



## Audit and Risk Management Committee

<b>Date:</b>	<b>Monday, 22 November 2010</b>
<b>Time:</b>	<b>6.15 pm</b>
<b>Venue:</b>	<b>Committee Room 2 - Wallasey Town Hall</b>

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### AGENDA

**1. MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST**

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

**2. MINUTES (Pages 1 - 12)**

To receive the minutes of the meeting held on 28 September 2010.

**3. BUDGET PROJECTIONS 2011-2015 (Pages 13 - 20)**

**4. INTERNAL AUDIT UPDATE (Pages 21 - 28)**

**5. INTERNAL AUDIT ANNUAL PLAN REVIEW (Pages 29 - 34)**

**6. INTERNAL AUDIT ORGANISATION (Pages 35 - 44)**

**7. IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORT STANDARDS (IFRS) (Pages 45 - 50)**

**8. LESSONS LEARNED FROM THE HESPE/PIDA IN RELATION TO THE PACSPE CONTRACT**

Verbal Update from the Director of Technical Services

**9. AUDIT COMMISSION PROGRESS REPORT (Pages 51 - 88)**

- 10. CORPORATE RISK AND INSURANCE MANAGEMENT (Pages 89 - 92)**
- 11. REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA) - QUARTERLY UPDATE (Pages 93 - 94)**
- 12. ICT STRATEGIC REVIEW (Pages 95 - 104)**

The appendix to this report is at agenda item 15 and is exempt because disclosure may provide personal information about individuals.

- 13. ANY OTHER URGENT BUSINESS APPROVED BY THE CHAIR (PART 1)**
- 14. EXEMPT INFORMATION - EXCLUSION OF MEMBERS OF THE PUBLIC**

The following item contains exempt information.

RECOMMENDATION: That, under section 100 (A) (4) of the Local Government Act 1972, the public be excluded from the meeting during consideration of the following item of business on the grounds that it involves the likely disclosure of exempt information as defined by the relevant paragraphs of Part I of Schedule 12A (as amended) to that Act. The Public Interest test has been applied and favours exclusion.

- 15. ICT STRATEGIC REVIEW - EXEMPT APPENDIX (Pages 105 - 166)**
- 16. ANY OTHER URGENT BUSINESS APPROVED BY THE CHAIR (PART 2)**

## AUDIT AND RISK MANAGEMENT COMMITTEE

Tuesday, 28 September 2010

<u>Present:</u>	Councillor	S Mountney (Chair)	
	Councillors	L Rowlands	C Povall
		RL Abbey	J Crabtree
		P Reisdorf	A Brighthouse
<u>Deputies:</u>	Councillor	AR McLachlan (In place of D Dodd)	
<u>In attendance:</u>	Councillor	S Foulkes	

### 22 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.

Councillor R Abbey declared his personal interest in agenda item 5 (Audit Commission Annual Governance Report – Merseyside Pension Fund) (see minute 26 post), by virtue of him being in receipt of a pension from the Merseyside Pension Fund.

### 23 MINUTES

**Resolved – That the minutes of the meeting held on 30 June 2010 be approved.**

### 24 CARE QUALITY COMMISSION (CQC) REPORT ON SAFEGUARDING AND ADULTS WITH A LEARNING DISABILITY

The Director of Adult Social Services presented his report which had been considered by the Cabinet on 2 September 2010 (minute 109 refers) in relation to the Care Quality Commission (CQC) Report, following its Service Inspection of Adult Social Care undertaken in May 2010. The focus of the review had been on safeguarding adults, making a positive contribution for adults with a learning disability and increased choice and control for adults with a learning disability.

He commented that the CQC report had criticised the Council's performance. The report had concluded that the Council was performing poorly in safeguarding adults and in supporting adults with a learning disability to have increased choice and control. The report had also concluded that the Council was performing adequately in supporting adults with a learning disability to make a positive contribution. Lastly, the CQC had concluded that the Council's capacity to improve was uncertain.

The Director outlined the key findings from the report and indicated that it contained a number of recommendations for the Council to improve. Those recommendations had been incorporated into a robust improvement plan that had been approved by the Cabinet and submitted to the CQC. The Director had been instructed to present a

further report to the 14 October 2010 Cabinet, to include the timetable required to deliver the improvements set out in the second, revised improvement plan.

Members expressed their concern with regard to the findings of the CQC report and sought assurance that measures were now in place to ensure that the significant risks identified were being addressed. The Director stated that in response to the previous 'Red Flag' related to safeguarding adults, there had been a fundamental review of how performance data was collected. Data quality was now as good as it had ever been and this had been acknowledged by the CQC. However, he acknowledged that the improvements made were recent and the CQC wanted to see that the changes had bedded in. In response to a question from a Member, the Director commented that the Department had worked closely with Internal Audit with regard to the key components of the improvement plan.

The Director indicated that the improved governance arrangements put in place would supplement the usual management arrangements and would ensure that progress was tightly monitored to ensure improvement in all areas within the timescales set out in the plan. He stated that there was a need to prioritise work within DASS to ensure compliance with the Improvement Plan. The Director also referred to engaging with partners to help support delivery of the Improvement Plan.

The Chair asked whether work was being undertaken to change things culturally within DASS. The Director confirmed that this was the case, particularly in relation to improving skills and competencies and ensuring that mechanisms were in place to provide support to managers and frontline staff working with vulnerable adults and adults with learning difficulties. The Director expressed his appreciation of the support DASS had received from Corporate HR in this work.

**Resolved –**

- (1) That the report be noted.**
- (2) That the Cabinet be advised to receive a report to each meeting in relation to progress to date against the actions contained within the improvement plan.**
- (3) That an update report be presented to the January 2011 meeting of the Committee.**

25 **PROGRESS REPORT ON REIMBURSEMENT IN RELATION TO PUBLIC INTEREST DISCLOSURE ACT 1998 (PIDA)**

Further to minute 95 (24 March 2010), the Director of Adult Social Services provided an update on progress in the implementation of reimbursement to certain residents and former residents of Bermuda Road, Curlew Way and Edgehill Road supported living establishments in Moreton, following the agreement of the Cabinet (minute 256 (14 January 2010) refers) to the recommendations of this Committee.

