yet taken place.
- 74 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

75 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 in early 2010.

National fraud initiative (NFI)

- 76** Since 1996 the Audit Commission has conducted the National Fraud Initiative (NFI), a data matching exercise which matches electronic data within and between participating bodies, to prevent and detect fraud. Data matching works by comparing sets of data, such as the payroll or benefits records of a body, against other records held by the same or another body, to identify potentially fraudulent claims and payments and sharing these with the authority. Where a match is found it indicates that there is an inconsistency that requires further investigation by the authority. No assumption can be made as to whether there is fraud, error or other explanation until an investigation is carried out. Since 1996, NFI has led to the detection of fraud and over-payments totalling almost £500million in England. The fee for data matching was £4,000 as shown at Table 1 above.
- 77** The Audit Commission plans to publish a national report next year based on:
- an initial risk assessment undertaken at all AIBs by external auditors;
 - the Audit Commission NFI team monitoring progress, through management information, and evaluating the auditor risk assessment to select AIBs for site visit and review; and
 - a review of a sample of audited bodies' strategic approach to using information from the NFI.
- 78** During the year we completed the NFI initial risk assessment taking account of all matches assessed by the Council to October 2009. We concluded that the Council has made adequate arrangements for its participation in NFI, achieved good progress on some matches such as payroll and benefits but has been slow to follow up on others such as council tax and blue badges. As a result of the investigations carried out by the Council to October 2009, two frauds and eighty-two errors amounting to £153k have been identified of which 43 cases amounting to £146k are being recovered.

Grant claims and returns

- 79** Under Section 28 of the Audit Commission Act 1998, the Audit Commission makes arrangements for certifying claims and returns in respect of grants and subsidies received by the Council. The Commission, rather than its appointed auditors, has the responsibility for making certification arrangements, and the auditors act as agents of the Commission in this respect. This is a different relationship to that which exists from the audit work under the Code of Audit Practice.
- 80** Certification work is designed to provide assurance to the grant paying body that, for example, a grant claim is fairly stated and in accordance with specified terms and conditions. We reach a 'conclusion' on each grant claim or return and set out any matters to report to the grant paying body within a qualification letter.

Other work

- 81 The grant claims and returns we certify range from highly complex multi-million pound schemes, to more straightforward reimbursements of pre-approved expenditure. We are currently progressing our 2008/09 certification programme and have recently issued our report on the 2007/08 programme. In 2007/08, the value of the 29 grant claims and returns we certified at Wirral Council was £258m. The 2007/08 grants programme was particularly challenging due to the volume of individual grant funded European Regional Development Fund (ERDF) projects ending part way through the year and to late guidance issued by the grant paying department.
- 82 The key messages from our certification programme 2007/08 are as follows.
- The control environment was relied upon for 15 of the 22 claims and returns that exceeded £500,000 submitted for certification (68 per cent).
 - The number of grant claims and returns qualified has reduced from 8 (25 per cent) in 2006/07 to 4 (14 per cent) in 2007/08.
 - The number of grant claims requiring amendment increased from 7 (22 per cent) in 2006/07 to 19 (66 per cent) in 2007/08 of which 15 related to ERDF claims.
 - There was a net increase to the amount of grant claim or value of return of £491k.
 - Sixteen claims (55 per cent) of claims were submitted after the deadline set by the relevant grant paying body and were subsequently certified late, of which 12 related to ERDF claims. It should be noted that the 2007/08 grants programme was particularly challenging due to the volume of individual ERDF funded projects ending part way through the year and to late guidance by the grant paying department.
 - There is scope to improve the audit trail between the claim and supporting financial records, quality assurance and grant claim coordination.
- 83 The planned fees for 2007/08 were £145k, based on the certification of an estimate of 27 claims, assuming an effective control environment, good working papers and robust and effective quality assurance. The total fee charged for the certification of the 29 grant claims and returns for 2007/08 was £175k, an increase of £30k against the plan but a decrease of £18k (9 per cent) compared to 2006/07.

Advice and assistance work - data quality workshop

- 84 Under paragraph 9 of Schedule 2A of the Audit Commission Act 1998 we are able to provide 'advice and assistance' (A&A) to any public authority as long as it does not conflict with our audit responsibilities.
- 85 During the year the Deputy Chief Executive and Director of Corporate Services requested that we contribute to a training event for key employees of the Council involved in data quality. Our input to the training event comprised:
- a presentation covering the importance of data quality and how it supports decision making, what is involved in a data quality audit – the audit process and key requirements of working papers; and

- the development of a case study for delegates aimed at raising the awareness of the importance of good data quality.
- 86 The workshop cost the Council £3,550, was carried out in February 2009 and attended by around 40 officers involved in data and information. The Policy team has continued to roll out the workshops with the materials developed and over 100 staff have now been trained.

Closing remarks

- 87 The economic downturn, public sector funding and the banking crisis is having a very significant impact on public finances and the bodies that manage them. It is envisaged that there will be wide ranging and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes in the short to medium term, including pressures on income streams. There are further challenges for policy priorities where patterns of demand for services are also changing.
- 88 In addition the Council continues to implement its own efficiency and improvement review programme. The Council took a very difficult decision around the strategic asset review, and whilst most of this is progressing the element relating to Libraries was subject to review by the Secretary of State for Culture Media and Sport. Prior to finalisation of the Secretary of State report the Council altered its previous decision. This places greater pressure on the overall challenges facing the Council within the medium term financial plan.
- 89 These challenges and the Council's response will be a key focus of my attention for future audits.
- 90 I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Cabinet on 4 February 2010 and the Audit and Risk Management Committee on 18 January 2010 and will provide copies to all members of the Council.
- 91 Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to Wirral Council during the year.

Table 4

Report	Date issued
Audit Plan 2008/09	June 2008
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

Report	Date issued
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

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- 92 Wirral Council has taken a positive and constructive approach to our audit. I wish to thank the Council's staff and members for their support and co-operation during the audit.

Michael Thomas
District Auditor, Audit Commission
December 2009

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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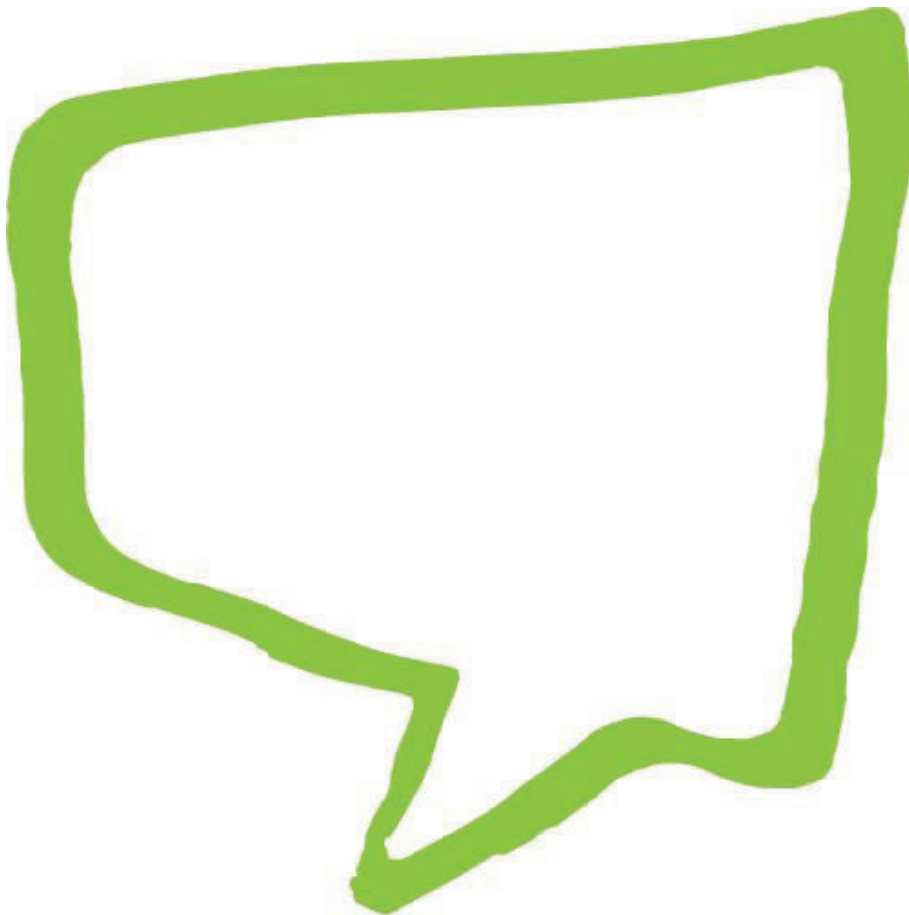
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Grant Claims and Returns

Wirral Metropolitan Borough Council

Audit 2007/08

December 2009



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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.

Introduction

- 1 Under section 28 of the Audit Commission Act 1998, the Audit Commission makes arrangements for certifying claims and returns in respect of grants and subsidies received by the Council. The Commission, rather than its appointed auditors, has the responsibility for making certification arrangements, and the auditors act as agents of the Commission in this respect. This is a different relationship to that which exists from the audit work under the Code of Audit Practice. Where appropriate we use our knowledge of other areas of our work to inform our certification of claims, for example our work on documenting and understanding controls performed on expenditure as part of our opinion work will be used in our assessment of the control environment. Similarly, we use our knowledge from our grant certification work to inform relevant areas of other work performed by the Audit Commission.
- 2 Good practice in the preparation of grant claims and returns is set out in the 'Statement of Responsibilities of grant paying bodies, authorities, the Audit Commission and auditors in relation to grant claims and returns', as published by the Audit Commission. This document summarises the framework under which the Audit Commission makes certification arrangements and to assist authorities by summarising the extent of their responsibilities.
- 3 The certification regime is outside of our Code of Audit Practice responsibilities and as such the work we do is charged on an hourly basis. In order to minimise the cost of certification, and reduce the potential for error that may result in the delay or reduction of grant payment, all authorities should implement the following actions.
 - Provide comprehensive working papers that fully support the grant claim or return.
 - Demonstrate that there is an effective control environment in place to ensure that the grant claim or return was prepared in accordance with the relevant terms and conditions.
 - Implement a robust quality assurance regime to ensure timely submission of well supported grant claims and returns.
- 4 This report summarises the findings from our certification work on grant claims and returns in 2007/08.

Background

- 5 The grant claims and returns we certify range from highly complex multi-million pound schemes, to more straightforward reimbursements of pre-approved expenditure. In 2007/08, the value of the grant claims and returns we certified at Wirral Council was £258m.
- 6 Certification work is designed to provide assurance to the grant paying body that, for example, a grant claim is fairly stated and in accordance with specified terms and conditions. We reach a 'conclusion' on each grant claim or return and set out any matters to report to the grant paying body within a qualification letter.
- 7 At Wirral, we issue feedback to the Director of Finance on the outcome of the certification for each claim or return. This communicates whether or not reliance was placed on the control environment, whether the claim was amended or qualified and the value of any changes.
- 8 Copies of the communication with the Director of Finance, the certified claim and, if applicable the qualification letter, are also sent to the Grants Claim Coordinator.

Certification approach

- 9 The Audit Commission takes a risk based approach to the certification of grant claims.
- 10 For grant claims and returns below a de minimis amount set by the Commission (currently £100,000), the Commission will not make certification arrangements, regardless of any statutory certification requirement or any certification requirement set out in grant terms and conditions.
- 11 For grant claims and returns between the de minimis amount and a threshold set by the Commission (currently £500,000), auditors will undertake limited tests to agree entries on the grant claim or return to underlying records, but will not undertake any testing of the eligibility of expenditure or data.
- 12 For claims and returns over £500,000, auditors will assess the control environment for the preparation of the claim or return and decide whether or not to place reliance on it. Where reliance is placed on the control environment, auditors will undertake limited tests to agree form entries to underlying records but will not undertake any testing of the eligibility of expenditure or data. Where reliance is not placed on the control environment, auditors will undertake all the tests in the relevant CI and use their assessment of the control environment to inform decisions on the level of testing (sample sizes) required.
- 13 The control environment is assessed across five themes.
 - Arrangements to ensure claims and returns are completed accurately and in accordance with the scheme terms and conditions.
 - Control arrangements, including internal financial control and internal audit.
 - Quality of authority's supporting working papers.
 - Expertise and relevant knowledge of the preparers, including the adequacy of supervision and review.
 - Cumulative knowledge of the problems associated with compilation of the claim or return.
- 14 Auditors will form a judgement whether or not the control environment as assessed across these themes mitigates the initial degree of risk attached to the claim or return. The initial degree of risk attached to the claim is based upon a number of factors, including the inherent complexity of the scheme and the volume of transactions.
- 15 The value of claims and returns is determined as the lesser of the total approved grant claimable or total eligible expenditure incurred. In the case of projects the value would be the total over the lifetime of the project.

Main conclusions

- 16 The 2007/08 claims and returns programme is now fully complete. A total of 29 claims or returns were certified at a cost of £175k to the Council.
- 17 The 2007/08 grants programme was particularly challenging due to the volume of individual grant funded European Regional Development Fund (ERDF) projects ending part way through the year and to late guidance issued by the grant paying department.

Key facts and figures

- 18 The results of the programme are summarised in Table 1 below.

Table 1 Key facts and figures

	2007/08	2006/07
Total number of claims and returns	29	32
Total value of grant claims or returns	£257,614,712	£232,651,621
Number of individual claims above £500,000	22	18
Number of claims where reliance was placed on control environment	15 (68%)	5 (28%)
Number of claims qualified	4 (14%)	8 (25%)
Number of claims amended	19 (66%)	7 (22%)
Number of claims amended which impacted on amount of grant claimed or value of return	8 (28%)	3 (9%)
Number of claims submitted late to auditor	16 (55%)	9 (28%)
Number of claims certified late by auditor	20 (69%)	13 (41%)
Certification fee	£174,664	£192,590
Increase / (decrease) to value of grant claimed arising from certification work	£490,842	(£173,582)

Control environment assessment

- 19 The starting point for our certification work for every grant claim or return whose value is in excess of £500,000 is our assessment of the control environment in place for the preparation and compilation of each claim or return. A strong control environment provides the responsible finance officer with assurance that the grant claim or return they sign is accurate and complies with the relevant terms and conditions. Where we are able to place reliance on the control environment for a specific grant claim or return, we reduce the level of testing that we are required to perform.

Main conclusions

- 20** In 2007/08 we assessed that the control environment could be relied upon for 15 of the 22 claims and returns that exceeded £500,000 submitted for certification (68 per cent). This is an increase compared to 2006/07. The main reasons why we could not place reliance on the control environment were:
- previous record of amendment and/or qualification on the grant claim/return;
 - failure to demonstrate how the grant claim/return was compiled and the quality monitoring processes in place; and
 - the inherent complexity of the grant claim/return.

