

Progress report

Wirral MBC June 2011

Audit 2010/11

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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Key messages

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

The Audit Commission

- The Audit Commission has agreed to the Permanent Secretary's request to start preparatory work for the potential outsourcing with effect from 2012/13 audits and will design a procurement process that allows a range of firms to bid, including the possibility of an in-house bid.

Fees

- The Audit Commission has now confirmed the programme of work and scale of fees for local government for 2011/12. (paragraph 12).

Opinion on the statement of accounts

- The implementation of International Financial Reporting Standards (IFRS) continues to be a significant challenge for the Council and a significant risk for our audit. We are currently not progressing to plan on the audit of the IFRS restatement exercise (paragraphs 22 - 25).
- Our work documenting and testing systems and processes is complete (paragraph 19).
- The Merseyside Pension Fund audit is progressing to plan (paragraph 29)

Value for money conclusion

- Our value for money work is progressing to plan (paragraph 33).

Public Interest Disclosure Act (PIDA) work

- Work on the PIDA in respect of the Directorate for Adult Social Services (DASS) continues (paragraph 35-37).
- We are currently following up the PIDA in respect of the Highways and Engineering Services Procurement Exercise (HESPE) and will report back to members at a future meeting (paragraph 38-39).

National Fraud Initiative (NFI)

- The Council is continuing to follow up matches on the 2009/10 NFI with the result that £318k is being recovered following error or fraud (paragraph 42)
- The 201/12 matches were release by the Audit Commission in January 2011 and the current figure for recovery stands at £29k (paragraph 45).

Grant claims and returns

- Our grants work for 2010/11 has started (paragraph 48).

Annual Audit Letter 2009/10

- Our Annual Audit Letter, summarising the key issues for the year, was presented to Cabinet and the Audit and Risk Management Committee in January (paragraph 49-50).

Audit team and key contacts

- There is a change to the audit team for Merseyside Pension Fund. There are no conflicts that we need to bring to members' attention (paragraph 51)

Members' resources

- Members' resources have been updated with the latest reports published by the Audit Commission. We have also provided a full list of International Financial Reporting Standards (IFRS) reports and briefings for management and members (paragraph 53-55).

Audit plan

Audit Commission

2 The Secretary of State for Communities and Local Government announced on 13 August that the Audit Commission would be abolished in 2012/13. The Audit Commission was already embarking on a three-year programme to deliver cost cuts of about £70 million (10 per cent per year).

3 The Audit Commission has been working closely with the Department for Communities and Local Government on options to externalise the work of the in-house audit practice. It has agreed to the Permanent Secretary's request to start preparatory work for the potential outsourcing with effect from 2012/13 audits.

4 The Commission been asked to design a procurement process that allows a range of firms to bid, including the possibility of an in-house bid, which could form the basis of a new and distinctive provider in the market, possibly a mutual.

2010/11 plan

5 The letters with the proposed fees for 2010/11 for audit and assessment were agreed with officers in April 2010 and were presented to members on 30 June 2010. Alongside the audit fees letter we presented the Work programme and scales of fees 2010/11, the new Code of Audit Practice 2010 and the Statement of Responsibilities of Auditors and Audited bodies.

6 The impact of the latest Audit Commission proposals on fees on Wirral Council for 2010/11 is summarised in the table below:

Table 1: **Work programme and fees 2010/11**

This represents the latest position on proposed fees for 2010/11. The scale fee for the 2010/11 audit is £363,000.

Work programme	Original fee £	Rebate/ reduction £	Latest fee proposal
Financial statements	257,612	21,904	235,708
Whole of government accounts	7,466	-	7,466
Value for money	126,922	12,705	114,217
Total audit	392,000	34,609	357,391
Managing	16,630	16,630	0

Work programme	Original fee £	Rebate/ reduction £	Latest fee proposal
performance			
Economic development	32,523	32,523	0
Total inspection	49,153	49,153	0
Certification of claims and returns	128,000	-	128,000
National Fraud Initiative *	2,000	-	2,000
Total work programme	571,153	83,762	487,391

Source: Audit Commission, December 2010

Note: The Audit Commission is sending rebates directly to audited bodies to avoid confusion with the annual audit fee - the figures for rebates in this table are estimates.

* NFI is £4,000 every 2 years.

Audit fee

7 The total indicative fee for the audit for 2010/11 is £392,000 (excluding VAT), a 0.5 per cent increase on the fee of £390,000 for 2009/10. This was less than the Audit Commission's anticipated 6 per cent increase for 2010/11 for the first year of International Financial Reporting Standards (IFRS) and is in line with our commitment to reduce the 2010/11 fee as noted at meetings with officers and members.

8 Members should also note that the Commission has confirmed that it would subsidise the 'one-off' element of the cost of transition to International Financial Reporting Standards (IFRS) for local authorities from 2010/11. You will have received a refund from the Audit Commission of £21,904 which brings the fee charged for 2010/11 to £370,096.

9 The letter sent by the Audit Commission to the Council made it clear that we will continue to deliver the audit in line with the statutory Code of Audit Practice under which we are required to give a value for money conclusion alongside the opinion on the financial statements. The impact of stopping Comprehensive Area Assessment (CAA), including the cost of making several hundred staff redundant, has limited the level of rebates the Commission can afford to give bodies in 2010/11. However, the Commission now proposes to rebate 3.5 per cent for single-tier councils in respect of the new approach for value for money. The rebate will be sent out shortly and brings the audit fee down to **£357,391**.

10 These reductions, and the earlier rebate for the additional audit costs from the transition to International Financial Reporting Standards (IFRS),

mean that Wirral's audit fee for 2010/11 is around 1 per cent less when compared to the scale fee and 9 per cent less when compared to the original fee.

Grant claims and returns fee

11 The planned fee for grant claims and returns is £128,000.

Assessment and inspection fee

12 The fee letter agreed with officers in April showed the total indicative fee for inspection as £49,153. The Commission now proposes not to charge inspection fees for work already carried out in this financial year on the managing performance part of the organisational effectiveness assessment. This is because there was no value to the work once CAA ended.

National Fraud Initiative (NFI) 2010/11

13 We presented the work programme and scale of fees for NFI 2010/11 to members on 30 June 2010. The rate for metropolitan borough councils remains at the 2008/09 rate of £4k. The NFI is run over a two-year period, so the scale of fees covers the two financial years 2010/11 and 2011/12. We will bill for these fees in two equal annual instalments.

