

Annual

Governance

Report

Wirral Council
Audit 2008/09
Date 17 September 2009

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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Ladies and Gentlemen

2008/09 Annual Governance Report

I am pleased to present the final version of my report on the results of my audit work for 2008/09.

A draft of the report was discussed and agreed with the Director of Finance on 15 September 2009 and has been updated since as issues have been resolved.

The report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the Pension Fund Annual Governance report and the recommendation of the Pensions Committee
- consider the matters raised in this report before approving the financial statements (pages 4 to 15);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified which management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- take note of the VFM Conclusion and Use of Resources score;
- approve the letter of representation on behalf of the Council and for the Pension Fund before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

Yours faithfully

Michael Thomas
District Auditor
23 September 2009

Key messages

This report summarises the findings from the 2008/09 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess how well you use and manage your resources to deliver value for money and better and sustainable outcomes for local people.

Financial Statements	Results	Page
Unqualified audit opinion	Yes	7
Pre audit financial statements free from material error	No	7
Post audit financial statements free from material error	Yes	7 & 21
Material weaknesses in internal control	Yes	8
Use of resources	Results	Page
Use of resources judgements	Yes	13
Arrangements to secure value for money	Yes	15

Audit opinion

- I have now substantially completed my audit work and subject to the clearance of outstanding matters I propose to give an unqualified audit on your financial statements. We are also required to issue an opinion on the Pension Fund accounts for the first time this year. Subject to satisfactory clearance of outstanding matters I plan to issue an unqualified opinion on the Pension Fund accounts. My draft audit report is attached at Appendix 1.

Financial statements

- The financial statements were submitted for audit at the end of June and were supported by clear working papers prepared by finance and departmental staff.
- However, I have identified three material errors which I draw to your attention in respect of:
 - £26.4m of council tax benefits incorrectly classified in the Income and Expenditure Account (I&E)
 - £16.5m of Revenue Expenditure Funded from Capital under Statute (REFCUS) accounted for on a net rather than a gross basis in the I&E.
 - Community assets overstated by £14.7m in the Balance Sheet.

Key messages

- 4 The Director of Finances has agreed to adjust the financial statements for these material errors and a number of other non-material errors and this is identified at Appendix 2. There are a number of errors that management has not adjusted and these are identified at Appendix 3.
- 5 The statement of accounts includes Merseyside Pension Fund accounts as Wirral Council is the administering authority for the Fund. The Pensions Committee has received a separate Annual Governance Report and considered the issues arising, including five material amendments. It is, however, the role of the Audit and Risk Management Committee to consider that report before approving the financial statements, noting the adjustments, agreeing to adjust any errors that management has declined to amend, approving the letter of representation and agreeing the response to the action plan.

Value for money conclusion

- 6 I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources in 2008/09. The wording of my draft report is attached at Appendix 1. There are no issues to bring to members attention.

Use of resources

- 7 I have completed my work on the new Use of Resources assessment for 2008/09. The new approach key lines of enquiry (KLOEs) reflect higher expectations than the previous assessment and include some areas not previously reviewed, including commissioning and procurement and use of natural resources. There is also a changed emphasis this year in that the focus is on being able to evidence the outcomes achieved as a result of the actions taken during the year. My assessment is that the Council is performing adequately. The formal score will be notified to the Council on 19 October 2009.

Audit Fees

- 8 My fee proposals were communicated to you in my Audit Plan for 2008/09. I issued a supplementary fee letter to the Director of Finance on 28 July indicating that the original fee was appropriate and no adjustment was required. However, the letter highlights that work on the PIDA concerning DASS has continued this year and we have received another PIDA in respect of a major contract. These issues were not anticipated when the fee was set in June 2008 and we have previously agreed that we will charge an additional fee when we complete the 2008/09 work.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion (including the Pension Fund opinion), value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

9 I ask the Audit and Risk Management Committee to:

- consider the matters raised in the Pension Fund Annual Governance report and the recommendation of the Pensions Committee
- consider the matters raised in this report before approving the financial statements (pages 4 to 15);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified which management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- take note of the VFM Conclusion and Use of Resources score;
- approve the letter of representation on behalf of the Council and for the Pension Fund before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before the financial statements and the annual governance statement are authorised for issue.