Qualifications and amendments

- 21** The number of grant claims and returns qualified has reduced from 8 (25 per cent) in 2006/07 to 4 (14 per cent) in 2007/08.
- 22** The reasons for qualification were:
- disagreement on the eligibility of expenditure;
 - communication to the grant paying body that the main developer and contractor on a project had been placed into administration;
 - failure by the Council to supply sufficient supporting documentation for claim entries;
 - system and control weaknesses;
 - validation errors within a claim; and
 - an unresolved reconciliation difference.
- 23** The number of grant claims requiring amendment increased from 7 (22 per cent) in 2006/07 to 19 (66 per cent) in 2007/08, of which 15 related to ERDF claims. The reasons for amendment were:
- arithmetic errors, which we would expect to have been picked up during compilation and the pre-certification quality review;
 - presentational errors, which we would expect to have been picked up during compilation and the pre-certification quality review; and
 - specific terms and conditions not being complied with.
- 24** Of the 19 claims requiring amendment, only eight resulted in a change being made to the amount of grant claimed or value of the return. There was a net increase to the amount of grant claim or value of return of £491k.
- 25** A full list of the reasons for amendments and qualifications is at Appendix 1.

Timeliness of claims and returns submissions

- 26** The timely submission of grant claims and returns for certification is necessary to ensure that this work is appropriately planned and ensuring that national certification deadlines are met. Failure to meet certification deadlines can lead to the suspension of payments or the withholding of grant income.
- 27** In 2007/08, 16 claims (55 per cent) were submitted after the deadline set by the relevant grant paying body. They ranged between 1.5 weeks to 25 weeks late. Twelve of the 16 late claims related to ERDF claims. A full list of late claims is at Appendix 1.
- 28** The majority of claims submitted late were the final claims received for European Regional Development Fund (ERDF) funded projects that ended in 2007/08. As reported in our 2006/07 report, there have been historic problems in the certification arrangements for these claims. In November 2007, certification of these claims was suspended following an embargo imposed whilst DCLG and the Government Offices for the Regions decided which claims still required external auditor certification. Agreement was reached in April 2008 and a new, revised EUR01 Certification Instruction (CI) was issued.
- 29** There were a total of 19 ERDF final claims submitted of which 12 (63 per cent) were submitted late. The certification of these claims was planned to be mainly completed in quarter 4 of 2007/08. However, the late submission of these claims to the auditor meant the certification work was actually required in quarter 1 of 2008/09. Due to statutory NHS regularity work at this time, sufficient resources were unavailable. The result of this, and the high number of amendments required, was that all of the ERDF claims were certified late.

Certification fee

- 30** The planned fees for 2007/08 were £145k, based on the certification of an estimate of 27 claims, assuming an effective control environment, good working papers and robust and effective quality assurance. The total fee charged for the certification of grant claims and returns for 2007/08 was £175k, a decrease of £18k (9 per cent) compared to 2006/07.
- 31** The certification programme was more efficient in spite of the:
- annual uplift of certification fee rate;
 - increase in the number of claims/returns in excess of the £500k threshold;
 - higher complexity of claims, including those when reliance was placed on the control environment; and
 - higher level of errors requiring amendment.
- 32** However, there is still scope to reduce fees through improvement to the control environment, working papers and quality assurance. The anticipated fee for 2008/09 is £137k, reflecting a reduction in the number of claims requiring certification in 2008/09.

Main conclusions

Quality of working papers

33 The Statement of Responsibilities outlines the working paper requirements expected by the Council. Briefly, these state that grant claims and returns should be supported by adequate working papers which:

- satisfy the statutory requirement on the Chief Financial Officer to maintain adequate records in relation to grant claims and returns;
- document the basis of the grant claim or return and the derivation of the information it contains; and
- are kept in a form which will help the auditor and reduce certification time and, in consequence, the cost of the certification to the Council.

34 The claims are generally accompanied with a relatively comprehensive file of working papers and information requests are generally responded to well and in a timely manner by Council officers. However, although not always the case, the audit trail between the claim/return and supporting financial records could be improved with clearer signposting on how data from the general ledger support the entries in the claim/return.

Quality assessment and grant claim coordination

35 The Council has developed good grant claim coordination arrangements which are supported by a Grant Manual. The role and responsibilities of the Grant Claims Coordinator outlined in the Manual represent good practice and, if followed, will ensure an efficient planning process and the timely delivery of certified claims/returns to grant paying bodies. The Grants Claim Coordinator responsibilities, as set out in the Grant Manual, are to:

- identify new grant schemes for which the Authority may be eligible;
- train and promote best practice to grant compilers;
- identify and monitor claims due for submission, and liaise with the Audit Commission regarding claim submissions;
- 'chase up' late claims with compilers and Departmental Management;
- review the cashflow advantages of early claims and adjust submission dates accordingly;
- liaise with Internal Audit regarding audit coverage to ensure systems of control are adequate and effective;
- circulate Audit Commission Certification Instructions to grant compilers;
- conduct pre-audit checks to ensure files contain supporting working papers and are suitable for submission to the Audit Commission; and
- reduce the cost of grant claim audit charges to the Authority and to protect the financial interests of the Authority.

- 36 As referred to in paragraph 23, a relatively high proportion of claims/returns required amendments to correct errors that we would expect to be identified through the review by the authoriser of the grant claim/return and the Grants Claim Coordinator.
- 37 There were also difficulties in establishing a final list of claims for the year that required certification. This was mainly due to poor communication from the individual departments responsible for compiling the claim/return or the grant paying body with the Grants Claim Coordinator.
- 38 However, it needs to be noted that the 2007/08 grants programme was particularly challenging due to the volume of individual grant funded projects ending part way through the year and to late guidance issued by the grant paying department.

The way forward

- 39 As comment upon previously, during 2007/08, 19 individual ERDF grant funded projects were completed. As the funding for these projects has now stopped, the number of claims to be submitted for certification for 2008/09 will be significantly reduced. Only eight claims are required to be certified in 2008/09 compared to the 29 certified in 2007/08.
- 40 Due to the relatively late completion of the 2007/08 grants programme (the last claim was certified 20 July 2009) the Council has already submitted all of the claims and returns required for 2008/09 and so this report will not inform that programme. However, we have provided feedback to the Council in letters to the Director of Finance throughout the year for each individual claim which should have informed the completion of the 2008/09 claims and returns.
- 41 The issues arising from the 2007/08 grants programme are valid for the grants programme going forward. As we will shortly be completing the 2008/09 grants programme we will present our report to members before March 2010. In the meantime, the recommendations from this report, applying to all claims, are shown below.

Recommendations	
R1	Ensure that the control environment for all claims and returns is robust and that this is adequately demonstrated when the claim or return is submitted for certification.
R2	Ensure all expenditure included in the claims and returns is eligible under the terms and conditions specified by the grant paying body.
R3	Ensure consistently strong internal quality assurance processes and coordination arrangements.
R4	Ensure working papers provided are consistently of good quality and provide a clear audit trail between the amounts in the claim or return and supporting financial documentation.

Appendix 1 – Amendments and qualifications

Claim ref.	Claim title	Certification approach ¹	Reason for amendment (A) and/or qualification (Q)	Provided on time to auditor	Certified on time by auditor
BEN01	Housing & Council Tax Benefits Scheme	A&B	<p>(A) Omissions in the compilation of the claim presented for certification.</p> <p>Corrections for errors identified during our work.</p> <p>Amendments for extrapolated errors in respect of backdated benefits and extended payment periods awarded that were not in line with the regulations.</p> <p>(Q) Validation errors in respect of cells 125 (rent allowances) and 160 (council tax benefit) against the respective headline cells.</p> <p>An unresolved reconciliation difference within the HB system between the amounts paid and the amounts awarded.</p> <p>System and control weaknesses in respect of backdated benefits and extended payments.</p>	Yes	Yes

Appendix 1 – Amendments and qualifications

Claim ref.	Claim title	Certification approach ¹	Reason for amendment (A) and/or qualification (Q)	Provided on time to auditor	Certified on time by auditor
CFB06	Housing Capital Receipts Claim	A	-	No	No
EDU35	Connexions Lead Bodies	A	Failure by the Council to supply sufficient independent documentary evidence to support the occupation and liability to pay rent for homeless people in board and lodging accommodation prior to certification of the claim (subsequently provided following dispatch of claim). (A) Figures in claim were taken from unaudited accounts that were subsequently changed (Q) Uncertainty over eligibility of expenditure	Yes	No
EUR01	The Hamilton Quarter	A	(A) Duplicated expenditure removed Match funding analysis corrected	No	Yes
EUR01	Laird Engineering and Construction Centre	A	(A) Amended ERDF20 not reflected in final claim	No	No
EUR01	Commerce Park and Campbelltown Road	A	-	No	No
EUR01	Grass Roots	A	(A) Compilation error	Yes	No
EUR01	Wirral Way Restoration	A	(A) Grant received to date figure incorrect	No	No

Appendix 1 – Amendments and qualifications

Claim ref.	Claim title	Certification approach ¹	Reason for amendment (A) and/or qualification (Q)	Provided on time to auditor	Certified on time by auditor
EUR01	7 Waves Community Radio	A&B	-	No	Yes
EUR01	Riverside Business Park Phase 2	A	(A) Authority certificate completed incorrectly	Yes	No
EUR01	Wirral Facilitating Finance	A	(A) Compilation error	Yes	No
EUR01	New Brighton Floral Pavilion	A	(A) Authority certificate completed incorrectly Additional expenditure included in claim after claim submitted to auditor Analysis of third party funding incorrect	No	No
EUR01	Wirral Waterfront Core Management Services	A	-	No	Yes
EUR01	Mersey Maritime Institute Phase 1	A	(A) Original claim not signed or dated	No	No
EUR01	Marketing Wirral for Tourism	A	(A) Analysis of funding incorrect	No	No
EUR01	Pride in our Promenades	A	-	No	No
EUR01	Office Development Grange Road East	A&B	(A) Compilation error Ineligible expenditure (Q) Developer and contractor insolvency Ineligible expenditure	Yes	No

Appendix 1 – Amendments and qualifications

Claim ref.	Claim title	Certification approach ¹	Reason for amendment (A) and/or qualification (Q)	Provided on time to auditor	Certified on time by auditor
EUR01	Wirral Community Engagement Strategy	A	(A) Analysis of funding incorrect	Yes	No
EUR01	Birkenhead Park Restoration Plan	A	(A) Change in grant offer letter after submission of claim to auditor	No	No
EUR01	Acquisition and Reclamation of MOD Land	A	(A) Authority certificate completed incorrectly	Yes	No
EUR01	Kings Gap Gateway	A	(A) Analysis of funding incorrect	Yes	No
EUR01	Wirral Entrepreneurship Programme	A	(A) Analysis of funding incorrect	No	No
EYC02	General Sure Start and Childcare	A&B	(A) Expenditure classification incorrect	No	No
HOU21	Disabled Facilities Grant	A	-	Yes	Yes
LA01	National Non Domestic Rates	A	-	Yes	Yes
PEN05	Teachers' Pensions	A&B	-	Yes	Yes
RG01	Wirral Waterfront	A&B	-	Yes	Yes
RG34	Merseyside Waterfront Regional Park	A&B	(A) Arithmetic error (Q) Ineligible expenditure	No	No

Appendix 1 – Amendments and qualifications

Claim ref.	Claim title	Certification approach ¹	Reason for amendment (A) and/or qualification (Q)	Provided on time to auditor	Certified on time by auditor
RG34	Church Road Acquisitions	A	-	No	Yes

¹ For claims below the £500,000 threshold and for those above this threshold where we have placed reliance on the control environment, only limited (Part A) testing has been completed. For claims above the £500,000 threshold where we have not placed reliance on the control environment, full (Parts A and B) testing has been completed.

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
11	R1 Ensure that the control environment for all claims and returns is robust and that this is adequately demonstrated when the claim or return is submitted for certification.	2	Grants Coordinator/ Project Manager	Yes	Control Environment checklist has been updated for compilers to complete and verified by Grants Coordinator. A presentation to claim compilers and project managers has been undertaken by the Grants Coordinator.	Action complete
11	R2 Ensure all expenditure included in the claims and returns is eligible under the terms and conditions specified by the grant paying body.	2	Grants Coordinator/ Claim Compiler	Yes	Updated procedures to include Certificate Instruction on each claim file. A presentation to claim compilers and project managers has been undertaken by the Grants Coordinator.	Action complete
11	R3 Ensure consistently strong internal quality assurance processes and coordination arrangements.	2	Grants Coordinator	Yes	Updated Grants manual for 2008/09 and supplied a copy to all claim compilers and project managers. A presentation to claim compilers and project managers has been undertaken by the Grants Coordinator.	Action complete
11	R4 Ensure working papers provided are consistently of good quality and provide a clear audit trail between the amounts in the claim or return and supporting financial documentation.	2	Claim Compiler/Grants Coordinator	Yes	Updated Grants manual for 2008/09 and supplied a copy to all claim compilers and project managers. A presentation to claim compilers and project managers has been undertaken by the Grants Coordinator.	Action complete

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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WIRRAL COUNCIL

AUDIT AND RISK MANAGEMENT COMMITTEE

18 JANUARY 2010

REPORT OF THE DIRECTOR OF FINANCE

GRANT CLAIMS AND RETURNS: AUDIT COMMISSION REPORT

1. EXECUTIVE SUMMARY

- 1.1 This report provides Members with details of issues raised in the Audit Commission report on grant claims relating to the 2007/08 financial year and how these issues have been addressed.

2. BACKGROUND

- 2.1 In 2007/08 the Authority received 29 grants which required claim forms to be submitted and audited. In the main these were 'one off' claims for European funded schemes (19 grants) which tend to be linked to specific projects often, but not exclusively, within the Regeneration Department. The Authority also acts as an 'Accountable Body' for a number of grants which it passes on to third party organisations. A separate annual audit certificate has to be produced by the Audit Commission for each claim and returned to the relevant grant paying body. The Audit Commission undertakes this grant audit role alongside its other duties as external auditor to the Authority.
- 2.2 The audit process requires grant claim compilers to provide detailed working papers analysing and justifying any claimed expenditure. These must satisfy the auditors that any expenditure is eligible in accordance with grant conditions. The Audit Commission produces a 'Certification Instruction' for each claim, which lists a number of tests the Commission must undertake before certifying each claim.
- 2.3 The Audit Commission undertakes limited testing on claims between £100,000 and £500,000 and for claims over £500,000 the amount of work is based upon a risk assessment related to the control environment that is undertaken by the Commission.
- 2.4 The Audit Commission produces an annual report on grant claim performance with the charges to the Authority for grant claim work being on an hourly basis. This is in addition to charges made for non-grant work for the Authority.

3. AUDIT COMMISSION REPORT FINDINGS

3.1 The Audit Commission report on the 2007/08 grants (audited during 2008/09), of which the key elements are summarised in the Appendix, demonstrates that the Authority continues to improve its grant claim preparation and co-ordination processes:-

- The proportion of qualified claims fell from 25% (8 claims in 2006/07) to 14% (4 claims in 2007/08). Qualification letters are produced where the auditor wishes to raise an issue with the paying body and do not necessarily imply that there is an error with any claim.
- The control environment was relied upon by the Commission for 68% of all claims submitted for 2007/08 compared to 28% in 2006/07. This represents a significant improvement but it should be noted that the value of the claims for such as Housing Benefit and Pensions will always require the Commission to undertake detailed work and not rely solely on the control environment.
- It was commented that claims were generally accompanied by a comprehensive file of working papers and that requests for information were responded to well and in a timely manner. Good quality working papers and ensuring timely responses to queries helps minimise the need for detailed audit testing which reduces the audit charges.
- The Council has developed good grant claim co-ordination arrangements which are supported by a Grants Manual. It was commented that the roles and responsibilities of the Co-ordinator outlined in the manual represent good practice.

