

# The Audit Findings for Wirral Council

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**Year ended 31 March 2017**

September 2017

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September 2017

Dear Members of the Audit and Risk Management Committee

**Audit Findings for Wirral Council for the year ending 31 March 2017**

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Wirral Council, the Audit and Risk Management Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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 and giving a value for money conclusion. 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.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Robin Baker

Engagement lead

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# Contents

<b>Section</b>	<b>Page</b>
1. Executive summary	4
2. Audit findings	8
3. Value for Money	23
4. Other statutory powers and duties	29
5. Fees, non-audit services and independence	31
6. Communication of audit matters	34

## **Appendices**

A Audit opinion

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# Section 1: Executive summary

**01. Executive summary**

**02. Audit findings**

**03. Value for Money**

**04. Other statutory powers and duties**

**05. Fees, non audit services and independence**

**06. Communication of audit matters**

## Purpose of this report

This report highlights the key issues affecting the results of Wirral Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure 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 consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

## Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated May 2017.

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

- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion ; and
- Whole of Government Accounts.

We received draft financial statements and accompanying working papers at the commencement of our work.

## Key audit and financial reporting issues

### Financial statements opinion

We have not identified any adjustments affecting the Council's reported financial position. The draft financial statements for the year ended 31 March 2017 recorded net expenditure of £258.965m. Our audit identified three non-material errors where the Council have decided to amend the draft financial statements and we have agreed a small number of changes to disclosure notes.

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

- no significant issues were identified
- the accounts were again prepared to a good standard and supported by working papers; and
- a small number of disclosure adjustments were agreed to ensure compliance with accounting practices and to improve the presentation of the financial statements.

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

At this stage there are no material errors or uncertainties and we therefore anticipate providing an unqualified audit opinion in respect of the financial statements (see Appendix A).

### Merseyside Pension Fund

We anticipate providing an unqualified opinion on Merseyside Pension Fund's financial statements. The findings from this audit are set out in a separate report.

### Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

## Controls

### Roles and responsibilities

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.

### Findings

Our testing of employee remuneration identified an absence of controls where the Council is responsible for making pension payments to a specific group of former teachers. Furthermore, we have identified a number of areas where the Council's IT controls could be strengthened. We shared our detailed findings with the Council and received a response setting out planned action by management.

Further details are provided within section two of this report.

## Value for Money

Our review of the Council's arrangements to secure economy, efficiency and effectiveness has highlighted the following issue which will give rise to a qualified – except for VFM 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.

We recognise that the Council has made progress to improve Children's services and the Improvement plan actions are designed to achieve the required service improvements. However, recent Ofsted monitoring visits confirm that progress in some areas has not yet met expectations and the Council acknowledge that it will take some time to implement all the actions that should deliver the required service improvement.

The Council continues to have appropriate arrangements in place to monitor, challenge and regularly report to Members progress against both the annual forecast outturn position and delivery of savings targets. The Council has a Medium Term Financial Strategy (MTFS) in place that is updated annually and sets out plans to close a cumulative budget gap of £132m by 2020/21.

The MTFS is aligned with the Wirral Plan that sets out the Transformation programme principles to re-assess what services the Council provides and how it provides them. This programme is critical to the establishment of a new model for the Council that can achieve financial stability. The Council acknowledges that difficult decisions and financial risks remain to be addressed.

We therefore intend to issue a qualified “except for” VFM conclusion. Further detail of our work on Value for Money are set out in section three of this report.

## Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act. We are currently in the process of undertaking work in relation to an objection that we received on the 2015/16 financial statements. As a result of this ongoing work, the audit opinion was issued for the 2015/16 audit, but the certificate of closure of the audit was not issued as the objection was outstanding. The certificate for the 2016/17 audit cannot be issued until the consideration of the objection is complete.

Further details of our work on other statutory powers and duties is set out in section four of this report.

## Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2017. We will report the outcome of this certification work through a separate report to the Audit and Risk Management Committee.

