

The Audit Findings for Wirral Council

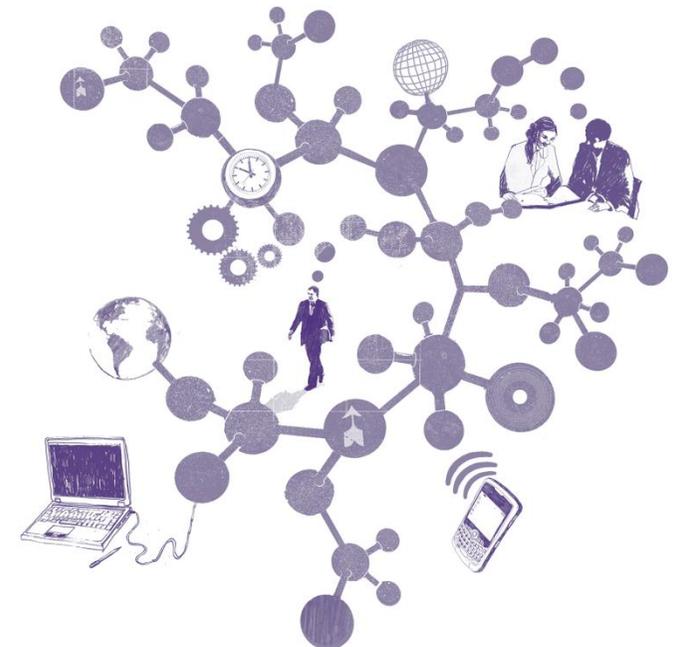
Year ended 31 March 2013

4 September 2013

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

We anticipate providing an unqualified opinion on the Council's financial statements and a qualified value for money conclusion.

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Wirral Council's ('the Council') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money Conclusion).

Introduction

In the conduct of our audit we have slightly altered our planned audit approach, which we communicated to you in our Audit Plan dated 8 March 2013. We planned to gain assurance over controls in your employee remuneration systems to enable us to reduce the substantive testing at year end. Internal Audit carried out work in agreement with our testing requirements for staff costs for the first 9 months of the year. Although we had no concerns about Internal Audit's testing, we were not able to rely on the controls in the system as a result of their findings and changed to a fully substantive approach on year end balances.

Our audit is still in progress and we are finalising our work in the following areas:

- property, plant and equipment; housing benefit; NNDR; reserves; the reconciliation between the CIES and subjective analysis; and Whole of Government Accounts

- minor points in relation to operating expenses, employee remuneration, council tax, revenues including grant income, debt, investments, cash and bank and provisions;
- final procedures including review of the final version of the financial statements; obtaining and reviewing the final management letter of representation; review of final version of the Annual Governance Statement; and updating our post balance sheet events review, to the date of signing the opinion

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

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We have currently identified one non-material adjustment affecting the Council's reported financial position. This change relates to the incorrect inclusion of a £1.2m community asset that is no longer owned by the Council. Officers are minded not to adjust for this. We have also made a small number of adjustments to improve disclosures in and the presentation of the financial statements.

Further details are set out in section 2 of this report.

Merseyside Pension Fund

We anticipate providing an unqualified opinion on Merseyside Pension Fund's financial statements. The findings of the audit are set out in a separate report and include one unadjusted immaterial amendment in the financial statements of £3.194m and a number of disclosure errors.

Value for money conclusion

Our review of the Council's arrangements to secure economy, efficiency and effectiveness has highlighted the following issues which will give rise to a qualified 'adverse' VFM conclusion. Our conclusion is for the financial year ended 31 March 2013 and focuses on arrangements in place during the year, as well as taking a forward view on current and emerging arrangements. Although systems and processes began to be improved with the appointment of new senior management mid way through the year, for the 2012/13 year overall, 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;
- prioritise its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity;
- ensure proper stewardship and governance and review regularly the adequacy and effectiveness of these arrangements.

