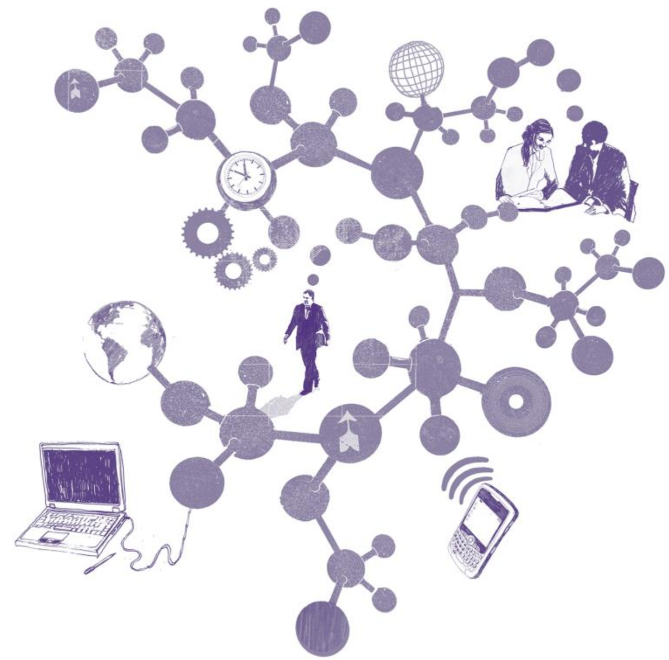
The Annual Audit Letter for Wirral Council

Year ended 31 March 2016

October 2016



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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Wirral Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit and Risk Management Committee as those charged with governance in our Audit Findings Report on 26 September 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 30 September 2016.

Value for money conclusion

In September 2016 the Office for Standards in Education, Children's Services and Skills (Ofsted) issued its report on the inspection of the Council's services for children in need of help and protection, children looked after and care leavers. The overall judgement was that children's services were rated as inadequate. The inspection found widespread and serious failures in the services provided to children who need help and protection.

The report is evidence of weaknesses in the Council's arrangements. The Council has accepted the findings of the report and has developed an action plan to address the identified weaknesses

We were satisfied that the Council had put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016 except for the matter set out above. We therefore issued a qualified 'except for' value for money conclusion in our audit report on 30 September 2016.

Use of additional powers and duties

We are required under the Act to give electors the opportunity to raise questions about the Council's accounts and we consider and decide upon objections received in relation to the accounts.

On 10 August 2016, we received an objection to the accounts in respect of the Council's Lender Option, Borrower Option borrowing. We understand that similar objections have been received by a number of councils nationally. At the time of preparing this report our work on this objection remains on-going.

Certificate

We are currently unable to certify that we have completed the audit of the accounts of Wirral Council due to the outstanding objection.

Whole of government accounts

We completed work on the Council's consolidation return following guidance issued by the NAO and issued an unqualified report on 19 October 2016.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Audit and Risk Management Committee in our Annual Certification Letter.

Looking Ahead

The Council recognises that it continues to face significant financial challenges going forward. The Council has a track record of delivering required savings to date although the challenges faced going forward are arguably getting tougher. Appropriate arrangements are in place to plan finances effectively alongside reliable financial reporting to support the delivery of the Council's strategic priorities. Overall, the Council has responded positively to the challenging financial environment during the year and has set out in the MTFS a clear view of what needs to be done in 2016/17 and beyond

In July 2015 the Council approved a new Wirral Council Plan: A 2020 Vision. The Plan sets out the key priority areas and desired outcomes for both people and place and underpinning the priorities are twenty outcomes to be delivered by 2020. The plan has been endorsed by partner organisations who are integral to delivery of the Wirral Plan. The Council acknowledges that, given the challenging financial position, difficult decisions remain to be made to ensure both the successful delivery of the Wirral Plan and achievement of statutory responsibilities.

The Council will need to finalise and then monitor the implementation of the improvement plan in response to the Ofsted findings to secure required improvements in children's services. We will review the progress made by the council as part of our on going audit and take into accounts improvements achieved when considering our 2016/17 VFM conclusion.