## The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Assistant Director: Finance (£151). Recommendations have been discussed and agreed with the relevant officers.

## Acknowledgement

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 2017

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## Section 2: Audit findings

01. Executive summary

**02. Audit findings**

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters



# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £13,803k (being 1.9% of gross revenue expenditure) We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £690k and this remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£10,000
Related party transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.	Errors will be assessed individually, with due regard given to the nature of the error and its potential impact on the materiality of the other party.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

# Audit findings against significant risks

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
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>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 can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Wirral Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management.</li> <li>• Review of journal entry process and documentation of controls applied to journal entries.</li> <li>• Selection of unusual journal entries for the financial year and testing back to supporting documentation.</li> </ul>	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing 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>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

# Audit findings against significant risks continued

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>Valuation of property, plant and equipment</b>                      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 the current value. This represents a significant estimate by management in the financial statements.</p>	<ul style="list-style-type: none"> <li>• Review of management's processes and assumptions for the calculation of the estimate.</li> <li>• Review of the competence, expertise and objectivity of any management experts used.</li> <li>• Review of the instructions issued to valuation experts and the scope of their work</li> <li>• Discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions.</li> <li>• Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding.</li> <li>• Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register</li> <li>• Evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value</li> </ul>	<p>The Council's property, plant and equipment assets are valued by the Council's in-house valuation team. Our work has assessed them as having a good knowledge of the Council's portfolio and they have used information from the Asset Register and other Council estates systems in carrying out their valuation of Council assets. The assumptions used are reasonable and we are satisfied that the valuer had full access to appropriate levels of information to complete reliable valuations.</p> <p>For the assets not re-valued in year, officers undertake an annual assessment of the carrying value of these assets to be able to satisfy themselves that the carrying value is not materially different to the fair value at the 31 March 2017. This involves a review of the potential impact of indices on the asset valuation, together with consideration of a range of other factors.</p> <p>The assessment of Council officers is that the carrying value of assets in the Council's financial statements is not materially different to the fair value at the 31 March 2017, in the context of an overall carrying value of £485m for Other Land and Buildings in the final financial statements. We have reviewed and challenged the Council's methodology and assumptions used during this review and found them to be reasonable.</p> <p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

# Audit findings against significant risks continued

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>Valuation of pension fund net liability</b></p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p>	<ul style="list-style-type: none"> <li>Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated. We also assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement.</li> <li>Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation.</li> <li>Gained an understanding of the basis on which the IAS 19 valuation was carried out and completed procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>Review of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>	<p>For the valuation of Wirral's pension fund net liability we undertook a review of the actuary's (Mercer) work to satisfy ourselves that the pension liabilities are fairly stated in the financial statements. In doing so we assess the methodology and assumptions used by the scheme's actuary.</p> <p>We confirmed with the LGPS auditor that the controls over membership data were operating as intended.</p> <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
<p><b>Employee remuneration</b></p>	<p>Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> <li>Employee remuneration accruals understated</li> </ul>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls within the employee remuneration cycle</li> <li>undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>Reviewed the payroll accruals process</li> <li>Used analytical techniques to compare expected payroll costs with actual</li> <li>Reviewed payroll reconciliations including the year-end</li> <li>Completed sample testing of employee expenses to staff record, pay rates and classification in the ledger</li> </ul>	<p>We completed our analytical work and review of payroll reconciliation to gain assurance that payroll expenditure was not materially misstated and we did not identify any significant issues in relation to the risk identified</p> <p>Our testing also included selecting a random sample of 36 employees to confirm that pay costs were correct, agreed to payslips and HR records, and that the employee existed.</p> <p>For 28 employees selected for testing we were able to confirm pay costs were valid and accurate. The remaining sample of 8 related to a specific group of retired teachers where Wirral Council pay an element of their pension. We were unable to verify the accuracy and validity of the payments as officers were unable to confirm that appropriate controls were in place.</p> <p>Further detail is set out under our work on internal controls.</p> <p>We completed further audit procedures to confirm that the total value of such payments was approximately £2.9 million in 2016/17 and therefore the absence of appropriate controls would not lead to a material error.</p>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

# Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Operating expenses</b></p>	<p>Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> <li>• Creditors understated or not recorded in the correct period (Operating expenses understated)</li> </ul>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documenting, evaluating and walkthrough of processes and controls</li> <li>• substantive testing of operating expenses</li> <li>• Testing reconciliations including the year-end reconciliation of the accounts payable system to the general ledger</li> <li>• review and substantive testing of year end accruals and creditor balances including confirmation that balances due have been settled after year end.</li> <li>• "cut-off" testing</li> </ul>	<p>Our testing confirmed that controls around operating expenses are working as expected and our testing of year end creditors and accruals found that they had been properly accounted for been posted to the correct period.</p> <p>Our audit work has not identified any significant issues in relation to the risk identified</p>
<p><b>Changes to the presentation of local authority financial statements</b></p>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements</li> <li>• reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure</li> <li>• reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS)</li> <li>• tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES</li> <li>• tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger</li> <li>• tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements</li> <li>• reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.</li> </ul>	<p>Our review of the changes to the presentation of the statements confirmed that the Council had reported income and expenditure in line with its own internal reporting structure and that comparative figures had been correctly reclassified and a prior period adjustment undertaken.</p> <p>The draft financial statements incorrectly included the EFA as a Core Financial Statement rather than a Note to the accounts. This has now been corrected.</p> <p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

# Accounting policies, estimates and 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>	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<ul style="list-style-type: none"> <li>• The Council's policy is appropriate and consistent with the relevant accounting framework – the CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code).</li> <li>• The main elements of the Council's revenues are predictable and there is minimal judgement required from the Council.</li> <li>• The accounting policies are appropriately disclosed in note 1 to the financial statements.</li> </ul>	<p style="text-align: center;">● Green</p>
<p><b>Group accounts</b></p>	<p>The Council's accounts include the critical judgement that the City Council's interests and investments in companies are not material and therefore Group Accounts are not required.</p>	<p>We have completed our review of the detailed Group accounts assessment completed by the Council and agree that your assessment is reasonable and supported by the evidence.</p>	<p style="text-align: center;">● Green</p>

**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates and 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>Going concern</b></p> <p>As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK&amp;I) 570).</p>	<p>The Assistant Director: Finance ( s151) officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.</p>	<p>We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.</p>	<p style="text-align: center;">● Green</p>
<p><b>Other accounting policies</b></p>	<p>We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.</p>	<p>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.</p>	<p style="text-align: center;">● Green</p>

**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators


● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient



# Accounting policies, estimates and 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>	Key estimates and judgements include: <ul style="list-style-type: none"> <li>• PPE Valuations</li> <li>• pension liabilities</li> <li>• Provisions and accruals, including provision for NNDR appeals</li> <li>• Impairments</li> <li>• Useful lives of PPE</li> </ul>	<ul style="list-style-type: none"> <li>• The Council's accounting policies for key estimates and judgements are appropriate and consistent with the relevant accounting framework – the CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code).</li> <li>• The accounting policies are appropriately disclosed in notes 1,3 and 4 to the financial statements</li> <li>• Our audit testing of key estimates and judgements has considered the extent of judgement involved, the potential impact of different assumptions and the range of possible outcomes. Other than the issue set out below, we are satisfied that the key estimates and judgements are appropriate and adequately disclosed.</li> <li>• The Council has transferred services to other entities where TUPE provisions apply and in doing so has entered into contractual arrangements to guarantee/indemnify the pension obligations or contributions of the entity. Our view is that where these guarantees are contractual the accounting for these guarantees should be determined with reference to the nature of the agreement between the parties involved and consideration as to whether these are derivative financial liabilities under IAS 39 Financial Instruments: Recognition and Measurement or insurance contracts under IFRS 4 Insurance Contracts, dependent on the risks involved, therefore bringing the liability onto the balance sheet. Management judgement is therefore required as to whether non-financial risks (results in IFRS 4 treatment) or financial risks (results in IAS 39 treatment) are greater.</li> <li>• Following our initial feedback management have further considered these guarantees and concluded that they are derivative financial liabilities and have estimated the unrecorded liability in the draft financial statements to be less than £10,000 in 2016/17. Management have decided not to amend the 2016/17 financial statements as the amount involved is not material and this issue will be given further consideration in 2017/18. It is also worth noting that there is currently no specific sector guidance on this issue, so we will be raising the issue with CIPFA for further consideration in 2017/18.</li> </ul>	<div style="text-align: center;">   <b>Amber</b> </div>