2011/12 plan

Audit fee

14 The [Work programme and scales of fees 2011/12](#) document was published on 25 February 2011 and confirms significant reductions in audit fees, reflecting both the new approach to local value for money (VFM) audit work and a reduction in the ongoing audit costs arising from the introduction of International Financial Reporting Standards. The [scale fee for each audited local government, housing and community safety body](#) are also available.

15 The proposed 2011/12 scale fee for Wirral is £352,800. We have assessed the fee for Wirral Council for 2011/12 and have agreed with the Director of Finance that it will be at the scale fee of £352,800.

NFI 2011/12

16 As noted above, the NFI fee is £4,000 over two years and so the Council will be billed £2,000 in 2011/12.

Opinion

Wirral Council 2010/11

17 The District Auditor is required to issue an audit report by 30 September 2011 giving his opinion on whether the Council's accounts give a true and fair view of the financial position of the Authority as at 31 March 2011. Our Opinion Plan was presented to members of this Committee in January 2011 and set out in more detail the audit work we proposed to carry out in relation to the audit of the financial statements 2010/11 for Wirral Council, including the audit of the Whole of Government Accounts. We have updated the timetable at Appendix 2 to this report. The table of audit risks is also included at Appendix 3.

18 There is a separate Opinion plan in respect of Merseyside Pension Fund's financial statements which was also presented to members of this Committee in January 2011. Progress on the Pension Fund is summarised in a separate section below.

19 2010/11 is the first year that the accounts need to be prepared in accordance with IFRS and represents a significant challenge for the Council and a significant risk for our audit. Our work on the council's statement of accounts is split into two elements.

- Pre-statements audit:
 - updating, documenting and walking through your systems;
 - identifying and testing key controls;
 - reviewing the control environment and general IT controls;
 - reviewing the implementation of IFRS; and
 - any early testing.
- Post statements audit:
 - testing material balances and ensuring the statements are in line with accounting standards.

Pre-statements audit

20 We are currently not progressing to plan on all areas of the pre-statements audit. The key area of delay is the IFRS restatement work and issues are set out below.

Systems and controls

21 We have substantially completed work on updating, documenting and walking through your systems and assessing the control environment, including IT controls:

- *Documenting and walking through your systems:* we have not identified any significant weaknesses in how your systems produce materially accurate figures in the financial statements

- *Identifying and testing key controls:* no significant issues identified in our testing of accounts payable and payroll; we raised issues regarding fixed assets,
- *Control environment:* we have not identified any significant weaknesses in overall management controls or risk management
- *IT controls:* we assessed that Wirral's IT controls give us adequate assurance that the systems that provide information for the financial statements will not lead to material mis-statement in the Councils accounts.

International Financial Reporting Standards (IFRS)

22 2010/11 is the first year that the accounts need to be prepared in accordance with IFRS and last year we completed two surveys in November 2009 and July 2010 to assess the Council's preparedness.

23 In November 2009 we assessed the Council as 'red' risk overall and following the July 2010 survey we reported to the Audit and Risk Management Committee in September 2010 that our updated assessment of the Council was 'amber' overall. We also provided a set of graphs setting out Wirral's progress and issues compared to other councils. We reported that the key risk areas where Wirral Council varied significantly from comparator authorities were leases, progress against project plan and Involvement of the Audit and Risk Management Committee. (see Appendix 1).

24 The latest Audit Commission report setting out the national findings from the survey is at available at [Audit Commission website - IFRS implementation](#).

25 We updated the Audit Commission survey in January 2011 and provided information on the national comparisons to officers. Our overall assessment for the January 2011 survey is 'red' as the Council is not on track against its project plan. We received IFRS re-stated opening balances in January and have reviewed the figures. The Council has now amended the figures and we will report the outcome to the next meeting of the Committee. We have not received the 2009/10 comparatives or the policies and disclosures.

Chief Accountants' workshops

26 The Audit Commission runs workshops every year for chief accountants to ensure that consistent messages about technical issues are shared with audited bodies. Key finance officers attended the workshop at Warrington on 1 February 2011.

Merseyside Pension Fund 2010/11

27 The 2010/11 audit plan was presented to the Pensions Committee and the Audit and Risk Management Committee in January 2011. It confirmed the proposed fee of £54,065 for 2010/11.

28 The plan included areas of risk to our audit opinion and we set out how we propose to address these risks (attached at Appendix 3 to this report). There is currently no update required to the risks but we will continue to review them as the audit progresses and communicate any changes to you. The plan also set out the timetable for delivery of the 2010/11 audit and this is attached at Appendix 2 to this report.

29 The audit is progressing to timetable and there are currently no significant issues to report to members.

30 The proposed fee for 2011/12 has been agreed with the Director of Finance at £59,181.

Value for money conclusion

31 The District Auditor is required to give a statutory value for money (VFM) conclusion on whether the Council has satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

32 The VFM conclusion for 2010/11 will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

33 Our value for money work is progressing to plan and we are currently carrying out work to inform the conclusion, including following up previous reports. An outline timetable was included in the Audit Plan presented to members of the Audit and Risk Management Committee in January 2011.

PIDA work

34 Work on two PIDA disclosures in respect of adult social services and the Highways and Engineering Services Procurement Exercise (HESPE) continues.

Adult social services

35 We are continuing to monitor the Council's progress in responding to our 2007/08 report: Adult Social Services - Follow up of PIDA Disclosure which was considered by the Audit and Risk Management Committee in September 2008. A key issue was in respect of the charging policy applied at three supported living units.

36 The previous administration commissioned an independent investigation into the whistleblower's allegations of bullying and harassment and this has now been reported to Cabinet.

37 The previous Leader of the Council also commissioned an independent review to confirm that all issues raised by the whistleblower have been appropriately dealt with. We understand that the fieldwork is now complete and will be reported to members shortly.

Procurement of highways and engineering services

38 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 report was presented to members at the Audit Committee and Risk Management Committee on 28 September 2010. We agreed that we would continue to monitor the Council's response to the recommendations in the action plan.

39 We have now started our follow-up work on the action plan and are reviewing the Council's information on the benefits realisation process.

