

# The Audit Findings for Wirral Council

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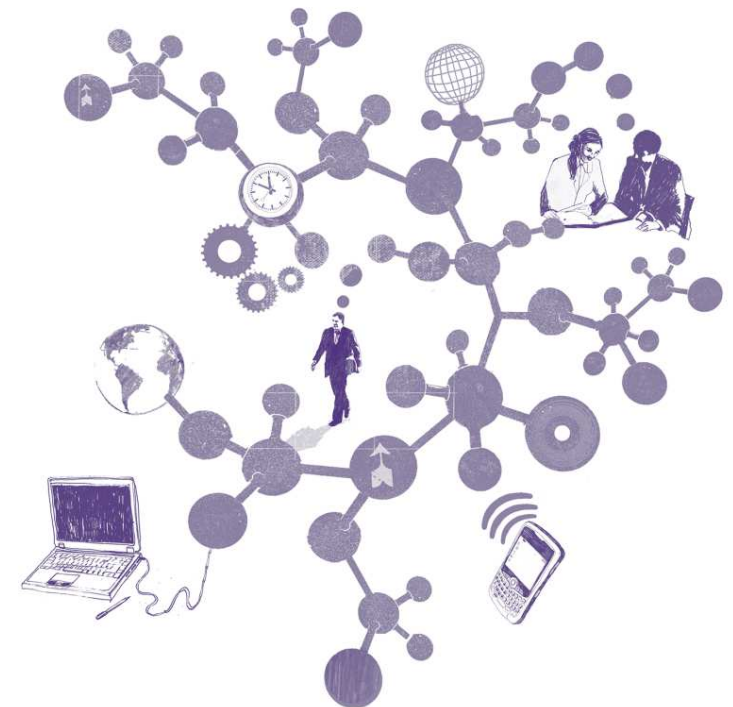
**Year ended 31 March 2014**

September 2014

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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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## **Appendices**

- A Audit opinion
- B Letter or Representation

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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 financial statements, and an unqualified 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 2014. 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 not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan issued in May 2014.

Our audit is substantially complete although we are finalising our work in the following areas:

- Review of the final version of the financial statements;
- Review of the existing PFI model and associated accounting entries;
- Review and agreement of revised pension note disclosures;
- Obtaining and review of the final management letter of representation;
- Updating our post balance sheet events review, to the date of signing the opinion; and
- Whole of Government Accounts.

## Key issues arising from our audit

### Financial statements opinion

As at 10th September 2014, and subject to the completion of the outstanding work described previously, we expect to issue an unqualified opinion on the Council's financial statements.

The draft financial statements detail gross expenditure – cost of services of £743 million ; net assets of £105 million and a general fund balance of £17.2 million. We have not identified any adjustments affecting the Council's reported financial position . Officers have agreed to make a small number of adjustments to improve the presentation of the financial statements as a result of the audit.

The key messages arising from our audit of the Council's financial statements are:

- No significant issues were identified;
- The accounts were well prepared with few errors and the Council provided working papers in support of the draft statements;
- Further working papers were produced as required during the audit.; and
- Finance staff were available throughout the audit to answer our questions promptly and provided additional information in a timely manner.

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 .

### **Value for Money conclusion**

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VFM conclusion. Overall our work highlighted that the Council has arrangements in place to secure financial resilience, and proper arrangements in place for challenging how it secures economy, efficiency and effectiveness.

In 2012/13 we issued a qualified "adverse" conclusion as our review identified a number of areas where arrangements were not effective. Our 2012/13 report recognised that following the appointment of the new management team in Autumn 2012 significant action across a range of areas had begun to take effect.

Our 2013/14 assessment confirmed that the Council have continued to address a range of previous issues and have secured improvements to financial planning and financial control. However, the scale of the financial challenge remains significant. The Council's financial plan identifies a budget gap of £83.3m over the three year period from 2014/15 to 2016/17. Having already delivered substantial financial savings, the Council faces a significant challenge to address this budget gap and to meet its statutory responsibilities.

The Council has recognised the scale of the financial challenges that it will face and has developed a fundamental proposal designed to transform the Council and help deliver the major savings that are required. The Future Council Programme will seek to ensure that resources are used effectively to achieve the outcomes needed by residents and that required savings are secured.