Opinion on the financial statements

- 10** Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report. The outstanding matters are:
- review of Annual Report
 - review of amended statements
- 11** We are not expecting any of the outstanding matters to have a material effect on the accounts.
- 12** We are also required to issue an opinion on the Pension Fund accounts for the first time this year. Subject to satisfactory clearance of outstanding matters I plan to issue an unqualified opinion. The opinion is included in the draft audit report at Appendix 1.

Errors in the financial statements

- 13** The financial statements were submitted for audit at the end of June and were supported by clear working papers prepared by finance and departmental staff.
- 14** However, I have identified a number of material errors which I draw to your attention below. As previously reported to the Committee, we are required to report on all errors that are over the 'trivial' level which is £80k for 2008/09 (£500k in 2007/08). The Director of Finance has agreed to adjust the financial statements for the errors identified at Appendix 2. The unadjusted errors are identified at Appendix 3.
- 15** The material errors are summarised below:
- £26.4m of council tax benefits have been incorrectly classified in the Service Expenditure Analysis (SEA) in the Income and Expenditure Account (I&E). Classification of gross expenditure and income is determined by the Chartered Institute of Finance and Accountancy (CIPFA) through the Best Value Accounting Code of Practice (BVACOP). 'Other housing services' and 'central services to the public' gross expenditure and income are overstated and understated respectively by a material amount.
 - £16.5m of Revenue Expenditure Funded from Capital under Statute (REFCUS) has been accounted for on a net rather than a gross basis in the SEA in the Income and Expenditure Account. The Council has reduced gross expenditure for

material grant income received rather than show it as gross income in the I&E account.

- Community assets are overstated by £14.7m in Tangible Fixed Assets in the Balance Sheet. A number of operational land and buildings assets were reclassified in 2005/06 to community assets but the valuation was not changed. Operational land and buildings and community assets are measured on a different valuation basis. Therefore, the Council is showing a material overstatement of its community assets.

16 In addition, there are a number of non material errors identified in respect of provisions that should be classified as reserves, land for the Oval Sports Centre has been omitted from the balance sheet, collection fund creditors incorrectly netted off against debtors, incorrect split between long and short term investments, schools expenditure incorrectly reported as cash, school land not owned by the council, revaluations of land and buildings not reflected in the accounts and a debtor that was cancelled in 2009/10. These are detailed at Appendices 2 and 3.

17 We also identified a number of areas where disclosure notes needed to be improved and these have been amended and are noted at Appendix 2.

Recommendation

R1 Strengthen quality assurance to ensure errors on the accounts are minimised.

Material weaknesses in internal control

18 There are a number of weaknesses in relation to the adequacy of asset records, both in this year's accounts and for arrangements going forward under IFRS. The date of implementation of IFRS is 1 April 2010 but systems need to be in place from 1 April 2009 to capture information for the 2009/10 comparative figures. The errors noted above in respect of Tangible Fixed Assets are directly attributable to these weaknesses. In addition, the asset records are unable to support proper accounting treatment for disposals and subsequent expenditure on existing assets for some classes of assets. The specific issues are:

- Other land and buildings: the asset register is required to contain a relatively large amount of information in order to calculate the necessary accounting entries each year. The current system of maintaining this information is dependent upon a significant level of manual input and manual calculation. This increases the likelihood of error. The necessary volume of information required to be held on land and buildings will increase significantly under IFRS and it is unlikely that the current system will be able to support proper accounting going forward.
- Vehicles plant and equipment (VPE): the system for managing and recording VPE needs to be improved. The asset register is maintained on the basis of expenditure capitalised annually. It does not identify the underlying asset purchased or give other details as to the location of the asset or information to allow unique identification. The impact of this is that assets can not be easily identified, existence and ownership confirmed and eventual disposal be accounted for

Financial statements

properly. As a result of this, the Council has not recognised any disposals of vehicles, plant and equipment assets over the past three years and there is approximately £3.5m of fully depreciated assets

- Infrastructure assets: the asset register does not provide sufficient detail in order to properly account for subsequent expenditure or disposals. In order to capitalise expenditure on existing assets, the Council has to demonstrate enhancement and this is difficult where asset records do not identify individual assets. In addition, to capitalise expenditure on the replacement of an existing asset the Council must first recognise a disposal of that existing asset. As infrastructure assets are not identified in the asset register on a unique basis, this is currently not possible. This is also even more important going forward as under IFRS the valuation basis of infrastructure assets is likely to change and will require significant detail in the asset records.
- Community assets: as reported last year, the asset register does not yet currently identify all individual community assets, such as ceramic objects and paintings held by museums and art galleries, as full cataloguing of assets held has not been completed.