Further detail of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Controls

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

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

We draw your attention in particular to control issues identified in relation to:

- Property, plant and equipment - some weaknesses remain in the controls over asset verification and recording.
- Payroll – lack of supporting documentation to support operation of a key control.
- Accounts payable – there continues to be low usage of the i-procurement system and a lack of supporting evidence retained for expenditure raised outside of this system.
- Journals – the Oracle system does not retain information for authorisation of journals after 60 days.

Further details are provided within section 2 of this report.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Strategic Director, Transformation and Resources and the Interim Director of Finance. **The Audit and Risk Management Committee is required to approve management's proposed treatment of adjustments identified during the audit but which have not been made within the final set of financial statements.**

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Strategic Director, Transformation and Resources and the Interim Director of Finance and the finance team.

Acknowledgment

We recognise that this has been a particularly challenging year for the Council and would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2013

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

We anticipate providing an unmodified opinion on the Council's financial statements.

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit and Risk Management Committee on 19 March 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 19 March 2013 except for the area highlighted below .

- **Employee remuneration/payroll strategy**

We planned to gain assurance over controls in your employee remuneration systems to enable us to reduce the substantive testing at year end. Internal Audit carried out work in agreement with our testing requirements for staff costs for the first 9 months of the year. Although we had no concerns about Internal Audit's testing, we were not able to rely on the controls in the system as a result of their findings and changed to a fully substantive approach on year end balances. We found a lack of supporting documentation to support the operation of a key control regarding starters.

Wirral Council - Audit opinion

We anticipate that we will provide the Council with an unmodified opinion on the financial statements. Our draft audit opinion is set out at Appendix B.

Merseyside Pension Fund - Audit opinion

We anticipate that we will provide the Merseyside Pension Fund with an unmodified opinion on the financial statements. Our draft audit opinion is set out in Appendix A of the Merseyside Pension Fund Annual Findings Report (which is being considered separately by the Audit and Risk Management Committee.)

Audit Certificate

We cannot formally conclude the audit and issue our audit certificate until we have completed our consideration of matters brought to our attention by a local authority elector. We are satisfied that these matters do not have a material effect on the financial statements or a significant impact on our value for money conclusion.

Audit findings against significant risks

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

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

| | Risks identified in our audit plan | Work completed | Assurance gained and issues arising |
|----|-----------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. | <p>Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition.</p> | <ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions | <p>Our audit work has not identified any issues in respect of revenue recognition.</p> |
| 2. | <p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls.</p> | <ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of unusual significant transactions | <p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We did however identify that the Oracle system does not retain information regarding authorisation of journals after 60 days. However, of those tested we found no errors.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p> |

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|------------------------------|-------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Operating expenses | Operating expenses understated | <ul style="list-style-type: none"> • Documented our understanding of processes and key controls over the transaction cycle • walkthrough of the key controls to assess the whether those controls are designed effectively • tested key controls • tested operating expenses | Our audit work is substantially complete and has currently not identified any significant issues in relation to the risk identified. |
| Operating expenses | Creditors understated or not recorded in the correct period | <ul style="list-style-type: none"> • Documentation and walkthrough of the cycle as above. • review of closedown plans and controls around accruals • substantive testing of year end creditor balances • substantive cut off testing of expenditure | Our work is substantially complete. We have raised an issue in respect of controls in the accounts payable system. |
| Employee remuneration | Remuneration expenses not correct | <ul style="list-style-type: none"> • Documentation of the processes and controls in the cycle • walkthrough of payroll items (starter, leaver, change in base data) to confirm the controls in place • Substantive testing of remuneration expenses | Our work is substantially complete. We have raised an issue in respect of a lack of supporting documentation to support the operation of a key control in respect of starters. |

