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AUDIT AND RISK MANAGEMENT COMMITTEE

Tuesday, 29 November 2011

Present: Councillor J Crabtree (Chair)

Councillors D Dodd RL Abbey
S Mountney J Keeley
A Brighthouse I Williams

Deputies: Councillors S Taylor (In place of JE Green)

35 MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST

Members were asked to consider whether they had personal or prejudicial interests in connection with any item(s) on this agenda and, if so, to declare them and state what they were.

No such declarations were made.

36 MINUTES

Resolved – That the minutes of the meeting held on 28 September 2011, be approved.

37 BUDGET PROJECTIONS 2012-15

The Deputy Chief Executive/Director of Finance reported upon the projected budgets for 2012-2015, which had been considered by the Cabinet at its meeting held on 3 November 2011 (minute 174 refers). The report set out the assumptions that underpinned the budget projections and provided detail on grant negotiations, other legislative issues, balances, agreed savings and relevant risks. The budget projections set out in an appendix to the Director's report represented the most likely outcome from a wide range of available options and indicated a shortfall of £22.6m in 2012/2013, £30.8m in 2013/2014 and £46.9m in 2014/2015. The Government was consulting on a number of options which would impact on the budget projections and the Director confirmed that he responded to all consultation to try to ensure the best outcome for Wirral.

In response to a comment from a Member, the Director commented upon the processes that were in place for dealing with the issues in relation to the budget projections and confirmed the requirement for the Council budget to be set by 10 March 2012. The Director commented that it was a matter for the administration as to how savings would be made and he indicated that the process would be informed by the results of the You Choose Budget Simulator consultation process. The consultation was due to close on 30 November 2011 and he expected an initial analysis to be presented to the next meeting of the Cabinet.

Resolved –

- (1) That the budget projections be noted and be regularly reviewed.**
- (2) That the preliminary results of the You Choose Budget Simulator consultation process be shared with the Chair and group spokespersons as the analysis becomes available.**

38 INTERNAL AUDIT UPDATE

The Chief Internal Auditor reported that in order to assist in effective corporate governance and fulfil statutory requirements, the Internal Audit Section of the Finance Department reviewed management and service delivery arrangements within the Council as well as financial control systems. Work areas were selected for review on the basis of risks identified on the Corporate Risk Register and as assessed by Internal Audit in consultation with Chief Officers and Managers. His report identified and evaluated the performance of the Internal Audit Section in accordance with the Internal Audit Plan and included details of the audit work undertaken during the period 1 September – 31 October 2011. He commented that the format and content of his report was currently under review and a working party of officers and Members had recently met and had considered the development of a revised template for future reports.

He identified a number of items of note concerning ongoing audit work, one of which related to an investigation by the Counter Fraud Team into a number of concerns raised by a whistleblower in relation to the activities of an arms length organisation that undertook work on behalf of the Council. In response to questions from Members, the Chief Internal Auditor indicated that the Chief Executive and the Director of Law, HR and Asset Management were aware of the investigation. Upon its conclusion, a report would be prepared by Internal Audit for the Chief Executive.

An item of significance which required action by Members had also been highlighted in relation to a follow up audit undertaken in respect of the DASS Day to Day Procurement system, where a high priority recommendation had still not been addressed. This was in relation to a failure to locate a contract and he reported that following a recent re-organisation, responsibility for the management of the system now rested with the Department of Law, HR and Asset Management. Although a number of requests to the Department for a swift resolution of the matter had been dispatched, no response had yet been received. In response to a number of comments from Members that the Director of Law, HR and Asset Management, or his legal representative, should have been present at the meeting to address Members' concerns, the Chair advised that he had released the Head of Legal and Member Services from the meeting in order for him to prepare for a tribunal hearing. The Deputy Director of Finance reported that he had discussed the matter with the Head of Legal and Member Services prior to him leaving the meeting. He had advised that the transfer of responsibility had only occurred recently; he was fully aware of the urgency and steps were in place for the matter to be addressed.