**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

# Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with management, Internal Audit and the Audit and Risk Management Committee. We have not been made aware of any significant issues in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>From the work we carried out, we have not identified any related party transactions which have not been disclosed. We noted that three Councillors and three Officers did not return a declaration of interest form in line with Council requirements.</li> </ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
4.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council.</li> </ul>
5.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We obtained direct confirmations from banks for confirmation of year end balances alongside other third party confirmations relating to borrowings and investments</li> <li>A confirmation from Lloyds Bank relating to a £5m investment balance was not received. However, we had sufficient assurance that the investment balance was not materially misstated.</li> <li>All other requests were returned with positive confirmation.</li> </ul>
6.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements. A small number of disclosure amendments have been made to the financial statements arising from the audit.</li> </ul>
7.	<b>Matters on which we report by exception</b>	<ul style="list-style-type: none"> <li>We are required to report on a number of matters by exception in a number of areas: We have not identified any issues we would be required to report by exception in the following areas</li> <li>If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.</li> <li>The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Council acquired in the course of performing our audit, or otherwise misleading.</li> </ul>
8.	<b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold, we are required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work has been delayed due to technical problems with locking the WGA reporting package. We will report any subsequent findings to the Audit and Risk Management Committee.</p>

# 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 most significant matters that we identified during the course of our audit are set out in the table below. 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. Our review identified a number of areas where the Council's existing IT controls could be strengthened. We issued a report to management setting out our findings together with recommendations and we received a response from management. We have summarised our recommendations relating to the two most significant IT issues below alongside the response from management and a control deficiency identified relating to payroll pension payments.

	Issue and risk	Recommendations
1.	<p><b>Payroll – Teachers pension payments</b></p> <p>Our testing of a sample of employee pay details identified 8 retired teachers who receive a pension payments from Wirral Council. The Council were unable to provide any evidence to corroborate the values paid, the existence of staff, and verification that these retired teachers were still eligible to receive the payments.</p> <p>We completed specific testing on this issue that allowed us to conclude that the total value of payments made by the Council was not material at £2.9 million.</p>	<p>The Council will need to establish that payments to these former employees remain valid and establish controls to monitor the payments in future periods.</p> <p><b>Management response:</b></p> <p>An internal audit of the arrangements for the payment of Teachers Pension Payments has been carried out. The recommendations to resolve the issues are currently being developed with a view to improving the effectiveness of the control environment for the system of payments. It is anticipated that these will included liaison with outside bodies over the potential for data matching, validity testing and revised procedures.</p>
2.	<p><b>Segregation of duties conflicts</b></p> <p>Segregation of duties is a fundamental principle of control. It requires that record keeping, custody of assets; authorisation and reconciliation processes are not performed by the same person.</p> <p>We performed a review of the access rights, known as responsibilities, assigned to users within Oracle E-Business Suite and we identified a number of high-risk segregation of duties conflicts. A full report has been provided to IT and security for review.</p>	<p>A review of configuration of all responsibilities in use within Oracle EBS should be undertaken. This review should be driven by the business with IT support. We have provided the Oracle system administrator with the detailed outputs of our work to facilitate this. Responsibilities should be redesigned to reduce the number of segregation of duties conflicts within the system (Inherent conflicts).</p> <p>Where management have decided to accept the risk of the segregation of duties conflicts, this should be formally documented.</p> <p><b>Management response:</b></p> <p>We need this functionality to sometimes post transactions into previous periods. We will review the number of users who have access to this functionality to see if it can be reduced.</p> <p>Business need to review the configuration of the responsibilities and identify if there is a resolution to the issue or accept the risk.</p>