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|----------------------------------------|--------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Welfare expenditure | Welfare benefits improperly computed | <ul style="list-style-type: none"> • Documented the processes and key controls in the welfare benefit cycle • walked through one sample item to confirm the understanding and that the controls identified by Council staff are in place • Completion of HBCOUNT work (our approach for certification of the housing benefits claim) to inform our conclusion on the disclosures in the financial statements • Reconciliation of the year end system output to the general ledger | Our work on HBCOUNT is currently in progress. We have currently not identified any significant issues in relation to the key controls in the welfare benefit cycle nor the reconciliation of the year end system output to the general ledger. |
| Property, plant & equipment | PPE activity not valid | <ul style="list-style-type: none"> • Documentation of controls and processes from discussion with capital accountant • walkthrough, of controls including year end controls • review of reconciliation between asset register and general ledger • substantive testing of additions and testing of ownership and existence of assets | Our work on property plant and equipment is in progress. We have identified the incorrect inclusion of a £1.2m community asset that is no longer owned by the Council (total community assets at 31 March 2013 were £27.4 million). Officers have indicated that they are not minded to adjust for this. |
| Property, plant & equipment | Revaluation measurement not correct | <ul style="list-style-type: none"> • Early discussions for plans and evidencing of revaluation movements • Review of terms of reference for valuations team • Review of work completed and testing of revaluation movements • Comparison of revaluation movements to expected market movement and discussion of any significant variances | Our work on revaluation and measurement is in progress. |

Accounting policies, estimates & judgements

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

| Accounting area | Summary of policy | Comments | Assessment |
|----------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|
| Revenue recognition | <ul style="list-style-type: none"> Income is accounted for in the financial year in which goods and services are rendered. The amounts include actual invoices raised after the year end and where actual amounts are not known estimates are included based on an assessment of the value of goods and services received or rendered. Interest receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows set out by contract. Income from council tax is recognised at the full amount receivable. Income from government grants and contributions are accounted for on an accruals basis and recognised in the accounting statements when the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received. | Our audit work to date has not identified any significant issues in relation to revenue recognition. |  Audit in progress |
| Judgements and estimates | Key estimates and judgements include: <ul style="list-style-type: none"> useful life of capital equipment pension fund valuations and settlements Revaluations Impairments Provisions | Our audit work to date has not identified any significant issues in relation to key estimates and judgements. |  Audit in progress |
| Other accounting policies | We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. | Our audit work to date has not identified any significant issues in relation to key estimates and judgements. |  Audit in progress |

Assessment

 **Red** - Marginal accounting policy which could potentially attract attention from regulators

 **Green** - Accounting policy appropriate and disclosures sufficient

 **Amber** - Accounting policy appropriate but scope for improved disclosure

Adjusted misstatements

We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The audit is not yet complete and the table below will summarise any adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the key statements and the reported financial position.

| Detail | Comprehensive Income and Expenditure Account £'000 | Balance Sheet £'000 | Impact on total net expenditure £000 |
|--------------------------------|-------------------------------------------------------------|------------------------|--------------------------------------------|
| 1 [audit is still in progress] | | | |
| 2 | | | |
| | | | |
| Overall impact | £0 | £0 | £0 |

Misclassifications & disclosure changes

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

| Adjustment type | Value £'s | Account balance | Impact on the financial statements |
|-----------------|--------------|--------------------|-------------------------------------------------------------------------------------------------------------------------------|
| 1 Disclosure | £10,000 | Heritage Assets | No impact on Balance sheet; brought forward and carried forward valuation of Transport Heritage assets incorrectly disclosed. |
| 2 Disclosure | - | Trading Operations | Incorrect calculation of surplus/deficit on trading units disclosure within Note 29 as Expenditure added to Turnover. |
| 3 Disclosure | - | Note 28 | Incorrect year noted within Note 28 disclosure note. |
| 4 Disclosure | £65,000 | Note 24 | Incorrect disclosure of the in-year audit fees payable to Grant Thornton |
| 5 | | | [audit still in progress] |