Further detail of our work on Value for Money is set out in this report and we have issued a separate report setting out in full the results of our assessment. This report was shared and agreed with Officers.

### **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 report these to the Council.

Our work has not identified any significant control weaknesses. However, we identified a small number of areas where IT arrangements can be further strengthened. Further details are provided within section 2 of this report.

### **The way forward**

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Head of Financial Services.

### **Acknowledgment**

We 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 2014**

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## 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 have not identified any adjustments affecting the Council's financial position and we are expecting to issue an unqualified opinion on the 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 23 June 2014. We also set out the adjustments to the financial statements arising 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 23 June 2014.

## Audit opinion

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix A.

## Key Findings

The Authority submitted its financial statements for audit by the deadline of 30 June 2014. The draft accounts were prepared to a good standard and were supported by working papers.

Our audit identified a small number of disclosure issues where amendment has been agreed to improve the overall disclosure in the financial statements. The most significant issue related to property plant and equipment valuations.

## Property, Plant and Equipment (PPE)

The Council re-values its property portfolio on a rolling five year basis with 20 per cent re-valued each year. For those assets not formally re-valued in the year, officers have completed a formal review to ensure the carrying value does not differ materially from the value included in the accounts. Through this process, the Council has demonstrated that the valuation of other assets not re-valued in year has not materially changed.

We have reviewed this work and we are satisfied that the outcome of this process is reasonable.



# 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><b>Improper revenue recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>We considered whether the presumed risk of fraud due to improper recognition of revenue applied for the audit of Wirral Council and we have undertaken and completed the following:</p> <ul style="list-style-type: none"> <li>• review and testing of revenue recognition policies</li> <li>• testing of material revenue streams</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journal entries</li> <li>• review of unusual significant transactions</li> </ul>	<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.</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.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Operating expenses</b></p>	<p>Creditors understated or not recorded in the correct period</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented and identified processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to confirm our understanding</li> <li>• Early testing of a sample of operating expenses</li> <li>• Detailed review and testing of year end accruals and creditor balances including confirmation that balances due have been settled after the year-end</li> <li>• "Cut-off" testing to obtain assurance that creditors have been accounted for in the correct financial year</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p><b>Employee remuneration</b></p>	<p>Employee remuneration accrual understated</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Documented and identified the processes and key controls in the employee remuneration cycle</li> <li>• Walkthrough of controls to confirm our understanding</li> <li>• Review of payroll reconciliations including at the year end</li> <li>• Substantive testing of payments made to employees in the 2013-14 financial year</li> <li>• Use of analytical techniques to compare expected payroll costs with Actual</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</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.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Welfare expenditure</b>	Welfare benefit expenditure improperly computed	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Documented and identified the processes and key controls in the Welfare expenditure cycle</li> <li>• Walkthrough of controls to confirm our understanding</li> <li>• Agreement to accounts and supporting notes.</li> <li>• Housing Benefit Subsidy Claim testing using Audit Commission HBCOUNT approach</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Property, plant &amp; equipment</b>	PPE activity not valid	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Documented and identified the processes and key controls for property, plant and equipment transactions</li> <li>• Walkthrough of controls to confirm our understanding</li> <li>• Sample testing of PPE movements during the year.</li> <li>• Sample test of PPE additions and disposals, including compliance with capitalisation requirements.</li> <li>• Testing of capital expenditure to confirm adherence to the Authority's accounting policies and accurate disclosure in the financial statements.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.