The Director reported that of the sixteen individuals, who had been identified as eligible for a payment, four were now deceased and reimbursement payments had been made to their next of kin. Each of the remaining twelve people had been provided with an independent advocate, ten with Wirral Mind, one with Mencap and one with Advocacy in Wirral. He reported that a task force had met on a regular basis since February 2010 in order to the review progress with advocates on individual

cases and to discuss any issues. Those meetings were attended by advocates, Weightmans Solicitors and Council staff (including officers from finance, welfare benefits and operational areas). In response to a comment from the Chair, the Director of Law, HR and Asset Management confirmed that although Weightmans Solicitors had been appointed to represent the Council, their attendance was to ensure that the reimbursement process was carried out in a proper and lawful manner. The Council had accepted that it was liable and the role of Weightmans was non-adversarial and intended to be supportive.

The Director of Adult Social Services reported that, in May 2010, a letter had been received from the Office of the Public Guardian (OPG), who had been made aware of the proposed reimbursements and had identified potential safeguarding concerns in relation to substantial sums of money being paid to vulnerable adults who may not have the capacity to make their own decisions. The OPG had advised that capacity assessments should be completed in respect of all individuals and that, where they did not have capacity, it would be appropriate for applications to be made to the Court of Protection. Of nine initial assessments completed, there was an indication that eight individuals did not have the capacity to make decisions around financial matters. Referrals had been arranged for formal assessments of those eight individuals, which is a requirement of the Court of Protection. The Director proposed that the Department would make applications to the Court where there was not an appropriate person or family member willing to do so. The outcome of the three remaining initial assessments was awaited. The Director confirmed that the one payment already made was to a person who did have capacity.

In response to a question from a Member in relation to the timescales for the completion of the work to reimburse the remaining eleven individuals, the Director indicated that there was a desire to conclude the process as soon as possible. Although the pace of work had been guided by work undertaken with advocates, he commented that it was now dependent upon the progress of the applications to the Court of Protection.

**Resolved –**

- (1) That the report be noted.**
- (2) That the final details of reimbursements to individuals be reported to the Cabinet.**
- (3) That an update report be presented to the January 2011 meeting of the Committee.**

26 **AUDIT COMMISSION ANNUAL GOVERNANCE REPORT - MERSEYSIDE PENSION FUND**

The District Auditor presented the Annual Governance Report for the Merseyside Pension Fund (MPF) 2009/2010, which together with the MPF Accounts, had been approved by the Pensions Committee (minute 24 (27 September 2010) refers). He identified adjustments to the accounts, which had been agreed by the Director of Finance and referred also to a non-material error that management had declined to amend. The District Auditor set out the recommendations contained within the report and confirmed that the Pensions Committee had agreed the action plan. Subject to approval of the letter of representation, he proposed to give an unqualified opinion on the MPF financial statements.

The District Auditor also submitted an update for Members consideration, which set out the current position regarding issues that were outstanding and included a final version of Appendix 2 to his report (adjusted errors) and an updated progress report.

**Resolved –**

- (1) That the matters raised in the report and in the update submitted by the District Auditor, be noted.**
- (2) That the adjustments to the financial statements be noted.**

**27 MERSEYSIDE PENSION FUND ACCOUNTS 2009 - 2010**

The Director of Finance reported that the purpose of the Statement of Audited Accounts was to present the overall financial position of the Pension Fund as at 31 March 2010, in accordance with prescribed guidance. He commented upon a number of amendments to the Statement of Accounts that had been requested by the District Auditor, and which had been incorporated into the final accounts. He provided an analysis of those changes that had affected the value of the Fund, together with amendments that had affected the analysis of the Fund but had had no impact on its overall value. One unadjusted misstatement had been identified following the audit and had been included in the Letter of Representation. The misstatement totalled £12.183m and related to the inclusion in the accounts of Compensatory Added Years (CAYs). He set out the reason for not correcting the item and indicated that the Pensions Committee (minute 22 (27 September 2010) refers) had accepted his view that it was not material to the financial statements.

**Resolved –**

- (1) That the referral from the Pensions Committee on the Merseyside Pension Fund Accounts for 2009/2010, including the Pension Fund Annual Governance Report and Letter of Representation, be approved.**
- (2) That the Action Plan within the Annual Governance Report be approved, and the Pensions Committee be informed of progress with its implementation.**

**28 AUDIT COMMISSION ANNUAL GOVERNANCE REPORT - WIRRAL COUNCIL**

The District Auditor presented the Annual Governance Report in relation to audit work undertaken for 2009/2010. He set out the key issues contained within the report and drew the Committee's attention to five material issues in respect of –

- The value of assets of transferred Private Finance Initiative (PFI) foundation schools being removed from the balance sheet.
- Losses in respect of the PFI agreement having been incorrectly recognised in the Statement of Total Recognised Gains and Losses for 2008/2009.
- The treatment of government grants deferred.
- Concerns that the Annual Governance Statement did not comply with CIPFA guidance.
- Weaknesses in relation to the adequacy of asset records.

The report contained a draft Action Plan to ensure compliance with the recommendations contained within it, and the District Auditor indicated that the concerns referred to had been addressed in the draft Letter of Representation. He submitted an update to his report, which indicated that the final audit opinion was unqualified and that post-audit financial statements were free from material error. He also provided an update with regard to outstanding matters.

The Director of Finance referred also to the Annual Governance Statement (AGS) that the Council was required to publish, to report publicly on the extent to which the Council complied with the principles of good governance laid down in the CIPFA/SOLACE Delivering Good Governance in Local Government Framework. He reported that since the AGS was approved by the Cabinet on 15 April 2010 (minute 389 refers), additional information had come to light in relation to PIDA-DASS (Special Charging Policy), the Red Flag received from the CQC report related to Safeguarding Vulnerable Adults (see minute 24 ante), and PIDA-HESPE (see minute 31 post). Although the District Auditor had stated that there were no significant governance issues, the Director suggested the inclusion of a statement to strengthen the conclusion in the AGS.