3.2 A number of concerns were highlighted by the Audit Commission report:-

- The number of amended claims increased from 7 in 2006/07 to 19 in 2007/08. The majority of the amendments related to errors in the certification, presentation of the figures or the analysis of funding. Only 8 resulted in a change to the amount being claimed.
- The number of claims submitted late totalled 16 (55%). However this did include 12 schemes which involved European funding for which the final claims have been subject to further rulings over certification arrangements. In November 2007 certification was suspended whilst the Government decided which claims should be subject to external auditor certification with agreement not reached until April 2008.
- The most significant issues in the year arose on the claims for Housing and Council Tax Benefit, Connexions Lead Bodies, Grange Road East and Merseyside Waterfront Regional Park

- 3.3 All points raised in the year relevant to individual claims are listed in Appendix 1 of the Audit Commission report and have been consolidated from the various audit reports returned to the paying bodies as part of the audit process.
- 3.4 The Audit Commission made four recommendations in their report:-
- i) Ensure that the control environment for all claims and returns is robust and that this is adequately demonstrated when the claim or return is submitted for certification.
 - ii) Ensure all expenditure included in the claims and returns is eligible under the terms and conditions specified by the grants paying body.
 - iii) Ensure consistently strong internal quality assurance processes and co-ordination arrangements.
 - iv) Ensure working papers provided are consistently of good quality and provide a clear audit trail between the amounts in the claim or return and supporting financial documentation.

4 RESPONSE TO THE REPORT

- 4.1 The Audit Commission report is based upon grant claim audits relating to the 2007/08 financial year and the Authority has taken action to address the issues raised. Further actions will be undertaken to respond to matters raised on the claims for 2008/09 which are being audited this financial year.
- 4.2 The action plan in response to the recommendations has been implemented during 2008/09:-
- i) The grant co-ordination procedure manual has been comprehensively updated to include new procedures for 2008/09 and has been circulated to all claim compilers and project managers.
 - ii) An updated Control Environment sheet has been produced to include a number of additional checks before any claim is submitted. The Audit Commission reviews the control environment for each claim when determining the level of audit required. The Control Environment considers factors such as, the experience of those preparing the claim, internal financial controls, quality of supporting working papers and the size of claim.
 - iii) Training presentations have been made to claim compilers and project managers on grant claim best practice. In addition to this, one-to-one meetings have taken place with claim compilers and project managers to ensure they are aware of the standard of files/working papers expected with their claim.

- 4.3 Although a larger proportion of claims were submitted late in 2007/08 than in 2006/07, the Commission did acknowledge that the 2007/08 grants programme was particularly challenging. This included the issues relating to the European funded projects as outlined in section 3.2 which will not recur in future years.
- 4.4 There was an increase in the number of amendments to claims with many of these being minor changes as only 8 impacted on the amount of grant claimed. The actions taken in section 4.2 should reduce the need for such amendments in future claims.
- 4.5 In terms of the four claims that were qualified:
- **Housing and Council Tax Benefits**
The nature and scale of the regulations from the Department for Work and Pensions and the value being in excess of £120 million make this claim extremely complex.
The qualification essentially covered validation errors. The substantiating information relating to payments of rent for homeless people was raised towards the end of the audit and a satisfactory response provided but this was after the completion of the Audit.
 - **Connexions Lead Bodies**
The claim was qualified due to uncertainty over eligibility of an item of expenditure. Details were provided to the grant paying body which was satisfied that it was eligible for grant so no repayment was required.
 - **Grange Road East**
The qualification was made on the basis of two issues:-
The developer went into receivership. Whilst this was true the project had been completed and the outputs delivered as stated in the original grant application. The grant paying body was satisfied that the Authority had acted within the terms of the offer letter.
The Commission took the view that £244,000 of professional fees had been incurred prior to the project start date (which would deem it ineligible under the terms of the grant offer). The Council presented evidence that the fees were not incurred before the start date and the grant paying body agreed and accepted the claim.
 - **Merseyside Waterfront Regional Park**
The qualification was issued on the basis that:
expenditure of £55,000 was wrongly classified as management & administration, expenditure had been vired across budget heads and a payment in advance had been made. The Commission viewed these as being against the terms of the offer whilst the grant paying body were satisfied with the interpretation and reasoning and signed the project off as being completed in accordance with the offer letter.

4.6 There were a number of issues detailed within Appendix 1 of the Audit Commission report which had no impact on grant entitlement. The Grant Co-ordination Team will take appropriate action for future claims.

5. FINANCIAL AND STAFFING IMPLICATIONS

5.1 There are no direct financial consequences arising from this report. Robust and improved grant claim management delivers improved cashflow benefits to the Authority. There may also be a reduction in audit fees if a control environment can be established which is fully in line with Audit Commission guidance.

6. EQUAL OPPORTUNITIES/EQUALITY IMPACT ASSESSMENT

6.1 There are none arising directly from this report.

7. HUMAN RIGHTS IMPLICATIONS

7.1 There are none arising directly from this report.

8. COMMUNITY SAFETY IMPLICATIONS

8.1 There are no specific implications arising from this report.

9. LOCAL MEMBERS SUPPORT IMPLICATIONS

9.1 There are no specific implications for any Member or Ward.

10. LOCAL AGENDA 21 IMPLICATIONS

10.1 There are none arising directly from this report.

11. PLANNING IMPLICATIONS

11.1 There are none arising from this report.

12. BACKGROUND PAPERS

12.1 Grant Claims and Returns – Audit Commission – November 2009.

13. RECOMMENDATION

13.1 That the report be noted.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/348/09

WIRRAL COUNCIL – GRANT CLAIMS SUMMARY 2007/08

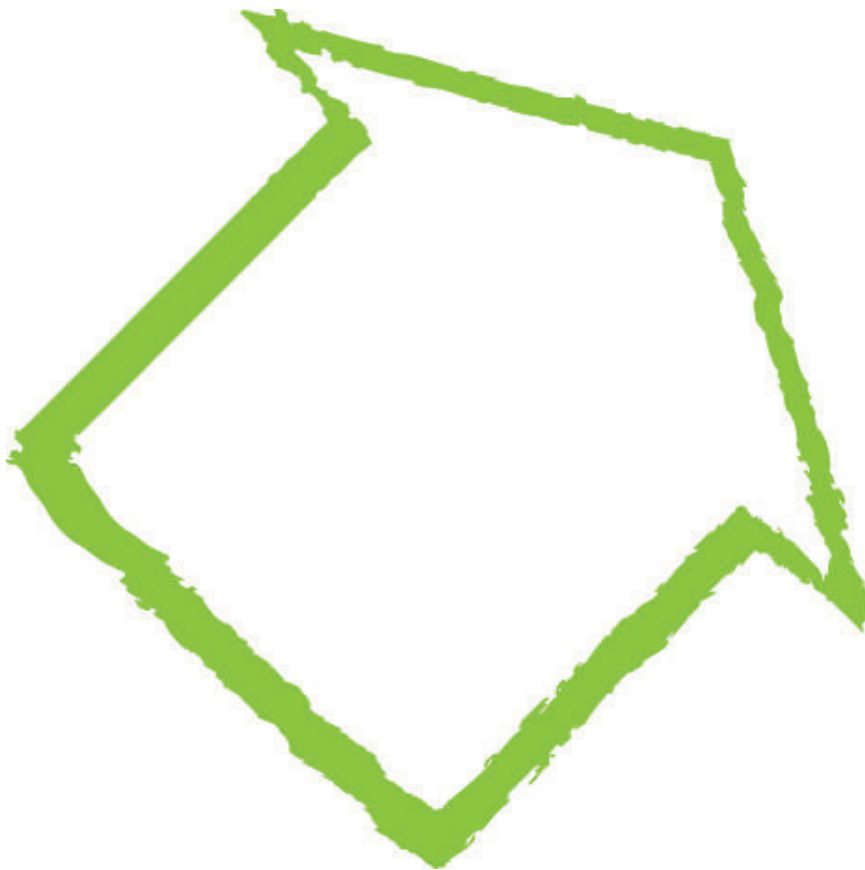
Ref	Claim Title	Value £	Audit Fee £	Amends £	Amended	Qualified	Time
BEN01	Housing & Council Tax Benefits Scheme	120,149,129	64,960	119,824	yes	yes	yes
CFB06	Housing Capital Receipts	211,620	910	0	no	no	no
EDU35	Connexions Lead Bodies	20,771,564	4,038	344,352	yes	yes	yes
EUR01	The Hamilton quarter	363,445	65,472	-1,751	yes	no	no
EUR01	Laird Engineering and Construction Centre	545,613		-2,412	yes	no	no
EUR01	Commerce Park & Campbeltown Road	942,847		0	no	no	no
EUR01	Grass Roots	606,000		0	yes	no	yes
EUR01	Wirral Way Restoration	104,023		0	yes	no	no
EUR01	7 Waves Community	1,036,695		0	no	no	no
EUR01	Riverside Business Park Phase 2	1,970,582		0	yes	no	yes
EUR01	Wirral Facilitating Finance	1,087,367		0	yes	no	yes
EUR01	New Brighton Floral Pavilion	4,450,099		31,474	yes	no	no
EUR01	Wirral Waterfront Core management	1,002,251		0	no	no	no
EUR01	Merseyside Maritime Institute Phase 1	697,000		0	yes	no	no
EUR01	Marketing Wirral for Tourism	388,473		2,527	yes	no	no
EUR01	Pride in Our Promenades	485,981		0	no	no	no
EUR01	Office Development Grange Rd East	2,079,112		-2,902	yes	yes	yes
EUR01	Wirral Community Engagement Strategy	284,642		-270	yes	no	yes
EUR01	Birkenhead Park Restoration Plan	2,176,548		0	yes	no	no
EUR01	Acquisition and Reclamation of MOD Land	1,022,000		0	yes	no	yes
EUR01	Kings Gap Gateway	860,000		0	yes	no	yes
EUR01	Wirral Entrepreneurship Programme	276,800		0	yes	no	no
EYC02E	General Sure Start & Child Care	11,122,229		5,998	0	yes	no
HOU21	Disabled Facilities Grant	976,345	1,967	0	no	no	yes
LA01	National non Domestic Rates	55,199,601	2,553	0	no	no	yes
PEN05	Teachers Pensions	21,764,055	2,898	0	no	no	yes
RG01	Wirral Waterfront	2,100,896	4,830	0	no	no	yes
RG34	Merseyside Waterfront Regional Park	4,194,945	6,785	0	yes	yes	no
RG34	Church Road Acquisition	744,850	0	0	no	no	no
	Total	257,614,712	160,408	490,842	Yes 19	Yes 04	Yes 13
	Grant Planning & Administration		14,256		No 10	No 25	No 16
	Total	257,614,712	174,664	490,842			

Audit opinion plan

Wirral Metropolitan Borough Council

Audit 2009/2010

January 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.

Introduction

- 1 This plan sets out 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.
- 2 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. A copy of the audit fees letter is included as Appendix 1. We are required by professional auditing standards to specify the detailed risks that we need to consider as part of our opinion planning work. As the initial audit plan was produced at the start of the financial year for fee purposes, it was not possible to specify these risks. We are now in a position to do this as the opinion work is about to commence. We are required to:
 - identify the risk of material misstatements in your accounts;
 - plan audit procedures to address these risks; and
 - ensure that the audit complies with all relevant auditing standards.
- 3 We have therefore set out below our approach to identifying opinion audit risks and have considered the specific risks that are appropriate to the current opinion audit.
- 4 As the Council is the administering body for Merseyside Pension Fund, the Council's financial statements include the Pension Fund Statements and the Audit and Risk Management Committee has ultimate responsibility for receiving, considering and agreeing the audit plans, as well as receiving and considering any reports arising from the audit. A separate plan has been produced for the Pension Fund and will be presented to the Pensions Committee and the Audit and Risk Management Committee.
- 5 The audit planning process for 2009/10, including the risk assessment, will continue as the year progresses and the information and fees in this plan will be kept under review and updated as necessary.

Responsibilities

- 6 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.
- 7 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.
- 8 We comply with the statutory requirements governing our audit work, in particular:
 - the Audit Commission Act 1998; and
 - the Code of Audit Practice.
- 9 The Council's 2009/10 Statement of Accounts is prepared in accordance with the CIPFA Statement of Recommended Practice (SORP) 2009. The SORP sets out the proper accounting practices required for Statement of Accounts, by section 21(2) of the Local Government Act 2003 prepared in accordance with the statutory framework established for England by the Accounts and Audit Regulations 2003.

Fee for the audit of the financial statements

- 10 The indicative fee for the audit of the financial statements and the value for money conclusion is £390,000. The Audit Commission scale fee for a Council is £343,236. The fee proposed for 2009/10 is 13 per cent above the scale fee and is within the normal level of variation specified by the Commission. The scale fee represents the Audit Commission's estimate of the fee required to complete an audit where:
 - There are no significant audit risks
 - The audited body has in place a sound control environment
 - The auditor is provided with complete and materially accurate financial statements
 - with supporting working papers
 - within agreed timeframes.
- 11 A copy of our 2009/10 fees letter is attached at Appendix 1. The basis for the fee is explained in more detail in Appendix 2.
- 12 In setting the fee, we have assumed that the level of risk in relation to the audit of accounts is consistent with that for 2008/09.
- 13 Where this assumption is not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, we will discuss this in the first instance with the Director of Finance and we will issue supplements to the plan to record any revisions to the risk and the impact on the fee.
- 14 In our original audit plan, the fee for the opinion audit was based on our best estimate at the time and agreed at £256,298 for the opinion on the statement of accounts and £7,428 for the opinion on the Whole of Government Accounts. Having considered the risks we remain satisfied that the original estimate was entirely appropriate and no adjustment is therefore required to the fee.

Specific actions Wirral Council could take to reduce its audit fees

- 15 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, we will work with staff to identify any specific actions that the Council could take and to provide ongoing audit support.

Auditors report on the financial statements

- 16 I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 17 I am required to issue an audit report giving my 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.

Organisation level risks

- 18 As part of our audit risk identification process we need to fully understand the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. We do this by:
- establishing the nature of the Council's activities;
 - identifying the business risks facing the Council, including assessing your own risk management arrangements;
 - considering the financial performance of the Council; and
 - assessing internal control, including:
 - reviewing the control environment
 - the IT control environment
 - internal audit.

Information system risks

- 19 To comply with ISA (UK&I) 315 we need to assess the risk of material misstatement arising from the activities and controls within the Council's information systems. To be able to assess these risks we need to identify and understand the material systems and document that understanding.
- 20 Material systems are those which produce material figures in the annual financial statements. We have identified that the Council has 12 material systems. For these systems we need to demonstrate our understanding by documenting the following:
- How transactions are initiated, recorded, processed and reported in the financial statements.
 - The accounting records relevant to the transactions.
 - How the Council identifies and captures events and conditions which are material to the financial statements eg depreciation.
 - The financial reporting process used to prepare the financial statements.