# 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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Property, plant &amp; equipment</b></p>	<p>Revaluation measurement not correct</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Review of the arrangements made by management to commission an appropriate valuation of the Authority's asset base and the steps taken to ensure that valuations obtained are correctly reflected in the Authority's asset register and accounted for in the financial statements.</li> <li>• Review of the analysis which demonstrates that the value of assets in the Council's balance sheet is not materially different from the amount that would be given by a full valuation carried out on 31 March 2014.</li> <li>• Detailed testing of accounting entries posted to reflect valuations obtained.</li> </ul>	<p>Our audit work on PPE has not identified any significant issues in relation to the revaluation risks identified. We noted that the Council re-values its property portfolio on a rolling five year basis with 20 per cent re-valued each year.</p> <p>We are satisfied that the outcome of this process is reasonable.</p>

# 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
<p><b>Revenue recognition</b></p>	<ul style="list-style-type: none"> <li>Income and expenditure is recognised in the financial year in which goods and services are received or provided. The amounts included are based on actual invoices received or 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. Any estimates are calculated using the best available information.</li> <li>Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. If debts are not likely to be settled, the balance of the debtor is written down and a charge made to revenue for income that might not be collected.</li> <li>Income from Council Tax and National Non-Domestic Rates is recognised within the Comprehensive income and Expenditure Account as the amount due to the Council for the financial year, including its share of the Collection Fund balances for these items at the end of the financial year. This value is subsequently amended through the Movement in Reserves Statement and the Collection Fund Adjustment Account to reflect the amount to be credited to the General Fund for the Council's Council Tax Requirement and income from National Non-Domestic Rates.</li> <li>Interest receivable on investments and payable on borrowings is accounted for as income and expenditure based on the effective interest rate for the relevant financial instrument rather than the cash flows set out by contract.</li> </ul>	<p>We have reviewed the accounting policies against the requirements of the Code of Practice on Local Authority Accounting.</p> <ul style="list-style-type: none"> <li>The approach to accounting for income is robust and in accordance with current guidance.</li> <li>Disclosure of the revenue recognition policy is adequate.</li> <li>The revenue recognition policies of the Council appropriate to the accounting framework and are adequately disclosed. Our audit testing has not identified any areas of concerns in respect of revenue recognition.</li> </ul>	<p style="text-align: center;">   <b>Green</b> </p>

**Assessment**

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate and disclosures sufficient
- Accounting policy appropriate but scope for improved disclosure

# 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
<b>Judgements and estimates</b>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> <li>– Provisions and contingent liabilities</li> <li>– Classification, valuation, impairment and useful life of property, plant and equipment</li> <li>– pension fund valuations and settlements.</li> </ul>	<p>We have reviewed the judgements and estimates against the requirements of the Code of Practice on Local Authority Accounting.</p> <ul style="list-style-type: none"> <li>• Where the Council has made judgements or estimates in the financial statements these have been supported with robust methodologies and clear explanation of the assumptions applied.</li> </ul>	 <b>Green</b>
<b>Judgements and estimates - PPE</b>	<p>Pages 53-54 of the accounts sets out the Council's accounting policy for the measurement of asset valuations. Set out on Page 76 of the accounts is details of the rolling programme of revaluations undertaken by the Council over the required 5 year period. This approach is similar to many other authorities We are satisfied the Council has demonstrated that the carrying amount of Property, Plant and Equipment (based on these valuations) does not differ materially from the fair value at 31 March 2014.</p> <p>In our view, however, this rolling programme does not meet the Code's requirement in paragraph 4.1.2.35 - to value items within a class of property plant and equipment simultaneously.</p> <p>This paragraph of the Code, which is based on IAS 16 Property, Plant and Equipment, does permit a class of assets to be revalued on a rolling basis provided that:</p> <ul style="list-style-type: none"> <li>• the revaluation of the class of assets is completed within a 'short period'</li> <li>• the revaluations are kept up to date</li> </ul>	<p>We have reviewed the judgements and estimates against the requirements of the Code of Practice on Local Authority Accounting.</p> <ul style="list-style-type: none"> <li>• Where the Council has made judgements or estimates in the financial statements these have been supported with appropriate methodologies and clear explanation of the assumptions applied.</li> <li>• Disclosure of judgements and estimates is considered appropriate.</li> </ul> <p>We reviewed the Council's asset valuation arrangements and confirmed that the valuation of PPE was not materially mis-stated.</p> <p>However, in our view, we would normally expect this 'short period' to be within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets straddles more than one financial year.</p>	 <b>Green</b>

## Assessment


 Marginal accounting policy which could potentially attract attention from regulators