The Chief Internal Auditor commented also upon pressures as a result of a shortfall in staffing resources, brought about by absence, sickness, secondment and jury service. However, in the short term, to ensure that service delivery targets were

achieved for 2011/2012, the Deputy Chief Executive/Director of Finance had agreed to the recruitment of a number of temporary agency staff.

Resolved –

- (1) That the report be noted.**
- (2) That the Director of Law, HR and Asset Management be requested to write to the Chair and group spokespersons at the earliest opportunity to indicate the likely timescale for compliance with the high priority audit recommendation in relation to the DASS Day to Day Procurement system.**
- (3) That the Chair be requested to write to the Chief Executive, in order for him to ensure that all Chief Officers, or their representatives, should, in future attend every meeting of the Audit and Risk Management Committee, as a matter of course.**
- (4) That the Director of Law, HR and Asset Management and the Director of Adult Social Services be requested to ensure their attendance at the next meeting of the Committee.**
- (5) That an update in relation to the Counter Fraud Investigation be presented to the next meeting of the Committee.**

39 CORPORATE GOVERNANCE - REVIEW OF INTERNAL AUDIT

Further to minute 116 (Cabinet – 22 September 2011) and in response to the findings of the AKA Report on Corporate Governance, the Deputy Chief Executive/Director of Finance presented an initial report which outlined areas of work that Internal Audit could include in the Annual Plan to strengthen further the corporate governance of the Council. The report had been considered by the Corporate Governance Committee on 26 October 2011 (minute 6 refers), who had agreed that external perspectives of the workload, organisation and structure of Internal Audit should be obtained, the objective being to ensure a fit for purpose Internal Audit service, both in terms of planned work and skills availability, and to ensure that the management of authority responded appropriately to recommendations.

At its meeting on 16 November 2011 (minute 13 refers), the Corporate Governance Committee had agreed a number of Key Lines of Enquiry, one of which related to the Review of Internal Audit. In response to comments from Members, the Deputy Director of Finance commented upon the process for the procurement of external review. The LGA would be contacted to seek advice and he commented that it was essential for a review to be undertaken by a body with a detailed knowledge of local authority internal audit work. As Lead Officer for the KLOE for the Review of Internal Audit, the Deputy Director of Finance proposed to present an update to the next meeting and anticipated that the external reviewer would attend the March 2012 meeting of the Committee. In order to ensure that Members were kept up to date in relation to the process for appointment of an external reviewer, the Chair requested that the Deputy Director meet with group spokespersons as necessary.

Resolved – That the report be noted.

40 **ANNUAL REVIEW OF SYSTEMS OF INTERNAL AUDIT**

The Deputy Chief Executive/Director of Finance reported that the Accounts and Audit Regulations 2006 specified that there should be a review of “the System of Internal Audit” conducted annually, and its results reviewed by a committee, as part of the Statement on Internal Control (SIC). He commented that the review of the system was more than a review of the Internal Audit Service and, as there was still no established good practice, prescribed action or even recommendations, it had been conducted on the basis of a self-assessment of compliance with the CIPFA Code of Practice for Internal Audit in Local Government, a Customer Satisfaction Survey, in accordance with the current advice available, the results of work undertaken to prepare the Annual Governance Statement and the findings of Audit Commission reviews.

The conclusion was that the ‘system of internal audit’ was performing effectively and that the Internal Audit Service was making a good contribution to the control environment of the Council.

In response to questions from Members as to whether it was considered best practice for a review of internal audit to be undertaken by the Director of Finance, the Chair proposed that a comparison exercise be undertaken of practice in other local authorities. In response to further comments with regard to the relationship between internal audit and elected Members, the Director agreed to supply to Members with the Committees terms of reference, together with the Internal Audit Manual.

Resolved – That the report be noted.

41 **STATEMENT OF ACCOUNTS AND FINAL ANNUAL GOVERNANCE REPORT 2010/2011**

Further to minute 22 (28 September 2011), the Deputy Chief Executive/Director of Finance reported upon the final position related to the Statement of Accounts for 2010/2011, which had been subject to clarification of issues before the Accounts were published by the statutory deadline of 30 September 2011. Members had been concerned that issues raised by the District Auditor were recurring and comments were also made about a lack of capacity within the Financial Services Division.