National Fraud Initiative

40 The National Fraud Initiative (NFI) is the UK-wide anti-fraud programme developed by the Audit Commission. A data matching exercise is carried out every two years comparing information held by and between around 1,300 organisations including councils, the police, hospitals and nearly 100 private companies. This helps to identify potentially fraudulent claims, errors and overpayments. Where matches are identified these are presented to the organisations to investigate. For example, when data matching shows a person listed as deceased and also in receipt of a pension, the Council will investigate and, if appropriate, stop pension payments. The Audit Commission fee to the Council is £4k over two years for this exercise.

41 Internal audit co-ordinates the follow-up of matches, which is undertaken by the responsible department. Matches are reviewed on an ongoing basis and the figures below reflect the position at 14 March 2011.

NFI 2008/09 - 2009/10

42 The Council is reviewing the output from the 2008/09 NFI matching exercise which identified 20,325 matches. At the beginning of March 2011 the Council has identified that as a result of investigating the 2008/09 matches:

Table 2: **Fraud and error identified from the 20,325 NFI 2008 matches**

Fraud and error	September 2010	March 2011
Total matches progressed	5,901* - 29%	7,605 - 37%
Frauds identified	28 frauds	82 frauds (70 relate to council tax)
Errors identified	296 errors	539 errors
Value of frauds and errors	£255k	£326k
Recovering**	£256k	£318k
Still progressing	14,424*	12,720 (creditors 4,715; council tax - 6496; 1,519 other)

Source: Audit Commission NFI 14 March 2011

* information at 13/10/10

** The Council is in the process of recovering this amount and has stopped future payments where applicable

43 The national report on NFI 2008/09 was published in May 2010 and is available at [Audit Commission website -NFI 2008/09](#).

44 Now that work on NFI 2008/09 should be nearing completion the Audit Commission withdrew access to most of the NFI 2008/09 matches on March 28 2011. Council tax matches will remain on the system for the immediate future as these were released at a later date than the other matches.

NFI 2010/11 - 2011/12

45 The Council provided the required information to participate in the exercise and data matches were provided by the Audit Commission at the end of January 2011. The position in March is set out below:

Table 3: **Fraud and error identified from the 22,917 NFI 2010 matches**

Fraud and error	March 2011
Total matches progressed	1472 cases (mainly pensions, housing benefits and blue badges)
Frauds identified	0 frauds
Errors identified	34 errors
Value of frauds and errors	£32k
Recovering*	£29k
Still progressing	21,445

Source: Audit Commission NFI 14 March 2011

* The Council is in the process of recovering this amount and has stopped future payments where applicable

Grant claims and returns

2009/10

46 The 2009/10 grant claims and returns report was presented to this meeting of the Audit and Risk Management Committee.

47 The grants claim programme was successfully completed in 2009/10. All claims were submitted on time, a significant improvement compared to previous years and all claims were also certified on time. Coordination arrangements worked well, there was a slight improvement in the control environment and a reduction in the number of claims requiring amendment and qualification. The amendments resulted in an increase of funding due to the Council of £33,793.

2010/11

48 The 2010/11 programme will commence shortly and will comprise the following claims.

- Housing and Council Tax Benefits Scheme.
- National non-domestic rates grant.
- Teachers' pensions return.
- Disabled facilities grant.
- Single programme grants.
- General Sure Start grant.

Annual Audit Letter

2009/10 - key findings

49 The 2009/10 Annual Audit Letter was presented to the January 2011 meeting of the Audit and Risk Management Committee. It was also considered by Cabinet in January 2011.

50 The key issues were:

- unqualified opinion on Wirral Council's 2009/10 financial statements given by the statutory deadline
- unqualified opinion on Merseyside Pension Fund's 2009/10 financial statements by the statutory deadline
- unqualified opinion on the Whole of Government Accounts consolidation pack on 1 October 2010
- unqualified value for money conclusion confirming that the Council has satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources
- our actual fees (£390,000) were in line with our proposed fees as agreed with the Audit and Risk Management Committee at its meeting in June 2009.
- we charged an additional £20,000 for work carried out to deal with an issue under the Public Interest Disclosure Act (PIDA) in relation to the Highways and Engineering Services Procurement Exercise (HESPE).
- we highlighted the current and future challenges for the Council and the corporate and service pressures that will make the achievement of savings challenging including:
 - Delivery of savings from the change programme.
 - Prioritisation of the outcomes from the consultation process and consideration of the options put forward by the Task Forces into a cohesive budget strategy.
 - Maintaining service quality and capacity following the severance and early voluntary retirement exercise.
 - Responding to the improvement agenda, highlighted by the Care Quality Commission, in adult social services whilst keeping within the budget and implementing personal social care budgets.
 - Responding to potentially reduced future government funding as a result of the reduced population figures for Wirral.

The audit team and key contacts

51 The key members of the audit team for the 2010/11 Council and Pension fund audits were set out in our Audit Plans which were presented to the January meeting of the Audit and Risk Management Committee. There is currently no change to either of the teams.

52 I can confirm that the audit of both the Council and the Pension Fund are being carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence and there are no conflicts to report to members.

Members' resources

Audit Commission information for members

53 The local government national studies programme aims to improve local public services through its independent authoritative analysis of national evidence and local practice. Information on the programme is on the Audit Commission's website at [national studies programme](#).

Advisory Services

54 Our Advisory Services are able to support clients under paragraph 9 of Schedule 2A of the Audit Commission Act 1998 to provide 'advice and assistance' (A&A) to another public body. We have developed a number of briefings and tools to support councils with their efficiency agenda, get better value from partnerships and improve performance. Please contact the District Auditor or Audit Manager if you would like to know more about these improvement tools.

Upcoming reports

55 The following are the studies that the Audit Commission is currently proposing:

- Local government workforce: What are the most effective means for councils to achieve savings from the pay bill while protecting the quality of services? This study will explore how councils can do this, including how they address working patterns, staffing tiers and numbers, rates of pay, and reward packages. It will identify barriers to achieving savings and their solutions as well as highlight innovative approaches to configuring workforces in response to financial cutbacks.
- Managing with less (Spring 2011): This research project aims to help councils respond to the challenges of public spending reductions. It examines the approaches taken by local councils in responding to the need to make savings and to managing with less, and at how and why decisions are made. There will be a particular focus on the data and information used; the involvement of members and partners; and the balance between short, medium and longer term planning.
- Review and challenge in councils (Spring 2011): Councils need to have effective means for reviewing and challenging their major activities, priorities and risks. This project will research how this can be done effectively and efficiently. Research will identify the principles that best underpin review and challenge in councils. These principles will provide the basis for a series of questions to help those responsible for council governance assess their review and challenge arrangements.
- Schools workforce management (Spring 2011): Our 2009 report, 'Valuable lessons', set out savings that could be made by schools

through better balance management and more effective procurement. This study will focus on how schools, working with local authorities, can maintain or improve the value for money of their workforce deployment

Published reports

Latest releases



- **Improving value for money in adult social services**, 2 June 2011. This briefing is the first in a series of briefings that will look at value for money in health and social care and considers what councils might do to provide better, more efficient services. It finds that, as demographic change and financial pressures combine to create tough times for adult social care, councils have looked at many aspects of the service in order to provide better, more efficient services. Better procurement, improved back office arrangements, and a preference for community-based rather than residential care where possible, are just some of the changes that local authorities have implemented to help them meet the challenges they face. But the briefing also finds that the pace and scale of change need to increase if councils want to release material savings, as well as improve care for people.