**Resolved –**

- (1) That the key issues contained within the Annual Governance Report and in the update submitted by the District Auditor be noted.**
- (2) That the adjustments to the financial statements be noted.**
- (3) That the following statement be added to the conclusion in the Annual Governance Statement –**

**“We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit and Risk Management Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place”.**

**29 STATEMENT OF ACCOUNTS 2009 - 2010**

The Director of Finance reported that in accordance with the Accounts and Audit Regulations 2003, Members were requested to consider the adjusted amendments to, and the unadjusted misstatements in, the Statement of Accounts for 2009/2010. The Statement of Accounts included the Merseyside Pension Fund accounts, as Wirral Council was the administering authority for the Fund. As the Fund received a separate Annual Governance Report, this had to be considered by Pensions Committee and also this Committee as part of approving the Accounts (see minutes 26 and 27 ante).

The purpose of the Statement of Accounts was to present the overall financial position of the Council at 31 March 2010 in accordance with prescribed guidance. There were a number of amendments to the financial statements that had been requested by the District Auditor and were detailed in the Annual Governance Report (see minute 28 ante). However, the Director reported that at the time of preparing his report, only the item in respect of Government Grants Deferred remained outstanding. Once discussions were concluded, the result would be an amendment to entries on the Balance Sheet.

The District Auditor had also identified a number of misstatements which had not been adjusted in the Accounts and the Director provided an explanation in relation to each, none of which impacted upon the level of the General Fund balance. Members were requested to consider whether or not they would want to adjust the Statement of Accounts for any of those items and he confirmed that any unadjusted misstatements were required to be referred to in the Letter of Representation.

**Resolved –**

- (1) That the actions taken with regard to amendments to the Statement of Accounts and the misstatements not adjusted, be approved.**
- (2) That the Letter of Representation be approved.**
- (3) That the completed Annual Governance Report Action Plan be approved.**
- (4) That the revised Statement of Accounts for 2009/2010 be approved.**

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### **AUDIT COMMISSION REPORT - MANAGING ATTENDANCE**

The District Auditor presented the Audit Commission Managing Attendance report, which had been produced as a result of a review undertaken to support the Council in its work to strengthen organisational arrangements for managing attendance. It was intended that improved arrangements across the organisation would in turn link to the Council's broader objectives of improving the quality of services and securing value for money.

The report indicated that preventing people from falling ill at work and getting them back sooner, as well as discouraging abuse of absence, was a key component of public sector cost efficiency and change agendas. However, effective management of sickness absence was not just about reducing costs. Staff sickness also resulted in 'lost time' which could have a particularly negative impact on the quality of frontline services. Employers also had legal duties to protect their staff from work-related stress and illness. It noted that Wirral had struggled to meet its sickness absence targets in the past although the situation was now starting to improve.

The District Auditor outlined the detailed findings and main conclusions in the report and referred to the action plan that had been agreed, to address the recommendations contained within the document.

The Director of Law, HR and Asset Management confirmed that the Council was working to strengthen its arrangements across the organisation for managing attendance to help achieve further improvements. He commented also that a revised Absence Management Policy had been produced, which was presently the subject of consultation with the Trade Unions. The final proposed improvements to the Policy would be presented to the next meeting of the Employment and Appointments Committee.

In response to comments from Members in relation to sickness absence targets, the Director referred to the significant work being undertaken by HR with regard to capturing data from departments and ensuring the uniform implementation of the Council's policies across the organisation. He indicated that a centralised HR function and the impending new HR/payroll system would assist in securing continued improvement.



**Resolved –**

- (1) That the report be noted.**
- (2) That the Director of Law, HR and Asset Management be requested to circulate to Members details of what improvements would be delivered by the new HR/payroll system.**

**31 AUDIT COMMISSION REPORT - HESPE: FOLLOW UP OF PIDA DISCLOSURE**

The District Auditor presented the Audit Commission report in relation to an investigation into concerns raised by a group of staff under the Public Interest Disclosure Act 1998 (PIDA), in relation to governance arrangements that operated during the Highways and Engineering Services Procurement Exercise (HESPE), undertaken in 2008. He outlined the concerns raised under the PIDA and commented that they had initially been raised under the Council's "Whistleblowing" procedures.

The investigation concluded that overall the Council set up proper processes for the procurement exercise for highways and engineering services and there were many areas of good practice. There was evidence that the tender evaluation, information provided for decision making and contract awarded were sound. There was no evidence of impropriety by any officers or members and the winning bid was clearly better value for money than the others in terms of both cost and quality. He commented that this was a significant achievement considering the size, complexity, uniqueness and nature of the tender exercise which brought together a number of previous contracts and also involved an in-house bid.

Although at no time was there any allegation or evidence of fraud or corruption, he commented that the concerns were genuine and outlined a number of weaknesses that were highlighted in the review, which potentially left the Council and individuals open to external challenge.

In response to concerns expressed by Members with regard to the weaknesses in control identified in the review, the District Auditor confirmed that in spite of the weaknesses in documentation, his view was that the tender evaluation, information provided for decision making and contract awarded were sound. An action plan had been presented with the report and a response to it was awaited.

**Resolved –**

- (1) That the Action Plan associated with the HESPE PIDA be completed and submitted to the Cabinet for approval.**
- (2) That the Director of Technical Services be invited to attend the next meeting of the Committee, to present an update on progress with the Action Plan.**

**32 AUDIT COMMISSION PROGRESS REPORT**

The District Auditor presented the Audit Commission Progress Report, which provided Members with an update of ongoing work at the Council and informed of the risks that had arisen from the audit, under the International Standard on Auditing (United Kingdom and Ireland) 300. He set out the key messages within the document

in relation to fees, the opinion on the Statement of Accounts, the Value for Money conclusion and work undertaken in relation to the Public Interest Disclosure Act 1998 (PIDA).

He reported that 2010/2011 was the first year that the accounts would be required to be prepared in accordance with the International Financial Reporting Standards (IFRS). However, as reported in the Annual Governance Report, he indicated that Councils were required to implement some elements for the 2009/2010 accounts. He commented that successful implementation of IFRS was vital to the reputation of individual local government bodies and the sector as a whole. A survey of progress being made in the implementation of IFRS, undertaken in July 2010, had resulted in the Council being assessed as 'amber' overall and he presented a supplement to his report, which provided a comparison of Wirral Council's position overall, by authority type and by region. It also highlighted the key risk areas where Wirral Council varied significantly from comparator authorities.