Unadjusted misstatements

The table below provides details of adjustments identified during the audit but which have not been made within the final set of financial statements. The Audit and Risk Management Committee is required to approve management's proposed treatment of all items recorded within the table below:

| Detail | Comprehensive Income and Expenditure Account £'000 | Balance Sheet £'000 | Reason for not adjusting |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|------------------------|--------------------------|
| 1 We are discussing an amount of £1.2million, in relation to a Community Asset within PPE no longer owned by the Council, to determine the impact of the misstatement. | | | |
| [audit still in progress] | | | |
| Overall impact | £0 | £0 | |

Internal controls

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

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

| | Assessment | Issue and risk | Recommendations |
|----|----------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. |  Amber | Property, plant and equipment We have identified the incorrect inclusion of a £1.2m community asset that is no longer owned by the Council. This demonstrates that weaknesses remain in the controls over asset verification and recording. The Council may not have sufficient controls in place to assure themselves of the accuracy of Property, Plant and Equipment disclosures. | Improve controls for property plant and equipment to ensure asset records are sufficient for financial reporting requirements and stewardship. |
| 2. |  Amber | Employee remuneration We have raised an issue in respect of a lack of supporting documentation to support the operation of a key control. in respect of starters. | Improve supporting documentation to support key controls for payroll, in particular in respect of starters. |
| 3. |  Amber | Accounts payable We have raised an issue in respect of controls in the accounts payable system.. There continues to be low usage of the i-procurement system and a lack of supporting evidence retained for expenditure raised outside of this system. There is a risk the Council is committed to expenditure that has not been authorised in line with standing orders and processes. | Ensure weaknesses in the application of and adherence to the controls in the accounts payable system are addressed and key documentation is retained. |
| 4. |  Amber | Journals The system does not retain information for authorisation of journals after 60 days. The risk of unauthorised journals or no separation of duties between raising and authorisation is that the accuracy of the main accounting system could be compromised. | Ensure evidence is retained to support segregation of duties and authorisation processes for journals. |

Assessment

 **Red** - Significant deficiency – risk of significant misstatement

 **Amber** - Deficiency – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

| | Issue | Commentary |
|----|----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. | Matters in relation to fraud | <ul style="list-style-type: none"> We have previously raised the risk of fraud with the Audit and Risk Management Committee. We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures. |
| 2. | Matters in relation to laws and regulations | <ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations. |
| 3. | Written representations | <ul style="list-style-type: none"> A standard letter of representation has been requested from the Council. We will agree the specific representations required on completion of the audit. |
| 4. | Disclosures | <ul style="list-style-type: none"> Our review so far has found no material omissions in the financial statements. |
| 5. | Matters in relation to related parties | <ul style="list-style-type: none"> We have not received responses from 15 members and officers in relation to related parties. The Council must ensure all officers and members complete declarations in respect of related party transactions. We have suggested some improvements to disclosure of related parties. |
| 6. | Going concern | <ul style="list-style-type: none"> Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis. |
| 7. | Annual Governance Statement (AGS) | <p>The original AGS was presented with the pre-audit accounts and signed as appropriate by the Chief Executive and Leader in line with the Accounts & Audit regulations and Code. Our review during the audit identified the following areas for improvement:</p> <ul style="list-style-type: none"> The AGS included an acknowledgement of responsibility for ensuring there is a sound system of governance (incorporating the system of internal control). The scope of this statement should be extended to cover the Pension Fund as well as the authority. The AGS included an indication of the level of assurance that the systems and processes that comprise the authority's governance arrangements can provide. We recommended the AGS be reworded to give a definitive statement of whether the arrangements in 2012/13 were adequate or not and that this judgement was given by the Leader and Chief Executive, based on assurances given by the Chief Internal Auditor. The AGS should describe the governance framework in operation during 2012/13. The arrangements as described were not those in place during the year, some having been developed mid-year, after the year end or aspirational/planned in 2013/14. We recommended the section be revised to briefly describe the governance system as it applied during the financial year for the accounts that it accompanies. The description of the the process that was applied in maintaining and reviewing the effectiveness of the governance arrangements was not complete. Some of the significant governance issues were not all expressed clearly as 'issues'. There was no agreed action plan and no indication of progress against last year's action plan. <p>We have recently received an update to the AGS and a further report is being presented by officers to the Audit and Risk Management Committee.</p> |

