



The Annual Audit Letter for Wirral Council

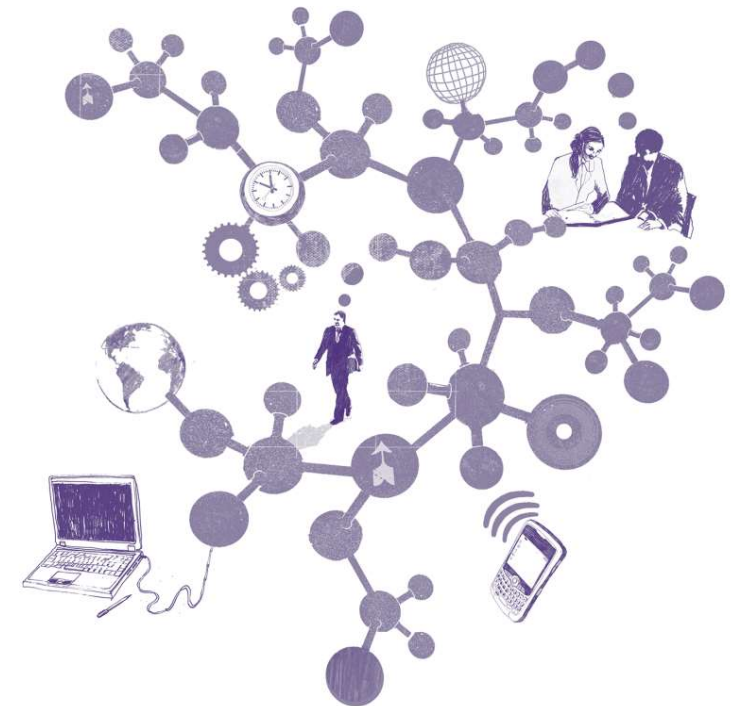
Year ended 31 March 2017

October 2017

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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Wirral Council (the Council) for the year ended 31 March 2017.

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

We reported the detailed findings from our audit work to the Council's Audit and Risk Management Committee (as those charged with governance) in our Audit Findings Report on 25 September 2017.

Our responsibilities

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

- give an opinion on the Council's financial statements (page 5)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (page 8).

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

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 26 September 2017.

Value for money conclusion

Our review of the Council's arrangements to secure economy, efficiency and effectiveness highlighted the following issue which resulted in 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.

Our 2016/17 review recognised that the Council has made progress in improving Children's services. However recent Ofsted monitoring visits confirmed 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.

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017, except for the matter set out above. We therefore issued a qualified "except for" value for money conclusion in our audit report on 26 September 2017.

Use of additional 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.

Whole of government accounts

Our work on the whole of government accounts consolidation return is not yet complete. Our initial review identified a significant number of differences between figures set out in the audited financial statements and corresponding entries in the WGA consolidation return. Officers are currently working to resolve these differences ahead of us concluding our review.

Certificate

We are not yet able to certify that we have completed the audit of the accounts of Council as we have not completed the work in respect of the objection received in relation to the 2015/16 financial statements and we are yet to complete the required work on the Council's 2016/17 Whole of Government Accounts.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Audit & Risk Management Committee on completion.

Looking ahead

The Council recognise that it continues to face significant financial pressures. The Quarter 1 revenue monitoring report for 2017/18 sets out a projected £4.2 million overspend that is mainly attributable to additional investment in Children's services. An early review of the 2017/18 financial position resulted in a further £8.5 million of the revenue budget contingency being added to service budgets, consequently only £3.5 million of this contingency remains.

The revenue monitoring report details further risks and actions resulting in a projected General fund balance of just £9.4 million at 31 March 2018 which is below the £10 million minimum recommended by the Section 151 Officer. We recognise that there continues to be a £3.5 million in the contingency budget, however it is important the Council takes decisive action to ensure spending is constrained and the general fund balance does not fall below recommended levels.

Working with the Council

Your finance staff attended our final accounts closedown workshops where we provide your teams with training on current financial accounts. We also provided you with regular Audit Committee updates covering developments and best practice. We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's members and officers.

Grant Thornton UK LLP
October 2017

Audit of the accounts

Our audit approach

Materiality

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

We determined materiality for our audit of the Council's accounts to be £13.803 million, which is 1.9% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We set a lower threshold of £10,000 for senior officer remuneration. For related party transactions we assessed errors individually, with due regard given to the nature of the error and its potential impact on the materiality of the other party. We would report errors above these thresholds to the Audit and Risk Management Committee in our Audit Findings Report.