Recommendation

R2 In order to comply with accounting standards and the requirements of IFRS, the Council needs to improve asset records and should undertake a formal review of the systems used to develop a robust asset register to properly account for:

- land and buildings
- VPE, including to confirm the existence of all of its VPE assets and ensure that its asset register is suitably updated; increase the amount of information held on its asset register in respect of VPE assets. This should include location and information to allow unique identification. Review its internal processes of ensuring that all disposals are notified to Finance. This could include periodic reconciliations to other asset records and confirmations from departments as to the assets held
- Infrastructure assets, including to increase the amount of information held on infrastructure assets and ensure that individual infrastructure assets are identifiable. Review its internal processes of ensuring that all disposals are notified to Finance.
- Community assets, including complete the cataloguing of community assets held in museums and art galleries and ensure that the asset register is subsequently updated

Letter of representation

19 Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and

governance arrangements. Appendix 3 contains the draft letter of representation I seek to obtain from you.

Key areas of judgement and audit risk

20 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in Table 1.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
Large number of manual, off ledger, significant adjustments are actioned at the year end to produce the accounts. Risk of misstatement in the accounts, mainly in respect of I&E account and FRS17 entries	The allocation of all overheads is based on gross expenditure. We have recommended that the council review the basis of allocation using existing information systems to ensure a more accurate basis.
2007/08 audit identified undisclosed related party transactions. Risk of non-disclosure of politically sensitive items.	We identified 2 declarations that had not been returned at the end of May 2009.
Net cost of continuing operations - incorrect service expenditure analysis used in 2007/08. Risk of non-compliance with SoRP	Material classification error identified in the SEA in relation to Council Tax benefits. This has been raised as an error above.
We are aware that education expenditure in 2007/08 included a significant internal recharge that should have been excluded from the accounts. Risk of material misstatement within the SEA.	Recharges have been reviewed and no issues have been identified.
General market conditions are a trigger event for an impairment review. Impairment could be significant compared to previous years. Risk of material misstatement in the accounts.	Valuation of properties reviewed and no issues have been identified.
In 2007/08 we identified that the capitalisation of infrastructure assets is not strictly in line with the SoRP. We also identified that the Council had capitalised a number of other items which should have been charged to revenue as deferred charges. Risk of misstatement in the accounts.	We have reviewed a sample of infrastructure expenditure capitalised during the year. A material control weakness has been identified in respect of the adequacy of infrastructure asset records. This weakness means that it is difficult for the Council to demonstrate appropriate capitalisation of expenditure e.g. resurfacing of roads.

Financial statements

Issue or risk	Finding
In 2007/08 we identified that supporting records for community assets in museums and art galleries were not all complete. Risk that they are not accurately reflected in the financial statements.	Although action has been taken by the Council during the year in response to this issue, not all categories of assets were found to be adequately supported. This has been raised as a material weakness above.
The Council is planning to write out a significant amount of fully depreciated assets in 08/09. Risk of material misstatement.	No write out of assets was performed during the year. Testing identified approximately £3.5m of fully depreciated assets. This issue is referred to in the material control weakness identified in relation to asset records.
Aspects of the bank reconciliation control has not operated consistently throughout the year. Risk of misstatement of politically sensitive item.	The year end bank reconciliation was reviewed. An uncertainty regarding petty cash held by schools has been identified and is reported as an error at Appendix 3.
Specific - "other" entries in the STRGL are not expected and, if representative of a net adjustment, may mask a significant gross error.	The entries in the STRGL have been reviewed and we have identified a non-material error at Appendix 2.
Current economic conditions suggest that an increase in the Bad Debt Provision (BDP) may be required. Risk that provision may be understated.	The bad debt provision has been reviewed and no issues have been identified.
We reported the findings of our PIDA review of DASS to ARMC in September 2008. The Council is carrying out further work to assess the finance and governance implications of the PIDA report. Risk of financial, legal and governance impact on the accounts	The outcome of the Council's further work will be reported to the ARMC on 23 September. We raise this issue below at Table 2.
We are carrying out further PIDA work on a major contract which may impact on our opinion. Risk of financial, legal and governance impact on the accounts.	We have not identified any financial, legal or significant governance impact on the accounts. Our report will follow shortly.
The Council carries out quality assurance (QA) testing on housing benefit payments in line with good practice. During 2008/09 the annual average rate of error was around 17%.	Audit procedures have been performed which demonstrate the financial impact of this issue is not material. We are in the process of certifying the claim for the deadline of 30 November 2009.