 Accounting policy appropriate and disclosures sufficient

 Accounting policy appropriate but scope for improved disclosure

# 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
Other accounting policies	<ul style="list-style-type: none"> <li>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</li> </ul>	<ul style="list-style-type: none"> <li>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.</li> </ul>	 <b>Green</b>

## Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate and disclosures sufficient

● Accounting policy appropriate but scope for improved disclosure

# Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the 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 primary statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
<p>1 Following our audit the Council reviewed both the NNDR bad debt provision and the provision for appeals and determined that they were incorrectly stated. as the original disclosure did not reflect amendments to statutory guidance.</p> <p>The bad debt provision for NNDR within Note 22 was disclosed as £133k. and this was revised to £1,761k. The bad debt provision was therefore understated by £1,628k within Note 22 and the Collection Fund debtors within Note 18 are overstated by £1,628k. Short term debtors on the balance sheet are overstated by the same amount.</p> <p>Note 22 disclosed the balance for NNDR Appeals as £3,192k which reflected the overall provision for appeals. The authority's apportionment of NNDR income is 49% and this should be reflected in the provision for appeals. The appeals provision is therefore overstated by £1,628k within Note 22 and Short term provisions on the balance sheet.</p>		(1,628)	
		1,628	
<b>Overall impact</b>		<b>£0</b>	



## Misclassifications & disclosure changes

We identified a small number of trivial errors during the course of the audit and agreed disclosure changes to improve the presentation of the financial statements.

## 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.

As part of our planned programme of work on internal controls, our information system specialist team undertook a high level review of the general IT control environment at the Council. We are pleased to report that no significant issues arose from our work although we did identify a small number of areas where the Council's existing IT controls can be further developed, these include issues relating to:

- access rights;
- password control and enforcement; and
- disabling leavers' access.

We plan to issue a separate detailed report on these issues to management and will be agreeing an action plan shortly.

## 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.	<b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Audit and Risk Management Committee . We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.
2.	<b>Matters in relation to laws and regulations</b>	We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	<b>Written representations</b>	A letter of representation has been requested from the Council.
4.	<b>Disclosures</b>	Our review found no material omissions in the financial statements.
5.	<b>Matters in relation to related parties</b>	We are not aware of any related party transactions which have not been disclosed
6.	<b>Going concern</b>	Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Fees, non audit services and independence

05. Communication of audit matters

We propose to give an unqualified VFM conclusion

# 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; and
- review regularly the adequacy and effectiveness of these arrangements.

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

**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 considered the Council's arrangements to secure financial resilience and the key findings to note are:

**Securing financial resilience** – Between 2011/12 and 2013/14 the Council was required to achieve savings of £106.8 million., including a £39 million budget shortfall in 2013/14. The Council achieved the required financial position, that included the planned use of £10.1 million from General Fund balances, and delivered a £5million underspend at 31 March 2014 mainly due to the early delivery of planned savings and improved financial control.

In February 2014 the Council updated its Medium Term Financial Strategy (MTFS) 2014 – 17 to reflect the further considerable financial pressures that the Council will face including the reduced local government finance settlement and to reflect more realistic budget assumptions. The MTFS sets out a forecast funding gap of £27.5 m in 2014/15 rising to a cumulative position of £83.3m by 2016/17. The Council has identified the required savings for 2014/15 and set a balanced budget.

The Council has recognised the scale of the financial challenges that it will face and has developed a fundamental proposal designed to transform the Council and help deliver the major savings that are required. The Future Council Programme will seek to ensure that resources are used effectively to achieve the outcomes needed by residents. This proposal is currently being consulted upon with residents.

# Value for Money

## **Value for money conclusion**

### **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 and whether it has achieved cost reductions and improved productivity and efficiencies.

The Senior Management Team have demonstrated an appreciation of the scale of the challenge to reshape the Council to ensure that resources are prioritised and spending reductions achieved with new ways of working being explored. The Council has embarked on the Future Council programme designed to help deliver the significant savings targets required in future years and to ensure that remaining resources are used effectively to achieve the outcomes desired by residents and set out as Council priorities.

The Future Council programme builds on proposals developed with consultants, to remodel the organisation aimed at delivering a new organisational structure and a new system of job profiles and pay grades that it is expected will modernise the Council.