**Resolved –**

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

**(2) That a brief update report upon progress in complying with IFRS be presented to the next meeting of the Committee and a further detailed report be presented to the January 2011 meeting.**

### **33 AUDIT COMMISSION REPORTS REVIEW**

The Chief Internal Auditor presented a summary of reviews undertaken by the Audit Commission since April 2006 to date and detailed the action that Wirral Council had subsequently taken to implement the recommendations contained within the associated reports. All reports for the period had been examined and assurances were obtained from Chief Officers that all recommendations had been implemented or were in the process of being implemented. A 20% sample of the recommendations identified had been tested in depth by Internal Audit and he reported that sufficient evidence had been obtained to substantiate the implementation progress in all of the cases examined.

**Resolved – That the report be noted.**

### **34 BUDGET PROJECTIONS 2011 - 2015**

The Director of Finance provided an update to the projected budgets for the years from 2011 to 2015 in line with the decision of HM Treasury to undertake a four year Spending Review. He set out the assumptions which underpinned the projections and provided update information in relation to grant negotiations, balances and efficiencies agreed to date. The budget shortfall for 2011/2012 was £30.1m and in the order of £108m over four years.

**Resolved – That the report be noted.**

### **35 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 summarised the audit work completed between 1 June 2010 and 31 August 2010 and commented that during the monitoring period, 150 audit reports were produced, which identified 120 high and 111 medium priority recommendations to improve systems and address control weaknesses. Management had agreed to implement all of the recommendations made within a satisfactory timescale. He reported that to date, 200 reports including follow ups had actually been produced, which represented 90% of those planned for the period. This figure reflected the staffing resources available to the service during the year to date and included necessary seasonal adjustments.

He reported also that a report would be presented to the next meeting of the Committee, which would identify changes that were required to the Internal Audit Plan for the current year. This was necessary to address emerging issues identified and ensure that adequate audit cover was provided in those areas. A detailed review of the Audit Plan was currently underway and had to date identified issues that included the Strategic Change Programme, the Care Quality Commission review and issues of Governance related to two PIDA reports. In response to comments from Members, the Director of Finance referred to the significant risks associated with the Strategic Change Programme and commented that assurance was needed from Internal Audit that the projects within it were deliverable and were adequately managed and budgeted for.

**Resolved –**

- (1) That the report be noted.**
- (2) That a report be presented to the next meeting of the Committee upon changes to the Internal Audit Plan.**

**36 THE ROLE OF THE HEAD OF INTERNAL AUDIT**

The Director of Finance reported upon a CIPFA consultation draft, issued in May 2010, on the Role of the Head of Internal Audit (HIA) in public service organisations. He outlined the opinion of CIPFA, who believed that it was important to issue a statement, similar to the Statement on the Role of the Chief Financial Officer, to raise the profile and clarify the role of the HIA. In introducing the draft Statement, CIPFA stated that the demand for better public services within a complex environment had strengthened the need for effective governance, of which internal audit was a cornerstone.

The Director set out the five principles contained within the Statement that defined the core activities and behaviours that belonged to the role of the HIA in public service organisations and the organisational arrangements needed to support them. For each principle, the Statement set out the governance arrangements that were required within an organisation to ensure that the HIA was able to operate effectively and perform their core duties. He commented that implementation would be effective in time for inclusion with the Annual Governance Statement (AGS) for 2011 and indicated that any failure to comply with the five principles would need to be explained in the AGS.

**Resolved –**

- (1) That compliance with the five principles in defining the core activities of the Head of Internal Audit, be noted.**
- (2) That a brief report be presented to the next meeting of the Committee in relation to the structure, reporting lines and funding of internal audit.**

**37 CORPORATE RISK AND INSURANCE MANAGEMENT**

The Director of Finance provided information on recent progress made against the existing objectives for Corporate Risk and Insurance Management and the anticipated developments in the coming months.

**Resolved –**

- (1) That the report be noted.**
- (2) That Members be requested to make every effort to attend the Risk Management training session on 27 October 2010, if it is possible for them to do so.**

**38 INSURANCE FUND ACTUARIAL REVIEW**

The Director of Finance presented a summary of the conclusions of the recent study undertaken by HJC Actuarial Consulting into the sum required to fund liability claims within the limits of the self-insured liability. The actuarial report had been presented to the Cabinet on 2 September 2010 (minute 113 refers) and the Director commented that it highlighted continued improvement in the Insurance Fund and indicated the potential for reductions in contributions and a further return of resources to the General Fund. The current provision held in respect of Combined Liability claims was £10.9m and the Director reported that HJC had advised that a surplus of £7.5m was the minimum reasonable for the short term needs of the Insurance Fund. He reported also that the actuaries had also indicated that the level of contribution to the Insurance Fund to meet claims for 2010/2011 could be reduced by £600k to £1.5m. The Director agreed with the assessment and considered that on current trends, the proposed level of contribution was sustainable.

In response to a comment from a Member, the Director agreed that the actual cost of liability claims could be greater than the revised minimum recommended contribution and similarly, the revised annual contribution could also be less than the cost of claims for this year and next. However, given that the sums resulted from a formal actuarial study and also took account of a more conservative approach proposed by officers this was considered unlikely.

**Resolved – That the transfer to General Fund balances of £3.4m of the current reserve in the Liability section of the Insurance Fund, be noted.**

**39 REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA) - QUARTERLY UPDATE**

Further to minute 18 (30 June 2010), the Director of Law, HR and Asset Management presented a summary of the use of covert surveillance by the Council between 1 June and 31 August 2010. He provided details of five authorisations that

had been granted during the monitoring period, three of which were for the Wirral Anti-Social Behaviour Team to gather evidence of serious anti-social behaviour; one was for Wirral Trading Standards officers for use in an investigation into under-age sales; and one was for the investigation of possible licensing offences.

He commented also upon recent developments, including the decision of a tribunal (Paton v Poole Borough Council) published on 29 July 2010, which held that surveillance of a family, whose mother was suspected of giving a false address to ensure her children attended the school of her choice, had been unlawful. This was because its purpose had not been for the detection or prevention of crime but to obtain evidence that would justify the Council's withdrawal of the offer of a place at the school in question. The Director assured the Committee that Wirral Council had never used covert surveillance to detect breaches by parents of its Schools Admission Policy.