## Internal controls - continued

	Issue and risk	Recommendations
2.	<p><b>Default database accounts have not been locked</b></p> <p>Oracle E-Business Suite uses Oracle RDMBS for its database technology. This ship with a number of out of the box accounts that have system administrator privileges. Our testing identified that there are one Oracle database accounts with their default passwords: APPLSYSPUB.</p> <p>Such accounts could be used to enable users to access information that they are not permitted to.</p> <p>This condition presents the following risk to the organisation:</p> <p>Default accounts present a security risk as the usernames and passwords are widely available. They therefore present an easy point of compromise for a malicious user. These accounts could then be used to perform unauthorised and unaccountable changes or transactions, providing an easy method of committing fraudulent activity.</p>	<p>Default accounts and passwords should be locked or changed immediately to avoid the risk of system compromise.</p> <p>Management should ensure that for any future upgrades or developments a thorough review of shipped accounts is undertaken and all default passwords changed.</p> <p><b>Management response:</b></p> <p>We will either update the passwords or end date these accounts.</p>

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.

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control 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 being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

## Adjusted misstatements

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

No adjustments to the draft accounts have been identified as a result of the audit process that impact on the reported net expenditure for the year. There are no non-adjusted misstatements.

## Misclassifications and disclosure changes

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

Adjustment type	Value £	Account balance	Impact on the financial statements
1 Misclassification	£2m	Note 19 – Debtors	<p>Our testing identified that £2m of debtor balances were incorrectly classified as “Other entities and Individuals” rather than £1.5m to “NHS Bodies” and £0.5m to “Other local authorities”.</p> <p>The Council have made the necessary correction with no impact on the total short term debtor balance.</p>
2 Disclosure	Various	Note 23 – Other provisions – NNDR Appeals	<p>The NNDR appeals provision note included balances setting out amounts utilised and additions in year that were incorrectly disclosed in the draft financial statements. The Note has been corrected and the net movement remains the same at £3.5m.</p> <p>Therefore no impact on figures set out within the Balance Sheet</p> <p>Utilised of £3.6m revised to £0.1m Additions of £6.8m revised to £3.3m</p>
3 Disclosure	N/a	Various	A number of disclosure adjustments were agreed to ensure compliance with accounting practices and to improve the presentation of the financial statements.

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. Communication of audit matters

## Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single 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.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

## Risk assessment

We carried out an initial risk assessment in early 2017 and identified the following two significant risks that we communicated to you in our Audit Plan dated May 2017.

- The Council's medium term financial strategy (MTFS) 2017/18 – 2020/21 continues to be aligned with the delivery of the Wirral Plan and has been updated and sets out the scale of the financial challenge that the Council continues to face. The on going uncertainty and delivery of the required savings represent a significant challenge to the Council.
- Ofsted issued a report on the Council's children's services in 2015/16 which rated these as 'inadequate' and the Council is currently subject to follow-up review. Until such time as Ofsted has confirmed that adequate arrangements are in place this remains a significant risk to the Council's arrangements.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We have continued our review of relevant documents up to the date of giving our report. We have not identified any further significant risks where we need to perform further work.

## Overall conclusion

Based on the work we performed to address the significant risks, we concluded that except for the matter we identified in respect of the improvement of children's services, the Council had arrangements in all significant respects. We therefore propose to give a qualified 'except for' conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources

The text of our report, which confirms this can be found at Appendix A.



## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p><b>Financial position</b></p> <p>The Council's medium term financial strategy (MTFS) 2017/18 – 2020/21 continues to be aligned with the delivery of the Wirral Plan and has been updated and sets out the scale of the financial challenge that the Council continues to face.</p> <p>The MTFS details an anticipated funding gap of £132 million over the four years of the plan and includes a £45million funding gap in 2017/18. The strategy recognises that key elements of future funding are subject to further decisions resulting in increased financial uncertainty.</p> <p>Savings plans are in place for 2017/18 alongside indicative proposals for 2018/19 – 2020/21 and progress in delivery will be continue to be monitored through a combination of existing arrangements and under the direction of the Transformation Programme that will report to Cabinet on a quarterly basis.</p> <p>The on going uncertainty and delivery of the required savings represent a significant challenge to the Council.</p>	<p>We reviewed the Council's arrangements for updating and agreeing savings plans alongside the monitoring arrangements and communication of key findings to Cabinet and Council.</p>	<p>The Council continues to face significant financial challenges going forward. The 2016/17 revenue budget included a budget contingency of £12m to mitigate the anticipated financial risks associated with demand pressures, mainly within Adults and Children's and the delivery of previously agreed savings. The budget was monitored throughout the year and reported on a monthly basis with £11.1million of the contingency budget allocated to services early in Quarter 1, including £3.9m to Adult Social Services and £5m to Children's services. The 2016/17 outturn reported by the Council was a £2.9m underspend on services following revisions to the budget. Overspends of £5.6m in Children's services and £3.9m in Adult Social Care were mitigated by underspends in other areas with the change in methodology for calculating the Minimum Revenue Provision delivering a £6.9m "one-off" technical saving.</p> <p>In recognition of the major financial challenges, in October 2016 the Council accepted the multi – year settlement offered by the Government to provide greater certainty around funding levels. These funding levels are reflected in the Medium Term Financial Strategy that was updated and approved in February 2017 that confirms a balanced budget has been set for 2017/18 and includes plans to address the £132m forecast budget gap over the remaining period of the MTFS to 2020/21, including a £45m funding gap in 2017/18. There is continued pressure on reserves and balances and in the past two years reserves of £32 million have been utilised to support both specific projects and the annual budget. It is important that the Council continues to carefully consider the level of balances maintained.</p> <p>The Council recognise that to deliver the required financial position that a fundamental re-design of how the Council works and an evaluation of services it provides has been necessary. The MTFS sets out how the Council plan to review all services provided under the "Transformation Programme" with the aim of establishing new delivery arrangements that should deliver outcomes at a sustainable cost. The scale of the financial challenge and the Council's proposed response to enable it to deliver the required outcomes will continue to need to be carefully managed.</p>

**Key findings - continued**

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<b>Financial position - continued</b>	We reviewed the Council's arrangements for updating and agreeing savings plans alongside the monitoring arrangements and communication of key findings to Cabinet and Council.	<p>Savings plans are in place and progress is being monitored through existing financial monitoring arrangements that the Council have sought to strengthen with accountability for the delivery of savings proposals assigned to the Strategic Leadership Team.</p> <p>These arrangements operate in conjunction with the Transformation Programme that reports to Cabinet on a quarterly basis. Previously we concluded that these savings plans are based on relevant assumptions with proposed savings subject to rigorous challenge designed to test both the planned savings proposed and the assumptions on which they were based. During 2016/17 the Council's Overview and Scrutiny Committees again reviewed and challenged the Budget Proposals for 2017/18, following a series of budget scrutiny workshops with each committee producing a report for Cabinet.</p> <p>Members and management team have continued to 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. These clearly set out the key financial risks and the Council recognise that difficult decisions are still to be made to enable the Wirral Plan to be delivered successfully.</p> <p>The responsibility for considering whether the Council is properly 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.</p> <p><b><i>Our work on financial sustainability has concluded that the Council has sound financial arrangements, despite continuing to operate in a very challenging financial environment. On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place.</i></b></p>