Assertions

- 21** When considering the risk of material misstatement we consider what the Director of Finance is stating when he signs the financial statements. An audited body's management is responsible for the preparation and presentation of financial statements which give a true and fair view of the nature and activity of the Council for the period. In doing so, management is making statements regarding the recognition, measurement, presentation and disclosures of various elements of the financial statements and related disclosures.
- 22** These representations from management are referred to as assertions about financial statements in ISA (UK&I) 500. The ISA states that we have to ascertain that the financial statements are free from material misstatement at the assertion level. The ISA splits out the assertions and considers their applicability in respect of:
- Income and expenditure account items;
 - Balance Sheet items; and
 - Disclosures and presentational elements of the financial statements.
- 23** Table 1 below details the relevant assertions for these three categorisations, showing which assertions we need to consider by area of the financial statements.

Table 1 Assertions

We are required to test whether the financial statements are free from material misstatement at the assertion level

Assertion	What does it mean	Income and expenditure	Balance sheet	Disclosure
Accuracy	Is it recorded at the right amount and are the details right? Has it been coded correctly?	✓		✓
Classification	Is it in the right place, under the right headings in the accounts?	✓		✓
Completeness	Is everything that should be in the statements all there?	✓	✓	✓
Cut-off	Is it in the right year?	✓		
Existence	Does the asset or liability exist and is it still owing at the end of the year?		✓	

Auditors report on the financial statements

Assertion	What does it mean	Income and expenditure	Balance sheet	Disclosure
Occurrence	Has it happened and does it relate to the Council?	✓		✓
Rights and obligations	Does it belong to the Council? Is the Council entitled to use it?		✓	✓
Valuation and allocation	Is it included at an appropriate amount and properly recorded in the right place?		✓	✓

ISA (UK&I) 500

- 24** In considering the risk of material misstatement we are required to report all errors that are not clearly trivial. Our threshold for reporting to you is £81k. We are also required to consider the cumulative effect of errors.

Identification of specific risks

25 We have considered the additional risks that are appropriate to the current opinion audit and have set these out below.

Table 2 Specific risks

Specific opinion risks identified for Wirral Council

Risk Area	Assertions	Audit response
Risks relevant for all councils		
SORP2009 requires changes in how the Council will account for local taxation. Risk that the new requirements are incorrectly applied resulting in a material error in the accounts.	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 bad debt provision 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 Representation.

Risk Area	Assertions	Audit response
<p>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 UKGAAP.</p>	<p>All</p>	<p>Ongoing discussions with finance officers regarding progress in the transition to IFRS.</p>
<p>SORP 2009 requires that PFI schemes are to be accounted for under IFRS. PFI properties 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.</p>	<p>Valuation and allocation</p>	<p>All accounting entries in relation to the PFI scheme will be reviewed.</p> <p>As agreed with Council officers, the intention is to perform this review prior to the year end.</p>
<p>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.</p>	<p>All</p>	<p>We will agree amounts in the housing benefits system to the general ledger at the year end.</p> <p>We will complete sufficient work on the housing benefit subsidy claim to demonstrate that the claim is not materially misstated.</p>
<p>Risks specific to Wirral</p>		
<p>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 I&E account and FRS17 entries</p>	<p>Accuracy Completeness</p>	<p>All material journals will be reviewed.</p> <p>Review audit trail between accounts and ledger produced to identify entries requiring testing.</p> <p>FRS17 entries to be agreed to actuarial confirmation.</p>
<p>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:</p> <ul style="list-style-type: none"> - existence of VPE - capitalisation of expenditure on infrastructure assets - completeness of community assets 	<p>Existence, valuation and allocation, completeness</p>	<p>Progress against the action plan agreed in the 2008/09 AGR will be monitored throughout the year.</p> <p>Year end substantive testing will be performed specifically addressing the risk areas identified.</p>

Identification of specific risks

Risk Area	Assertions	Audit response
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 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 BVACOP analysis - netting off of REFCUS in the 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 Table 3 of this report.

Testing strategy

- 26 On the basis of the risks identified above we will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.
- 27 Our testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing).
- 28 Wherever possible, we will complete some substantive testing earlier in the year before the financial statements are available for audit. We have identified the following areas where substantive testing could be carried out early:
- Accounting policies;
 - Bank reconciliation;
 - Fixed Assets – confirmation of ownership and existence;
 - Year end feeder system reconciliations;
 - Provisions, reserves and contingent liabilities;
 - Annual Governance Statement
 - Impairments.
 - Council tax debit
 - Collection fund
 - Large grants - eg Revenue Support Grant (RSG)
 - Public Finance Initiative
 - Remuneration Statement
 - Related Party Transactions
- 29 Where other early testing is identified as being possible this will be discussed with officers.
- 30 Wherever possible, we seek to rely on the work of Internal Audit to help meet our responsibilities.

Key milestones and deadlines

- 31 The Council is required to prepare the financial statements by 30 June 2009. We are required to complete our audit and issue our opinion by 30 September 2009. The key stages in the process of producing and auditing the financial statements are shown in Table 3.
- 32 We will agree with you a schedule of working papers required to support the entries in the financial statements.
- 33 Every week during the post-statements audit we will meet with the key contact and review the status of all queries. If appropriate, we will meet at a different frequency depending upon the need and the number of issues arising.

Table 3 Proposed timetable

Task	Deadline
Agreement of Opinion Plan with officers	Draft by end of November Final by mid December
Progress meetings - pre statements	Six weekly
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)
ISA+ 315 knowledge of the entity*	January 2010
Control testing*	February 2010
ARMC consider draft Annual Governance Statement Update of Opinion Plan presented to ARMC	24 March 2010 (papers by 10 March)
ARMC member training (proposed)	May/early June 2010
Early substantive pre-statements testing*	Mid June 2010
Receipt of pre-audit accounts by ARMC and auditor	14 June 2010
Working papers provided to the auditor	By 30 June 2010
Pensions Committee to challenge accounts and make recommendations to ARMC	Before ARMC meeting (by 30 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)

Key milestones and deadlines

Task	Deadline
Start of detailed testing on main statements	30 June 2010
Completion of fieldwork on main statements	6 August 2010
Receipt of WGA and working papers	8 July 2010
Completion of fieldwork on WGA	6 August 2010
Progress meetings - post statements	Weekly
Agreement of errors and uncertainties for Finance to complete covering reports and amend statements**	20 August 2010
Draft Annual Governance Reports from Audit Commission to officers**	3 September 2010
Meeting with officers to agree final AGRs (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
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
ARMC to receive Annual Governance Report, including any verbal update on outstanding issues Finance to present covering report and post-audit statements	By 30 September 2010 Papers out by 13 September 2010
Final check of post-audit statements	By 30 September 2010
Issue of opinion by the District Auditor	By 30 September 2010
Audited accounts published by the Council	By 30 September 2010
Whole of Government Accounts return submitted	1 October 2010

Notes:

* at each stage of completion of work we will feed back to officers and report key issues to the next ARMC meeting.

** on both Pension Fund statements and main Council Statements

Audit team and key contacts

34 The key members of the audit team and key contacts for the 2009/10 opinion audit are set out in the table below.

Table 4 Audit team

Key members of the 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 Merseyside Pension Fund.
Rob Metcalf Audit Team Leader	r-metcalf@audit-commission.gov.uk 0151 666 3484	Leads fieldwork and audit team on opinion work. Key point of contact for and liaison with the Head of Finance and the Chief Accountants.

Audit Commission

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

Table 5 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 financial position of Merseyside Pension Fund at 31 March 2010. Agreement of final AGRs.
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 accounts that present fairly the financial position of Wirral Council at 31 March 2010. Agreement of draft AGR for Wirral Council.
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

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

Audit team and key contacts

Table 6 Wirral Council key member contacts

Key members involved in the financial statements

Name	Contact details	Responsibilities
Councillor Steve Foulkes Leader of the Council	stevefoulkes@wirral.gov.uk	Governance framework and signing the Annual Governance Statement
Paula Southwood Chair of the Audit & Risk Management Committee	paulasouthwood@wirral.gov.uk	Approves and signs the accounts on behalf of the Council

Wirral Council

- 37 In addition, all members of the Audit & Risk Management Committee are responsible for
- The approval of the Council's statement of accounts
 - The responsibilities of the Council under section 151 of the Local Government Act 1972 to make proper provision for its financial affairs.

Independence and objectivity

- 38 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 39 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised at Appendix 3.

Quality of service

- 40 We are committed to providing you with a high quality service. The quality of our service is monitored by the Audit Commission which has recently published the [Audit Practice annual quality report \(November 2009\)](#) . This report summarises the results of the quality review of the work of the Commission's own staff as auditors to local government and NHS bodies, including the views of the Audit Inspection Unit that carried out an independent review of our work.
- 41 The publication of the Audit Commission's audit practice annual quality report is one of a range of measures aimed at demonstrating our commitment to delivering audit quality. It assures audited bodies and stakeholders about the arrangements in place and the underlying strength of the Commission's audit practice and compares our audit practice with the firms and the other audit agencies.

- 42 If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact the North West Head of Operations, Terry Carter: t-carter@audit-commission.gov.uk .
- 43 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet 'Something to Complain About' which is available from the Commission's website or on request.

Planned outputs

- 44 Reports will be discussed and agreed with the appropriate officers before being issued to the Audit and Risk Management Committee or the Pensions Committee.

Table 7 Planned outputs

The planned outputs from the opinion audit are set out below - there will be separate outputs for Wirral Council and Merseyside Pension Fund

Planned output	Indicative date
Opinion audit plans	31 December 2009
Update to opinion audit plans and feedback on interim audits (if appropriate)	March 2010
Annual governance reports	30 September 2010
Auditor's reports giving an opinion on the financial statements	30 September 2010
Final accounts memoranda (if appropriate)	30 November

Audit Commission

- 45 We will agree final dates with you as the audit progresses.

Appendix 1 – Fees Letter

Our reference LTM/FL

26 April 2009

Mr I Coleman
Director of Finance
Wirral Council
Treasury Building
Cleveland Street
Birkenhead
Wirral
CH41 6BU

Direct line 0844 798 7043
Email m-thomas@audit-commission.gov.uk

Dear Ian

Annual audit fee 2009/10

Further to our discussions on the new form of the audit programme fee, I am writing to confirm the audit work that we propose to undertake for the 2009/10 financial year at Wirral Council. The fee:

- is based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2009/10; and
- reflects only the audit element of our work, excluding any inspection and assessment fees. Your Comprehensive Area Assessment Lead will be writing to you separately on inspection fees.

As I have not yet completed my audit for 2008/09 the audit planning process for 2009/10, including the risk assessment will continue as the year progresses and fees will be reviewed and updated as necessary.

The total indicative fee for the audit for 2009/10 is for £390,000 (exclusive of VAT) which compares to the planned fee of £406,647 for 2008/09 (reduction of 4.1%). A summary of this is shown in the table below.

Audit fee

Audit area	Planned fee 2009/10	Planned fee 2008/09
Financial statements	256,298	271,900
Use of Resources/VFM Conclusion	126,274	132,350
WGA	7,428	2,400

Total audit fee	390,000	406,650
Certification of claims and returns	168,035	136,960

The Audit Commission has published its work programme and scales of fees 2009/10. The scale fee for Wirral Council is £343,236. The fee proposed for 2009/10 is 13 per cent above the scale fee.

In setting the fee at this level, I have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified to 2008/09. A separate plan for the audit of the financial statements will be issued in December 2009. This will detail the risks identified, planned audit procedures and any changes in fee. The quoted fee for grant certification work is an estimate only and will be charged at published daily rates. If I need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with you and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit and Risk Management committee.

My use of resources assessments will be based upon the evidence from three themes:

- Managing finances;
- Governing the business; and
- Managing resources.

The key lines of enquiry specified for the assessment are set out in the Audit Commission’s work programme and scales of fees 2009/10. My work on use of resources informs my 2009/10 value for money conclusion. However, I have identified a number of significant risks in relation to my value for money conclusion. For each risk, I consider the arrangements put in place by the Council to mitigate the risk, and plan my work accordingly. My initial risk assessment for value for money audit work is shown in the table below:

Risk	Planned work	Timing of work
Medium term funding and DASS overspends.	We will review the Council’s plan for balancing medium term funding and monitor progress of DASS spending throughout the year, as part of our work on Use of Resources.	April 2009 – March 2010
Workforce planning	We will review the council’s arrangements as part of our work on Use of Resources.	April 2009 – March 2010

I will issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 1.

Appendix 1 – Fees Letter

The above fee excludes any work requested by you that the Commission may agree to undertake using its advice and assistance powers. Each piece of work will be separately negotiated and a detailed project specification agreed with you.

The key members of the audit team for the 2009/10 are:

Audit Manager – Liz Temple-Murray 0151 666 3483

Team Leader – Rob Metcalf 0151 666 3484

I am committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Terry Carter, the North West Region Head of Operations: t-carter@audit-commission.gov.uk.

Yours sincerely
Mike Thomas
District Auditor

cc Steve Maddox, Chief Executive
Paula Southwood, Chair of the Audit Committee

Appendix 2 – Basis for fee

- 46 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.
- 47 The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council with reference to:
- our cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
 - interviews with Council officers; and
 - liaison with Internal Audit.

Assumptions

- 48 In setting the fee, I have assumed that:
- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2008/09;
 - you will inform us of significant developments impacting on the audit;
 - Internal Audit meets the appropriate professional standards;
 - good quality working papers and records will be provided to support the financial statements by 14 June 2010;
 - requested information will be provided within agreed timescales;
 - prompt responses will be provided to draft reports; and
 - additional work will not be required to address questions or objections raised by local government electors.
- 49 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

Appendix 3 – Independence and objectivity

- 50 Auditors appointed by the Audit Commission are required to comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 51 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 52 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
- discloses in writing all relationships that may bear on the auditor’s objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
 - confirms in writing that the APB’s ethical standards are complied with and that, in the auditor’s professional judgement, they are independent and their objectivity is not compromised
- 53 The standard defines ‘those charged with governance’ as ‘those persons entrusted with the supervision, control and direction of an entity’. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit and Risk Management Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.
- 54 The Commission’s Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.
- 55 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.
- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor’s opinion and

conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being ‘additional work’ and charged for separately from the normal audit fee.

- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.
- The District Auditor and members of the audit team must abide by the Commission’s policy on gifts, hospitality and entertainment.

Appendix 4 – Working together

Meetings

56 The audit team will maintain knowledge of your issues to inform our risk-based opinion audit through regular liaison with key officers.

