

26 October 2012

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Dear Councillor

## **Wirral Council - Annual Audit Letter 2011/12**

I am pleased to submit my Annual Audit Letter for your attention. It summarises the audit work for my 2011/12 audit of Wirral Council, including the Merseyside Pension Fund.

### **Financial statements and value for money conclusion**

On 19 September 2012 I presented my Annual Governance Report (AGR) to the Audit and Risk Management Committee. My AGR outlined the findings of my audit of the Council's 2011/12 financial statements and its arrangements for securing value for money. I will not replicate all of my findings in this letter.

Following the Audit and Risk Management Committee I:

- issued an unqualified opinion on the Council's 2011/12 financial statements on 25 September 2012;
- issued an adverse conclusion in respect of the arrangements the Council put in place during 2011/12 for securing economy, efficiency and effectiveness in its use of resources; and
- certified completion of the audit.

### **Opinion on the 2011/12 financial statements of Wirral Council**

I issued an unqualified opinion on the Council's 2011/12 financial statements on 25 September 2012 in line with the statutory deadline. The amendments to the accounts changed the financial position of the Council as at 31 March 2012 by increasing the balance in the General Fund by £319,000.

I presented my Annual Governance Report (AGR) to the Audit and Risk Management Committee on 19 September 2012 and noted the significant improvements in the closedown and accounts preparation processes that enabled me to carry out a more efficient audit and deliver an earlier opinion:

- I received good quality statements in accordance with the statutory deadline;
- I received good quality working papers on the first day of the audit and prompt responses to further queries during the audit; and
- the financial statements were adjusted for only two non-material errors and a small number of disclosure errors.

I identified significant weaknesses in your systems of internal control in respect of assets, accounts payable and journals; although there have been improvements in the controls over a number of asset types this year, some issues still remain. I made a number of recommendations to secure improvements for 2012/13.

I also issued an unqualified opinion on the Council's 2011/12 whole of government accounts on 25 September 2012.

### **Opinion on the 2011/12 financial statements of the Merseyside Pension Fund**

I issued unqualified opinions on the Merseyside Pension Fund 2011/12 financial statements included in the Council's accounts and in the Pension Fund Annual Report. I reported to the Audit and Risk Management Committee on 19 September 2012 that the financial statements were adjusted for four non-material errors and a small number of disclosure errors. None of these errors had a significant impact on the reported performance of the fund.

I also reported some issues regarding internal control and compliance with regulations and made a number of recommendations to secure improvements for 2012/13.

### **2011/12 value for money conclusion**

I issued a qualified (adverse) value for money conclusion on 25 September 2012. I concluded that the Council had not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

I concluded that during 2011/12 the Council did not have robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. In particular there were weaknesses in leadership and financial governance that have diverted action from delivering improvement. The Council continues to face a number of significant financial challenges most notably developing robust plans to address the projected shortfall of around £100 million for 2012 – 2015, the recurrent overspend in Adult Social Services and the 2012/13 projected Authority overspend at June 2012.

The Council did not prioritise its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity. There was a lack of clarity about the Council's strategic priorities due to the changes in leadership and the Corporate Plan resulting in a lack of a strategic approach to challenging spend and considering how spending matched the priorities of the Council. Cost reduction plans were not achieved and there was limited information to demonstrate that there was an increase in productivity and better output from more limited resources, most notably in respect of the Highways and Engineering Services contract.

I also issued a report by exception on your arrangements for good governance and internal control as the Council has yet to address the corporate governance weaknesses which have been repeatedly identified. In addition there were weaknesses in corporate arrangements for risk management, compliance with policies, procedures and aspects of internal control.

### **Gifts and Hospitality and Conflicts of Interest**

As part of our assessment of the Council's arrangements for value for money this year we reviewed work carried out by Internal Audit and sought to rely on its work on gifts and hospitality and conflicts of interest.

The Council's written procedures for managing and recording gifts and hospitality and conflicts of interest were generally adequate during 2011/12. However, whilst the procedures were found to be adequate, our testing identified a high instance of non-compliance and incomplete records in a number of departments.

I made a number of recommendations to ensure that procedures, guidance and responsibilities for good governance, risk management and internal control in respect of gifts and hospitality and conflicts of interest are clear and understood. I also drew attention to the role of Internal Audit in providing management and those charged with governance with appropriate assurance for the Annual Governance Statement.

### **Report in the Public Interest**

I issued my Highways and Engineering Services report in the public interest under section 8 of the Audit Commission Act 1998 on 8 June 2012. The Council considered my report at its meeting on 16 July 2012 and the draft action plan and press notice went to Cabinet on 18th October 2012, including the response to the 21 recommendations made.

### **Recommendations**

I have made a range of recommendations to secure improvements in 2012/13, in particular to ensure that the Council addresses the weaknesses identified in:

- the Highways and Engineering Services report in the public interest;
- respect of financial resilience, securing economy efficiency and effectiveness and proper arrangements.
- its overall governance arrangements;
- respect of the issues raised in my report on gifts and hospitality and conflicts of interest;

The Council has responded positively to my recommendations and has included its response within its Improvement Plan. This is currently subject to review, challenge and monitoring by the Improvement Board.

### **Certificate of completion of the 2011/12 audit**

I certified completion of the 2011/12 audit on 25 September 2012.

### **Claims and returns**

Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of government departments, make arrangements for certifying claims and returns. I am in the process of certifying three claims and returns for 2011/12 and will report the outcome of this work to management once the work is complete.

### **Fees**

I reported the 2011/12 fees for Wirral Council and Merseyside Pension Fund in the respective Annual Governance Reports presented to members on 19 September 2012.

### **Closing remarks**

I have discussed and agreed this letter with the Chief Executive and Interim Director of Finance. While this has been another challenging year for the Council, I wish to thank Members and staff for the positive and helpful approach they have taken to my audit. I also wish to thank senior management and the Audit and Risk Management Committee for their support and co-operation during the audit.

Yours sincerely

Michael Thomas  
*District Auditor*