Accounting practice and financial reporting

- 21** I consider the qualitative aspects of your accounting practices and financial reporting.
- 22** The quality of working papers provided to support the accounting statements has continued to improve and coordination arrangements during the audit worked well. Table 2 contains the issues I want to raise with you.

Table 2 Qualitative aspect of accounting practices and financial reporting

Issue or risk	Finding
Members and senior officers are required to complete declarations at the year end to support the note on related party transactions within the financial statements. In 2007/08, the formal questionnaire, used by officers in preparing the disclosure for related party transactions, was not returned by 29 Members (42 per cent) and 7 (15 per cent) of senior officers at May 2008. Risk of non-disclosure of politically sensitive items.	The completion and return of declarations has improved significantly. We identified 2 declarations that had not been returned by members at the end of May 2009
The Council uses various types of property, vehicles, computer equipment and furniture financed under terms of operating leases. Risk of non-disclosure of material items if items are not included.	The leases note 26 and note 14 on accounting policies is not in accordance with SoRP as it did not contain property leases. We raise this issue below at Appendix 2.
The Council is considering the further work in response to our PIDA report on DASS at the ARMC on 23 September 2009. Risk of material impact on the accounts.	We seek assurance from management that there will not be a material financial impact on the accounts.

Recommendation
R3 Members should comply with the process for making related party disclosure declarations

Use of resources

I am required to consider how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and give a scored use of resources judgement.

I am also required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 23** In forming my scored use of resources judgements, I have used the methodology set out in the new [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2. The KLOEs reflect higher expectations than the previous assessment and include some areas not previously reviewed, including commissioning and procurement and use of natural resources. There is also a changed emphasis this year in that the focus is on being able to evidence the outcomes achieved as a result of the actions taken during the year.
- 24** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 25** The Council's use of resources theme scores are shown in Table 3 below. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised at Appendix 5. The Audit Commission will formally report the overall score to the Council on 19 October 2009.

Table 3 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	2
Governing the business	2
Managing resources	2

- 26** The Council manages its finances effectively and is delivering many of its strategic priorities. Financial management is sound over the short term and will be maintained over the medium to longer term if initiatives deliver expected savings. Concerns around overspending in adult social services continue. The Council has a reasonable understanding of the costs of its services and how these relate to performance and has a track record of delivering efficiencies. Over the past three years, the Council has achieved overall savings of £37.4m which exceeded target by £8m and £17.6m

savings were reported for 2008/09. The Council produces relevant, timely and reliable financial monitoring and forecasting information and uses financial and related performance information to monitor performance during the year.

- 27** The Council governs itself adequately and commissions services that provide value for money and deliver better outcomes for local people. Procurement and commissioning arrangements are satisfactory and some benefits have been realised, such as improved recycling. Wirral also leads a number of regional groups including the Merseyside Improvement Partnership. The Council produces relevant and reliable data and information to support decision making and manage performance. It has adopted, promotes and demonstrates the principles of good governance and a satisfactory ethical framework and culture. Risk management arrangements are strong, there are satisfactory arrangements in place to manage the risk of fraud and corruption and the system of internal control is generally adequate.
- 28** The Council has an understanding of its environmental impacts that allows it to focus its management on areas of high impact. Significant reductions have been achieved in its energy use and carbon dioxide emissions against a challenging target. Through its ISO 14001 certificated environmental management systems, it has identified the environmental risks in key services that could cause pollution. It also has a strategic approach to asset management and during the year developed, approved and is starting to implement its strategic asset review. The Council is working with partners and community groups to maximise the use of assets for the benefit of the local community.
- 29** The key areas for improvement are:
- concerns regarding spending in adult social services continue with an overspend in 2008/09
 - more work still needs to be done to ensure that the links between costs and performance are consistently made at service level and unit costs used to measure service performance
 - more work is required to ensure a consistent approach to procurement and commissioning is in place so that good practice is spread across the Council and that policies and procedures are followed
 - the Council needs to do further work to strengthen its corporate arrangements for governing partnerships including implementing the Partnership Toolkit which was approved in April 2009.