Working with the Council

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £13.7m which is 1.9% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

As we reported in our audit plan, we identified the following items where we undertook audit procedures, irrespective of value as these are key elements in the accounts that should be correct:

- Officers' remuneration, salary bandings and exit packages
- Members allowances
- Auditor remuneration
- Related Party transactions

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion. We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based. We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
The revenue cycle includes fraudulent transactions Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Wirral Council we have determined that the risk of fraud arising from revenue recognition could be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Wirral Council, mean that all forms of fraud are seen as unacceptable. **We did not identify any issues to report**
Management over-ride of controls Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	As part of our audit work we: • reviewed entity controls in relation to journal transactions • tested journal entries • reviewed accounting estimates, judgements and decisions made by management • reviewed unusual significant transactions **We did not identify any issues to report**

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
Valuation of property, plant and equipment The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. The CIPFA Code of Practice has implemented IFRS 13 for the 2015/16 financial statements. The Council is required to include surplus assets within property, plant and equipment in its financial statements at fair value, as defined by IFRS13. The basis on which fair value is defined for investment property is also different to that used in previous years. These issues represent significant estimates and change in the estimation basis of these balances by management in the financial statements. There are also extensive disclosure requirements under IFRS 13 which the Council needs to comply with.	As part of our audit work we: • reviewed management's processes and assumptions for the calculation of estimates. • reviewed the competence, expertise and objectivity of any management experts used. • reviewed the instructions issued to valuation experts and the scope of their work • discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions. • reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding. • tested revaluations made during the year to ensure they are input correctly into the Council's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. • reviewed the disclosures made by the Council in its financial statements to ensure they are in accordance with the requirements of the CIPFA Code of Practice and IFRS 13 **We did not identify any issues to report. We confirmed that the Council has a 5 year rolling programme for valuing its land and buildings assets that complies with the CIPFA Code of Practice. For assets not re-valued in year, Council officers undertake an annual assessment of those assets to satisfy themselves that the carrying value is not materially different to the fair value at the 31st March 2016.**
Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.	As part of our audit work we: • identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. • assessed whether the controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation is carried out. • undertook procedures to confirm the reasonableness of the actuarial assumptions made. • reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. **We did not identify any issues to report.**

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 30 September 2016. The Council made the accounts available for audit in line with the agreed timetable and our audit did not identify any adjustments affecting the Council's reported financial position. The draft accounts were again prepared to a good standard, however not all supporting working papers were available at the start of the audit. We will continue to work with Finance staff to identify further improvements to the efficiency of the accounts production and audit processes to enable the earlier deadlines for 2017/18 to be met, which will require councils to bring forward the approval and audit of financial statements to 31 May and 31 July respectively.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Audit and Risk Management Committee on 26 September 2016. The key messages arising from our audit of the Council's financial statements were:

- no significant issues were identified
- a small number of disclosure adjustments were agreed to ensure compliance with accounting practices and to improve the presentation of the financial statements.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines. Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Other work completed

Council Finance staff attended a workshop we provided in November 2015 on the early closure of local authority accounts. Council Finance staff also attended a workshop we provided jointly with CIPFA in February 2016 covering changes to accounting standards and the Code of Practice, and emerging issues and future developments, to support officers involved in the preparation of the Financial Statements.

Whole of Government Accounts (WGA)

We carried out work on the Council's consolidation schedule in line with instructions provided by the NAO . We issued a group assurance certificate which did not identify any issues for the group auditor to consider.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

On 10 August 2016, we received an objection to the accounts under sections 26 and 27 of the Local Audit and Accountability Act 2014. The objector has requested that we prepare a public interest report and apply to the courts for a declaration that Wirral Council's Lender Option, Borrower Option (LOBO) borrowing as referenced in the 2015-2016 accounts is unlawful.