- **Going the distance - Achieving better value for money in road maintenance**, 26 May 2011. This national report looks at what councils can do to get more for their money in road maintenance, in the face of increasing traffic, severe winters, higher costs, and dwindling highways funding. The report highlights how councils can get more for their money, including cost-saving collaborations with neighbours, asset management to show when road maintenance will be most effective, new ways of keeping residents informed, and weighing short-term repairs against long-term resilience. It includes a series of case studies which demonstrate how some councils have developed strategies that balance growing service demands with reducing resources.



- **Better value for money in schools**, 31 March 2011. These four briefings are designed to help schools make the best

use of their workforce - whether teachers, teaching assistants, or administration and finance staff - at a time when they have to find savings. They aim to help school heads, governing bodies and councils control costs without compromising educational attainment. In addition, the Commission published a summary paper, An overview of school workforce spending, which is targeted at chairs of governing bodies and lead members on children's services.



- **Auditing the accounts 2009/10: Quality and timeliness of local public bodies' financial reporting**, 16 December 2010. A summary of the quality and timeliness of financial reporting by councils, police authorities, fire and rescue authorities and local government bodies.



- **2011/12 Proposed work programme and scale of fees**; published 10 December 2010. We are consulting on our proposed work programme and scales of fees for 2011/12.



- **Against the odds - Re-engaging young people in education, employment or training**; published 3 November 2010. Since the release of the report on 7 July 2010, we have produced a series of maps detailing changes in the proportion and numbers of young people not in employment education and training (NEET)



- **Financial management of personal budgets**; Challenges and opportunities for councils. Published 28 October 2010. This report examines personal budgets in adult social care and considers the financial management and governance implications for councils. It reviews the approaches to transition from providing services to providing personal budgets, the choices for allocating money, and how councils can plan for the financial implications. It also considers changes in social care commissioning and the governance arrangements needed for personal budgets. It is aimed at finance staff and staff in adult social care departments interested in personal budgets. The report includes a self-assessment checklist to help

councils review progress in implementing personal budgets and identify areas for improvement.



- **Protecting the public purse; Fighting fraud** against local government and local taxpayers. Published 27 October 2010. we describe what has happened in the field of fraud detection and prevention since 2009 and set out the findings from our recent fraud survey. Last year England's councils detected around £99 million worth of benefit fraud, over £15 million worth of council tax fraud, and £21 million worth of other types of fraud including false insurance claims, and abuse of the disabled parking 'blue badge' scheme. In addition nearly 1,600 homes have been recovered by councils with a replacement cost of approximately £240 million. We also describe the action taken by some councils to tackle fraud and provide links to tools to help councils improve their counter-fraud defences. Our updated checklist gives organisations providing public services another opportunity to consider how effective they are at responding to the risk of fraud. Also available is a [single person discount comparator tool](#) that allows local authorities to compare their levels of council tax single person discount with their predicted levels, based on a national average.



- **Finance improvement tool.** Published 16 September 2010. Following our 'Under Pressure' study (February 2010), we have developed a finance improvement tool to help councils respond to the financial challenges of an ageing population and identify scope for improvement.



- **Strategic financial management in councils,** 8 September 2010. Delivering services with a reduced income. In our latest report, we reveal how organisations that manage their finances strategically are more adaptable and resilient when money is tight, and how other councils can learn from them. Councils need to make some urgent and tough decisions. 'Strategic financial management in councils' is aimed at all council staff, especially those who hold the purse strings of local government. In it, we point out potential financial pitfalls, highlight successes, and feature a value for money self-assessment questionnaire that can be used locally. The findings in the report are

supported by a good-practice checklist that describes the key issues for improving financial management. Councillors and managers can use the checklist to evaluate their current approach to financial management.



- **Local government pensions in England - an information paper** - 29 July 2010. In our latest information paper, we examine the long-term affordability of the Local Government Pension Scheme, and look at steps that could be taken to put it on a better financial footing.
- **Local government claims and returns, 27 July 2010.** The level of amendments and the number of qualification letters issued by auditors in 2008/09 shows some authorities can improve their preparation of claims and returns. The first Audit Commission annual report on certification work, published on Thursday 29 July, shows that in 2008/09 Audit Commission auditors certified claims and returns from local authorities for schemes covering £45.6 billion of public money. Auditors agreed amendments to claims and returns totalling £54.5 million. Eight schemes had total amendments over £1 million and auditors qualified 673 (24 per cent) claims and returns. For the housing and council tax benefits scheme, 85 per cent of benefits claims had qualifications or amendments or both. Certification of 2008/09 claims and returns cost local authorities £18.7 million which is 0.04 per cent of the total value certified.



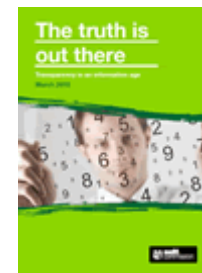
- **Against the odds. Re-engaging young people in education, employment or training** - 7 July 2010. We reveal how councils need a new approach in getting to grips with the needs of their local teens, in order to make scarce resources work harder for those at greatest risk of long-term unemployment.



- **A review of collaborative procurement across the public sector**, 21 May 2010. The National Audit Office and the Audit Commission have jointly produced this review. It draws on Audit Commission research in local government, carried out during the autumn of 2009. The review finds that although collaborative procurement has the potential to improve value for money, the public sector procurement landscape is fragmented, with no overall

governance. Consequently, public bodies are incurring unnecessary administration costs by duplicating procurement activity, and they are paying a wide range of prices for the same commodities, even within existing collaborative arrangements. It recommends that, given the size of public sector procurement spend and the potential to significantly improve value for money, public bodies should work together much more effectively than they currently do. And there should be a clear framework to coordinate public sector procurement activity.