Recommendation
R4 Ensure overspending in adult social services is addressed
R5 Ensure that the links between costs and performance are consistently made at service level and unit costs used to measure service performance
R6 Ensure a consistent approach to procurement and commissioning is in place so that good practice is spread across the Council and that policies and procedures are followed

Use of resources

R7 Ensure the Partnership Toolkit which was approved in April 2009 is launched, supported by training and fully implemented

Value for money conclusion

- 30** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are set out at Appendix 5.
- 31** I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources in 2008/09. Appendix 1 contains the wording of my draft report.

Appendix 1 – Draft independent auditor’s report to Members of Wirral Council

Draft independent auditor’s report to the Members of Wirral Borough Council

Opinion on the Authority accounting statements

I have audited the accounting statements and related notes of Wirral Borough Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Collection Fund and the related notes. The accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Wirral Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Director of Finance and auditor

The Director of Finance’s responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls.

Appendix 1 – Draft independent auditor’s report to Members of Wirral Council

Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements and related notes and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgements made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

Opinion

In my opinion the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

Opinion on the pension fund accounts

I have audited the pension fund accounts for the year ended 31 March 2009 under the Audit Commission Act 1998. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Wirral Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Director of Finance and auditor

The Director of Finance’s responsibilities for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the pension fund accounts and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the pension fund during the year and the amount and disposition of the fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year. I also report to you whether, in my opinion, the information which comprises the commentary on the financial performance included within the Pension Fund Annual Report, is consistent with the pension fund accounts. That information comprises the Financial Statements, Statement of Responsibilities and the Audit Report.

I review whether the governance compliance statement published in the Pension Fund Annual Report reflects compliance with the requirements of Regulation 34(1)(e) of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I report if it does not meet the requirements specified by the Department of Communities and Local Government or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures

I read other information published with the pension fund accounts and related notes and consider whether it is consistent with the audited pension fund accounts. This other information comprises the Explanatory Foreword published in the financial statements and the following elements of the Pension Fund Annual Report:

Management Structure, Chair’s Introduction, Management Report, Investment Report, Scheme Administration Report and the Consulting Actuary’s Statement. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounts and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgements made by the Authority in the preparation of the pension fund accounts and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounts and related notes.

Opinion

In my opinion the pension fund accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the fund’s assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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

Authority’s Responsibilities

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

Auditor’s Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper

Appendix 1 – Draft independent auditor's report to Members of Wirral Council

arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, I am satisfied that, in all significant respects, Wirral Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Michael Thomas
District Auditor, Audit Commission

The Heath Technical & Business Park, The Heath, Runcorn, Cheshire, WA7 4QF
September 2009

(An original signed copy of the Auditor's Report can be viewed by request to the Head of Financial Services, Wirral Council, Treasury Building, Cleveland Street, Birkenhead, Wirral, CH41 6BU)

Appendix 2 – Adjusted amendments to the accounts

The following misstatements were identified during the course of my audit and the financial statements have been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities.

Table 4

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
I&E - SEA	Council tax benefit payments incorrectly classified between service headings in the SEA	26,396	26,396		
I&E - SEA	REFCUS accounted for on a net basis	16,539	16,539		
Community assets	Community assets valued incorrectly			14,703	14,703
Operational land and buildings	Oval Sports Centre land omitted from Tangible Fixed Assets in the Balance Sheet			3,463	3,463
Debtors and creditors	Collection fund debtors netted off from creditors in the Collection Fund			2,497	2,497
I&E	The I&E account is understated by £2.23m in respect of capital receipts that do not arise from the disposal of fixed assets, such as 'right to buy'	2,230 SMGFB	2,230		

Appendix 2 – Adjusted amendments to the accounts

		Income and Expenditure Account		Balance Sheet	
	receipts from the former Housing Revenue Account.				
Investments	Incorrect split between long and short term investments			1,989	1,989
Provisions and reserves in the Balance Sheet, I&E and SMGFB	Provisions of around £3.2m do not meet Financial Reporting Standard 12 criteria for classification as provisions in the Balance Sheet. These should be classified as reserves in the bottom half of the balance sheet rather than as a long-term liability in net assets. Total assets less liabilities and total equity are understated by this amount.	3,215	3,215 SMGFB	3,215	3,215
Tangible Fixed Assets – Operational Land and Buildings	School land not owned by Council included in accounts. School land valued at £1.3m is not owned by the Council and has incorrectly been included in Tangible Fixed Assets in the Balance Sheet.			1,300	1,300

We identified a number of areas where disclosure notes needed to be improved and management has agreed to amend:

- There were a number of presentational and arithmetic errors, such as:
 - quoted securities in respect of the Pension Fund still being noted at ‘mid’ rather than ‘bid’ price in the Accounting Policies section
 - Financial instruments note 32 – the carrying amount of loans and receivables did not come to the correct total.
- The Related Party Transactions note needs to be expanded to include amounts for transactions with organisations.