57 Our proposal for the meetings is as follows.

Table 8 Proposed meetings with officers with respect to the opinion audit

Council officers	Audit Commission staff	Timing	Purpose
Chief Executive and corporate directors	District Auditor, Audit Manager	Quarterly	Liaison and updates
Head of Financial Services	Audit Manager and Team Leader	As required and weekly during fieldwork	Liaison and updates
Chief Accountant	Team Leader	As required and weekly during fieldwork	Liaison and updates
Deputy Director of Finance and Chief Internal Auditor	Audit Manager and Team Leader	Quarterly	Liaison and updates

Sustainability

58 The Audit Commission is committed to promoting sustainability in our working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

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For further information on the work of the Commission please contact:

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www.audit-commission.gov.uk

WIRRAL COUNCIL

AUDIT AND RISK MANAGEMENT COMMITTEE

18 JANUARY 2010

REPORT OF THE DIRECTOR OF FINANCE

AUDIT OPINION PLAN

1. EXECUTIVE SUMMARY

1.1. The Audit Opinion Plan sets out the work that the Audit Commission is proposing to perform in relation to the audit of the Council financial statements for 2009/10.

2. INTRODUCTION

2.1. To complete the audit of the 2009/10 Statement of Accounts the Audit Commission has detailed in advance the approach to the audit which is contained in the Audit Opinion Plan.

2.2. Whilst the Opinion Plan details the approach being undertaken and explains the underlying issues it is primarily of relevance to officers involved in the process. There are four key topics for Members of this Committee to consider:-

- Annual Governance Statement March 2010
- Statement of Accounts (pre-Audit) June 2010
- Annual Governance Report September 2010
- District Auditor's Report September 2010

3. KEY TOPICS FOR MEMBERS CONSIDERATION

3.1. Annual Governance Statement (AGS)

3.1.1 The preparation and publication of the AGS is to meet the statutory requirement set out in the Accounts and Audit Regulations 2006 as updated by the CIPFA /SOLACE Delivering Good Governance in Local Government Framework 2008. The Framework emphasises that good governance and therefore the process and AGS should be corporately owned and the AGS be signed by the Leader of the Council and the Chief Executive.

3.1.2 Governance is about how the Authority ensures that it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It comprises the systems, processes and controls, and cultures and values, by which the Authority is directed and controlled and through which it accounts to, engages with, and, where appropriate, leads the community.

3.1.3. In order to comply with the Framework local authorities are expected to:-

- Review their existing governance arrangements against the Framework
- Maintain an up to date local Code of Governance, including arrangements for ensuring its ongoing application and effectiveness
- Prepare an Annual Governance Statement to report publicly on the extent to which they comply with the principles.

3.1.4 I report the AGS to the Audit & Risk Management Committee on 24 March 2010 in order that the Committee can fulfil their responsibilities in ensuring themselves that the Authority is meeting its statutory requirements.

3.2. **Statement of Accounts (SOA)**

3.2.1 The Accounts are produced in accordance with the statutory accounting framework laid down by the Accounts and Audit Regulations 2003. The framework is supported by the Statement of Recommended Practice (SORP) which is updated annually and specifies the accounting principles and practices required to prepare a SOA which presents fairly the financial position of the Authority at 31 March. It is signed by the Chair of the Audit & Risk Management Committee and the Section 151 Officer of the Council

3.2.2 The Regulations specify that the SOA must be presented to an appropriate committee no later than 30 June. The Audit & Risk Management Committee is responsible for approving the Statement of Accounts at Wirral and for meeting the Council responsibilities under Section 151 of the Local Government Act 1972 to make proper provision for its financial affairs. The SOA is then subject to audit. If the Audit Commission requires any material amendments to the Accounts, then as stipulated by the Regulations, these must be reported before 30 September.

3.2.3 To assist Members the SOA is accompanied by a presentation on the legislative background, the contents (which include the aforementioned Annual Governance Statement and the Merseyside Pension Fund accounts which have first to be considered by Pensions Committee), issues arising from the Statements and the role of Members in the process.

3.2.4 The Audit & Risk Management Committee role is to ensure that the quality control procedures are in place to ensure that the SOA submitted for audit is of the appropriate standard. Given the complex technical nature of the Accounts the Committee is not expected to review the SOA in detail but should consider the following:-

- The key accounting policies
- Assurances about the financial systems that have provided the figures for the SOA;
- The quality control arrangements over the preparation of the SOA by the Director of Finance and his staff;
- Key judgements in preparing the SOA;
- Any issues raised by the Audit Commission that have to be resolved.

3.3. Annual Governance Report (AGR)

3.3.1 The Audit Commission work on the Statement of Accounts commences prior to their formal acceptance by the Chair of the Audit & Risk Management Committee. This preparatory work informs the audit approach, most of which is then completed during July, and informs the Financial Statements section of the AGR. The AGR also includes an assessment of how well the Council uses and manages the resources available to deliver value for money and sustainable outcomes for local people.

3.3.2 The District Auditor makes a presentation to the Committee on the AGR, which explains the contents and findings within the formal report. At this stage it is in draft form and requests the Committee to:-

- Consider the issues raised in the Merseyside Pension Fund AGR.
- Consider the issues raised in the Council AGR.
- Agree / note any adjustments to the financial statements.
- Approve the Letter of Representation.

3.3.2 I report to the same meeting the findings of the District Auditor as they impact upon the Statement of Accounts together with explanations of any changes. The same meeting will also receive a similar report highlighting any changes to the Pension Fund accounts that have been considered by the Pensions Committee.

3.4. District Auditor's Report (Audit Opinion)

3.4.1 The District Auditor has to issue his report and opinion on whether the Statement of Accounts presents fairly the financial position of the Authority at 31 March and its income and expenditure for the year. This has to be issued by 30 September. This Opinion is released following Committee consideration of the Annual Governance Report and the Letter of Representation and confirmation that any required changes to the Statement of Accounts have been implemented.

3.5. Summary

3.5.1 The Statement of Accounts (financial statements including the Annual Governance Statement) are an important means by which the Council accounts for its stewardship of public funds. The Audit & Risk Management Committee, on behalf of the Council, has final responsibility for these statements.

3.5.2 The Statement of Accounts is a key element of the Comprehensive Area Assessment Use of Resources judgement which includes managing finances and governing the business.

4. FINANCIAL IMPLICATIONS

- 4.1. The estimated Audit fee for the opinion audit of the 2009/10 Statement of Accounts is £256,298 and £7,428 for the Whole of Government Accounts.

5. STAFFING IMPLICATIONS

- 5.1. There are none arising directly from this report.

6. EQUAL OPPORTUNITIES/EQUALITY IMPACT ASSESSMENT

- 6.1. There are none arising directly from this report.

7. COMMUNITY SAFETY IMPLICATIONS

- 7.1. There are none arising directly from this report.

8. HUMAN RIGHTS IMPLICATIONS

- 8.1. There are none arising directly from this report.

9. LOCAL AGENDA 21 IMPLICATIONS

- 9.1. There are none arising directly from this report.

10. PLANNING IMPLICATIONS

- 10.1. There are none arising directly from this report.

11. MEMBER SUPPORT IMPLICATIONS

- 11.1. There are none arising directly from this report.

12. BACKGROUND PAPERS

- 12.1. Annual Audit Fees 2009/10 – Audit Commission – April 2009.
12.2. Audit Opinion Plan – report from the Audit Commission December 2009.

13. RECOMMENDATION

- 13.1. That in acknowledging their key role in the process Members request officers to make presentations to accompany the written reports on the topics raised.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/347/09

Audit Opinion Plan

Merseyside Pension Fund

2009/10

Date **December 2009**

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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.

Introduction

- 1 This plan sets out the audit work we propose to undertake in relation to the audit of financial statements 2009/10 for Merseyside Pension Fund. The plan is based on the Audit Commission's risk-based approach to audit planning which assesses:
 - current national risks relevant to your local circumstances; and
 - your local risks and improvement priorities.
- 2 I will discuss and agree this plan, and any reports arising from the audit, with the Pensions Committee as those charged with the governance of the Pension Fund. However, as the pension fund accounts remain part of the financial statements of Wirral Council as a whole, the Audit and Risk Management Committee will retain ultimate responsibility for receiving, considering and agreeing the audit plan, as well as receiving and considering any reports arising from the audit.
- 3 The audit planning process for 2009/10, including the risk assessment, will continue as the year progresses and the information and fees in this plan will be kept under review and updated as necessary.

Responsibilities

- 4 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.
- 5 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.
- 6 We comply with the statutory requirements governing our audit work, in particular:
 - the Audit Commission Act 1998; and
 - the Code of Audit Practice.
- 7 Specifically, the work of auditors on pension fund accounts is defined by the Auditing Practices Board practice note 15 on the audit of pension fund accounts.

Fee for the audit of financial statements

- 8 The indicative fee for the audit is £70,900. The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales for 2009/10. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 9 The annual audit fee was approved on 23 April 2009 and presented to the Audit and Risk Management Committee on 30 June 2009 (see Appendix 1). The basis for the fee is explained in more detail at Appendix 2.
- 10 The Audit Commission scale fee for a multi employer Pension Fund is £70,900. The fee proposed for 2009/10 is therefore at the scale fee.
- 11 In setting the fee, we have assumed that:
 - no significant audit risks are identified
 - the Pension Fund has a sound control environment
 - the auditor is provided with complete and materially accurate financial statements
 - with supporting working papers, and
 - within agreed timeframes
- 12 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, we will discuss this in the first instance with the Director of Finance and we will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

Specific actions Merseyside Pension Fund could take to reduce its audit fees

- 13 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to maintain its audit fees at scale. As in previous years, we will work with staff to identify any specific actions that the Pension Fund could take and to provide ongoing audit support.

Auditors report on the financial statements

- 14 I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) - ISA (UK&I) - issued by the Auditing Practices Board (APB).
- 15 I am required to issue an audit report giving my opinion on whether the pension fund accounts give a true and fair view of the financial position of the Authority as at 31 March 2010.
- 16 I am also required to review the pension fund annual report in accordance with the LGPS regulations 1997.

Identifying opinion audit risks

- 17 As part of our audit risk identification process we need to fully understand the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. We do this by:
 - identifying the business risks facing the Pension Fund, including assessing your own risk management arrangements;
 - considering the financial performance of the Pension Fund;
 - assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
 - assessing the risk of material misstatement arising from the activities and controls within the Pension Fund information systems.

Audit Commission FRS17 protocol

- 18 To avoid unnecessary duplication of work required to provide opinion assurance in respect of FRS17 entries in the accounts of admitted body authorities for which the Audit Commission nominates the appointed auditor, the Audit Commission requires the auditors of Pension Funds to undertake a programme of work provided for in a protocol and report to those admitted body auditors on their findings.
- 19 The specified programme of work includes:
 - Reviewing the actuary's analysis of the Fund's assets to establish whether the asset value attributed to the admitted bodies concerned are consistent with the total scheme assets considered in the audit of the Fund's accounts, and

Auditors report on the financial statements

- Making enquiries of the actuary in relation to their work in calculating FRS17 assets and liabilities.

Assertions

When considering the risk of material misstatement we consider what the Director of Finance is stating when he signs the financial statements. An audited body's management is responsible for the preparation and presentation of financial statements which give a true and fair view of the nature and activity of the Pension Fund for the period. In doing so, management is making statements regarding the recognition, measurement, presentation and disclosures of various elements of the financial statements and related disclosures.

20 These representations from management are referred to as assertions about financial statements in ISA (UK&I) 500. The ISA states that we have to ascertain that the financial statements are free from material misstatement at the assertion level. The ISA splits out the assertions and considers their applicability in respect of:

- Fund Account items;
- Net Assets Statement items; and
- Disclosures and presentational elements of the financial statements.

21 Table 1 below details the relevant assertions for these three categorisations, showing which assertions we need to consider by area of the financial statements.

Table 1 Assertions

We are required to test whether the financial statements are free from material misstatement at the assertion level

Assertion	What does it mean	Fund Account	Net Assets Statement	Disclosure
Accuracy	Is it recorded at the right amount and are the details right? Has it been coded correctly?	✓		✓
Classification	Is it in the right place, under the right headings in the accounts?	✓		✓
Completeness	Is everything that should be in the statements all there?	✓	✓	✓
Cut-off	Is it in the right year?	✓		
Existence	Does the asset or liability exist and is it still owed or owing at		✓	

Assertion	What does it mean	Fund Account	Net Assets Statement	Disclosure
	the end of the year?			
Occurrence	Has it happened and does it relate to the Pension Fund?	✓		✓
Rights and obligations	Does it belong to the Pension Fund?		✓	✓
Valuation and allocation	Is it included at an appropriate amount and properly recorded in the right place?		✓	✓

ISA (UK&I) 500

- 22 As appointed auditors we calculate materiality to set a tolerance level around the accuracy of the opinion that we issue. A material item within the financial statements is one which would affect the reader's view of the accounts.
- 23 In considering the risk of material misstatement we are required to report all errors that are not clearly trivial, which in common with other auditing firms is set at 1% of materiality.
- 24 Table 2 below sets out the materiality and triviality levels used last year and although these will change for 2009/10 they are shown here to provide a general indication of likely levels.

Table 2 Materiality and triviality thresholds

Indicative materiality and triviality values based on 2008/09 accounts

Thresholds	Investment Assets within Net Assets Statement and change in market value of investments in Fund Account	Fund Account and Current Assets and Liabilities in Net assets Statement
Materiality	£35.242 m	£2.46 m
Triviality	£352 k	£24 k

ISA (UK&I) 320

Identification of specific risks

25 We have considered the specific risks that are appropriate to the current opinion audit and have set these out below. During our audit we will assess the impact of these risks on our fee and agree any changes with the Director of Finance.