Section 3: Value for Money

01. Executive summary

02. Audit findings

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04. Fees, non audit services and independence

05. Communication of audit matters

We anticipate providing a qualified 'adverse' value for money conclusion with a report by exception on your arrangements for good governance and internal control.

Value for Money

Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.:

- The Council has proper arrangements in place for securing financial resilience. The Council has 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.
- The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

Wirral Council experienced a particularly challenging year during 2012/13 with the loss of key officers, the need to make significant savings, the introduction of a voluntary Improvement Board and continuing concerns raised by regulators. Residents also continued to raise concerns with us. Against this background of change and uncertainty:

- **our conclusion is that the Council's arrangements for securing financial resilience were inadequate during this time.**

A new Chief Executive and Interim Director of Finance joined the Council in Autumn 2012 and strengthened arrangements to manage the financial risks. More robust arrangements have now been put in place and are taking effect but the Council accepts that for 2012/13 it was less than adequate and improvements were needed in its financial management.

Further detail is contained in our separate report on the Council's arrangements for securing financial resilience.

Value for Money

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within.

For much of the year there was a lack of clarity about the Council's strategic priorities resulting in a lack of a strategic approach to challenging spend and considering how spending matches the priorities of the Authority. Performance management and risk management arrangements were reviewed by Internal Audit during the year and given 'limited assurance'. The strategic change programme was not linked to the wider savings programme and neither delivered as planned. In the early part of the year there was a lack of impetus on decision-making and to demonstrate that there was an increase in productivity and better output from more limited resources.

For the year overall:

- **our conclusion is that the Council's arrangements for challenging how it secures economy, efficiency and effectiveness were inadequate.**

Proper stewardship and governance

Weaknesses continued in the Council's arrangements during 2012/13 for:

- promoting and demonstrating the principles and values of good governance:
 - The Council had yet to fully address the corporate governance weaknesses which have been repeatedly identified in respect of key issues such as whistleblowing, conflicts of interest, compliance with procedures, risk management, Internal Audit and providing value for money. In addition there was a high incidence of non-compliance with procedures. We continued to receive a number of questions and concerns raised by members of the public.

- managing risks and maintaining a sound system of internal control:
 - there were weaknesses in corporate arrangements for risk management, compliance with policies, procedures and internal control. There were not adequate and effective arrangements for assurance of the systems of internal control and this was reflected in the Internal Audit annual report and the Council's Annual Governance Statement..

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission for 2012/13:

- **our conclusion is that the Council did not put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year between 1 April 2012 and 31 March 2013.**

We anticipate providing a qualified 'adverse' value for money conclusion with a report by exception on your arrangements for good governance and internal control.

Section 4: Fees, non audit services and independence

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05. Communication of audit matters

Our final fee for the audit is expected to be in line with the planned fee.

There are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.

Fees, non audit services and independence

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

Fees

| | Per Audit plan £ | Estimated fees £ |
|-------------------------|---------------------|------------------------|
| Council audit | 211,680 | 211,680 |
| Grant certification | 42,600 | 42,600 |
| Total audit fees | 254,280 | 254,280 |

Note:

- (1) Certification work is on-going and this is our current estimate. The final fee will reported to the Audit and Risk Management Committee later in the year in our annual certification report.
- (2) The fees for Merseyside Pension Fund are £36,882 (see separate Audit Findings Report.)