Appendix 2 – Adjusted amendments to the accounts

- The liquidity risk analysis of borrowing (note 34) does not reflect the correct split between years of maturity.
- We suggested an additional disclosure at note 2 to explain the increase between years in Total Grants in the I&E in respect of Area Based Grant which had previously been income in the SEA as Local Area Agreement Grant
- The leases note 26 and note 14 on accounting policies is not in accordance with SoRP as it did not contain property leases. Part of note 26 has been amended to include a significant lease of £447k. There is a remaining £544k in respect of other potential property leases that has not been identified as further analysis will be required. The note will also need to be updated to reflect the expiry analysis of property leases.

Appendix 3 – Unadjusted misstatements in the accounts

The following misstatements were identified during the course of my audit and the financial statements have not been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities. If you decide not to do so, please tell us why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Table 5

Description of error	Accounts effected	Value of error £Million
Debtors and creditors	Collection fund debtors netted off from creditors in the Collection Fund	0.484
Revaluations performed not reflected in accounts. Revaluations of operational land and buildings amounting to £0.3m have not been reflected in Tangible Fixed Assets in the Balance Sheet or the I&E	Tangible Fixed Assets – Operational Land and Buildings	0.270
Cancellation of debtor in 09/10. A debtor for £0.2m was subsequently cancelled in 2009/10 but still included in the 2008/09 balances in Adult Social Services.	Debtors and income (I&E)	0.240
Cash is overstated in the Balance Sheet and schools expenditure understated by £167k in the I&E	Cash and schools expenditure	0.167

Appendix 4 – Draft letter of representation

to Michael Thomas,
District Auditor,
Audit Commission,
The Heath Technical and Business Park,
The Heath,
Runcorn,
Cheshire,
WA7 4QF.

date 17 September 2009

your ref
my ref
please ask for FA/IEC
Ian Coleman

Dear Michael,

Wirral Borough Council

- Audit for the year ended 31 March 2009

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Wirral Borough Council, the following representations given to you in connection with your audit of the Wirral Borough Council financial statements for the year ended 31 March 2009.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which present fairly the financial position and financial performance of the Council and for making accurate representations to you.

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the report are not material to the financial statements, either individually or in aggregate. The misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows;

- a) Within the Collection Fund £484,000 of debtors and creditors are stated as being netted-off. There is uncertainty over the classification of these items and, as the sum is not material, no adjustment has been made.
- b) The revaluation of assets is performed annually and the £270,000 error identified for 2008/09 will be incorporated within the 2009/10 revaluations.
- c) A debtor for £240,000 raised by Adult Social Services in 2008/09 was cancelled in the 2009/10 accounting year. No adjustment has been made in the 2008/09 accounts as it is not considered material.
- d) The amount of petty cash spent, but not yet reclaimed to restore to the level of the imprest holding, at the end of each financial year is variable from year-to-year. This is not considered to be a material sum.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council, Cabinet and other Committee meetings, have been made available to you.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud and error.

There have been no:

- a) irregularities involving management or employees who have significant roles in the system of internal accounting control;
- b) irregularities involving other employees that could have a material effect on the financial statements; or
- c) communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- a) my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- b) my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Appendix 4 – Draft letter of representation

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements.
I confirm:

- a) the appropriateness of the measurement method;
- b) the basis used by management to overcome the presumption under the financial reporting framework;
- c) the completeness and appropriateness under the financial reporting framework; and
- d) subsequent events do not require adjustment to the fair value measurement.

Assets

The following have been properly recorded and when appropriate adequately disclosed in the financial statements:

- a) losses arising from sale & purchase commitments;
- b) agreements and options to buy back assets previously sold; and
- c) assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts and we have no other lines of credit arrangements.

