

AUDIT AND RISK MANAGEMENT COMMITTEE

Monday, 18 January 2010

Present: Councillor P Southwood (Chair)

Councillors P Reisdorf J Crabtree
RL Abbey C Povall
L Fraser

61 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.

62 MINUTES

Resolved – That the minutes of the meeting held on 25 November 2009 be approved.

63 AUDIT COMMISSION - ANNUAL AUDIT LETTER

The District Auditor presented the Audit Commission Annual Audit Letter, which summarised the findings from the 2008/2009 audit in respect of Wirral Council and the Merseyside Pension Fund. It included messages arising from the audit of financial statements and the results of the work undertaken to assess arrangements to secure value for money in the use of resources. He had issued an unqualified opinion on the Council's financial statements and on the Pension Fund accounts on 30 September 2009. He had also issued an unqualified value for money conclusion, which stated that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources in 2008/2009. The Use of Resources judgement was based on the same Key Lines of Enquiry (KLOE) as the value for money conclusion and he had also completed a number of reviews to inform the conclusion that the Council was performing adequately against the standards specified by the Audit Commission – level 2 performance.

He commented also upon the Comprehensive Area Assessment and referred to other risk based work on two PIDA disclosures in respect of Adult Social Services and the process for the award of the Highways and Engineering Services Procurement Exercise (HESPE) contract.

In response to comments from Members in relation to the audit fees, the District Auditor indicated that although the fee proposed for Wirral in 2009/2010 was 13% above the scale fee, it represented a net reduction of 4.1% from the 19% above scale fee in 2008/2009 and auditors continued to work with Council officers to further reduce the fees.

Resolved –

(1) That the report be noted.

- (2) That a report be presented to the next meeting of the Committee upon action required to be taken by the authority to further reduce the audit fee.**

64 AUDIT COMMISSION - INTERNAL AUDIT REVIEW 2008/2009

The District Auditor presented a review of the work of Internal Audit 2008/2009, which was undertaken to assess the quality of its work and the strength of the control environment. The overall objective was to ensure that Internal Audit was meeting its own professional and statutory requirements as set out in CIPFA's Code of Practice for Internal Audit (the Code). The review assessed how well the Internal Audit Section met each of the 11 organisational and operational standards set out in the Code and the overall conclusion was that during 2008/2009, Internal Audit generally met the requirements in 9 of the 11 standards. The standards were not fully met in relation to 'Staffing, Training and Development' and 'Audit Strategy' and he set out a series of recommendations to ensure compliance. In the meantime, the Council needed to be able to demonstrate that equivalent safeguards or measures were in place.

Resolved – That the report be noted.

65 AUDIT COMMISSION REVIEW OF INTERNAL AUDIT 2008/2009 AUDIT

The Director of Finance referred to the review of Internal Audit undertaken by the Audit Commission (see minute 64 ante) and set out a number of observations in relation to the Auditor's conclusions. He indicated that there were several areas where agreement had not yet been reached and commented that there needed to be better mutual understanding in relation to Audit Strategy and Planning and Staffing. He commented that the current audit planning process identified and categorised all identified risks and, as was reported to each meeting of the Committee, "it is the deliberate policy of the Internal Audit Section to ensure that all high and intermediate risk audits are completed during the year". This facilitated an appropriate opinion on the control environment and staffing resources were currently adequate to achieve this. However, there were issues around recruitment of appropriately qualified and experienced staff and additionally, Internal Audit sought to add value beyond the assurance framework. This was a further call on resources and the Director indicated that the risks were managed accordingly.

Members expressed concern in relation to the management of risks having regard to the recommendations of the Audit Commission with regard to organisational structure and staffing levels of the Internal Audit Section. Members referred also to comments in the report of Chief Internal Auditor (see minute 66 post) in relation to staffing resource problems that had been experienced during the year. In response, the Director confirmed that all work on high and intermediate risks in the Corporate Risk Register had been undertaken, however, increased resources would enable additional work to be undertaken. He confirmed that all of the Audit Commission's recommendations were included in an Action Plan and meetings would continue with the Audit Commission to ensure that actions to implement the recommendations were agreed.

Resolved –

- (1) That the report be noted.**

- (2) That a report be presented to the next meeting of the Committee upon progress in the implementation of the Audit Commission's recommendations.**

66 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. He provided a summary of the audit work completed between 1 November 2009 and 31 December 2009 and indicated that during the monitoring period 52 audit reports were produced with 56 high and 42 medium priority recommendations identified in the reports issued. He confirmed that management had agreed to implement all of the recommendations made within a satisfactory timescale.

Resolved – That the report be noted.

67 AUDIT COMMISSION - COMMISSIONING AND PROCUREMENT REVIEW

The District Auditor reported that the Local Government and Public Involvement in Health Act 2007 introduced a clear focus on local public sector partners working together to provide better outcomes for local communities and a key means of delivering those better outcomes would be through the use of commissioning and procurement. He provided a definition of the terms and set out the scope and objectives of the review. The Council had invested resources to continue to develop its corporate arrangements for procurement and was actively involved in both regional and sub-regional collaborative ventures. He commented that although procurement had resulted in financial savings it was too early to fully assess the impact on sustainable outcomes for local people and there was a need to drive procurement forward more to maximise the benefits across the organisation.