- **By mutual agreement**, 16 March 2010. Severance deals serve councils and the taxpayer. But our research shows that not all pay-offs are justified. Competent chief executives sometimes lose their jobs needlessly, and less effective individuals have been paid-off rather than dismissed.
- **Healthy balance**, 11 March 2010. Does your ward have a high number of teenage pregnancies, or is there growth in childhood obesity? This briefing says the NHS allocated £21 billion in 2009/10 on the basis of inequalities in health between areas. The impact of the spending is unclear.
- **The truth is out there: A discussion paper**, 5 March 2010. Information is essential: it helps you make better decisions. Making more and better information available to the public should help them evaluate the decisions their elected representatives are making, what public money is spent on and with what result. This discussion paper looks at how councils and health trusts, social workers, doctors and police can improve data and analysis made available to the public.
- **Under pressure**: Tackling the financial challenge for councils of an ageing population, 18 February 2010. Councils need to understand the nature and needs of residents who are ageing. The report stresses growth in the number of older citizens affects all services. We need better working across boundaries.
- **Giving children a healthy start: A review of health improvements in children from birth to five years**, 3 February 2010. Have the large sums spent on young children from 1999 to 2009 improved their health? The study examines local service planning and delivery, and how councils and primary care trusts can improve services and access for vulnerable groups, lone and teenage parents and black and minority ethnic communities.



International Financial Reporting Standards (IFRS)

56 We have listed the IFRS reports and briefings available on the Audit Commission website for management and members. This is the first year of

financial reporting under IFRS and members will be required to approve the accounts on this basis in September 2011.

Complete list of resources

- [The final countdown: IFRS in local government](#) ⇨ 17 March 2011. The Commission has published the final briefing paper in its Countdown to IFRS series, reporting on findings from a January 2011 auditor survey on implementation of IFRS in local government.
- [Countdown to IFRS: Reporting on operating segments - 29 October 2010](#) Our latest briefing on the countdown to IFRS covers principles and practical issues that authorities should consider when reporting on operating segments.
- [Countdown to IFRS: Progress on the transition to IFRS - 5 October 2010](#) The deadline for local authorities to produce IFRS-compliant accounts is fast approaching. Successful implementation of IFRS will testify to the ability of local government to manage a major change in its financial arrangements. The paper draws on a survey completed in July 2010 by auditors of all local authorities, fire and rescue authorities, and police authorities, on local government's progress on transition to IFRS. In this paper we:
 - make comparisons with a baseline assessment taken in November 2009;
 - set out relevant lessons from the NHS experience of transition, as NHS bodies have implemented IFRS a year earlier than local government; and
 - outline the key actions that authorities should be taking at this stage.
- [Countdown to IFRS: Accounting for employee benefits - 15 July 2010](#) Issues authorities may face when accounting for employee benefits.
- [Countdown to IFRS: Managing the practical implications of restating non-current assets - 17 June 2010](#) Guidance on managing the practical implications of restating non-current assets.
- [Countdown to IFRS: Summary paper - 8 June 2010](#) A guide for senior managers and members.
- [Countdown to IFRS: Accounting for non-current assets - 17 May 2010](#) Introducing international financial reporting standards (IFRS) for Accounting for non-current assets.
- [Countdown to IFRS - Checklist for councillors - 17 March 2010](#) Councillors checklist - discussing IFRS transition plans with officers.
- [Countdown to IFRS - Identifying and accounting for leases - 17 March 2010](#) Issues arising from the introduction of International Accounting Standard (IAS) 17: Leases.
- [Countdown to International Financial Reporting Standards \(IFRS\) - 19 February 2010](#) Implementation of IFRS in local government.

- [IFRS briefing paper 3 for local government - 4 May 2009](#)
Managing the transition to IFRS.
- [IFRS briefing paper 2 for local government - 1 September 2007](#)
The move to international financial reporting standards - how can your auditor help?
- [IFRS briefing paper 1 for local government - 1 May 2007](#)
The move to international financial reporting standards.

Appendix 1 IFRS implementation

57 In September 2010 we provided a set of graphs showing Wirral's progress on IFRS compared to other Councils and identified the key risk areas where the Council varied from comparator authorities:

- leases – Wirral is amongst the 7 per cent of authorities overall that are assessed as red (8 per cent metropolitan boroughs and 5 per cent of northern authorities); currently being reviewed.
- Wirral is not 'on track' against the project plan – 69 per cent of authorities overall are 'on track' (67 per cent metropolitan boroughs and 74 per cent of northern authorities). This may also put at risk future milestones such as restating the 2009/10 accounts and drafting a model set of skeleton IFRS compliant financial statements; currently not on track.
- the Audit and Risk Management Committee has had no involvement on IFRS implementation – 87 per cent of audit committees overall have been kept updated and 49 per cent of those and a further 3 per cent have also questioned officers on progress (87 per cent metropolitan boroughs and 85 per cent of northern authorities); the Committee received reports in November 2010 and January 2011.

Table 4: **IFRS implementation 2010/11**

Issue	Findings November 2009	Findings July 2010	Findings January 2011
Governance and oversight	The role of the Audit and Risk Management Committee in the implementation of IFRS has been limited.	The role of the Audit and Risk Management Committee in the implementation of IFRS has been limited.	The Audit and Risk Management Committee received reports in November 2010 and January 2011.
Timetable	The Council is not on track against its project plan.	The Council is not on track against its project plan. An impact assessment has been completed but opening balances have not been restated. Officers plan to restate the 2009/10 accounts and draft a model set of skeleton IFRS compliant financial statements including policies and notes before	The Council is not on track against its project plan. We received restated opening balances in January and the Council is currently amending these. We expect the amendments and the remaining IFRS statements including

Issue	Findings November 2009	Findings July 2010	Findings January 2011
		the end of December 2010.	policies and notes before the end of March 2011.
Non-current assets	Assessed as 'red'.	We assessed the risk as 'amber'. Concerns remain regarding information required in respect of vehicles plant and equipment and infrastructure assets. The systems need to be set up to satisfy component accounting.	We are currently reviewing this as part of the IFRS restatement exercise
Leases and other lease type arrangements	Assessed as 'red'.	We assessed the risk as 'red'. There has been no review of leases and other lease type arrangements to determine the appropriate accounting treatment for these.	We are currently reviewing this as part of the IFRS restatement exercise
Employee benefits	Assessed as 'green'	We assessed the risk as 'amber' Although systems are in place, the 2009/10 accrual for holiday pay has not yet been calculated. A new payroll and HR system is planned.	We are currently reviewing this as part of the IFRS restatement exercise
Group accounts	Assessed 'green'	We assessed the risk as 'green'. The Council does not currently have any arrangements that would require it to produce group accounts.	We are currently reviewing this as part of the IFRS restatement exercise

Source: Audit Commission surveys, November 2009, July 2010 and January 2011

Appendix 2 Wirral Council - opinion timetable

Wirral Council timetable

58 The timetable is proceeding to plan for some areas. Our work on IFRS has been delayed due to non or late receipt of information from the Council.

