

# 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.
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# 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.**

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## 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.
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## 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.

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### 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.

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### 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.

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### 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
<b>Total audit fees</b>	£406,650	£406,650	£0
Non-audit work - data quality workshop	£3,550	£3,550	£0
<b>Total</b>	£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

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### 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.
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### 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.**

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## 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.

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### 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.

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### 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.

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### 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.

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# 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.

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## 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.

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**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

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- 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

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## 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.

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### 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.

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### 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.

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## 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

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



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# The Audit Commission

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

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, 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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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

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