He highlighted the key messages contained within the report and presented an agreed Action Plan to ensure compliance with the Audit Commission recommendations.

Resolved – That the report be noted.

68 AUDIT COMMISSION - GRANT CLAIMS AND RETURNS

The District Auditor presented the Audit Commission report upon the certification of Grant Claims and Returns in respect of grants and subsidies received by the Council in the 2007/2008 financial year, which amounted to £258m. The certification ranged from highly complex multi-million pound schemes to more straight forward reimbursements of pre-approved expenditure and he indicated that the work was designed to provide assurance to the grant paying body that a claim was fairly stated and in accordance with the specified terms and conditions. The Audit Commission took a risk based approach to certification and he reported that during the year, a total of 29 claims or returns were certified at a cost of £175k to the Council. He set out the main conclusions of the programme and provided recommendations that were contained within an agreed Action Plan.

Resolved – That the report be noted.

69 GRANT CLAIMS AND RETURNS: AUDIT COMMISSION REPORT

The Director of Finance provided Members with details of the issues raised in the Audit Commission report on Grant Claims and Returns related to the 2007/2008 financial year (see minute 68 ante) and how those issues had been addressed. He highlighted the concerns and recommendations contained within the report and he confirmed that the Authority had taken action to address the issues raised. Further actions would be undertaken to respond to matters raised on the audit of claims for 2008/2009, which was now near to completion.

The Director commented that only four claims were qualified in 2007/2008, where the auditor wished to raise an issue with the paying body, not necessarily implying that there was an error with any claim. The Director provided a response in relation to each of those claims and he reported also that although a larger proportion of claims were submitted late in 2007/2008 than in 2006/2007, the Commission had acknowledged that the 2007/2008 grants programme was particularly challenging, having included issues related to the European funded projects that would not recur in future years.

Resolved – That the report be noted.

70 AUDIT COMMISSION - DATA QUALITY SPOT CHECKS

The District Auditor presented the Audit Commission report on Data Quality Spot Checks that had been undertaken in 2008/2009. He commented that auditors assessed the arrangements for data quality and use of information at key line of enquiry (KLOE) 2.2 in the Use of Resources (UoR) assessment, which focused predominantly on arrangements for using fit-for-purpose information and securing data quality. Auditors undertook spot checks of selected data, based on their knowledge of local risks, as evidence to support the KLOE judgement, not to comment specifically on the published value of an indicator as had been the case in previous years.

He commented that for 2008/2009, auditors were required to carry out mandatory testing on housing benefit cases to consider the correct payment of benefit to claimants and the correct claim of subsidy. The following indicators were also chosen for review –

- NI 145 The percentage of adults with learning disabilities known to the Council with Adult Social Services Responsibility (CASSRs) in the settled accommodation at the time of their review or latest review.
- NI 117 16 to 18 olds who are not in education, employment or training (NEET).
- Local 2080 The number of undisputed invoices for commercial good and services paid by the authority within 30 days of the receipt or within the agreed payment terms.
- Local 6275 The level of sickness absence in local authorities.

He commented that although some concerns were raised, the assessment was that overall, the Council produced relevant and reliable data and information to support decision making and manage performance.

Resolved – That the report be noted.

71 DATA QUALITY SPOT CHECKS 2008/2009: AUDIT COMMISSION REPORT

The Director of Finance reported upon the issues raised in the Audit Commission report on Data Quality Spot Checks undertaken in 2008/2009 (see minute 70 ante). He set out the findings of the report and commented that the Authority had continued to improve and address all of the issues raised. Although an extended check by the Benefits Compliance Team had indicated a much lower level of error than that quoted by the Audit Commission report, the Director had acknowledged past issues and Wirral was one of the few authorities regionally to have implemented a highly rigorous checking system led by a Quality Assurance Team, supported by the Benefits Training Team.

Resolved – That the report be noted.

72 DATA QUALITY ACTION PLAN AND PROGRESS REPORT

Further to minute 49 (25 November 2009), the Deputy Chief Executive/Director of Corporate Services presented the Data Quality Action Plan, which had been developed to address the Audit Commission's recommendations. Since the last meeting, all of the actions within the plan had been completed. The Chair referred to the previous decision of the Committee, which requested that the plan be amended to indicate both planned and revised (actual) completion dates.

Resolved –

(1) That progress against the Data Quality Action Plan be noted.

(2) That the action plan be amended to indicate both planned and actual completion dates and presented to the next meeting of the Committee.

73 AUDIT COMMISSION - USE OF RESOURCES PLAN

The District Auditor presented the Use of Resources (UoR) Plan, which set out the approach to be taken by the Audit Commission in the 2009/2010 UoR assessment, who the key contacts would be and the reporting arrangements. He set out the ten Key Lines of Enquiry (KLOE) within the three themes of Managing Finances, Governing the Business and Managing Resources and he highlighted the objectives of the assessment to ensure that the Council had arrangements in place to secure economy, efficiency and effectiveness in its use of resources and being able to deliver value for money and better and sustainable outcomes for local people.