The Council has become more pro-active in its response to the changing needs of their communities and in the face of diminishing levels of funding. Clear evidence of thorough cost/benefit analysis being completed ahead of the decision to postpone pursuing the shared services arrangement with a neighbouring Council while the Future Council programme is taken forward. The Council is now part of the Liverpool City Region Combined Authority designed to bring about closer partnership working and City –regional strategies to secure improvements in the City Regions economy.

## **Overall VFM conclusion**

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.



We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

<b>Green</b>	Adequate arrangements
<b>Amber</b>	Adequate arrangements, with areas for development
<b>Red</b>	Inadequate arrangements


The table below and overleaf summarises our overall rating for each of the themes reviewed:

## Securing Financial Resilience

Theme	Summary findings	RAG rating 2013-14
<b>Key indicators of performance</b>	<p>Overall there has been an improvement in the key indicators of financial performance arrangements there is clear evidence that the Council is taking forward areas that need to be strengthened.</p> <p>The majority of indicators highlight an improved position including:</p> <ul style="list-style-type: none"> <li>a £5m underspend achieved against the 2013/14 net revenue budget primarily due to the early delivery of planned savings;</li> <li>The working capital ratio has increased from 1.23 in 2012/13 to 1.51 in 2013/14;</li> <li>There was slippage of £10.234 million against the revised capital programme agreed in January 2014 of £35.882 million;</li> <li>Risks around borrowing have continued to be addressed with a further reduction in unsupported borrowing down to £0.7m in 2013/14 greatly limiting the impact on revenue. Long term debt levels have fallen, reflective of management action in year to reduce borrowing;</li> <li>Long term borrowing as a percentage of tax revenues has decreased by 7% to 0.96, where annual tax revenues now exceed long term borrowing; and</li> <li>Action has been taken to begin to address the issue of historical arrears .In 2012/13 money was set aside for the purpose of writing off old debts and in 2013/14 £2.2m was written off with work continuing in 2014/15;.</li> </ul>	 <b>Green</b>


Theme	Summary findings	RAG rating 2013-14
<b>Strategic financial planning</b>	<p>Following the appointment of the new management team in Autumn 2012 significant action was taken to address the critical financial position and to develop a financial strategy for 2013/14 and beyond with the Council approving a revised Medium Term Financial Strategy 2013-16 and annual budget in March 2013. Action has continued throughout 2013/14 with a revised Corporate Plan agreed by the Council in December 2013 and a revised Medium Term Financial Strategy (MTFS) 2014-17 approved by Council in March 2014.</p> <p>The current MTFS sets out a revised financial forecast for the period 2014-17 with a total anticipated budget gap of £83.3m over the three years covered by the strategy confirming the significant financial challenges that the Council will continue to face. The Council will need to develop detailed savings plans to address not just the following financial year but for the three years covered by the MTFS.</p>	 <b>Amber</b>
<b>Financial governance</b>	<p>The Council recognised that governance arrangements required strengthening to improve decision making including key financial decisions. The Council's Constitution has been fully reviewed with a revised version agreed and adopted in April 2013. A revised set of contract procedure rules and financial regulations to help ensure transparent and robust arrangements are also in place.</p> <p>To help improve financial governance the Council established an Officer Planning, Risk and Governance Group chaired and supported by the Strategic Director for Transformation and Resources, The group met regularly in 2013/14 and worked to provide assurance to both to the Chief Executives Strategy Group and the Audit and Risk Management Committee. This included the comprehensive action report covering the Significant Governance Issues arising from the 2012/13 Annual Governance Statement. This has helped strengthen governance arrangements and lead to fewer issues needing to be included as significant within the AGS. The Council has continued to seek to respond positively to the resolution of previous governance issues.</p> <p>There has been a marked improvement in both Executive and Member engagement in recent years and this was recognised by the Chair of the Improvement Board. The s151 officer is now part of the Management team and a permanent Director of Resources was finally appointed in November 2013.</p>	 <b>Green</b>