The Director reported also upon a review by the Government of local authorities' powers under the oversight of Lord MacDonald QC, which was anticipated to recommend that only magistrates could authorise local authorities to use covert surveillance. He commented that this was considered to be an acceptable independent safeguard against improper use of RIPA. However, more controversially, it had been suggested that local authorities should only be allowed to use covert surveillance to detect serious crime, for example, crimes of violence or offences which would usually attract prisons sentences of 3 years or more. He reported that this would mean that local authorities could no longer use RIPA to obtain evidence of anti social behaviour and offences such as the sale of counterfeit goods, fly-tipping or contravention of the licensing laws. He expressed the view that enforcement of the law by local authorities would therefore become substantially more difficult and this would not be in the public interest.

**Resolved –**

- (1) That the report on the Council's use of RIPA be noted.**
- (2) That the recommendation of the Director of Law, HR and Asset Management to recommend to the Home Office that local authorities be allowed to continue to use covert surveillance to detect crime and disorder, provided it has been authorised by an independent magistrate, be referred to the Cabinet for consideration.**

40 **ANY OTHER URGENT BUSINESS APPROVED BY THE CHAIR - WORK PROGRAMME**

The Chair proposed that the work programme of the Committee should include the consideration of a report in relation to sickness absence and attendance, and what measures could be undertaken to secure improvements.

**Resolved – That the Director of Law, HR and Asset Management be requested to present a report to a future meeting of the Committee upon measures to strengthen organisational arrangements for managing attendance and improving sickness absence targets.**

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## WIRRAL COUNCIL

### AUDIT AND RISK MANAGEMENT COMMITTEE

22 NOVEMBER 2010

### REPORT OF THE DIRECTOR OF FINANCE

#### BUDGET PROJECTIONS 2011-2015

##### 1. EXECUTIVE SUMMARY

1.1. This report updates the projected budgets for the years from 2011 to 2015 taking into account the Spending Review 2011-15 presented on 20 October 2010.

##### 2. ASSUMPTIONS UNDERPINNING THE PROJECTIONS

- 2.1. Inflation – HM Treasury is assuming a return to a long term inflation rate of 2%. Therefore prices are assumed to increase by 2% per annum with income to continue to increase by 3% per annum. Pay awards will be limited to those employees earning less than £21,000 per annum for 2011-13.
- 2.2. Capital Financing – HM Treasury is assuming that the level of capital investment will reduce by 50% between 2009-10 and 2013-14. The annual increase in capital financing charges has therefore been reduced to £2.0m.
- 2.3. Pension Fund – The increase arising from the actuarial valuation currently underway is projected at 1.5% or £2m per annum. In addition the outsourcing of the highways and engineering services contract is likely to increase the contributions by £0.2m.
- 2.4. Waste Disposal – the increase in the levy will be dependent on delivery of the waste disposal strategy. The Landfill Tax will increase by £8 per ton per annum, an increase of 50% between 2010-11 and 2014-15. The levy is assumed to increase by 8% per annum.
- 2.5. Merseytravel – the levy is assumed to increase by 3% per annum.
- 2.6. Private Finance Initiative – the latest projections are included.
- 2.7. Benefits – the Department for Work and Pensions is estimating an annual increase of 1.7%.
- 2.8. Schools – it is assumed that the Schools Budget will vary in line with the Dedicated Schools Grant.
- 2.9. Adult Social Services Reform – the Reform Grant of £1.9m will cease in 2011-12 with the assumed implementation of the personalisation agenda.
- 2.10. Carbon Reduction Commitment – payment of £1.0m commencing in 2011-12.

- 2.11 Home Insulation – increased cost from 2011 of £1m.
- 2.12 Guinea Gap and Leasowe Recreation Centres – restoration into budget at a cost of £0.6m each.
- 2.13 Other Unavoidable Growth – a number of items of unavoidable growth of less than £0.2m will arise. These usually total about £1m per annum.
- 2.14 Efficiency Investment – in order to continue to deliver efficiencies in future years it will be necessary to continue to invest and therefore £2m per annum has been provided.
- 2.15 Area Based Grant (ABG) – Cabinet on 22 July 2010 agreed to reductions in expenditure for 2010-11 only to meet the £3.9m reduction in ABG.
- 2.16 Swimming - the Department for Culture, Media and Sport has deleted the grant of £0.3m to fund free swimming.
- 2.17 Government Grants – the Department for Communities and Local Government (DCLG) has indicated that Government Grants will be reduced by an average of 26%. For Metropolitan Councils the average reduction could be 35% over the period 2011-15.
- 2.18 Council Tax – the Government has announced a freeze in Council Tax increases for 2011-12. A specific grant equivalent to a Council Tax increase of 2.5% will be receivable. From 2012-13 any proposed increase above the rate of inflation will be the subject of a local referendum.
- 2.19 Council Tax Benefit grant receivable will be reduced by 10%, £3.2m, from 2013-14.

### 3. GRANT NEGOTIATIONS

- 3.1. Consultation on a range of options potentially affecting the Revenue Support Grant distribution closed on 6 October 2010. The Wirral response to the consultation was reported to Cabinet on 14 October 2010. Consultation is also taking place on a number of specific grants.
- 3.2. The provisional settlement will include a significant transfer of specific grants into Revenue Support Grant.
- 3.3. HM Treasury presented the Spending Review on 20 October 2010, the implications of which are reported elsewhere on this agenda. The provisional Local Government Finance Settlement should be issued by early December. This could be for either one, two, or four years.
- 3.4. The Government has commenced reviews of public sector pensions and welfare benefits, and has announced a review of Local Government Finance to commence in 2011. The Government has also announced that Council Tax Revaluation will be postponed until after 2015.



- 3.5. The interim report of the Independent Public Service Pensions Commission was issued on 7 October 2010 in time for the DCLG to incorporate elements into the Spending Review and the provisional Local Government Finance Settlement. The final report is due for publication by March 2011.
- 3.6. During the course of this budgeting period the results of the Census 2011 will become available and will be incorporated into the grant distribution formulae. The Office for National Statistics has now released the Mid 2009 estimated populations. The reduction for Wirral since the census 2001 is greater than for any other metropolitan or unitary authority. If this is confirmed in the Census 2011 then the reduction in grant receivable could be significant.