Table 3 Specific risks

Specific opinion risks identified

Risk Area	Assertions	Audit response
<p>New General Ledger A new general ledger accounting system was implemented at Merseyside Pension Fund with effect from 1st October 2009. Risk that the balances are not accurately transferred between systems Risk that effective controls will not be in place in the new system</p>	<p>Accuracy Completeness Classification Valuation and Allocation</p>	<p>We will review:</p> <ul style="list-style-type: none"> the arrangements put in place by the Fund to ensure that balances are correctly transferred from the outgoing AXISe system to the new Oracle system and, the adequacy of controls in place in the new system and testing of the effectiveness of those controls as necessary.
<p>Investment Ledgers A new investments ledger maintained by the State Street Bank, the Fund's global custodian, was introduced with effect from 1st April 2008. However, for the preparation of the 2008/09 accounts the Fund's officers relied on a combination of the SSB Investment Ledger and data from the former Shareholder Investment Ledger system. Risk that sourcing the accounts from two investment ledger systems operating in parallel will lead to inaccuracy, duplication or omission from the financial statements.</p>	<p>Completeness Valuation and Allocation</p>	<p>We will review the arrangements in place for the operation of the investment ledger and monitor the progress made by the Fund in resolving the issues which necessitated the use of two systems.</p>

Risk Area	Assertions	Audit response
<p>Internally Managed Investments The system used to monitor and control internally managed investments (Shareholder) was replaced by the OpenAir.system with effect from 1 October 2009. Risk that the balances were not accurately transferred between systems, and Risk that effective controls are not in place in the new system</p>	<p>Accuracy Completeness Classification Valuation and Allocation</p>	<p>We will review:</p> <ul style="list-style-type: none"> • the arrangements put in place by the Fund to ensure that balances were correctly transferred from the outgoing Shareholder system to the new Openair system and, • the adequacy of controls in place in the new system and testing of the effectiveness of those controls as necessary
<p>Triennial Review The Fund will complete a Triennial Actuarial Valuation Review reflecting the position of the Fund at 31 March 2010. Whilst this is not a direct audit opinion risk, it is a key issue as regards the ongoing governance of the Fund.</p>	<p>Governance</p>	<p>We will review the arrangements in place to gather data provided to the actuary to facilitate the Triennial Review and test its accuracy as necessary. We will review the actuarial assumptions agreed with the actuary for use in the review.</p>
<p>2008/09 errors A total of 16 (non trivial) errors and adjustments were identified and corrected during the 2008/09 audit, including 5 material errors arising from the misclassification of cash held by investment managers and sums due to and from stockbrokers. We also identified 4 errors in the disclosure notes, one of which was a material adjustment. The material corrections related to errors in the application of the new Statement of Recommended Practice for Pension Fund accounts introduced for the 2008/09 accounts which was not properly applied by the Fund.</p>	<p>All</p>	<p>The errors identified in 2008/09 will be specifically considered in 2009/10 We will review the arrangements for verifying the accounts are SORP compliant.</p>
<p>Related party transactions The 2008/09 audit identified a failure by a member to provide the necessary related party disclosure declaration.</p>	<p>Completeness</p>	<p>Audit procedures will be put in place for a timely review the required declarations.</p>

Identification of specific risks

Risk Area	Assertions	Audit response
Risk of non disclosure of politically sensitive related party relationships or transactions.		
<p>Economic climate</p> <p>Increased risk of fraudulent financial reporting due to the current economic climate and increased financial pressures</p>	All	<p>Ongoing discussion with senior Pension Fund officers regarding controls that mitigate the risk of fraud.</p> <p>Letters of Assurance to be obtained from those charged with governance.</p> <p>Ongoing monitoring of the Pension Fund's investment management and performance arrangements.</p> <p>Completion of a fraud Risk Assessment</p> <p>Review of the Letter of representation</p>
<p>Closedown and audit timetable</p> <p>The Pension Fund and Council must produce its accounts by the end of June and we have planned for most of our work to be completed during July 2010.</p> <p>Consequently, a delay in producing either the accounts or necessary supporting working papers will impact on our ability to complete the audit by the deadline and report to members.</p>	All	Key milestones and timetable detailed in Table 4 of this report.

Testing strategy

- 26 On the basis of risks identified above we will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.
- 27 Our testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing).
- 28 Wherever possible, we will complete some substantive testing earlier in the year before the financial statements are available for audit. We have identified the following areas where substantive testing could be carried out early.
- Review of accounting policies.
 - Bank reconciliation.
 - Contributions.
 - Investments – ownership, existence and valuation.
 - Year end feeder system reconciliations.
- 29 Where other early testing is identified as being possible this will be discussed with officers. We will also discuss areas where we may be able to rely on Internal Audit testing of financial systems.

Key milestones and deadlines

- 30 The Pension Fund and Council are required to prepare their financial statements by 30 June 2010. We are required to complete our audit and issue our opinion by 30 September 2010. The key stages in the process of producing and auditing the financial statements are shown in Table 4 below.
- 31 We will agree with you a schedule of working papers required to support the entries in the financial statements.
- 32 During the post statements audit we will meet with the key contact fortnightly and review the status of all queries. If appropriate, we will meet at a different frequency depending upon the need and the number of issues arising.

Table 4 Proposed timetable

The following timetable will be kept up to date during the audit

Task	Deadline
Agreement of Opinion Plan with officers	Draft by early December 2009 Final by end December 2009
Progress meetings - pre statements	quarterly
Presentation of Opinion Plan to members Finance to present covering report including explanation of the final accounts process and the respective roles of Pensions and Audit and Risk Management Committees	Pensions Committee 13 January 2010 (papers by 21 December 2009) ARMC 18 January 2010 (papers by 29 December 2009)
ISA+315 work - understanding the entity	January 2010
Pre statements control and early substantive testing	February/March 2010
Planning of and arrangements for FRS17 assurance work	March 2010
Pre statements testing of Investment Valuation and initial FRS17 assurance work	Late May/early June 2010
Working papers provided to auditors	By 16 June 2010
Receipt of pre audit accounts by auditor	By 16 June 2010
Pensions Committee to challenge accounts and make recommendations to ARMC	Before ARMC meeting (by 30 June 2010)
ARMC to challenge and approve Council	By 30 June 2010

Key milestones and deadlines

Task	Deadline
accounts, including Annual Governance Statement and Pension Fund Statements.	(papers out by 16 June)
Start of detailed post statements testing	late June 2010
Progress meetings	fortnightly
Completion of fieldwork on statements	mid August 2010
Agreement of Errors and Uncertainties	20 August 2010
Draft MPF Annual Report provided to auditors	20 August 2010
Draft Annual Governance Report from Audit Commission to officers	3 September 2010
Meeting with officers to agree final AGR (AGR will highlight any outstanding issues that will be updated at meetings with members)	Meetings by 8 September 2010 Final AGRs by 13 September 2010
Final version of Annual Report available for audit agreement	17 September 2010
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
ARMC to receive Annual Governance Report, including any verbal update on outstanding issues	By 30 September 2010 Papers out by 13 September 2010
Final check of post-audit statements and annual report	By 30 September 2010
Issue of opinion by District Auditor	By 30 September 2010
Annual Report published	by 1 December 2010

The audit team and key contacts

33 The key members of the audit team for the 2009/10 audit are shown in the table below.

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 Wirral 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	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 (from January 2010)	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, including FRS17. Key point of contact for the Head of Pensions, the Financial Controller and the Chair of the Pensions Committee. Annual Governance Report for Merseyside Pension Fund.
Danny Baxter Audit Team Leader	d-baxter@audit-commission.gov.uk 0151 666 3486	Leads fieldwork and audit team on opinion and FRS17 work. Key point of contact for and liaison with the Head of Pensions and the Financial Controller.

Independence and objectivity

- 34 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 35 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised at Appendix 2.
- 36 Wirral Council and Merseyside Pension Fund key officer contacts for the opinion audit are set out in the table below.

Table 6 Wirral Council and Merseyside Pension Fund key officer contacts

Key officers of the Wirral Council and Merseyside Pension Fund 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 a true and fair view of the financial position of the Council and Merseyside Pension Fund at 31 March 2010. Agreement of final AGR.
Bill Norman Director of Law, Asset Management and HR	billnorman@wirral.gov.uk 0151 691 8498	Monitoring Officer Considering the legality of transactions.
Peter Wallach Head of Pensions	peterwallach@wirral.gov.uk 0151 242 1309	Preparation and quality assurance of accounts that present a true and fair view of the financial position of Merseyside Pension Fund at 31 March 2010. Agreement of draft AGR for Merseyside Pension Fund.
Gerard Moore Financial Controller	gerardmoore@wirral.gov.uk 0151 242 1307	Preparation of accounts and coordination and liaison during the audit.
Dave Garry Chief Internal Auditor		Review of and assurance on risk management, corporate governance and financial control.

The audit team and key contacts

Wirral Council

37 Wirral Council and Merseyside Pension Fund key member contacts for the opinion audit are set out below:

Table 7 Wirral Council and Merseyside Pension Fund key member contacts

Key members involved in the financial statements

Name	Contact details	Responsibilities
Councillor Steve Foulkes Leader of the Council	stevefoulkes@wirral.gov.uk	Governance framework and signing the Annual Governance Statement.
Paula Southwood Chair of the Audit & Risk Management Committee	paulasouthwood@wirral.gov.uk	Approves and signs the accounts on behalf of the Council.
Councillor A McLachlan Chair of Pensions Committee	annmclachlan@wirral.gov.uk	Makes recommendations for the Chair of ARMC to approve and sign the accounts and the Letter of representation.

Wirral Council

38 In addition, all members of the Pensions Committee are responsible for:

- challenging the pre-audit Pension Fund accounts
- putting forward recommendations for the Chair of ARMC to approve and sign the accounts
- considering the post audit Annual Governance Report and the Letter of representation

39 All members of the Audit & Risk Management Committee are responsible for

- The approval of the Council's accounts, including the Pension Fund's statements of account
- The responsibilities of the Council under section 151 of the Local Government Act 1972 to make proper provision for its financial affairs.

Quality of service

40 We are committed to providing you with a high quality service. The quality of our service is monitored by the Audit Commission which has recently published the [Audit Practice annual quality report \(November 2009\)](#) . This report summarises the results of

the quality review of the work of the Commission's own staff as auditors to local government and NHS bodies, including the views of the Audit Inspection Unit that carried out an independent review of our work.

- 41 The publication of the Audit Commission's audit practice annual quality report is one of a range of measures aimed at demonstrating our commitment to delivering audit quality. It assures audited bodies and stakeholders about the arrangements in place and the underlying strength of the Commission's audit practice and compares our audit practice with the firms and the other audit agencies.
- 42 If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact the North West Head of Operations, Terry Carter: t-carter@audit-commission.gov.uk .
- 43 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet 'Something to Complain About' which is available from the Commission's website or on request.

Planned outputs

- 44 Reports will be discussed and agreed with the appropriate officers before being issued to the Audit and Risk Management Committee and/or Pensions Committee.

Table 8 **Planned outputs**

Planned output	Indicative date
Opinion audit plan	31 December 2009
Update to opinion audit plan and feedback on interim audits (if required)	March 2010
Annual governance report	30 September 2010
Auditor's report giving an opinion on the financial statements	30 September 2010
Final accounts memorandum (if required)	30 November 2010

- 45 We will agree final dates with you as the audit progresses.

Sustainability

46 The Audit Commission is committed to promoting sustainability in our working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.

Appendix 1 – Fees Letter

26 April 2009

Ian Coleman
Director of Finance
Merseyside Pension Fund
Treasury Building
Cleveland Street
Birkenhead
CH41 6BU

Direct line 0844 798 7043

[m-
thomas@auditcommis-
sion.gov.uk](mailto:m-thomas@auditcommission.gov.uk)

Dear Ian

Annual audit fee 2009/10

Further to our previous discussions about the form of the audit fee letter, I am writing to confirm the audit work that we propose to undertake for the 2009/10 financial year at Merseyside Pension Fund. The fee is based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2009/10.

As I have not yet completed my audit for 2008/09, the audit planning process for 2009/10, including the risk assessment will continue as the year progresses and fees will be reviewed and updated as necessary.

The total indicative fee for the audit for 2009/10 is for £70,900 (excluding VAT), which compares to the planned fee of £61,750 for 2008/09 (15% increase).

The Audit Commission has published its work programme and scales of fees 2009/10. The Audit Commission scale fee for Merseyside Pension Fund is £70,900. The fee proposed for 2009/10 is at the scale fee and will be billed in monthly instalments.

In setting the fee at this level, I have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified to 2008/09. A separate plan for the audit of the financial statements will be issued in November 2009. This will detail the risks identified, planned audit procedures and any changes in fee. If I need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with you and then prepare a report outlining the reasons why the fee needs to change for discussion with the Pensions Committee.

Appendix 1 – Fees Letter

I will issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 1.

The above fee excludes any work requested by you that the Commission may agree to undertake using its advice and assistance powers. Each piece of work will be separately negotiated and a detailed project specification agreed with you.

The key members of the audit team for the 2009/10 are:

Audit Manager – Liz Temple-Murray 0151 666 3483

Team Leader – Danny Baxter 0151 666 3486

I am committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact the Terry Carter, the North West Region Head of Operations: t-carter@audit-commission.gov.uk.

Yours sincerely

Mike Thomas
District Auditor

cc Peter Wallach, Head of Pensions

cc Gerard Moore, Financial Controller

cc Ann McLachlan, Chair of the Pensions Committee

Appendix 2 – Basis for fee

- 1 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.
- 2 The risk assessment process starts with the identification of the significant financial and operational risks applying to the Pension Fund with reference to:
 - our cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
 - interviews with Council officers; and
 - liaison with Internal Audit.

Assumptions

- 3 In setting the fee, I have assumed that:
 - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2008/09; however, we still need to assess any impact of the risks at Table 3 above and agree any changes to the fee with the Director of Finance;
 - you will inform us of significant developments impacting on the audit;
 - Internal Audit meets the appropriate professional standards;
 - good quality working papers and records will be provided to support the financial statements by 16 June 2010;
 - requested information will be provided within agreed timescales;
 - prompt responses will be provided to draft reports; and
 - additional work will not be required to address questions or objections raised by local government electors.
- 4 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

Appendix 3 – Independence and objectivity

- 1 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 2 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 3 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
 - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
 - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised
- 4 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Pension Fund Committee and the Audit and Risk Management Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.
- 5 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

- 6 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.
- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.
 - Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
 - The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years.
 - The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.
 - The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

WIRRAL COUNCIL

AUDIT AND RISK MANAGEMENT COMMITTEE

18 JANUARY 2010

REPORT OF THE DIRECTOR OF FINANCE

MERSEYSIDE PENSION FUND - AUDIT OPINION PLAN 2009-2010

1. EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to comment on the Audit Commission Audit Opinion Plan for the financial year 2009-2010. The Plan is included elsewhere on this agenda. The Audit Commission Audit Opinion Plan and this commentary were presented to the Pensions Committee on 13 January 2010.

2. BACKGROUND

- 2.1 The Opinion Plan has been produced to give Members an early indication of the scope, range, purpose, process, timescales and planned outputs for the audit and opinion on the closure of accounts for the current financial year.
- 2.2 Whilst following certain standard approaches, the Plan reflects the outcome of detailed discussions with the MPF.
- 2.2.1 MPF is obliged to advise the Auditor of any additional risks arising, or expected to arise during the year of audit. After six months of the current financial year, MPF migrated to a new accounting and budgeting system using the Oracle financial package as its basis. All accounting records therefore required transferring to this system on 1 October 2009, involving extensive reconciliations. In recognition of this, a provisional estimate was made of the additional audit time required for confirming that all balances had been transferred accurately. In addition, some preliminary work may be required on the Triennial Valuation as at 31 March 2010.
- 2.2.2 The Auditor has agreed other amendments to the draft report, which now indicates the levels of materiality and triviality, and also recognises that there may be various adjustments to the initial draft accounts during the course of the audit to reflect further information not previously available.
- 2.3 At the time of writing final guidance has not been received from the Department for Communities and Local Government regarding the content of the Annual Report. If and when received, this may impact on the audit plan.

3. FEE LEVELS

- 3.1 The approach of the Audit Commission is to refer to a "scale fee", based on a number of variables, including the type, size and location of the audited body. For MPF this is set at £70,900. This compares with the planned fee of £61,750 for 2008-2009.

- 3.2 However this scale free does not take account of any additional work, either to examine these new risks, or where any other assumptions regarding availability and access to information are not met. In such cases, where an addition to the fee may be required, the Audit Commission indicates the process that will be followed.