Theme	Summary findings	RAG rating 2013-14
<b>Financial control</b>	<p>Our 2012/13 Financial Resilience report recognised that from mid-year the focus of the new senior management team and members was on setting a balanced budget for 2013/14 and a more robust MTFS for 2013/16. The Council introduced a more robust processes to identify, review and assess both growth and savings proposals and a balanced budget was set in March 2013. Further work has continued and the Council has identified the £27.5 million savings required to set a balanced budget for 2014/15.</p> <p>The Council completed a thorough review of income and expenditure ahead of setting balanced budgets for 2013/14 and 2014/15, which is supported by a risk assessment of an appropriate level of reserves and balances. SMT have demonstrated a sound understanding of the significant future years challenges that the Council face and the Future Council work is well underway. The management team has established a blueprint and basis for this further work on a strategic basis reviewing the whole authority and all of its services.</p> <p>Based on our updated assessment we concluded in our Audit Plan 2013/14 - "that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council. Our review of internal audit work has not identified any weaknesses which impact on our audit approach" A risk based Internal Audit Plan is developed annually in consultation with service managers and others.</p> <p>Our on going discussions with the Director of Finance have clearly demonstrated a full understanding of the financial implications of the risks facing the Council. The Chief Internal Auditor annual report for 2013/14 concluded that "Assurance can be given that there is a substantively sound system of internal control, designed to meet the Council's objectives, and that controls are generally being applied consistently." – This is a marked improvement from the "less than adequate assurance" conclusion issued in 2012/13.</p>	 <b>Amber</b>

## Challenging economy, efficiency and effectiveness

Theme	Summary findings	RAG rating 2013-14
<p><b>Prioritising resources</b></p>	<p>The Senior Management Team have demonstrated an appreciation of the scale of the challenge to reshape the Council to ensure that resources are prioritised and spending reductions achieved with new ways of working being explored. The Council has embarked on the Future Council programme designed to help deliver the significant savings targets required in future years and to ensure that remaining resources are used effectively to achieve the outcomes desired by residents and set out as Council priorities.</p> <p>The Future Council programme builds on proposals developed with consultants, to remodel the organisation aimed at delivering a new organisational structure and a new system of job profiles and pay grades that it is expected will modernise the Council. The programme utilises a business-case approach where every Council service will be reviewed in order that a series of options can be developed to reshape how best to deliver services. The options developed were the subject of wide-ranging stakeholder engagement and public consultation that commenced in June 2014.</p> <p>The approach will involve Council services being grouped and presented according to policy priority and outcome, rather than by directorates and departments. This will enable Members and partners to inform and scrutinise the emerging options with particular emphasis on the outcomes delivered to meet the needs of residents. The approach will consider all the services and expenditure against those outcomes rather than looking at individual services in isolation. This will provide the opportunity for Members to consider potential options for service transformation and alternative models of service delivery.</p> <p>The Council has become more pro-active in its response to the changing needs of their communities and in the face of diminishing levels of funding. Clear evidence of thorough cost/benefit analysis being completed ahead of the decision to postpone pursuing the shared services arrangement with a neighbouring Council while the Future Council programme is taken forward. The Council is now part of the Liverpool City Region Combined Authority designed to bring about closer partnership working and City –regional strategies to secure improvements in the City Regions economy.</p> <p>A joint plan Better Care Fund Plan is in place and it has been signed by the Wirral Health and Wellbeing Board, NHS Wirral CCG, and Wirral MBC. The Better Care Fund plan has a clear vision and strategy provided by 'Vision 2018' and agreed funding levels are in place for future years.</p> <p>The Council have undertaken extensive consultation covering areas that include the transforming Council agenda, as part of the formulation of the current corporate Plan and the MTFS. As part of the preparation of the budget for 2014/15 the Council consulted on its budget proposals, What Really Matters 2013, to achieve the required savings target included in the Medium Term Financial Strategy by a number of means including Public consultation sessions with over 100 events held, a series of direct engagement events, emails being sent to Wirral residents, Statutory consultation with the voluntary, community and faith organisations, Staff consultation via meetings and consultation on specific service budget proposals as necessary.</p>	<p style="text-align: center;">●</p> <p style="text-align: center;"><b>Amber</b></p>