Table 5: **Agreed timetable for the financial statements audit**

This timetable will be kept up to date and members of the Audit and Risk Management Committee (ARMC) will be informed of any significant changes.

Activity	Date	Update at June 2011
Agreement of plan with officers	Draft by mid December 2010 Final by end December 2010	Completed as planned
Progress meetings with officers pre statements	Monthly	Ongoing as planned
Training provided by officers to ARMC members on IFRS	January 2011 March 2011 June 2011	Reports received November 2010 and January 2011.
Presentation of plans to members of ARMC**	ARMC 17 January 2011	Completed as planned
Audit progress reports to ARMC	17 January 2011 28 March 2011 June 2011 September 2011 November 2011	Completed as planned to June 2011.
Receipt of IFRS restated accounts by ARMC and auditor	31 December 2010 Mid January 2011	Restated opening balance sheet received 14 January 2011.
<ul style="list-style-type: none"> ■ Opening balance sheet at 1 April 2009 ■ Comparative figures for 2009/10 for all the statements 		Comparatives, policies and disclosures o/s at 15 March 2011. We have identified some figures that

Activity	Date	Update at June 2011
		require further work and are yet to receive full set of restated accounts as at 16 June 2011.
Working papers for IFRS restatement provided to the auditor	Mid January 2011	Some received in January; some outstanding.
Audit of IFRS restated accounts	Mid January to mid February 2011	Delayed due to non or late receipt of all restated accounts. Work in this area is ongoing as at 16 June 2011, and a further meeting with officers is scheduled for 17 June 2011.
Feedback to officers and members on the audit of the IFRS restated accounts	Officers by end February ARMC 28 March 2011 - in Progress report	Delayed due to non or late receipt of all restated accounts. We have reported the latest position in these progress reports throughout the process.
ISA+315 knowledge of the entity including documenting and walking through material information systems	December 2011 - January 2011	Completed as planned
Evaluating the control environment including IT controls	December 2010 - January 2011	Completed as planned
Controls and relevant early substantive testing	Mid January to mid February 2011	Delayed - as above due to IFRS restatement. Some controls testing not dependant upon IFRS has been completed.
Feedback to officers and members of ARMC on the pre-	Officers by end February ARMC 28 March 2011	Interim report 14 June 2011. No significant issues to bring to members' attention

Activity	Date	Update at June 2011
statements audit	- in Progress report	except for issues summarised in report above.
ARMC consider draft Annual Governance Statement (AGS) presented by officers	ARMC 28 March 2011	Complete - was on agenda for March 2011.
Any further early substantive testing	Mid June 2011	In progress
Receipt of pre-audit accounts** by: <ul style="list-style-type: none"> ■ ARMC - to review prior to challenge and approval at meeting by 30 June 2011 ■ and auditor - to complete detailed post-statements planning prior to fieldwork 	16 June 2011	ARMC are no longer required to approve the accounts prior to audit following the recent change in the Accounts and Audit Regulations 2011. * Auditor to receive accounts approved by DoF by 30 June 2011.
Pensions Committee to challenge MPF accounts and make recommendations to ARMC	Before ARMC meeting (by 30 June 2011)	No longer applicable due to the change in the Accounts and Audit Regulations 2011. *
ARMC to challenge and approve accounts, including AGS and Pension Fund Statements.	By 30 June 2011	No longer applicable due to the change in the Accounts and Audit Regulations 2011. *
Working papers provided to the auditor	1 July 2011	not started
Start of detailed testing on main statements	4 July 2011	not started
Progress meetings with officers post-statements	Weekly	not started
Completion of fieldwork on main statements	5 August 2011	not started - but timetable may slip due to later receipt of accounts

Activity	Date	Update at June 2011
Receipt of Whole of Government Accounts (WGA) and working papers	22 July 2011	not started
Completion of fieldwork on WGA	15 August 2011	not started
District Auditor review of audit work	15 August 2011	not started
Agreement of errors and uncertainties for Finance to complete covering reports and amend statements**	19 August 2011	not started
Draft Annual Governance Reports from Audit Commission to officers**	5 September 2011	not started
Meeting with officers to agree final AGRs** (AGRs will highlight any outstanding issues that will be updated at meetings with members)	Meetings by 7 September 2011 Final AGRs by 12 September 2011	not started
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 2011)	Meeting now confirmed for 19 September 2011.
ARMC to: ■ consider the matters raised in the Pension Fund AGR and the recommendation of the Pensions	By 30 September 2011	Meeting now confirmed for 28 September 2011.

Activity	Date	Update at June 2011
<p>Committee</p> <ul style="list-style-type: none"> ■ consider the matters raised in Wirral Council's AGR and any tabled or verbal update on outstanding issues ■ take note of any adjustments to the financial statements and agree to adjust the errors in the financial statements management has declined to amend or set out the reasons for not amending the errors ■ approve the letter of representation on behalf of the Council and for the Pension Fund ■ agree the Council's response to the proposed action plans ■ re-approve the financial statements 		
<p>District Auditor to issue opinions** (and value for money conclusion) Audited accounts published by the Council**</p>	<p>By 30 September 2011</p>	<p>not started</p>
<p>WGA return certified and submitted by</p>	<p>1 October 2011</p>	<p>not started * recent revision to 30</p>

Activity	Date	Update at June 2011
District Auditor		September 2011 following Accounts and Audit Regulations 2011

Source: Wirral Council Audit Plan 2010/11, January 2011 & update June 2011.

* revised following consultation on the Accounts and Audit Regulations 2010.