## Key findings - continued

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p><b>Ofsted inspection of children's services</b></p> <p>Ofsted issued a report on the Council's children's services in 2015/16 which rated these as 'inadequate' and the Council is currently subject to follow up review. Until such time as Ofsted has confirmed that adequate arrangements are in place this remains a significant risk to the Council's arrangements.</p>	<p>We reviewed:</p> <ul style="list-style-type: none"> <li>• update reports from Ofsted; and</li> <li>• progress made by the Council in the delivery of required improvement actions.</li> </ul>	<p>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 and outlined 19 recommendations to the Council and 7 to the Local Safeguarding Children Board.</p> <p>The Council fully accepted the findings of the inspection and work began immediately to address the key findings through the creation of an Improvement Board and the development of an Improvement Plan. The Department for Education appointed a Wirral Improvement Partner to work with the Council and approved the Improvement Plan. The Council also made an immediate £2m investment to recruit additional social workers and improved management arrangements.</p> <p>A presentation to the June 2017 Children and Families Overview and Scrutiny Committee confirmed that the Improvement Plan detailed 103 actions and set out that the majority of actions had already been delivered across the three key elements of the plan being People, Practice and Performance. However, we noted that 14 actions remain outstanding but they remained on course to be achieved within planned timescales.</p> <p>Ofsted have undertaken three monitoring visits since the Council was initially assessed as inadequate. The April 2017 assessment noted that "the local authority is making some progress in improving services for its children and young people" – The Ofsted letter goes on to set out that "inspectors identified areas of strength, areas that are improving and some areas where they considered that the progress has not yet met expectations". The Council's own assessment is that it will take "2 to 3 years to ensure the basics were in place.</p> <p><b><i>It is clear that further action is still required to deliver the necessary improvements to the service and there remains evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management, and for planning, organising and developing the workforce effectively to deliver strategic priorities.</i></b></p>

**Significant difficulties in undertaking our work**

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

**Significant matters discussed with management**

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

**Any other matters**

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

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## Section 4: Other statutory powers and duties

01. Executive summary

02. Audit findings

03. Value for Money

**04. Other statutory powers and duties**

05. Fees, non audit services and independence

06. Communication of audit matters

We set out below details of other matters which we, as auditors, are required by the Act and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Objection</b>	<p>On 11 August 2016 we received an objection to the accounts under sections 26 and 27 of the Local Audit and Accountability Act 2014.</p> <p>The objector requested that we prepare a public interest report and apply to the courts for a declaration that Wirral Council's Lender Option, Borrower Option loan borrowing as referenced in the 2015-2016 accounts is unlawful.</p> <p>In keeping with objections received by several authorities the objector raises concerns in respect of the:</p> <ul style="list-style-type: none"> <li>- rationality of the decision to borrow on LOBO terms;</li> <li>- adequacy of the information on which the Council based their decisions to enter into LOBO arrangements;</li> <li>- scale of borrowing on LOBO terms and associated exposure to interest rate increases;</li> <li>- alleged improper speculation on future interest rate changes; and</li> <li>- use of advisers with alleged undisclosed financial incentives to promote LOBOs.</li> </ul> <p>Our work in relation to the objection is on-going and we have received prompt and full co-operation from the Council in both provision of relevant information and responses to our queries. Whilst it is impossible to put a definite timeframe on it, we plan to conclude our consideration of the objection as soon as possible.</p>

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## Section 5: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

**05. Fees, non audit services and independence**

06. Communication of audit matters

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

### Fees

	Proposed fee £	Final fee £
Council audit	159,863	159,863
Grant certification	23,850	TBC*1
<b>Total audit fees (excluding VAT)</b>	<b>182,713</b>	<b>-</b>
<b>External audit fees for entities significantly influenced by the Council</b>		
Edsential	18,500	18,500

**NOTE** - The Final fee for the 2015/16 audit of the Council has yet to be determined, pending completion of our work to consider the objection received.