4. FINANCIAL IMPLICATIONS

- 4.1 I have included in the budget proposals elsewhere on this agenda a provisional charge of £73,700 for the audit and opinion on the accounts for the year ended 31 March 2010. This represents a 4% increase above the scale fee, to reflect an estimate of the additional work resulting from the mid-year transition to the more efficient accounting and budgeting system referred to in paragraph 2.2.1.
- 4.2 No information is available regarding the likely level of budget provision required for the financial year 2010-2011. This is likely to be dependent, in part, on the outcome of the audit of the accounts for the current financial year.

5 STAFFING IMPLICATIONS

- 5.1 There are none directly arising from this report.

6. EQUAL OPPORTUNITIES/EQUALITY IMPACT ASSESSMENT

- 6.1. There are none arising from this report.

7. COMMUNITY SAFETY IMPLICATIONS

- 7.1. There are none arising from this report.

8. HUMAN RIGHTS IMPLICATIONS

- 8.1 There are none arising from this report.

9. LOCAL AGENDA 21 IMPLICATIONS

- 9.1. There are none arising from this report.

10. PLANNING IMPLICATIONS

- 10.1. There are none arising from this report.

11. MEMBER SUPPORT IMPLICATIONS

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

12. BACKGROUND PAPERS

- 12.1 Audit Opinion Plan Merseyside Pension Fund - Audit Commission - December 2009.

13. RECOMMENDATION

- 13.1 That Members note the Audit Opinion Plan for the financial year 2009-2010.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/353/09

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Data Quality

Spot Checks

Wirral Metropolitan Borough Council

Audit 2008/09

January 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.

Introduction

- 1 Effective organisations measure their performance against priorities and targets in order to check how well they are doing and to identify opportunities for improvement. Therefore the performance information they use must be fit-for-purpose. The Audit Commission paper: *In the know*, published in 2008, defines fit-for-purpose information as being relevant, of an appropriate quality and presentation for the decision being taken.
- 2 Good quality data are the foundation of good quality information. The Audit Commission's joint paper: *Improving Information to Support Decision Making: Standards for Better Quality Data*, published in 2007, sets out standards for promoting good data quality.

Background

- 3 Auditors assess the arrangements for data quality and use of information at key line of enquiry (KLOE) 2.2 in the use of resources (UoR) assessment. UoR KLOE 2.2 focuses predominantly on arrangements for using fit-for-purpose information and securing data quality. Auditors undertake spot checks of selected data, based on their knowledge of local risks, as evidence to support this KLOE judgement. This integrated approach to UoR and data quality replaces the previous approach to data quality work which was undertaken separately.
- 4 Our UoR assessment in the Annual Governance Report presented to the Audit and Risk Management Committee on 23 September 2009 reported that the 'Council produces relevant and reliable data and information to support decision making and manage performance. Understanding of needs of decision makers is improving. Data security is satisfactory. Performance is monitored against priorities and targets and underperformance being addressed'. This report provides feed back on detailed findings arising from the data quality spot checks carried out in 2008/09 which will be taken forward as part of our local briefing with officers for 2009/10.
- 5 The purpose of the spot checks is to support the auditor's judgement on KLOE 2.2, by confirming whether an authority's arrangements are working in practice and are applied consistently. The spot checks therefore consider whether data is fit-for-purpose, by considering the arrangements to produce the data and testing a small sample of supporting records. The purpose of the spot checks is not to comment specifically on the published value of an indicator, as was the case in previous years.
- 6 Spot checks assess data against the six data quality dimensions defined by the Audit Commission:
 - accuracy;
 - validity;
 - reliability;
 - timeliness.
 - relevance; and
 - completeness.
- 7 These dimensions underpin the voluntary standards set out in the joint paper: *Improving Information to Support Decision Making: Standards for Better Quality Data.*

Background

- 8 The scope of the audit covers both national and local indicators.
 - The department for Communities and Local Government (CLG) announced a single set of 198 national indicators (NIs), the National Indicator Set (NIS), in October 2007 following the government's Comprehensive Spending Review 2007. The NIS is the only set of indicators on which central government will manage the performance of local government. They replace all other existing sets of indicators, including Best Value Performance Indicators (BVPIs) and Performance Assessment Framework indicators, from 1 April 2008. Targets against the NIS are negotiated through Local Area Agreements (LAAs) at each single tier and county council local strategic partnership. Each LAA will include up to 35 targets from the NIS, complemented by 17 statutory targets on educational attainment and early years.
 - NIs should not be the only way in which authorities manage performance. Authorities should complement use of the NIS with locally developed PIs and measures, which align to the authority's objectives and priorities.

Audit approach

- 9 Our approach to the spot checks of PIs consisted of:
- applying a set of service-specific management arrangements questions;
 - understanding the system used to collect and process the data in accordance with the PI definition; and
 - testing the underlying data against the six data quality dimensions (accuracy, validity, reliability, timeliness, relevance and completeness) as applicable.
- 10 For 2008/09 we were required to carry out mandatory testing on housing benefit cases which we completed as part of the recent certification of the Housing Benefit claim. Auditors now undertake one integrated piece of work on benefits, covering claim certification, data quality and some audit opinion requirements, using a set of workbooks developed by the Commission. The work supports auditors' UoR assessments and the Commission's benefits inspection risk assessments.
- 11 The purpose of the spot checks of benefits data is to consider the correct payment of benefit to claimants and the correct claim of subsidy. The spot checks do not focus on published performance indicators, as previously, but on the data quality of the benefits records on which these PIs are based. This is because:
- from 2008/09 BVPIs were replaced by new benefits indicators in the NIS; and
 - in April 2008 the DWP introduced an electronic data collection process for benefits performance indicators, known as the Single HB Extract (SHBE). This is intended to extract specific NIS performance data directly from authorities' benefits systems, avoiding submission of manual returns. There have been technical problems in introducing this system, which was due to be fully operational in 2008.
- 12 We were also required to choose a sample of others to test. We chose two NIs and two local indicators. The individual indicators reviewed is as follows.
- NI 145 - The percentage of adults with learning disabilities known to the Council with Adult Social Services Responsibility (CASSRs) in the settled accommodation at the time of their review or latest review.
 - NI 117 - 16 to 18 olds who are not in education, employment or training (NEET).
 - Local 2080 - The number of undisputed invoices for commercial good and services paid by the authority within 30 days of the receipt or within the agreed payment terms.
 - Local 6275 - The level of sickness absence in local authorities.

Main conclusions

13 Our detailed review of the selected indicators supports our conclusion that overall, the Council produces relevant and reliable data and information to support decision making and manage performance. However, the results of our spot checks of benefits data have raised some concerns about the high level of errors identified through the Council's quality assurance process which could result in claimants not receiving the correct payment of benefit. In addition, the indicator for the number of undisputed invoices paid by the authority within 30 days was not accurate until the latter part of the year but our testing confirmed that data quality had improved by the end of the year. Both of these issues are detailed below.

Table 1 Spot check testing

Our assessment is that overall, the Council produces relevant and reliable data and information to support decision making and manage performance

Area of testing or selected performance indicator	Management arrangements	Accuracy, validity, reliability, timeliness, relevance and completeness
Housing benefits	✓	✓ but issues regarding the high level of errors identified by QA testing
NI 145 - adults with learning disabilities in the settled accommodation	✓	✓
NI 117 - 16 to 18 olds who are not in education, employment or training (NEET)	✓	✓
Local 2080 - number of undisputed invoices paid by the authority within 30 days of the receipt or within the agreed payment terms	x not for full year	x not for full year
Local 6275 - The level of sickness absence	✓	✓

Housing benefit indicators

- 14 We tested 60 cases across three categories of benefits and no errors or data quality issues were identified. We also tested 40 backdated benefit cases where, based on our cumulative knowledge and experience, there was a likelihood of error, and identified 12 errors which were amended or reported in our qualification letter. It is acknowledged, however, that this is a specific issue relating to this limited area (only 1.4 per cent of cases include backdates) and is not typical of the population overall.
- 15 We also identified a significant failure rate in the quality assurance (QA) testing undertaken by the Council's Compliance Team. In 2008/09, the Compliance Team tested some 7,500 new case or change in circumstance transactions (approx 10 per cent of the total) and in approximately 20 per cent of these found errors in the accuracy of the data. Although assessors corrected all the errors identified, the impact of such errors on the untested (90 per cent) population was not assessed or evaluated.
- 16 However, the Compliance Team subsequently quantified the next full months testing in May 2009 and the outcome was used extrapolate the possible impact on the whole population in 2008/09 using the errors rates the Compliance Team had identified that year. The possible absolute error extrapolated was £1,023,972 made up as follows:

Table 2 Compliance Team quality assurance errors

The possible absolute error extrapolated was £1,023,972 made up as follows:

Benefit area	Possible overpaid	Possible underpaid
Rent Allowances	£487,596	£413,238
Council Tax Benefit	£118,674	£4,464
Total	£606,270	£417,702

- 17 These values were not material for the opinion or the subsidy claim. However, the high level of QA errors indicates scope to improve data quality and there is also a possible impact on individual claimants who may not have received the correct payment of benefit.

Recommendation

- R1** Improve data quality and ensure that individual claimants receive the correct benefit:
- continue to quantify the results from QA testing, consider the reasons for errors and the impact, including on claimants;
 - monitor performance over time; and
 - identify and implement appropriate training and other corrective action.

Main conclusions

Local 2080 - number of undisputed invoices paid by the authority within 30 days of the receipt or within the agreed payment terms

- 18 The indicator for the number of undisputed invoices paid by the authority within 30 days was not fit-for-purpose until the latter part of the year. Our testing confirmed that data quality had improved by the end of the year.
- 19 In our review of this indicator in 2007/08 (BVPI 8), we found that the Council had not followed the correct definition of the indicator. As a result, some data which should have been included in the calculation was not, and vice versa. The Council re-ran the data but were not able to identify and remove all of the data which should not be included in the calculation, or to identify data which should be included. We were therefore unable to certify that the PI was fairly stated. We chose this indicator to test for 2008/09 to assess the Council's progress on improving data quality.
- 20 We found that this PI is now calculated with accordance with the PI definition and guidance, but only for the latter part of the year and only the final month has been used to complete the annual indicator. The data for the PI in the latter part of the year has been collected and cleansed so that the data is accurate and valid and complete before being included in the PI calculation. From the spot checks that we performed on a sample of invoices selected at random we can confirm that only relevant data has been included in the PI.

Next steps

- 21 The findings arising from the data quality spot checks will be taken forward as part of our local briefing with officers for the 2009/10 UoR assessment and value for money conclusion.

Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	<p>R1 Improve data quality and ensure that individual claimants receive the correct benefit:</p> <ul style="list-style-type: none"> • continue to quantify the results from QA testing, consider the reasons for errors and the impact, including on claimants; • monitor performance over time; and • identify and implement appropriate training and other corrective action. 	2				

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WIRRAL COUNCIL

AUDIT AND RISK MANAGEMENT COMMITTEE

18 JANUARY 2010

REPORT OF THE DIRECTOR OF FINANCE

DATA QUALITY SPOT CHECKS 2008/09: AUDIT COMMISSION REPORT

1. EXECUTIVE SUMMARY

- 1.1. This report provides Members with details of issues raised in the Audit Commission report on Data Quality Spot Checks undertaken in 2008/09 with specific regard to Housing Benefits as well as the undisputed invoices check and how these have been addressed.

2. BACKGROUND

- 2.1. The Authority is responsible for the accurate and timely payment of Housing and Council Tax Benefit as well as Local Housing Allowance (introduced in April 2008) and Discretionary Housing Payment. The total paid for 2008/09 was £134,509,342 to an average of 37,447 claimants with a live caseload of 38,815 at the end of March 2009. In total 357,929 payments were made to landlords and tenants during the year.
- 2.2. The Benefits Service has been acknowledged as excellent in each year bar one of the assessment under the Comprehensive Performance Assessment and Benefits Fraud Inspectorate reviews. In that year the reduction in assessed performance was only related to a specific and longstanding appeal.
- 2.3. The audit process requires the service to be checked by both Internal and External Audit for the grant claims submissions.
- 2.4. The Audit Commission also undertakes other checks as part of the Use of Resources Assessment. Key Lines Of Enquiry (KLOE) 2.2 focuses predominantly on arrangements for using fit for purpose information and data quality. Auditors undertake checks of selected data as evidence to support this KLOE judgement.
- 2.5. The six data areas to be checked are Accuracy, Validity, Reliability, Timeliness, Relevance and Completeness.
- 2.6. Mandatory testing was undertaken for certification of the Benefits Claim which at the same time tested data quality.

3. AUDIT COMMISSION FINDINGS

- 3.1. The Audit Commission found that overall the Council produces relevant and reliable data and information to support decision making and manage performance. It highlighted that there were issues regarding the high level of errors identified within the Quality Assurance Testing.
- 3.2. The specific area raised for Benefits was the stated significant failure rate in Quality Testing that some 20% of checks contained errors, accepting that these were then corrected the extrapolation indicated the initial error rate could amount to £1,023,972. The Audit Commission stated that these were not material for the Audit Opinion or in the Subsidy Claim but give scope for improving data quality by;
 - Continuing to quantify the results from QA testing and considering the reasons and the impact on claimants
 - Monitoring performance over time.
 - Implementing appropriate training and other corrective action.
- 3.3. With regard undisputed invoices paid by the Authority within 30 days or the agreed payment terms, the Audit Commission stated that appropriate management arrangements were not in place for the full year. Specifically the correct definition had not been followed which meant data that should have been included may not have been or vice versa. After the review the Audit Commission was unable to certify the PI as fairly stated. However it was accepted by the Commission that the issue was rectified before the end of the year and has remained correct throughout 2009-10.

4. RESPONSE TO THE REPORT

- 4.1. The Audit Commission report is based upon work within the 2008/09 financial year and the Authority, has continued to improve and address the issues raised.
- 4.2. The extended check undertaken by the Benefits Compliance Team indicated that the level of error was much lower than the 20% quoted in the Audit Commission report and was on average 2.3%, giving a total potential overstatement of £20,471. This lower sum comes about when taking account of administrative errors which did not affect entitlement as well as the check being made just after several new starters had been released to do work (which was highly checked) and once settled in that initial error rate and checking level came down quickly as they gained experience.

- 4.3. The suggested actions have been in place since May 2009 and the Audit Commission is aware of the extended work carried out. The initial Audit Commission check of such a limited number of cases could make the initial extrapolation not statistically viable. The more extended and detailed work undertaken is a more accurate reflection of the position
- 4.4. The last Benefits Subsidy Claim signed off is for 2007/08 which showed a low level of error (for which the claim was adjusted) after Audit Commission checking of just £61,472 within a claim of £121,501,536. The 2008/09 claim is now finalised and an even lower level of error is reported of £796, which could be extrapolated to £10,200 within a total claim of £134,509,342.
- 4.5. Internal Audit also undertakes key checking within Benefits and in the last assessment indicated that the overall control environment within benefits continued to be at a level between satisfactory and good. The Audit Commission is aware of the Internal Audit workplan and the outcomes of their work.
- 4.6. I have acknowledged past issues and implemented a highly rigorous checking system. This is led by a Quality Assurance Team supported by the Benefits Training Team. Wirral is one of the few authorities regionally to put so much resource and effort into checking and training. The amount of training and checking undertaken is high and remains so given both the sums of money involved and the importance of the service. This includes monthly team and individual reviews which supplement the KIE process. The outcomes form quality assurance checks, and operational level performance reviews have been used for some considerable time to inform training and development.
- 4.7. It is clear from Merseyside colleagues that Wirral continues to receive a far more thorough and resource intensive (and thus expensive) level of external audit.
- 4.8. With regard to Invoices the required changes have as detailed above been in place since February 2009 and continue to be applied. It is also noteworthy that this is no longer a National Indicator.