In keeping with objections received by several authorities the objector raises concerns in respect of the

- rationality of the decision to borrow on LOBO terms;
- adequacy of the information on which the Council based their decisions to enter into LOBO arrangements;
- scale of borrowing on LOBO terms and associated exposure to interest rate increases;
- alleged improper speculation on future interest rate changes; and
- use of advisers with alleged undisclosed financial incentives to promote LOBOs.

Our work in respect of the objection is on-going.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work. The key risks we identified and the work we performed are set out in table 3 overleaf.

Ofsted Inspection

In September 2016 the Ofsted, issued their report to the Council following an Inspection of the Council's services for children in need of help and protection, children looked after and care leavers and review of the effectiveness of the Local Safeguarding Children Board. The report concluded that the overall arrangements for ensuring the effectiveness of Children's Services at the Council and the Local Safeguarding Board in the Wirral Council area were judged to be inadequate. Ofsted's conclusion followed on from a three week inspection process, conducted in July 2016.

Ofsted delivered key judgements on a four point grading scale of 'outstanding', 'good', 'requires improvement' and 'inadequate' with each finding from the inspection at the Council set out in Table 2.

Table 2 -

Area of assessment	Ofsted Assessment
1. Children who need help and protection	Inadequate
2. Children looked after and achieving permanence	Requires improvement
- 2.1 Adoption performance	Requires improvement
- 2.2 Experiences and progress of care leavers	Inadequate
1. Leadership, management and governance	Inadequate

Value for Money conclusion

The report highlighted a number of issues including:

- there were widespread and serious failures in services provided to children who need help and protection
- despite an awareness of failings there was a failure to recruit and retain a permanent head of service
- there were too many changes of social worker to allow appropriate relationships to develop
- plans to restructure services to respond better to children's needs were delayed for a year due to competing priorities
- case recording is poor and it was not always possible to determine the basis of decisions
- accuracy of performance data is sometimes compromised by absent or faulty records
- the governance arrangements of the Wirral Safeguarding Children Board did not ensure that it was independent of influence, as required by statutory guidance

The Council has fully accepted the findings of the inspection and has taken immediate action following receipt of the report from Ofsted on 20 September 2016 to formulate an action plan in response to the findings with detailed actions set out that include:

- Immediate £2m investment to recruit additional social workers and improve management arrangement

- Established a cross party Improvement Board with discussion being held with the Local Government Association to ensure a suitably qualified Chair is appointed.

We note that the Council is taking Ofsted's report very seriously, and we will monitor the Council's progress in delivering required improvements as part of our 2016/17 audit.