The Director commented that at the time of the last meeting, the audit had not been completed and the District Auditor had updated Members on the latest position. He had indicated that whilst there were issues to be resolved he had been confident that he would issue an unqualified opinion, stating that the accounts gave a true and fair view of the financial position of the Council as at 31 March 2011. Subsequent to that meeting, the Letter of Representation and Annual Governance Statement had been agreed and two notices of objection had been resolved on 30 September 2011. This had allowed the Audit Opinion to be issued and the final version of the Statement of Accounts was published on 30 September 2011. This met the statutory deadline for publication and he reported that the Audit Opinion gave an ‘unqualified opinion’ on the accounts with a qualified conclusion for securing economy, efficiency and effectiveness. The Director concluded that besides receiving an ‘unqualified opinion’, the accounts were published by the statutory date and the financial position of the Council remained unchanged following the audit.

In his report, the Director stated that a report would be presented to the next meeting on the Statement of Accounts for 2011/2012. In response to comments from Members, the Director indicated that a review was to be undertaken to seek improvement for next year, which would include an assessment of the options around securing additional staffing capacity in order to make such improvements and ensure compliance with statutory requirements. He commented also upon the complexity of the International Financial Reporting Standards (IFRS) and indicated that they had presented a range of difficulties for local authorities in completing the 2011/2012 accounts.

Resolved –

- (1) That the final Annual Governance Report issued by the Audit Commission and the Report of the District Auditor (Audit opinion) be noted.**
- (2) That a report be presented setting out the improvements and arrangements for the completion of the 2011/2012 Statement of Accounts.**

42 AUDIT COMMISSION - PROGRESS REPORT

The District Auditor presented the Audit Commission Progress Report dated November 2011, which provided an update of ongoing work at the Council. He outlined the key messages in relation to fees, the opinion on the Statement of Accounts and the Value for Money conclusion. Public Interest Disclosure Act (PIDA) work in respect of Adult Social Services continued and follow up work was being undertaken in relation to the Highways and Engineering Services Procurement Exercise (HESPE). As part of the National Fraud Initiative (NFI), the 2010/2011 data matches were released by the Audit Commission in January 2011. These had generated identification of 7 frauds and 180 errors and he commented that the current figure for recovery stood at £187k.

Members expressed disappointment that the value for money (VFM) assessment had concluded that there were weaknesses in the Council's arrangements to secure VFM in its use of resources. The District Auditor had also issued a qualified opinion that drew attention to weaknesses identified in the arrangements for securing VFM in respect of the HESPE contract and he commented that an update would be presented to the January 2012 meeting.

Resolved – That the report be noted.

43 AUDIT COMMISSION - HESPE FOLLOW UP REPORT

The District Auditor advised the Committee that he had received additional late information in relation to the HESPE contract that needed to be included in his report before its consideration by Members. He proposed to present the updated report to the January meeting of the Committee and suggested that Members may wish to consider calling a special meeting for this purpose.

Resolved – That consideration of this matter be deferred.

ACCOUNTING FOR, AND RECORDING OF, ASSETS

Further to minute 22 (28 September 2011), the Deputy Chief Executive/Director of Finance presented further information on the subject of fixed assets, also known as non-current assets, shown in the Statement of Accounts. The term was used for assets and property that the Council owned and/or used in the provision of services, in contrast to current assets such as cash held in bank accounts. Fixed assets usually included items such as land and buildings, vehicles, plant, machinery and equipment and he provided further details on the main group of fixed assets, Property, Plant and Equipment (PPE). However, he indicated that other groups of assets such as Investment Property and Property, Plant and Equipment classified as assets held for sale were not used in the provision of services and were not covered in his report.

Information on the Council's Asset Register was essential to supporting the Statement of Accounts and whilst the Accounts were prepared by the Finance Department, the contribution of all other departments was critical in identifying any changes to the asset records. In respect of land and buildings many fell within the scope of the Department of Law, HR and Asset Management including property records and lease agreements which was reliant upon close working with departments. Similarly, investment via the capital programme would also impact upon the identification and valuation of assets. Vehicle fleet records and contracts, now under the Children & Young People Department, and the insurance records offered support to identifying any changes to, and confirmation of, the vehicle holdings.