Fees for other services

| Service | Fees £ |
|--------------------------------------------------------------------------------------------|----------------------|
| Independent review of Wirral Council's BIG and ISUS schemes (Forensics department tender) | 50,000 (estimate) |

Independence and ethics

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

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

Section 5: Communication of audit matters

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05. Communication of audit matters

We have delivered our audit in line with the Audit Plan and ISA 260 and expect to meet all the relevant milestones and deadlines.

We expect to give our opinions by the statutory deadlines.

Communication of audit matters to those charged with governance

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

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

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

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

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

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

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

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

| Rec No. | Recommendation | Priority | Management response | Implementation date & responsibility |
|---------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|---------------------|--------------------------------------|
| 1 | Improve supporting documentation to support key controls for payroll, in particular in respect of starters. | Medium | | |
| 2 | Improve controls for property plant and equipment to ensure asset records are sufficient for financial reporting requirements and stewardship. | Medium | | |
| 3 | Ensure weaknesses in the application of and adherence to the controls in the accounts payable system are addressed and key documentation is retained. | Medium | | |
| 4 | Ensure evidence is retained to support segregation of duties and authorisation processes for journals. | Medium | | |
| 5 | Ensure all officers and members complete declarations in respect of related party transactions. | Medium | | |
| 6 | Revise the Annual Governance Statement (AGS) to ensure it reflects compliance with CIPFA guidance and is consistent with other information on governance that is available to the Council. | Medium | | |
| 7 | Ensure the weakness identified in respect of financial resilience, securing economy efficiency and effectiveness and proper arrangements continue to be addressed. | High | | |

Appendix B: Audit report - DRAFT

We anticipate we will provide the Council with a modified audit report including an unmodified opinion on the financial statements and a qualified value for money conclusion. We cannot formally conclude the audit at this time due to the on-going consideration of a question from an elector.

DRAFT - INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WIRRAL BOROUGH COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of Wirral Borough Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Wirral Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Resources (Interim) and auditor

As explained more fully in the Statement of the Chief Finance Officers's Responsibilities, the Director of Resources (Interim) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Resources (Interim); and the overall presentation of the financial statements. In

addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Wirral Borough Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We are currently considering a matter raised by a local elector and will be unable to formally close the audit until this matter has been concluded.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Basis for adverse conclusion

In considering the Authority's arrangements for securing financial resilience, I identified that:

- the Council's arrangements for securing financial resilience were inadequate during this time;

In considering the Authority's arrangements for challenging how it secures economy, efficiency and effectiveness, I identified that:

- the Council's arrangements for challenging how it secures economy, efficiency and effectiveness were inadequate.

Adverse conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, the matters reported in the basis for adverse conclusion paragraph above prevent me from being satisfied that in all significant respects Wirral Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Report by exception

The Audit Commission's guidance also requires me to report by exception on any other significant additional matters that come to my attention and which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in the use of resources. Such matters have come to my attention relating to significant weaknesses in the Authority's arrangements for:

- promoting and demonstrating the principles and values of good governance; and
- managing risks and maintaining a sound system of internal control.

The Council has yet to fully address the corporate governance weaknesses which have been repeatedly identified in respect of key issues such as whistleblowing, conflicts of interest, compliance with procedures, risk management, Internal Audit and providing value for money. In addition there was a high incidence of non-compliance with procedures. We continued to receive a number of questions and concerns raised by members of the public.

Without good governance, risk increases and priorities may not be achieved.

There were weaknesses in corporate arrangements for risk management, compliance with policies, procedures and internal control. There were not adequate and effective arrangements for assurance of the systems of internal control and this was reflected in the Internal Audit annual report and the Council's Annual Governance Statement.

Without sound arrangements risks cannot be managed to a reasonable level and resources may not be used effectively to deliver value for money.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed our consideration of matters brought to our attention by local authority electors. We are satisfied that these matters do not have a material effect on the financial statements or a significant impact on our value for money conclusion.

[Signature]

Michael Thomas
 Director
 for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Royal Liver Building, Liverpool, L3 1PS
 [Date] September 2013



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