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

### Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

**TBC\*1** – The final fee for certification will be determined on completion of our work.

### 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 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.

### Fees for other services

Service	Fees £
<b>Audit related services:</b>	
Teachers Pensions Agency	4,200
Report on Skills Funding Agency	3,950
<b>Non-audit services</b>	<b>None</b>



# Independence and non-audit services

We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place

	Service provided to	Fees	Threat?	Safeguard
Council audit	Wirral Council	159,863	Self Interest	Each team member on the audit has been asked to declare their independence and no interests were identified.  The fee was not on a contingent basis but based on the outputs for the work required, and is not significant in the context of the client and for the turnover of GT UK as a whole.
Housing benefit grant certification	Wirral Council	23,850	Self Interest	Each team member on the audit has been asked to declare their independence and no interests were identified.  The fee was not on a contingent basis but based on the outputs for the work required, and is not significant in the context of the client and for the turnover of GT UK as a whole.
Audit of companies	Edsential	18,500	Self Interest	Each team member on the audit has been asked to declare their independence and no interests were identified.  The fee was not on a contingent basis but based on the outputs for the work required, and is not significant in the context of the client and for the turnover of GT UK as a whole.
<b>Audit related services</b>				
Teachers Pension	Wirral Council	4,200	Self Interest	This is a recurring fee and therefore a potential self-interest threat. However, the level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work of £4,200 in comparison to the total fee for the audit of £159,863, and in particular to GTUK's turnover overall. Further, the work is an audit related services.  It is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Report on Skills Funding Agency	Wirral Council	3,950	Self Interest	This is a recurring fee and therefore a potential self-interest threat. However, the level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work of £4,200 in comparison to the total fee for the audit of £159,863, and in particular to GTUK's turnover overall. Further, the work is an audit related services.  It is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

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## Section 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

**06. Communication of audit matters**

# Communication to those charged with governance

ISA (UK&I) 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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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 Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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 at the time of our appointment. 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 NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

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

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

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# Appendices

## A. Draft Audit Opinion

# A: Draft Audit opinion

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

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

We have audited the financial statements of Wirral Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise, the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. 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 Assistant Director: Finance (s151) and auditor**

As explained more fully in the Statement of Responsibilities, the Assistant Director : Finance (s151) 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 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") 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 Assistant Director: Finance (s151); and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Narrative Report, and the Annual Governance Statement 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 present a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

### **Opinion on other matters**

In our opinion, the other information published together with the audited financial statements in the Narrative Report, and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

### **Matters on which we are required to report by exception**

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

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

#### **Respective responsibilities of the Authority and auditor**

The Authority is responsible for putting in place proper arrangements for securing 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 20(1)(c) of the Act to be satisfied that the Authority has made 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 the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that 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 2017.

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 has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

#### **Basis for qualified conclusion**

In considering the Authority's arrangements for securing efficiency, economy and effectiveness we identified the following matter:

In September 2016, Ofsted issued its report on the inspection of the Authority'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 Council has established an Improvement Board and developed an Improvement Plan to address the Ofsted recommendations, and provided an update on progress in its Annual Governance Statement. However, a subsequent Ofsted monitoring visit in April 2017 reported that while inspectors identified areas of strength and improvement, there are still some areas where inspectors considered that progress has not yet met expectations.

This matter is evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management, and for planning, organising and developing the workforce effectively to deliver strategic priorities.

#### **Qualified conclusion**

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, except for the effects of the matter described in the Basis for qualified conclusion paragraph, we are satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

#### **Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2017 in accordance with the requirements of the Act and the Code until we have:

- Completed our consideration of an objection brought to our attention by a local authority elector under Section 27 of the Act; and
- Completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2017.

We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing value for money through economic, efficient and effective use of its resources.

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

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xx September 2017



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