Merseyside Pension Fund timetable

59 The timetable is proceeding to plan for some areas. Our work on IFRS has been delayed due to non or late receipt of information from the Council.

Table 6: **Agreed timetable for the financial statements audit**

This timetable will be kept up to date and members of the Audit and Risk Management Committee (ARMC) will be informed of any significant changes.

Activity	Date	Update at June 2011
Agreement of Opinion Plan with officers	Draft by early December 2010 Final by end December 2010	Completed as planned
Progress meetings - pre statements	Quarterly	Ongoing as planned
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 11 January 2011 ARMC 17 January 2011.	Completed as planned
ISA+315 work - understanding the entity	From November 2010	Completed as planned
Pre statements control and early substantive	February/March 2011	Controls testing completed as planned;

Activity	Date	Update at June 2011
testing		early substantive testing in progress
Planning of and arrangements for IAS19 assurance work	March 2011	Completed as planned
Pre statements testing of initial IAS19 assurance work and investment valuation	Late May/early June 2011	In progress as planned.
Working papers provided to auditors	Mid June 2011	Will now be presented with the pre-audit accounts - see below
Receipt of pre audit accounts by Pensions Committee, Audit and Risk Management Committee and auditor	20 June 2011	ARMC are no longer required to approve nor Pensions Committee to consider the accounts prior to audit following the recent change in the Accounts and Audit Regulations 2011. * Auditor to receive accounts approved by DoF by 30 June 2011.
Pensions Committee to challenge accounts and make recommendations to ARMC	Before ARMC meeting (by 30 June 2011)	No longer applicable due to the change in the Accounts and Audit Regulations 2011. *
ARMC to challenge and approve Council accounts, including Annual Governance Statement and Pension Fund Statements.	By 30 June 2011	No longer applicable due to the change in the Accounts and Audit Regulations 2011. *
Start of detailed post statements testing	June 2011	Will now be July 2011 due to later receipt of accounts.
Post statements progress meetings	Weekly	not started
Completion of	Mid August 2011	not started

Activity	Date	Update at June 2011
fieldwork on statements		
Agreement of Errors and Uncertainties	19 August 2011	not started
Draft MPF Annual Report provided to auditors	19 August 2011	not started
Draft Annual Governance Report from Audit Commission to officers	5 September 2011	not started
Meeting with officers to agree final AGRs (AGRs will highlight any outstanding issues that will be updated at meetings with members)	Meetings by 7 September 2011 Final AGRs to officers and members by 12 September 2011	not started
Final version of Annual Report available for audit agreement	16 September 2011	not started
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 2011)	Meeting now confirmed for 19 September 2011.
ARMC - to consider Annual Governance Report, including any verbal update on outstanding issues	By 30 September 2011	Meeting now confirmed for 28 September 2011.
Final check of post-audit statements and annual report	By 30 September 2011	not started
Issue of opinion by District Auditor	By 30 September 2011	not started

Source: Merseyside Pension Fund audit plan 2010/11, January 2011.

* revised following consultation on the Accounts and Audit Regulations 2010.

Appendix 3 Opinion risks

Wirral Council

60 There are no changes to the risks identified in the audit plan presented to members in January 2011. The significant risk remains the transition to IFRS.

Table 7: **Specific opinion risks**

Specific opinion risks are set out below and will be updated as the audit progresses.

Risk area	Audit response
<p>IFRS transition – Council rated at amber in last IFRS survey but red on leases. Progress still behind schedule. Risk that 2010/11 accounts are materially misstated as new accounting requirements have not been considered or implemented correctly by the Council. This is considered a significant risk</p>	<p>Ongoing discussions with Council officers to assess impact of change. Review of restated balances and comparatives. Accounting treatment followed will be reviewed to ensure that it meets the requirements of the IFRS Code.</p>
<p>Change in senior management – changes to Chief Executive and Directors for Corporate Services, Regeneration, Adult Social Services, Children and Young People. Risk that disruption reduces level of supervision and review and therefore operation of high level controls.</p>	<p>Ongoing discussions with Council officers, including Internal Audit to assess impact of changes. Controls testing. Ongoing review of the control environment.</p>
<p>Financial pressures – following significant reduction in central government funding, the Council is experiencing significantly increased financial pressures. Increased risk of financial misreporting (considered in fraud risk assessment)</p>	<p>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.</p>
<p>Voluntary redundancy (VR) – a significant number of staff at the Council are expected to leave employment during 2010/11 and 2011/12. Risks that key staff at the Council leave thereby putting pressure on the arrangements to complete the</p>	<p>Ongoing discussions with Council officers to assess impact of the change.</p>

Risk area	Audit response
<p>audit, and increasing pressure on management to demonstrate VR process generates savings. We will also need to consider the accounting treatment in 2010/11 (e.g. how will severance payments be accounted for and ultimately funded as not in 2010/11 budget)</p>	
<p>Closedown arrangements – working papers and accounts not provided on time, significant issues identified during 2009/10 were not resolved until relatively late in the audit. Risk that if repeated in 2010/11 the audit will not be completed as audit resourcing window is missed (audit team ‘onsite’ prior to working papers and accounts) and material issues are not resolved prior to opinion deadline</p>	<p>Key milestones and timetable is communicated in Table 2 of this plan and will be reported to members on an ongoing basis in our Progress reports.</p>
<p>Manual entries in accounts – weakness identified in respect of journals, off ledger adjustments, changes in senior management and deficiencies in asset records.</p>	<p>All material journals will be reviewed. Review audit trail between accounts and ledger produced to identify entries requiring testing.</p>
<p>Housing benefits expenditure and grant income – our deadline to complete the certification of the housing benefits subsidy claim is after our opinion deadline on the accounts</p>	<p>We will agree amounts in the housing benefits system to the general ledger at the year end. We will complete sufficient work on the housing benefit subsidy claim to demonstrate that the claim is not materially misstated.</p>
<p>I identified 19 non-trivial misstatements (including 3 material misstatements) in the 2009/10 audit – the risk of reoccurrence will be considered and reflected in our audit testing strategy. Issues arising included:</p> <ul style="list-style-type: none"> ■ PFI schools transferred to foundation status ■ Statement of recognised gains and losses (STRGL) ■ Balance sheet assets ■ Service expenditure analysis on the income and expenditure account ■ PFI - lifecycle costs ■ Bad debt provision for council tax 	<p>All misstatements identified in the 2009/10 audit will be carried forward and specifically considered in 2010/11. In particular, we will review:</p> <ul style="list-style-type: none"> ■ the current status of schools and discuss the appropriate accounting treatment with officers ■ the aged debtor and debt recovery analysis to support the reasonableness of the bad debt provision calculation ■ any relevant Local Authority Accounting Panel (LAAP) bulletins.
<p>There were 7 unadjusted misstatements identified in the 2009/10 audit – the value of unadjusted misstatements previously identified must be considered in conjunction with any misstatements</p>	<p>We will assess the value of all the unadjusted misstatements from 2009/10.</p>