Overall VfM conclusion

We are satisfied that, in all significant respects, except for the matter we identified above, the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
Delivery of the required savings and the establishment of revised financial governance arrangements	We reviewed • the Council's arrangements for identifying and agreeing savings plans alongside the communication of key findings to Cabinet and Council • the financial governance arrangements established by the Council to consider how the Council is managing and monitoring these key financial risks	The Council has delivered required financial savings to date and now has a Medium Term Financial Strategy (MTFS) in place that covers a 5 year period to 2020/21. This is consistent with the delivery period and scope of the Corporate Plan Wirral 2020. Between 2011/12 and 2014/15 the Council achieved savings of some £134m and the 2015/16 budget set out required savings of £38m. The budget for 2016/17 set out savings of some £26.8m including a clear recognition of the difficulties faced by the Council in to deliver the 2015/16 savings requirement. The Council identified that almost £18 million of the projected 2016/17 budget gap of £24 million could be met through generating more income and making changes in how the Council operates. Detailed revenue and capital budget monitoring reports are provided to Members with the revenue reports clearly and succinctly setting out the budget pressures faced by directorates. The Council recognise that the delivery of agreed savings is critical to it's financial health and progress is tracked at both a Council wide and Directorate level. Reports to Members set out progress achieved against the annual budget implementation plan incorporating a RAG rating. The Council reported a £1.3m underspend against the revised revenue budget for 2015/16. However the original 2015/16 revenue budget was revised during the year to increase the planned use of balances and reserves. The Budget for 2015/16 acknowledged that the savings programme was "ambitious". At the end of Quarter 1 it was recognised that £28 million of savings would be achieved with a potential shortfall of £9.6 million. Cabinet recommended to Council that the shortfall in savings be re-profiled to 2016/17 and the shortfall was met from Reserves (£5.4 million) and from Balances (£4.2m) in 2015/16. The 2016/17 revenue budget monitoring report for quarter 1 sets out a forecast overspend of some £1.1m. This revenue budget included a budget contingency of £12m to mitigate the financial risks associated with demand pressures and the delivery of previously agreed savings. Continuing budgetary pressures relating to Adult Social services, Children's services and Transformation and Resources have led to £11.1m of that contingency being allocated Savings plans are in place and progress is monitored through a combination of arrangements established ahead of 2015/16 alongside the development of a Transformation Programme that reports to Cabinet on a quarterly basis. Our review confirmed that proposed savings were subject to rigorous challenge process. Finance staff provided support throughout this exercise to co-ordinate the process and ensure consistent standards were applied across the Council. Results from Scrutiny committee findings were fed into Cabinet's considerations and informed its final budget recommendations to Council in March 2016. Members and management team have maintained a focus on financial requirements and take a clear lead on the achievement of required savings. Financial reporting has a high profile especially through the revenue monitor and savings tracker reports that are provided to Members. The responsibility for managing risk is through the Audit and Risk Management Committee. Corporate risk register includes financial resilience and other related financial issues. During the year internal audit completed a review of risk management arrangements and identified that they were developing well. **We concluded that the Council has proper arrangements to plan finances effectively and provide reliable financial reporting to support the delivery of its strategic priorities. Overall, the Council has responded appropriately to the challenging financial environment during the year and has set out in the MTFS a clear view of what needs to be done in 2016/17 and beyond.**

Working with the Council in 2016/17

We will continue to work closely with you during 2016/17 with a particular focus on important accounting developments, with timely feedback on any emerging issues.

Highways Network Asset
The Code of Practice on Local Authority Accounting (the Code) requires authorities to account for Highways Network Asset (HNA) at depreciated replacement cost (DRC) from 1 April 2016. The Code sets out the key principles and requires compliance with the requirements of the Code of Practice on the Highways Network Asset (the HNA Code), which defines the assets or components that will comprise the HNA. This includes roads, footways, structures such as bridges and street furniture. These assets should always have been recognised within Infrastructure Assets.

This is expected to have a significant impact on the Council's 2016/17 accounts, both in values and levels of disclosure, and may require considerable work to establish the opening inventory and condition of the HNA as at 1 April 2016. Councils may need to develop new accounting records to support the change in classification and valuation of the HNA. The nature of these changes means that Finance officers will need to work closely with colleagues in the highways department and potentially also to engage other specialists to support this work.

We have met with the Council to consider the accounting, financial reporting and audit assurance implications arising from these changes. We have shared Client Briefings with Officers. This significant accounting development is likely to be a significant risk for our 2016/17 and we will continue to meet with Officers and issue further briefings during the coming year to update the Council on key developments and emerging issues.

The audit risks associated with new developments and the work we plan to carry out to address them will be reflected in our 2016/17 audit plan.

We will also continue to work with you and support you over the next financial year through our focus on:

- **An efficient audit** – continuing to deliver an efficient audit
- **Improved financial** processes – we will focus our work on the actions and measures you put in place to achieve the required savings.
- **Understanding your operational health –** we will continue to focus our value for money conclusion work on the on going financial challenges that the Council faces and monitoring the plans that the Council has in place to deliver the required savings.
- **Audit Updates –** we will continue to provide regular Audit Committee updates covering best practice and emerging issues in the sector

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	159,863	159,863*	213,150
Housing Benefit Grant Certification	24,920	24,920	31,800
Total fees (excluding VAT)	**184,783**	**184,783**	**244,950**

* - We will confirm the final fee once our consideration of the objection is complete.

Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016

Fees for other services

Service	Fees £
Audit related services:	
• Certification of Teachers Pension Return	4,200
• Report on Skills Funding Agency Sub contracting arrangements	3,950
Non-audit services	**nil**