He commented that for each asset, the register and accounting records held a range of information to substantiate the values shown in the Balance Sheet. In response to questions from Members in relation to the accuracy of the register, the Director confirmed that the register was compared to the insurance records. He referred to future changes to asset information and specifically to the ongoing valuation of heritage assets being undertaken by the Museums Service. In response to further questions with regard to the valuation of assets in the asset register and the valuation for insurance purposes, the Director proposed to circulate a detailed explanation directly to Members.

Resolved – That the accounting arrangements for the Council's assets be noted.

RISK MANAGEMENT STRATEGY AND THE MANAGEMENT OF RISK AND OPPORTUNITY

Further to the review of the Risk Management Strategy by the Cabinet (minute 149 (13 October 2011) refers), the Deputy Chief Executive/Director of Finance reported that, whilst there were minor changes to the Strategy, a more tailored and embedded approach to the management of risk, strategically and operationally, was needed if the Council was to meet the challenges and take advantage of opportunities both internally and in the wider environment.

The Cabinet had agreed to the retention of the current Risk management Strategy, whilst work on a more detailed review was undertaken in response to the changing environment. The Director commented that ensuring that an effective risk

management system was in place was a key element of Member responsibilities for corporate governance and embedding a more robust approach to risk would assist the Authority to innovate and exploit opportunities and reduce exposure to threats. Input of Members into the initiative was vital to ensure that the degree of cultural change needed was delivered.

Resolved – That the report be noted.

46 **CORPORATE RISK REGISTER**

The Deputy Chief Executive/Director of Finance presented a summary of the process followed in undertaking the recent review of the Corporate Risk Register, agreed by the Cabinet (minute 150 (13 October 2011) refers). Approval of the risks and the monitoring process enabled officers to focus resources on the most significant threats facing the organisation and he commented that monitoring of the risks was key to the delivery of the aims of the Council as set out in the Corporate Plan.

In response to comments from Members in relation to further control actions planned for the management of a number of risks identified in the register, the Director proposed to present an update report to a future meeting of the Committee.

Resolved – That the report be noted.

47 **CORPORATE RISK AND INSURANCE MANAGEMENT**

The Director of Finance reported upon progress made against the objectives for corporate risk and insurance management and the anticipated developments in the coming months including the plans for 2012/2013. An item of note was that seven schools which had Academy status or were in the process of converting had now taken out Service Level Agreements with the Risk & Insurance Team for professional advice and support in relation to insurance. Academies could not be covered by the Council policy so had to obtain their own insurance and the support package had provided income to the Insurance Fund.

He commented also that the Insurance Fund Budgets for 2012/2013 had been agreed by the Cabinet on 24 November 2011 (minute 198 refers). In overall terms costs were expected to be lower than for 2011/2012 but the premia being allocated upon historic claims data had resulted in an increased charge to General Fund services and a reduced charge to Schools.

Resolved – That regular update reports be presented to future meetings of the Committee on the work around Risk and Insurance which seeks to support the Risk Management Strategy and maintain the successful management of the Insurance Fund.

48 **SINGLE FRAUD INVESTIGATION SERVICE**

The Deputy Chief Executive/Director of Finance reported that currently, benefits fraud prevention and detection was undertaken by Local Authorities for Housing and Council Tax Benefits along with the Department for Work and Pensions (DWP) and Her Majesty's Revenue and Customs (HMRC). He provided details of the current situation and set out DWP proposals to better harmonise the work from 2013. He

outlined the options that had been considered and reported that the Cabinet (minute 154 (13 October 2011) refers) had agreed to the Director's recommendation that Wirral supports the favoured DWP option of retaining the Council Fraud staff working directly in the Council but adhering to the Single Fraud Investigation Service proposed powers, policies, processes and priorities.

Resolved – That the report be noted and the favoured option agreed by the Cabinet be supported.