5. STAFFING AND FINANCIAL IMPLICATIONS

- 5.1 There are no direct financial or staffing consequences arising from this report. The robust and detailed checking already in place has seen the subsidy claim amendments and overall errors be reduced successfully. This process will continue.

6. EQUAL OPPORTUNITIES/EQUALITY IMPACT ASSESSMENT

- 6.1. There are none arising directly from this report.

7. **COMMUNITY SAFETY IMPLICATIONS**

7.1. There are none arising directly from this report.

8. **HUMAN RIGHTS IMPLICATIONS**

8.1. There are none arising directly from this report.

9. **LOCAL AGENDA 21 IMPLICATIONS**

9.1. There are none arising directly from this report.

10. **PLANNING IMPLICATIONS**

10.1. There are none arising directly from this report.

11. **MEMBER SUPPORT IMPLICATIONS**

11.1. There are none arising directly from this report.

12. **BACKGROUND PAPERS**

12.1 Data Quality Spot Checks 2008/09 Report - Audit Commission - December 2009.

13. **RECOMMENDATION**

13.1 That Members note this report.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/2/10

WIRRAL COUNCIL
AUDIT AND RISK MANAGEMENT COMMITTEE

REPORT OF THE DEPUTY CHIEF EXECUTIVE/DIRECTOR OF CORPORATE
SERVICES

18th JANUARY 2010

DATA QUALITY ACTION PLAN AND PROGRESS REPORT

1. Executive summary

- 1.1 The purpose of this report is to provide Audit and Risk Management Committee with Wirral's Data Quality Action Plan and progress against actions within the plan.

2. Background

- 2.1 In 2008 the Audit Commission carried out an assessment of the Authority's data quality arrangements for 2007/2008. These findings were reported to Audit and Risk Management Committee on January 26th 2009. It was agreed by Cabinet on April 9th 2009 that a comprehensive Data Quality Action plan would be developed and reported to Corporate Improvement Group and Audit and Risk Management Committee on a quarterly basis. Progress was most recently reported to Audit and Risk Management Committee on 25th November, where the Committee requested an update be brought back to the next meeting detailing any further actions which had been completed, and revised completion dates for any still outstanding. Since that date, all actions within the action plan have been completed.

3. Data Quality Action Plan

- 3.1 The Data Quality Action Plan has been developed to address the Audit Commission's recommendations. This action plan also includes recommendations made by the council's own internal audit function during 2007/08 and any outstanding recommendations made by the Audit Commission in 2006/07 where appropriate.

4. Action plan progress at the Third Quarter

- 4.1 The following table shows the Audit Commission recommendations and progress against the actions in place to address them as at 5th January 2010. As noted earlier, all actions are now complete:

Pg.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsible Officer / Group	Agreed	Comments	Date	Actions	Status
7	<p>R1 Strengthen arrangements for providing leadership and governance on data quality by:</p> <ul style="list-style-type: none"> - clarifying the respective roles and responsibilities of Corporate Improvement Group (CIG) and Performance Management Group (PMG) specifically for championing data quality; • developing an action plan which addresses common themes from service based reviews of data quality and includes measurable targets for improvement, and keeping progress against the plans and targets under regular review within the forum of PMG; • producing regular reports for CIG on progress against the action plan and targets, and ensuring that key messages are being communicated back to departmental management teams through both the CIG and PMG; • producing an annual report on progress against the action plan and targets for the Audit and Risk Management Committee. <p>Implementing this recommendation will help the Council to further develop its corporate approach to ensuring the quality of its data. We do not anticipate that implementing this recommendation will incur significant cost.</p>	3	Head of Policy Corporate Performance Manager	Yes	To be developed by Performance Management Group and Corporate Improvement Group	By 31 March 2009	<p>Refresh Performance Management Group (PMG) & Corporate Improvement Group (CIG) Terms of Reference & include in refreshed Data Quality Policy</p> <p>Develop Data Quality Action Plan to address Audit Commission's findings / recommendations & report progress through PMG, CIG and Audit & Risk Management Committee</p> <p>Complete Performance Indicator reviews for all National Indicators able to be reviewed at this stage</p> <p>Develop data collection database for Performance Indicator reviews</p> <p>Analyse common themes from reviews, escalating to Internal Audit as appropriate.</p> <p>Reflect revised Performance Indicator review procedure in Data Quality Policy.</p>	<p>Complete</p> <p>Complete</p> <p>Complete – remaining PIs will be reviewed by June 2010</p> <p>Complete</p> <p>Complete</p> <p>Complete</p>

Pg.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsible Officer / Group	Agreed	Comments	Date	Actions	Status
8	<p>R2 Refine the corporate data quality policy by:</p> <ul style="list-style-type: none"> documenting the respective roles and responsibilities of Corporate Improvement Group and Performance Management Group for championing data quality (see also recommendation 1); clarifying the respective roles and responsibilities of internal audit and of Performance Management Group in reviewing data quality at service level; and defining the requirements for validating third party data and arrangements for data sharing to support partnership working. <p>Implementing this recommendation will help the Council realise the full potential of the data quality policy in supporting and facilitating improvements. We do not anticipate that implementing this recommendation will incur significant cost.</p>	3	Head of Policy / Corporate Performance Manager	Yes in part	<p>The third bullet will require a significant amount of effort to establish all requirements for data sharing between partners. This may well bring a significant cost implication and individual partners have their own regulatory frameworks regarding data sharing and audit. It is not practical to assume that the authority's data quality policy will define all requirements for partners. We would look for the Commission to agree with the combined inspectorates how it wishes to tackle auditing data quality and provide further guidance on this to the local authority.</p>	By 31 March 2009	<p>Refresh Performance Management Group & Corporate Improvement Group Terms of Reference & include in refreshed Data Quality Policy</p> <p>Include information regarding role of Internal Audit and others in Data Quality Policy</p> <p>Agree partnership Data Quality requirements and develop Partnership Data Quality Agreement.</p>	<p>Complete</p> <p>Complete</p> <p>Complete</p>
8	R3 Within each service area, evaluate how information systems are being used	2	Head of Policy for	Yes	Any system changes must be	By 31 March	Adapt Performance Indicator Review process to include	Complete

Pg.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsible Officer / Group	Agreed	Comments	Date	Actions	Status
	<p>to calculate performance indicators and take appropriate action to address any opportunities for improvement identified by this review.</p> <p>Implementing this recommendation will help the Council ensure that performance indicators are being calculated in the most efficient and effective way. We do not anticipate that implementing this recommendation will incur significant cost.</p>		overall process. Relevant heads of service for all indicators.		cost effective and it is not clear that they will not incur significant cost.	2009	consideration of systems.	

Pg.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsible Officer / Group	Agreed	Comments	Date	Actions	Status
9	R4 Put arrangements in place to ensure that performance against data quality standards and targets is consistently covered in appraisals for staff with specific responsibilities for data quality, and that action is taken to address any development needs identified by these appraisals.			No as worded	The Key Issues Exchange framework is currently under review and this will provide an opportunity to incorporate a council policy to address this recommendation. Ultimate responsibility will be for the chief officer of the relevant department to ensure this is implemented. Auditing this to ensure it happens would be prohibitively expensive and would not generate sufficient benefit to justify the cost.		Agree with Corporate Improvement Group for Data Quality to be covered in Key Issues Exchange process for relevant staff to identify any development needs. Reflect this in Data Quality Policy.	Complete Complete
9	R5 Put arrangements in place to ensure that common issues and opportunities for improvement arising from data quality reviews undertaken by internal audit and Performance Management Group are communicated to all relevant staff. Implementing these recommendations will	2	Corporate Performance Manager	Yes	Performance management group will lead on circulating information within their departments.	By 31 March 2009	Develop a data quality workshop to provide guidance/support to relevant staff. Communicate feedback from Performance Indicator reviews to Performance	Complete Complete

Pg.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsible Officer / Group	Agreed	Comments	Date	Actions	Status
	help the Council ensure that all relevant staff are sufficiently skilled and appropriately supported to deliver the requirements of the corporate data quality policy. We do not anticipate that implementing this recommendation will incur significant cost.						Management Group and Corporate Improvement Group.	

Pg.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsible Officer / Group	Agreed	Comments	Date	Actions	Status
10	<p>R6 Investigate the factors which impact on the timeliness of performance reports to Cabinet and the overview and scrutiny committees, and take action to address any issues identified by this review.</p> <p>Implementing this recommendation will help the Council to improve the capacity of its members for providing effective scrutiny and challenge to performance. We do not anticipate that implementing this recommendation will incur significant cost.</p>	2	Head of Policy / Corporate Performance Manager	Yes	<p>This has already been improved during 2008/9, particularly for chief officers and cabinet. The number of meetings contained within the Council timetable makes it difficult to provide timely reports to Overview & Scrutiny committees. However, in the light of the adoption of the new Corporate Plan, Cabinet is minded therefore to consider recommending to Council a system where five Overview and Scrutiny Committees mirror instead the five agreed Corporate Objectives in order to allow those committees to play a real part in delivering the</p>	By 31 March 2009	<p>From April 2009 performance reports will be placed on the electronic members' library 2 weeks after the quarter end and a report will be presented to the next available Cabinet meeting.</p> <p>Produce one performance report for each of the 5 revised Overview and Scrutiny Committees.</p>	<p>Complete</p> <p>Complete</p>

Pg.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsible Officer / Group	Agreed	Comments	Date	Actions	Status
					Council's agreed agenda. However, Cabinet realises that this is an issue that will need substantial consultation and debate with all those concerned and therefore agrees to review the position with the object of taking new proposals, with detailed terms of reference, to the appropriate Council to take effect from the next Council AGM.			
17	R7 The Council should review its compliance testing arrangements to ensure that data collected and reported for Housing Benefits Performance Indicator is robust.	2	Head of Revenues, Benefits and Customer Service / Housing benefit section	Yes	Performance indicators have been replaced by just 2 National Indicators for 2008/09 and specific tests are in place to identify errors in recording of data which may impact on those indicators.	By 31 March 2009	Ensure controls are in place to identify errors in recording of data which may impact on those indicators.	Complete

Pg.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsible Officer / Group	Agreed	Comments	Date	Actions	Status
17	R8 The Council have improved in their reporting of Housing Investment Programme Housing Strategy Statistical Appendix - Private sector homes vacant; however they are continuing to experience considerable difficulties in compiling the indicator which could be easily remedied by setting up queries (Structured Query Language, SQLs) to interrogate the Council Tax system (Academy). More effective use could also be made of officer time in validating the data on empty properties, again through improved working with staff within the Council Tax section.	2	Head of Housing/ Head of Benefits, Revenues and Customer Services	Yes	Communication has been established between the relevant sections to address this recommendation. Work is also underway to reference other best practice authorities to address this recommendation	July 2009	Establish effective communication processes between teams involved.	Complete
17	R9 Our spot check testing found Housing Investment Programme Housing Strategy Statistical Appendix repeat homelessness indicator was fairly stated. However, we found that the corporate Data Quality policy has not yet been fully implemented. Guidance/procedures for calculating the indicator are not yet documented in all service areas. There is further scope to make more effective use of IT in the calculation of indicators. Data has required some manual manipulation which has demanded officer time and increased the risk of error. In addition there is scope to extend corporate training/briefing on common Data Quality issues.	3	Corporate Performance Manager / Head of Housing	Yes	Data collection will now be fully aided the recent installation of a homelessness IT system. Wirral's data quality policy was circulated by the Chief Executive to all relevant staff. Further training will be provided regarding data quality and Wirral's data quality policy to ensure full implementation. Guidance and procedure notes for	By March 2009		Complete

Pg.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsible Officer / Group	Agreed	Comments	Date	Actions	Status
					calculation will be documented in all areas and will be checked through spot checks coordinated by the corporate performance team.			
17	R10 The Council should carry out a review of its management arrangements in order to ensure that they are correctly collecting and reporting data in line with the new requirements of the National Indicator Set.	2	Head of Policy	Yes	This is already underway, however many of the arrangements are either set by central government or have not yet been clarified by government departments.	By 31 March 09	Complete Performance Indicator reviews for all National Indicators able to be reviewed at this stage	Complete
17	R11 We would urge Corporate services to revisit the recommendations made in the internal audit report to ensure that they are equipped to report on the new national indicators.	2	Head of Policy	Yes	We have already reviewed the National Indicator Set and refer to R7 above.	By 31 March 09	Include any relevant actions in the Data Quality Action Plan	Complete

5. Data Quality Assessment 2008/09

- 5.1 The Use of Resources element of the Council's organisational assessment of CAA was partly informed by an assessment of our data quality arrangements for 2008/09 under key line of enquiry (KLOE) 2.2 which focuses predominantly on arrangements for using fit-for-purpose information and securing data quality. Auditors undertake spot checks of selected data, based on their knowledge of local risks, as evidence to support this KLOE judgement. The Council has received a report on the Data Quality Spot Checks, and this will be reported to the Audit and Risk Management Committee. Any relevant actions will be included in a revised Data Quality Action Plan.

6. Financial implications

- 6.1 There are no immediate financial implications for Wirral resulting from this report.

7. Staffing implications

- 7.1 There are no staffing implications for Wirral resulting from this report.

8. Equal Opportunities implications

- 8.1 There are no equal opportunities implications for Wirral resulting from this report.

9. Community Safety implications

- 9.1 There are no community safety implications for Wirral resulting from this report.

10. Local Agenda 21

- 10.1 There are no environmental implications for Wirral resulting from this report.

11. Planning implications

- 11.1 There are no planning, land use etc. implications for Wirral resulting from this report.

12. Anti-poverty implications

- 12.1 There are no implications for people from deprived communities in Wirral resulting from this report.

13. Social inclusion implications

- 13.1 There are no implications that will potentially exclude individuals or groups from accessing services resulting from this report.

14. Local Member Support implications

14.1 There are no local member support implications arising from this report.

15. Background Papers

15.1 The following background papers were used in the preparation of this report:-

- Data Quality Report – Audit 2007/2008 - Audit Commission January 2009
- Data Quality Report – Audit and Risk Management Committee 26th January 2009
- Data Quality Report – Cabinet 9th April 2009
- Data Quality Action Plan and Progress Report 29th June 2009.
- Data Quality Action Plan and Progress Report 23rd September 2009.
- Data Quality Action Plan and Progress Report 25th November 2009.

16. Recommendations

16.1 Audit and Risk Management Committee note the progress against the Data Quality Action Plan.

J. WILKIE

Deputy Chief Executive/Director of Corporate Services

This report was prepared by Siân Williams, who can be contacted on 0151 691 8637.