

## **WIRRAL COUNCIL**

### **AUDIT & RISK MANAGEMENT COMMITTEE**

**25 NOVEMBER 2013**

<b>SUBJECT</b>	<b>STATEMENT OF ACCOUNTS 2012/13</b>
<b>WARD/S AFFECTED</b>	<b>ALL</b>
<b>REPORT OF</b>	<b>DIRECTOR OF RESOURCES</b>
<b>RESPONSIBLE PORTFOLIO HOLDER</b>	<b>COUNCILLOR PHIL DAVIES</b>
<b>KEY DECISION</b>	<b>YES</b>

#### **1.0 EXECUTIVE SUMMARY**

- 1.1. The report updates Committee on the conclusion of the audit process for 2012/13 including the Audit Findings Report Action Plan that has been developed since the Audit Findings Report was finalised with the Council's external auditors in September.

#### **2.0 BACKGROUND AND KEY ISSUES**

##### **INTRODUCTION**

- 2.1 The Council Constitution allocates responsibility for the approval of the Statement of Accounts to the Audit & Risk Management Committee. The draft Statement for 2012/13 was published on 28 June 2013 and was then subject to audit. Grant Thornton, the Councils' External Auditors, presented their findings, within the Audit Findings Report (AFR) to this Committee on 18 September 2013. The Statement of Accounts 2012/13 was published on 30 September 2013 – the statutory deadline for publication – and included the Merseyside Pension Fund (MPF) accounts as Wirral Council is the Administering Authority for MPF.

##### **AMENDMENTS TO THE STATEMENT OF ACCOUNTS**

- 2.2 Following the Committee on 18 September no further amendments were requested to be made to the Statement of Accounts by Grant Thornton. The meeting was informed of one amendment highlighted by the Auditor and detailed in the Audit Findings Report. One item identified was, following Member agreement, not adjusted in 2012/13 but will be in 2013/14. This related to land at Bidston Moss and is being adjusted in the 2013/14 Statement of Accounts as it has no impact on the level of financial resources available to the Council.
- 2.3 The final published Statement of Accounts also incorporated the Annual Government Statement and Action Plan for 2012/13 approved at the Committee meeting on 18 September.

##### **AUDITOR'S REPORT AND OPINION**

- 2.4 Committee on 18 September 2013 considered the Audit Findings Report issued by Grant Thornton and, given that work was on-going; delegated to the Chair of the Committee and the Interim Director of Resources authority to finalise the Statement of Accounts 2012/13.

- 2.5 The Audit Opinion was issued on 30 September 2013 and is appended. This stated that the financial statements give a true and fair view of the financial position of the Council at 31 March 2013 and of its expenditure and income for the year and that they have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.
- 2.6 Besides commenting on the Financial Statements Grant Thornton also report on 'Matters by exception'. Grant Thornton reported an adverse conclusion on the Councils' arrangements for securing economy, efficiency and effectiveness in the use of resources for the year ended 31 March 2013.
- 2.7 The Financial Resilience Report expanded on these issues and whilst there was an adverse (red) rating Grant Thornton recognised the progress made by the Council during 2012/13 with the Direction of Travel being rated as 'amber'. It should be borne in mind that the conclusion is based on the arrangements that were in place throughout the full year.
- 2.8 The Audit Certificate, issued to formally conclude the audit is due to be issued at the time of preparing this report. The outstanding work in respect of the Whole Of Government Accounts was completed by the October deadline and Grant Thornton have concluded consideration of matters brought to our attention by local authority electors. Grant Thornton have re-affirmed that these matters do not have a material effect on the financial statements or a significant impact on our value for money conclusion.

## **ANNUAL FINDINGS REPORT ACTION PLAN**

- 2.9 The final Audit Finding Report received contained a number of recommended actions which Grant Thornton believe will improve the Councils financial controls or give consideration to the key issues facing the Council in the future. These recommendations have been agreed and an action Plan developed to bring improvements in the areas identified.

## **3.0 RELEVANT RISKS**

- 3.1 Grant Thornton identified a number of concerns in their Audit Findings Report. If not addressed by the Council through the Action Plan then there are potential risks that the Council will not be able to meet its statutory requirements in respect of the Statement of Accounts. There are also concerns relating to Value for Money and Financial Resilience of the Council.