Resolved – That the Use of Resources Plan be noted.

74 AUDIT COMMISSION - AUDIT OPINION PLAN

The District Auditor presented the Audit Opinion Plan 2009/2010, which set out the audit work proposed to be carried out in relation to the audit of the financial statements 2009/2010. The Audit Commission was required to specify the detailed risks to be considered as part of the opinion planning work. However, as the initial

audit plan was produced at the start of the financial year for fee purposes, it was not possible at that time to specify those risks. He was now in a position to do this as the opinion work was about to commence.

The Audit Commission was required to identify the risk of financial misstatements in the accounts; plan audit procedures to address those risks; and ensure that the audit complied with all relevant auditing standards. He identified the specific risks appropriate to the current opinion audit and set out the testing strategy and key milestones and deadlines. The fee proposed for 2009/2010 was 13% above the scale fee and was within the normal level of variation specified by the Commission. He confirmed that auditors would continue to work with Council officers to identify actions to reduce the fee level.

Resolved – That the report be noted.

75 **AUDIT OPINION PLAN**

The Director of Finance commented upon the work that the Audit Commission proposed to perform in relation to the audit of the Council financial statements for 2009/2010, contained within the Audit Opinion Plan (see minute 74 ante). Although the Opinion Plan was primarily of relevance to officers involved in the audit process, the Director provided details of four topics for Members of the Committee to consider, where they had a key role to play in the process, viz: -

- Annual Governance Statement March 2010
- Statement of Accounts June 2010
- Annual Governance Report September 2010
- District Auditors Report (Audit Opinion) September 2010

Resolved –

(1) That the report be noted.

(2) That the officers be requested to give presentations at future meetings of the Committee to accompany the reports identified.

76 **AUDIT COMMISSION - AUDIT OPINION PLAN - MERSEYSIDE PENSION FUND**

Further to minute 80 (Pensions Committee – 13 January 2010), the District Auditor presented the Audit Opinion Plan for the Merseyside Pension Fund (MPF) 2009/2010, which set out the work proposed to be undertaken in relation to the audit of the MPF financial statements for the current financial year. He set out the risks that were appropriate to the current opinion audit and submitted details of the testing strategy and key milestones and deadlines. The fee proposed for the audit was the scale fee of £70,900.

Resolved – That the report be noted.

77 **MERSEYSIDE PENSION FUND - AUDIT OPINION PLAN 2009/2010**

Further to minute 80 (Pensions Committee – 13 January 2010), the Director of Finance reported upon the Audit Commission Opinion Plan for the Merseyside Pension Fund (MPF) for the financial year 2009/2010 (see minute 76 ante). The plan had been produced to give Members an early indication of the scope, range,

purpose, process, timescales and planned outputs for the audit and opinion on the closure of the MPF accounts for the current financial year.

He reported that the MPF was obliged to advise the Auditor of any additional risks arising, or expected to arise during the year of audit. He commented that after six months of the current financial year, MPF migrated to a new accounting and budgeting system using the Oracle financial package as its basis. All accounting records therefore required transferring to this system on 1 October 2009, involving extensive reconciliations. In recognition of this, a provisional estimate was made of the additional audit time required for confirming that all balances had been transferred accurately. In addition, some preliminary work may be required on the Triennial Valuation as at 31 March 2010.

Resolved – That the report be noted.

78 **CORPORATE RISK AND INSURANCE MANAGEMENT**

The Director of Finance reported upon progress made against the existing objectives for Corporate Risk and Insurance Management and he outlined the anticipated developments in the coming months. In response to a Risk Management issue identified for the next monitoring period, to continue to give assistance in relation to the implementation of the Strategic Asset Review (SAR), the Chair requested that the risk registers that were in place for the SAR be presented as a case study to the next meeting of the Committee. In response to a further request from a Member for clarification in relation to tenders for the Legal Defence Services contract, the Director of Law, HR and Asset Management proposed to provide a briefing note for Members.

Resolved –

- (1) That the report be noted.**
- (2) That the risk registers in place for the Strategic Asset Review be presented as a case study for consideration at the next meeting of the Committee.**
- (3) That the Director of Law, HR and Asset Management be requested to provide direct to all Members of the Committee, a briefing note in relation to the Legal Defence Services contract.**

79 **MANAGING FRAUD**

The Chief Internal Auditor reported that Internal Audit had conducted a thorough review of the systems in operation across the Council to manage the risk of fraud. This had involved undertaking a detailed exercise to examine the counter fraud policies that the Council had in place and an evaluation against current best practice contained in the 'Managing the Risk of Fraud – Actions to Counter Fraud and Corruption' publication produced by CIPFA for use by local authorities.

He presented a comprehensive internal audit report and action plan that had been prepared for Chief Officers, which identified the findings of the review including the actions required to improve the systems in operation. All of the actions and a timetable for implementation had been agreed with the relevant Chief Officers and the Director proposed to present a further update on progress later in the year.

Resolved –

- (1) That the report be noted.**
 - (2) That a further progress report be presented to a future meeting of the Committee.**
-