Risk area	Audit response
identified in the 2010/11 audit.	
Asset records – weaknesses were identified in previous audits in relation to the Council's asset records. If no action is taken there is a risk of misstatement in the following areas: - existence of VPE - capitalisation of expenditure on infrastructure assets - completeness of community assets	Progress against the action plan agreed in the 2009/10 AGR will be monitored throughout the year. Year end substantive testing will be performed specifically addressing the risk areas identified.
Annual governance statement (AGS) - concerns that the statement did not comply with CIPFA guidance and was inconsistent with our knowledge of the Council.	Discussions with members, the ARMC, senior officers and Internal Audit. Early review of the draft AGS presented to members in March 2011.

Source: Wirral Council Audit Plan 2010/11, January 2011

Merseyside Pension Fund

61 There are no changes to the risks identified in the audit plan presented to members in January 2011. There are currently no significant risks.

Table 8: **Specific opinion risks**

Specific opinion risks for the Pension Fund are set out below and will be updated as the audit progresses.

Risk area	Audit response
The Fund has completed 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. There are risks of increased deficits leading to additional costs from increased employer contributions.	Review the results of the actuarial valuation and MPF's response to changes in valuation.
MPF has planned to replace its current system used to monitor and control internally managed investments (Shareholder) to a new system in 2010/11. This system replacement was initially planned for 2009/10. There is a risk that the balances will not be accurately transferred between systems and a	I will review: • the arrangements put in place by the Fund to ensure that balances are correctly transferred from the outgoing system to the new system; and • the adequacy of controls in place in the new system and testing of the effectiveness of those controls as necessary. • rely on Internal Audit testing of the transfer of

Risk area	Audit response
<p>risk that effective controls are not in place in the new system.</p>	<p>balances.</p>
<p>I am aware that Wirral Council is undergoing a voluntary redundancy process whereby a significant number of employees will leave in 2010/11. If impacting on MPF this may affect the capacity of the finance team to deliver materially correct statements within timescales.</p>	<p>Maintain close dialogue with the PF to keep informed of significant changes in resources. Monitor progress on closedown as appropriate.</p>
<p>From 2010/11 the Pension Fund is required to adopt the International Financial Reporting and Accounting Standards (IFRS) Code. The Code sets out the proper accounting practices that bodies must follow and requires some additional disclosures for 2010/11.</p>	<p>Review the progress of MPF implementing the new requirements of the IFRS Code.</p>
<p>We are aware that contributing bodies to the pension fund are under financial pressure and in many cases are offering voluntary early retirement, voluntary redundancy and possibly may need to make compulsory redundancies in the near future.</p> <p>This may place additional workload on the Pensions team in dealing with the large volume of severance arrangements.</p>	<p>Substantively test lump sums, augmentations, specifically considering cut off and completeness.</p>
<p>The Pension Fund did not carry out reconciliations between the values in AXISE Pensions Payroll and membership administration systems to those in the General Ledger in 2009/10. These are essential procedures which are intended to give the Pension Fund assurance that transactions recorded in the fund account are correctly stated as well as providing controls assurance over receipts and payments in a number of key areas.</p>	<p>Substantively test the reconciliation in 2010/11</p>
<p>Regulation 42(2) of the Local Government Pension Scheme Regulations 2008 requires employer authorities to pay employee contributions to the administering authority within 19 days of the end of the month to which they relate. Our review of contributions receipts from</p>	<p>Review compliance of employers in regards to the Regulations.</p>

Risk area	Audit response
<p>employers in 2009/10 found that whilst most bodies pay on time, some smaller bodies missed these deadlines regularly, therefore breaching the regulations.</p>	
<p>The Pensions Statement of Recommended Practice (SORP) requires the valuation of investments to be at market value or where the value is not readily ascertainable, at the Fund's estimate of 'fair value'.</p> <p>The Pension Fund's accounting policies describe the methodology used for these investments as 'at manager's valuation' and the process followed for both alternatives and private equity relies on valuation reports provided by the investment managers and/or administrators.</p> <p>It is essential that the preparers of the pension fund financial statements are satisfied that the valuations provided by these specialists comply with the requirements of the SORP.</p> <p>Guidance issued by Pensions Research Advisory Group (PRAG) provides a framework of due diligence for preparers of Pension Fund statements when considering the valuation of investments.</p>	<p>Review the Pension Fund's due diligence procedures for the valuation of investments, including their review and consideration of AAF 01/06, SAS 70 controls reports from investment managers.</p>
<p>The Pension Fund's private equity valuation process relies on monitoring undertaken by Capital Dynamics Ltd under an arrangement dating back to 1991. Our review in 2009/10 of the contract identified that the contract is out of date and does not specify the valuation work.</p>	<p>Review the Capital Dynamics contract to ensure the services are specified, to give the PF assurance on the legal status of the contractual arrangements and the scope of the service provided.</p>
<p>The Pension Fund's receipts and payments were overstated by £12m in 09/10 due to the incorrect inclusion of Compensatory added years (CAYs). CAYs are awarded under the Local Government Regulations 2000 and therefore fall outside of the LGPS.</p> <p>The LGPS (Misc) Regulations 2009 now permit employers to convert compensatory added years into pension service, however there has to be a resolution by the employing authority to do this conversion by 31 March 2012.</p>	<p>Review the Pension Funds treatment of CAYs in 2010/11. Test any CAYs remaining within receipts and payments to ensure there are appropriate resolutions obtained from the employing authority.</p>

Risk area	Audit response
<p>This error was unadjusted in 2009/10. ISA (UK&I) 450 (Evaluation of misstatements identified during the audit) now requires me to communicate to you the effect of uncorrected misstatements related to prior periods (appendix 4). When determining whether uncorrected misstatements are material, I am now required to consider the effect of uncorrected misstatements related to prior periods.</p>	

Source: Merseyside Pension Fund audit plan 2010/11, January 2011.