## **4.0 OTHER OPTIONS CONSIDERED**

- 4.1 The Statement of Accounts has to be produced in accordance with statutory guidance and the Statement is then subject to review by the appointed Auditor.

## **5.0 CONSULTATION**

- 5.1 There has been no specific consultation in respect of this report.

## **6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

6.1 There are none arising directly from this report.

## **7.0 RESOURCE IMPLICATIONS**

7.1 The amendments to the Statement of Accounts 2012/13 did not change the level of General Fund balance or reserves and provisions at 31 March 2013 which remain as reported to Cabinet on 13 June 2013.

7.2 There are no IT or asset implications arising from this report.

## **8.0 LEGAL IMPLICATIONS**

8.1 It is a legal requirement to publish the Statement of Accounts by 30 September 2013.

## **9.0 EQUALITIES IMPLICATIONS**

9.1 There are no equality implications arising directly from the production of the Statement of Accounts so an Equality Impact Assessment (EIA) is not required. If requested then arrangements can be made to provide the Accounts in both different languages and formats.

## **10.0 CARBON REDUCTION IMPLICATIONS**

10.1 There are none arising directly from this report.

## **11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

11.1 There are none arising directly from this report.

## **12.0 RECOMMENDATIONS**

12.1 That the Independent Auditors Report be noted.

12.2 That progress on delivering the actions identified in the Audit Findings Report Action Plan be reported to this Committee.

## **13.0 REASON FOR RECOMMENDATIONS**

13.1 Audit & Risk Management Committee has responsibility for approving the Statement of Accounts on behalf of the Council which is a requirement under the Accounts and Audit Regulations 2003, as amended in 2011.

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## **APPENDICES**

- 1 Independent Auditor's Report issued by Grant Thornton 30 September 2013.
- 2 Audit Findings Report Action Plan

Note : Statement of Accounts 2012/13 - as the document is in excess of 190 pages it has not been appended but can be accessed via the Council web-site.

## **BACKGROUND PAPERS**

Audit Findings Report for Wirral Council issued by Grant Thornton September 2013.  
Review of Wirral Council's Arrangements For Securing Financial Resilience issued by Grant Thornton September 2013.

## **REFERENCE MATERIAL / SUBJECT HISTORY**

<b>Council Meeting</b>	<b>Date</b>
Audit & Risk Management Committee Grant Thornton Audit Findings Report - Merseyside Pension Fund Merseyside Pension Fund Accounts 2012/13 Grant Thornton Audit Findings Report - Wirral Council Statement of Accounts 2012/132 Grant Thornton Financial Resilience Report	18 September 2013
Cabinet Statement of Accounts 2012/13	10 October 2013

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WIRRAL COUNCIL****Opinion on the Authority financial statements**

We have audited the financial statements of Wirral 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 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 Responsibilities for the Statement of Accounts, 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 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 local electors and will be unable to formally conclude the audit and issue an audit certificate 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 seeking to satisfy ourselves that the Council has made proper arrangements for securing financial resilience, we have considered the following matters:

- There were weaknesses in leadership and financial governance during the year that diverted action from delivering improvement; for part of the year there were significant capacity issues at senior officer level, the s151 officer did not sit on the management team and there were three different chief finance officers/s151 officers between the start of April and mid-October.
- The Corporate Plan was subject to significant review and change, impacting adversely on the Authority's ability to plan and prioritise over the medium to longer term. The plan was not underpinned by a robust medium term financial plan that clearly set out how the Council would address the projected shortfall of around £100 million for the period 2012– 2015 or the £17m potential overspend identified at month three.
- The Authority acknowledged that there had been under budgeting issues for a number of years and savings plans were not robust, resulting in substantial year end overspends mainly funded by one off non-recurring income or savings. There has been regular use of reserves to fund recurrent expenditure as well as weaknesses in forecasting capital expenditure and an expenditure freeze was implemented to secure balance by the end of the year.

- The 2012/13 budget planning assumptions, scenario planning and risk management were not robust and this has had a significant impact on financial plans going forward.