Pension Fund

For the audit of the Merseyside Pension Fund accounts, we determined materiality to be £78 million, which is 1% of the Fund's net assets. We used this benchmark as, in our view, users of the Pension Fund accounts are most interested in the value of assets available to fund pension benefits.

The scope of our audit

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

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by the Section 151 Officer are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts - Council

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> Identified the controls put in place by management to ensure that the pension fund net liability was not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. Reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. Gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. Reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from the Council's actuary. 	<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>Our audit work did not identify any significant issues in relation to the risk identified.</p>
<p>Valuation of property plant and equipment</p> <p>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>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> Reviewed management's processes and assumptions for the calculation of the estimate. Reviewed the competence, expertise and objectivity of any management experts used. Reviewed the instructions issued to valuation experts and the scope of their work Held discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding. Tested revaluations made during the year to ensure they were input correctly into the Council's asset register. Evaluated the assumptions made by management for those assets not revalued during the year to assess how management satisfied themselves that these were not materially different to current value. 	<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.</p> <p>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>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 26 September 2017, in advance of the 30 September 2017 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided supporting working papers. The finance team responded promptly and efficiently to our queries during the audit of the financial statements.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit & Risk Management Committee on 25 September 2017. Our audit identified two non-material errors where the Council decided to amend the draft financial statements and we agreed a small number of changes to disclosure notes. None of the adjustments affected the Council's reported financial position.

Pension fund accounts

We also reported the key issues from our audit of accounts of the Pension Fund hosted by the Council to the Audit & Risk Management Committee on 25 September 2017.

A control deficiency was identified by internal audit in relation to the calculation of lump sum payments and first pension payments. Based on the nature of the errors, we were able to conclude that there was no risk of material misstatement and no indication of fraud. We also reported some minor disclosure amendments to the financial statements.

Annual Governance Statement and Narrative Report

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

Whole of Government Accounts (WGA)

We have not been able to complete the work on the WGA due to differences identified between the consolidation schedule and the Council's financial statements.

Other statutory duties

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

Last year we received an objection to the Council's accounts. 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. 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.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the criterion for auditors to evaluate:

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

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

Overall VfM conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017, except for the deficiencies in Children’s services identified by Ofsted. We therefore issued a qualified “except for” value for money conclusion in our audit report on 26 September 2017.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Financial position</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 £45 million 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 ongoing 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 £12 million 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 £11.1 million of the contingency budget allocated to services early in Quarter 1, including £3.9 million to Adult Social Services and £5 million to Children's services. The 2016/17 outturn reported by the Council was a £2.9 million underspend on services following revisions to the budget.</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 £132 million forecast budget gap over the remaining period of the MTFS to 2020/21, including a £45 million 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. 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><i>Our work on financial sustainability 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></p>

Value for Money - continued

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Ofsted inspection of children's services 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"> • update reports from Ofsted; and • progress made by the Council in the delivery of required improvement actions. 	<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 £2 million 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 are still outstanding but they remain 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><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></p>

Appendix A: Reports issued and fees

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

Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of Council	159,863	159,863	*159,863
Statutory audit of Pension Fund	39,062	***39,062	39,062
Audit of entity significantly influenced by the Council – Edsential	18,500	18,500	N/a
Housing Benefit Grant Certification	23,850	**23,850	24,920
Total fees (excluding VAT)	241,275	241,275	223,845

* - The final 2015/16 audit fee will be determined on completion of our review of the objection

** - The final fee for certification will be determined on completion of our work.

*** - The fee of £39,062 includes £2,108 for work undertaken on behalf of other employers.

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'.

Reports issued

Report	Date issued
Audit Plan	May 2017
Audit Findings Report	September 2017
Annual Audit Letter	October 2017

Fees for other services

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

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.

Reports issued and fees continued

We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards have been applied to mitigate these risks.

	Service provided to	Fees £	Threat identified	Safeguards
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 GTUK 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 GTUK 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 GTUK as a whole.
Pension Fund Audit	Merseyside Pension Fund	39,062	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 GTUK as a whole.
Teachers Pension	Wirral Council	4,200	Self Interest	<p>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.</p> <p>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.</p>
Report on Skills Funding Agency	Wirral Council	3,950	Self Interest	<p>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 £3,950 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.</p> <p>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.</p>
	TOTAL	249,425		



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