#### 4. **BALANCES**

- 4.1. The budget for 2010-11 includes the minimum recommended balances of £6.5m.
- 4.2. The financial out-turn for 2009-10 was reported to Cabinet on 24 June 2010 and showed an overspending of £1,385,000 offset by increased investment income of £1,185,000 and a contribution from the Collection Fund of £515,000 to produce a net surplus of £315,000.
- 4.3. The Government has announced that the Personal Care at Home scheme will not be proceeding. The revenue budget for 2010-11 will therefore be reduced by £2.6m with a reduction of £1.6m in Area Based Grant.
- 4.4. The Government announced on 10 June 2010 that there would be the following grant reductions for 2010-11:-

	£000
Area Based Grant	3,927
LAA Reward Grant	1,400
Local Authority Business Growth Incentive	<u>200</u>
	5,527

Cabinet on 22 July 2010 agreed that the reduced Area Based Grant will be matched by reduced expenditure in 2010-11.

- 4.5. The Insurance Fund Annual Report was presented to Cabinet on 24 June 2010 including the transfer of £2,471,000 to General Fund balances.
- 4.6. Cabinet on 24 June 2010 agreed that additional VAT of £240,000 recovered from HM Revenue and Customs should be placed in balances.
- 4.7. Cabinet on 26 August 2010 agreed to continue to provide free swimming after the withdrawal of the Government grant of £0.2m in 2010-11.
- 4.8. Cabinet on 2 September 2010 agreed to transfer £3.4m from the Insurance Fund to General Fund Balances following the actuarial valuation of the Insurance Fund.

4.9. The budget for 2010-11 provides for pay awards of 1% totalling £1.7m. No pay award has yet been offered.

4.10. The Cabinet has not agreed to any projected overspendings in 2010-11

	£m
4.11. Opening Balances	6.5
Out-Turn 2009-10	0.3
Personal Care at Home	1.0
LAA Reward Grant	- 1.4
LABGI	- 0.2
Insurance Fund	5.9
VAT	0.2
Free Swimming Grant	- <u>0.2</u>
	12.1

## 5. EFFICIENCIES

5.1. The previous Government increased the efficiency target for 2010-11 to 4% which for Wirral equates to £14.9m. The previous Government expected that this saving would be reinvested in order to enable delivery of increased efficiency requirements in 2011 to 2014.

5.2. The efficiencies that the Authority will need to deliver for 2011-15 are well in excess of the statutory efficiency target. The main mechanism for delivery of the required efficiencies is the change programme. Cabinet on 14 January 2010 agreed a revised change programme, progress on which was to be reported quarterly to the Cabinet.

5.3. Revised governance and programme management arrangements for the change programme were reported to Cabinet on 22 July 2010.

5.4. Cabinet has to date agreed a number of efficiencies:-

- a. Cabinet agreed that £1m will be saved from office accommodation from 2011. Progress was reported to Cabinet on 24 June 2010.
- b. Cabinet on 15 October 2009 agreed to the implementation of an integrated Human Resources IT system with initial projected savings of £254,000 for 2011-12, £220,000 for 2012-13, £100,000 for 2013-14 and £20,000 for 2014-15.
- c. Cabinet on 22 February 2010 agreed to the creation of an integrated transport unit with projected savings of £130,000 in 2011-12, £340,000 in 2012-13 and £250,000 in 2013-14.
- d. Cabinet on 18 March 2010 agree to investment in an assistive technology project in Adult Social Services with projected additional savings of £8.8m over 2011-13 after additional investment from the Efficiency Investment Budget of £6.0m. Progress on this is to be reported to the Cabinet on 9 December 2010.

- e. Cabinet on 15 April 2010 agreed to investment in family group conferencing to deliver savings of £70,000 in 2011-12 and £130,000 in 2012-13.
- f. Cabinet on 22 July 2010 agreed to proceed with a parks and countryside service procurement exercise. Following a call-in on 31 August 2010 the estimated savings have been revised to £173,000 in 2011-12, £1,255,000 in 2012-13 and £1,255,000 in 2013-14.

## **6. FINANCIAL IMPLICATIONS**

- 6.1. The assumptions outlined above are reflected in the budget projections in the Appendix.

## **7. STAFFING IMPLICATIONS**

- 7.1. There are none arising directly from this report.

## **8. EQUAL OPPORTUNITY IMPLICATIONS**

- 8.1. There are none arising directly from this report.

## **9. COMMUNITY SAFETY IMPLICATIONS**

- 9.1. There are none arising directly from this report.

## **10. HUMAN RIGHTS IMPLICATIONS**

- 10.1. There are none arising directly from this report.

## **11. LOCAL AGENDA 21 IMPLICATIONS**

- 11.1. There are none arising directly from this report.

## **12. PLANNING IMPLICATIONS**

- 12.1. There are none arising directly from this report.

## **13. MEMBER SUPPORT IMPLICATIONS**

- 13.1. There are none arising directly from this report.

## **14. BACKGROUND PAPERS**

- 14.1. Medium Term Financial Strategy 2010-13 – September 2009  
Formula Grant Settlement 2010-11 – DCLG – January 2010  
Estimates 2010-11 – March 2010  
Budget – HM Treasury – March 2010 and June 2010  
Formula Grant Distribution – DCLG – July 2010  
Independent Public Service Pensions Commission Interim Report – October 2010  
Spending Review - HM Treasury - October 2010

**15. RECOMMENDATIONS**

15.1. That the budget projections be kept under review.

15.2. That further efficiencies be delivered.

IAN COLEMAN  
DIRECTOR OF FINANCE.