Theme	Summary findings	RAG rating 2013-14
<b>Improving efficiency &amp; productivity</b>	<p>SMT have demonstrated a greater understanding in terms of cost determination and evaluation to inform decision making. The Council realised that alternative delivery models needed to be pursued to help generate savings. A concordat for a shared corporate service was signed by Cheshire West and Chester Council and Wirral Council in July 2013 to explore a shared service including HR, Payroll, Legal, IT, Procurement and Finance. A programme team came together to review their current operating model and identify opportunities for improvement that would result from the partnership. In February 2014, a draft business case was prepared that , currently , did not provide a sound basis for Wirral to recommend to Members to proceed at this moment in time.</p> <p>Whilst the level of eventual benefit (£4m estimated annual ) was attractive, the level of investment (over £8m) means that the payback period (three to four years) was not fast enough to meet the budget challenges facing the Council. This is indicative of a Council who understands costs and completes an appropriate review ahead of making an informed decision. SMT realised that a more fundamental and Council wide review was required to fully understand the cost base to then redesign and challenge service delivery. The Future Council programme has been developed to facilitate these requirements.</p>	 <b>Amber</b>

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## Section 4: Fees, non audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

There are no significant facts or matters that impact on our independence as auditors

# 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 £	Actual fees £
Council audit	211,680	Note 1 – 213,150
Grant certification	40,400	Note 2 - 38,229
<b>Total audit fees</b>	<b>252,080</b>	<b>251,379</b>

**Note 1** - There is additional fee of £1,470 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims. The additional fee is 50% of the average fee previously charged for NDR3 certifications for Metropolitan Councils and is subject to agreement by the Audit Commission.

**Note 2** - At the time of setting the grant certification fee it was anticipated that we would be required to certify the following claims:

- Housing and Council Tax Benefit: The revised fee for grant certification covers a revised fee for this claim now that it no longer covers council tax benefit.
- Teachers' Pension Claim: This will no longer come under the Audit Commission regime and will be subject to a separate review with the fee being classed as 'Fees for other services'.

## Fees for other services

Service	Fees £
<b>Regional Growth Fund (RGF) Audit Reports</b>	1,950

## 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.

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## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

We have delivered our audit in accordance with planned timescales and the requirements of Auditing Standards. 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](http://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.

	Audit Plan	Audit Findings
<b>Our communication plan</b>		
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: Audit opinion

**We anticipate we will provide the Council with an unmodified audit report**

## 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 2014 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 Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and 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 2013/14.

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 and auditor

As explained more fully in the Statement of the Responsibilities, the Director of Resources 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; 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 [name of client] as at 31 March 2014 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 2013/14 and applicable law.

### 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 have nothing to report in these respects.

**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 October 2013, 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 2014.

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.

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, [name of client] put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

**Certificate**

We certify that we have completed the audit of the financial statements of [name of client] in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Michael Thomas  
Engagement Lead

for and on behalf of Grant Thornton UK LLP, Appointed Auditor  
Royal Liver Building  
Liverpool  
L3 1PS

September 2014

## Appendix B: Letter of Representation

Grant Thornton UK LLP  
 Royal Liver Building  
 Liverpool  
 L3 1PS

17 September 2014

Dear Sirs

### **Wirral Council**

### **Financial Statements for the year ended 31 March 2014**

This representation letter is provided in connection with the audit of the financial statements of Wirral Council for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards. We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

#### **Financial Statements**

- i. We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.
- ii. We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- vi. We are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.

- vii. Except as stated in the financial statements:
  - a. there are no unrecorded liabilities, actual or contingent
  - b. none of the assets of the Council has been assigned, pledged or mortgaged
  - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for.
- ix. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- x. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xii. We have not adjusted the misstatements brought to our attention in the Audit Findings Report, as they are considered to be immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv. We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

#### **Information Provided**

- xv. We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

## Appendix B: Letter of Representation

- xvi We have communicated to you all deficiencies in internal control of which management is aware.
- xvii All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xviii We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xix We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.
- xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.
- xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxii. We have disclosed to you the entity of the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

**Annual Governance Statement**  
 We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS

**Approval**  
 The approval of this letter of representation was minuted by the Council's Audit and Risk Management Committee at its meeting on 17 September 2014.

**Signed on behalf of the Council**

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....



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