Contingent liabilities

The Council is considering the implications of the Adult Social Services - Public Interest Disclosure Act report. The findings may impact upon the financial position of the Council but are not considered to be material.

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- a) there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- b) there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- c) no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information provided regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded, and where appropriate, adequately disclosed in the financial statements.

Post balance sheet events

Since the date of approval of the financial statements by the Audit and Risk Management Committee, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Specific representations

There are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements.

Signed on behalf of Wirral Borough Council

I confirm that this letter was agreed by the Audit and Risk Management Committee of Wirral Borough Council on 23 September 2009.

Name	Ian Coleman
Position	Director of Finance
Date	

Appendix 5 – Use of resources key findings and conclusions

The following tables summarise the key finding and conclusions for each of the three use of resources themes. The overall score will be formally reported to the Council by the Audit Commission on 19 October 2009.

Table 6 **Managing finances**

Theme score 2	
Key findings and conclusions	
Wirral Council manages its finances effectively to deliver value for money	
KLOE 1.1 (financial planning)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
The Council manages its finances effectively and is delivering many of its strategic priorities. Financial management is sound over the short term and will be maintained over the medium to longer term if initiatives deliver expected savings. The outturn for 2008/09 was in line with the plan and balances were maintained to within £200k. Concerns remain around overspending in adult social services.	

KLOE 1.2 (understanding costs and achieving efficiencies)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
<p>The Council maintains a reasonable understanding of the costs of its services and how these relate to performance. However, more work still needs to be done to ensure that the links between costs and performance are consistently made at service level and unit costs used to measure service performance. The Council has established a track record of delivering efficiencies. Over the past three years, the Council has achieved overall savings of £37.4m which exceeded target by £8m and £17.6m savings were reported for 2008/09. Over the last year, the Council has taken some difficult decisions in traditionally high cost service areas and progressed a number of important strategic projects with the aim of achieving savings. The impact of these initiatives is yet to be felt as the projected savings form part of the Council's financial plans for 2009/10.</p>	
KLOE 1.3 (financial reporting)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
<p>The Council produces relevant, timely and reliable financial monitoring and forecasting information and uses financial and related performance information to monitor performance during the year. Financial reports are clear and since September 2008 have been presented in a combined financial and performance report to members on a quarterly basis. The Council's 2007/08 accounts complied with statutory requirements, regulatory timetables, and relevant accounting and reporting standards and an unqualified opinion was given. We are planning to give an unqualified opinion on the 2008/09 accounts. The most recent published accounts for 2008/09 and the annual audit letter for 2007/08 are available to the public and appeared on the Council's website on a timely basis and in accessible formats.</p>	

Appendix 5 – Use of resources key findings and conclusions

Table 7 Governing the business

Theme score 2	
Key findings and conclusions	
Wirral Council adequately governs itself and commissions services that provide value for money and deliver better outcomes for local people.	
KLOE 2.1 (commissioning and procurement)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
The Council is performing adequately. However, it is generally too early to demonstrate the achievement of sustainable outcomes that result in quality services and supplies, respond to local need and deliver better value for money. More time is required to enable the benefits of procurement and commissioning initiatives to be realised although there are some positive outcomes, such as improved recycling. Wirral is also actively involved with collaborative working across Merseyside and the North West Region using the Merseyside Procurement Group to take forward the joint initiatives and leads a number of regional groups including the Merseyside Improvement Partnership. Our detailed work on procurement and commissioning is largely complete. More work is required to ensure a consistent approach to procurement and commissioning is in place so that good practice is spread across the Council and that policies and procedures are followed.	

Appendix 5 – Use of resources key findings and conclusions

KLOE 2.2 (data quality and use of information)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
The Council produces relevant and reliable data and information to support decision making and manage performance. Understanding of needs of decision makers is improving. Data security is satisfactory. Performance is monitored against priorities and targets and underperformance being addressed.	
KLOE 2.3 (good governance)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
The Council has a good understanding of the key ethical governance issues that it faces and the action needed to promote and maintain standards. It has adopted, promotes and demonstrates the principles of good governance and a satisfactory ethical framework and culture. The administration has set out clear purpose and vision in its strategic priorities and this is communicated to both within the Council and with external stakeholders. The Ethical Governance diagnostic survey findings were encouraging - and more positive than the average in many areas. The Council needs to do further work to strengthen its corporate arrangements for governing partnerships although many outcomes from working in partnership are positive.	