FNCE/211/10

## WIRRAL COUNCIL

## BUDGET PROJECTIONS 2011-2015

	2011-12 £M	2012-13 £M	2013-14 £M	2014-15 £M
Base Budget	330.8	313.5	300.5	288.5
Increased Requirements				
Pay Inflation	1.0	1.0	3.5	3.5
Price Inflation	4.2	4.2	4.2	4.2
Capital Financing	2.0	2.0	2.0	2.0
Pension Fund	2.2	2.0	2.0	2.5
Waste Disposal	1.4	1.5	1.6	1.7
Merseytravel	0.8	0.8	0.8	0.8
Private Finance Initiative	0.1	0.1	0.1	0.1
Benefits	2.4	2.4	2.5	2.5
Home Insulation	1.0	-	-	-
Guinea Gap	0.6	-	-	-
Leasowe Recreation Centre	0.6	-	-	-
Carbon Reduction Commitment	1.0	-	-	-
Council Tax Benefit	-	-	3.2	-
Swimming	0.3	-	-	-
Other Unavoidable Growth	1.0	1.0	1.0	1.0
Efficiency Investment	2.0	2.0	2.0	2.0
	<u>351.4</u>	<u>330.5</u>	<u>323.4</u>	<u>308.8</u>
Reduced Requirements				
Income Inflation	-1.0	-1.1	-1.1	-1.1
Benefits Subsidy	-2.2	-2.2	-2.3	-2.3
Savings Agreed	<u>-1.6</u>	<u>-2.0</u>	<u>-1.6</u>	<u>-</u>
	346.6	325.2	318.4	305.4
Resources				
Grants	179.0	166.0	154.0	143.0
Council Tax Grant	3.3	3.3	3.3	3.3
Council Tax	<u>131.2</u>	<u>131.2</u>	<u>131.2</u>	<u>131.2</u>
Forecast Resources	313.5	300.5	288.5	277.5
Shortfall	33.1	24.7	29.9	27.9

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## **WIRRAL COUNCIL**

### **AUDIT AND RISK MANAGEMENT COMMITTEE**

**22 NOVEMBER 2010**

### **REPORT OF THE CHIEF INTERNAL AUDITOR**

#### **INTERNAL AUDIT WORK: SEPTEMBER TO OCTOBER 2010**

#### **1. EXECUTIVE SUMMARY**

- 1.1. In order to assist in effective corporate governance and fulfil statutory requirements, the Internal Audit Section of the Finance Department reviews management and service delivery arrangements within the Council as well as financial control systems. Work areas are 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.
- 1.2. This report identifies and evaluates the performance of the Internal Audit Section at 2. and includes details of the actual work undertaken over the period and the number of 'High' and 'Medium' risk recommendations identified in reports at 3. There are no items of significance identified during the audit process that require action by the Members for this period.
- 1.3. The Internal Audit Plan for 2010/11 was approved by this Committee at its meeting in March 2010.
- 1.4. The Internal Audit Plan identifies all of those audits required to provide the Council with adequate assurance regarding the effectiveness of its systems in operation to manage and mitigate all of the identified risks to the achievement of the Council's objectives. It is essential therefore that the audit plan is delivered to ensure that the 'annual assurance opinion' on the effectiveness of the Council's control environment is not qualified and supports the delivery of the Annual Governance Statement. Although in the very early stages of the delivery of the plan, the Section is confident of achieving this objective by year end.

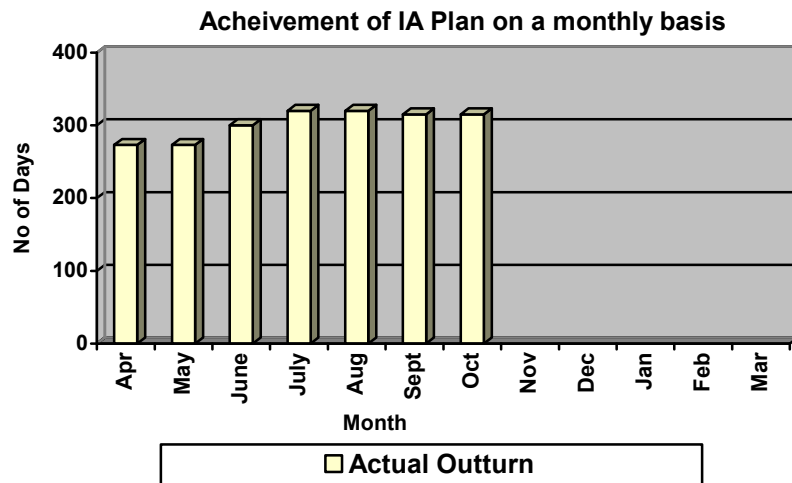
#### **2. INTERNAL AUDIT – PERFORMANCE**

- 2.1. This report summarises the audit work completed between 1 September 2010 and 31 October 2010. The specific nature of the work that has been undertaken or is currently ongoing is identified in Appendix I. Over 100 audits were undertaken during this period identifying more than 150 high and medium priority recommendations to address risks and improve systems in operation across the Council. Management has agreed to implement all of the recommendations made within a satisfactory timescale and follow up audits are scheduled to monitor progress. Those reports

identifying high priority recommendations are analysed in more detail in section 3 of this report.

2.2. The Section constantly evaluates the effectiveness of its performance including a number of performance indicators in key areas as identified for the period 1st June 2010 to 31<sup>st</sup> August 2010:

2.2.1. To ensure that the Internal Audit Plan is delivered by the 31 March 2011.



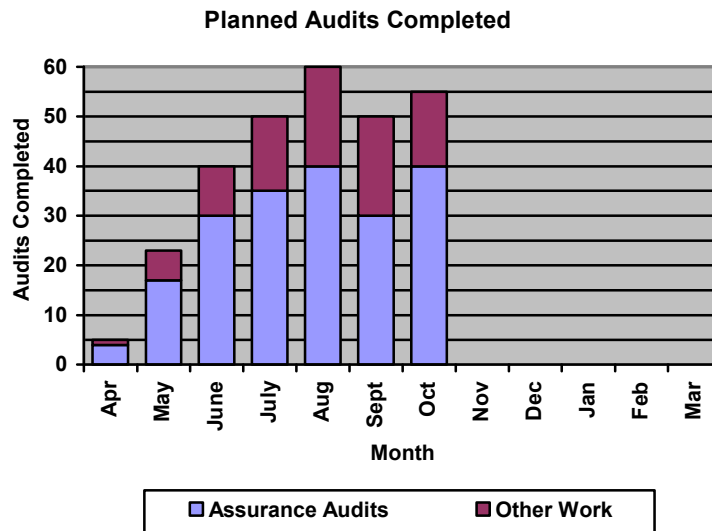
2.2.1.a. This is an input based measure i.e. the estimated number of days required each month to deliver the whole of the Internal Audit Plan. 4250 days are actually required to deliver the plan for this year, equating to approximately 355 days per month. As can be seen from the graph, approximately 300 days on average have been available each month to date. This is mainly due to a slight shortfall in staff resources as a result of vacancies and some members of staff being deployed undertaking investigations that were not included in the plan. This shortfall is not considered significant at the moment and the Section remains confident that its targets can still be achieved, provided that the situation does not deteriorate or increased unplanned demands placed upon the service. This will continue to be very closely monitored by management and any appropriate actions taken as needed and reported to this Committee.