In seeking to satisfy ourselves that the Council has made proper arrangements for challenging how it secures economy, efficiency and effectiveness, we have considered the following matters:

- 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 were delivered as planned. In the early part of the year there was a lack of impetus on decision-making and as a result the Authority was unable to demonstrate that there was an increase in productivity and better output from more limited resources.

These issues are acknowledged in the Authority's Improvement Plan and Annual Governance Statement.

### **Adverse conclusion**

On the basis of our 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 us from being satisfied that in all significant respects Wirral 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 us to report by exception on any other significant additional matters that come to our attention and which we consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in the use of resources. Such matters have come to our 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 is a high incidence of non-compliance with procedures. We continue 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. Arrangements for the assurance of the systems of internal control were not adequate or effective 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; and
- completed our work on the Council's Whole of Government Accounts.

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.

Michael Thomas

Director

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

Royal Liver Building, Liverpool, L3 1PS

30 September 2013

*The signed version of this report is available from the Director of Resources for Wirral Council, PO Box No 2, Treasury Building, Cleveland Street, Birkenhead, Wirral, CH41 6BU*

# **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WIRRAL COUNCIL**

## **Opinion on the pension fund financial statements**

We have audited the pension fund financial statements of Merseyside Pension Fund for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement 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 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 Responsibilities for the Statement of Accounts, the Director of Resources (Interim) is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund 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 pension fund 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 fund'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 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.

## **Opinion on the pension fund financial statements**

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Michael Thomas

Director

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

Royal Liver Building, Liverpool, L3 1PS

30 September 2013

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<b>AUDIT FINDINGS REPORT ACTION PLAN</b>				<b>APPENDIX 2</b>
<b>Rec. Number</b>	<b>Recommendation</b>	<b>Priority</b>	<b>Management Response</b>	<b>Implementation date and responsibility</b>
1	Improve supporting documentation to support key controls for payroll, in particular in respect of starters.	Medium	Recommendation implemented July 2013 following internal audit findings. Supporting documentation now stored on electronic document storage system (Documentum).	July 2013 Jann Lindoe (Payroll Services)
2	Improve controls for property plant and equipment to ensure asset records are sufficient for financial reporting requirements and stewardship.	Medium	Plant and equipment records continue to be enhanced.	June 2014 Reg Huyton (Financial Services) with support from other Directorates
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	Specific Actions will be developed to improve application and adherence to the controls, including information to all affected staff of processes and reports to highlight non-compliance.	March 2014 Ray Williams (Procurement)
4	Ensure evidence is retained to support segregation of duties and authorisation processes for journals.	Medium	Evidence to support the authorisation of journals including the segregation of duties has been developed and implemented.	October 2013 Jenny Spick (Financial Services)
5	Ensure all officers and members complete declarations in respect of related party transactions.	Medium	Actions taken to pursue returns and these are being enhanced to include making more information available to Members and integrating related party requests with other communications. This includes the process for Members leaving their seats.	June 2014 Tom Sault (Financial Services) Surjit Tour (Legal and Member Services)

<b>Rec. Number</b>	<b>Recommendation</b>	<b>Priority</b>	<b>Management Response</b>	<b>Implementation date and responsibility</b>
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	An updated AGS was prepared and agreed by Audit & Risk Management Committee 18 September 2013.	September 2013 Graham Burgess (Chief Executive)
7	Ensure the weakness identified in respect of financial resilience, securing economy efficiency and effectiveness and proper arrangements continue to be addressed.	High	The Council continues to improve its Corporate Planning and Financial Management arrangements. The Medium Term Financial Strategy will be updated twice during the financial year. The development of savings will commence earlier and be agreed by December. Reserves and balances are assessed as part of monitoring and fully reviewed twice a year.	March 2014 Chief Executive, Strategic Directors and Director of Resources
8	Improve the guidance to valuers to ensure the requirements of IAS16 and the Code are fully met and documented.	Medium	The annual instruction to the valuers will be reviewed and revised, where required, to meet the requirements of IAS16 and the Code.	December 2013 Reg Huyton (Financial Services)
9	Improve the systems for producing the subjective analysis.	Medium	A review of the systems for producing the subjective analysis will be undertaken with the aim of improving the production of the subjective information for the Statement of Accounts.	December 2013. Jenny Spick (Financial Services)