Appendix 5 – Use of resources key findings and conclusions

KLOE 2.4 (risk management and internal control)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	Risk management arrangements are strong and the Council can demonstrate areas where risks have been successfully identified and mitigated. There are satisfactory arrangements in place to manage the risk of fraud and corruption. The system of internal control is generally satisfactory

Table 8 Managing resources

Theme score 2	
Key findings and conclusions	
Wirral Council manages its natural resources and its physical assets adequately to meet current and future needs and deliver value for money	
KLOE 3.1 (use of natural resources)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
The Council has an understanding of its environmental impacts that allows it to focus its management on areas of high impact. It has high level summary information on energy use across its main properties and plans to implement more detailed monitoring. Significant reductions have been achieved in its energy use and carbon dioxide emissions against a challenging target. The Council has met its target to reduce its carbon emissions by 20 per cent by 2010, achieving this two years early in 2008. From 2006/07 to 2007/08 the Council reported a ‘weather corrected’ saving of £69k. Through its ISO 14001 certificated environmental management systems, it has identified the environmental risks in key services that could cause pollution.	

Appendix 5 – Use of resources key findings and conclusions

KLOE 3.2 (strategic asset management)	
Score	2
VFM criterion met	Yes
Key findings and conclusions	
The Council has a strategic approach to asset management and during the year developed, approved and is starting to implement its strategic asset review. Once implemented, the Council expects to make annual revenue savings of £3.1 m from the closure buildings and £1m from rationalising office accommodation – as well as providing improved services and reducing the impact of Council buildings on the environment. The Council is working with partners and community groups to maximise the use of assets for the benefit of the local community	

Appendix 6 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Governance Report 2008/09 - Recommendations						
	R1. Strengthen quality assurance to ensure errors on the accounts are minimised.	2	Head of Financial Services	Yes	Arrangements reviewed annually and incorporate AGR findings.	January 2010
	R2 In order to comply with accounting standards and the requirements of IFRS, the Council needs to improve asset records and should undertake a formal review of the systems used to develop a robust asset register to properly account for: <ul style="list-style-type: none"> • land and buildings • VPE, including to confirm the existence of all of its VPE assets and ensure that its asset register is suitably updated; increase the amount of information held on its asset register in respect of VPE assets. This should include location and information to 	3	Head of Financial Services (to co-ordinate). L&B: Director of Law, HR and Asset Management. VPE: Head of Financial Services.	Yes	Co-ordinating role as delivered by the projects below. L&B: Assessing options for implementing in 2009/10. VPE: Specific project being undertaken in 2009.	March 2010

Appendix 6 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<p>allow unique identification. Review its internal processes of ensuring that all disposals are notified to Finance. This could include periodic reconciliations to other asset records and confirmations from departments as to the assets held</p> <ul style="list-style-type: none"> • Infrastructure assets, including to increase the amount of information held on infrastructure assets and ensure that individual infrastructure assets are identifiable. Review its internal processes of ensuring that all disposals are notified to Finance. • Community assets, including complete the cataloguing of community assets held in museums and art galleries and ensure that the asset register is subsequently updated 		<p>Infrastructure: Director of Technical Services</p> <p>Community assets: Director of Regeneration</p>		<p>Infrastructure: Working group set-up and awaiting technical guidance due in 2009/10.</p> <p>Community assets: Museum task now expected to be completed 2009/10.</p>	
	R3. Members should comply with the process for making related party disclosure	2	Director of Law, HR and Asset	Yes	Importance to be reinforced for all to	March 2010

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	declarations		Management		respond in time.	
	R4. Ensure overspending in adult social services is addressed	3	Director of Adult Social Services	Yes	Actions continue to be taken to remain within budget	March 2010
	R5. Ensure that the links between costs and performance are consistently made at service level and unit costs used to measure service performance	2	Director of Finance and Director of Corporate Services	Yes	Work continues to link performance and management in the Council.	Ongoing
	R6. Ensure a consistent approach to procurement and commissioning is in place so that good practice is spread across the Council and that policies and procedures are followed	2	Director of Finance	Yes	Messages continue to be reinforced to minimise the risk of non-compliance.	March 2010
	R7. Ensure the Partnership Toolkit which was approved in April 2009 is launched, supported by training and fully implemented	2	Director of Law, HR and Asset Management	Yes	The arrival of the new Head of Legal Services will help progress in this area.	November 2009

The Audit Commission

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