2.2.2. To ensure that all planned audits are completed.

The Internal Audit Plan comprises a substantial number of audits essential to the provision of the 'annual assurance opinion' and are designed to review the key risks to Council systems. Delivery of these audits accounts for 3030 days of the plan. The remainder of the plan, 1220 days relates to audits designed to evaluate the effectiveness of the Council and the achievement of its overall objectives and whilst important are not necessary to support the actual assurance opinion. This 'other' work is considered essential to the well being of the organisation and complies with CIPFA best practice guidance. Work identified in this area includes the Strategic Change Programme, Managing Fraud audits and some ICT projects. It is essential



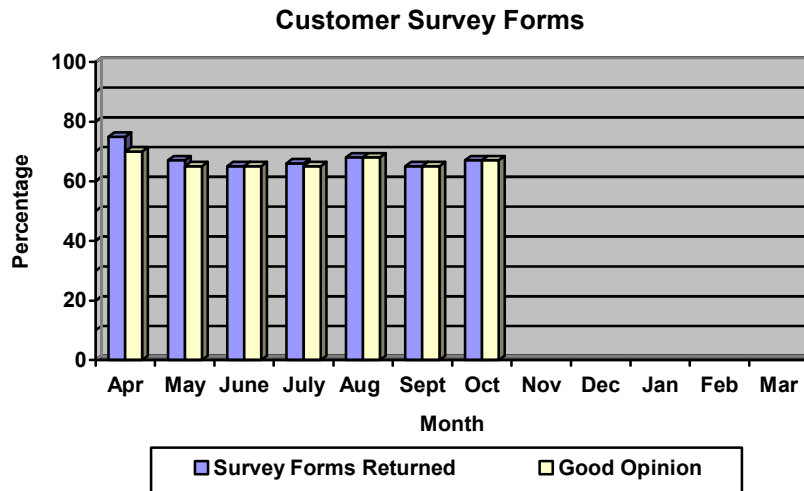
that all of the assurance opinion work is completed in the year to enable the opinion on the effectiveness of the Council's control environment to be provided. The graph below identifies the planned audits completed each month for the year to date, subject to variances arising from the changing dynamics of the plan, including requests from Chief Officers and Members for additional work. With a full complement of staff for the year it is expected that approximately 600 audits including follow ups, some of which relate to the 2009/10 Audit Plan, will be undertaken.



- 2.2.2.a. To date over 300 audits have been undertaken representing 90% of those planned for the period. This figure reflects the staffing resources available to the service during the year to date and includes necessary seasonal adjustments.
- 2.2.2.b. Overall performance is only slightly below target for this time of year, primarily as a result of requests for audits and investigations not originally included in the audit plan, a slight shortfall in the staffing resource available and necessary seasonal adjustments.
- 2.2.2.c. The chart clearly indicates that of the audits completed to date, a significant proportion represent work undertaken to support the 'annual assurance opinion'. This reflects the deliberate policy of the Internal Audit Section to complete as many of these audits as early as possible, however for operational reasons some of these cannot be delivered until later in the year. The Section has all of these audits scheduled for the remainder of the year and is confident that the target of completing these by the year end will be achieved.
- 2.2.2.d. A separate report has however been prepared for this Committee identifying some fundamental changes required to the Internal Audit Plan to take account of emerging risks identified. The changes required will involve some audits identified in the plan being replaced with additional ones necessary to address more significant risks presented. These changes should enhance the effectiveness of the annual assurance process and opinion provided by

ensuring that systems to address all current relevant risks to the organisation are considered.

2.2.3. Percentage of Customer Satisfaction Forms returned indicating a 'good' opinion of the service.



2.2.3.a. Customer survey forms are completed by the clients following the completion of an audit and pose a number of questions relating to the actual audit, its findings and the conduct of the auditor. The chart identifies the percentage of those forms returned that indicate a positive opinion of the service. This clearly indicates that the Internal Audit Section is viewed very positively by its clients and is regarded as adding value to the systems that it audits. Where feedback from clients identifies issues appropriate measures have been taken by management to address these and prevent any re-occurrence.

2.2.4 Follow up Audits

To comply with current best practice and Audit Commission recommendations, follow-up audits are undertaken for all completed audits up to six months after the completion date, to confirm the implementation of agreed recommendations. The majority of the required follow up audits completed this period relate to work undertaken in the previous year. No significant delays have occurred in this area despite the resource problems experienced to date. No outstanding issues were identified that require the attention of the Audit and Risk Management Committee at this time.

**3. INTERNAL AUDIT PLAN - PROGRESS OF WORK**

3.1 The following table identifies audits undertaken over the period which include recommendations of a high priority nature. The table also indicates the audit opinion provided on the effectiveness of the control environment, where 4\* indicates an excellent rating.

Audit	Total Recs Agreed	Recs Not Agreed	Audit Opinion Provided
ICT - Data Transfer/Removable Media	5	-	2*
Rock Ferry High School	1	-	3*
Annual Governance Statement 2009/10	1	-	3*
Schools – Statement on Internal Control	5	-	2*
Beechwood Library	2	-	2*
BT Data Analysis	2	-	1*
Contracts – Corporate Services	2	-	2*
Debt Recovery System	6	-	2*
Highways – Financial Appraisals	1	-	3*
Floral Pavilion Income	2	-	3*
Leasowe Library	2	-	3*
Contact Company Grant Application	2	-	2*
Pension Fund – Benefits and Payroll	1	-	4*
Pension Fund – Risk Management	1	-	3*
Upton Library	2	-	3*
West Kirby Library	2	-	3*
Departmental Risk Management	3	-	3*
Money Laundering	2	-	2*
Council Tax - Bailiffs	1	-	3*
The Lyndale School – FMSIS Review	2	-	3*
Freedom of Information	2	-	3*
Income Monitoring – Technical Services	1	-	3*
Performance Management (PI's)	1	-	3*
Prenton Library	1	-	2*
Tendering Procedures	1	-	3*
Bromborough Library	3	-	2*
Framework Consultancy Commission	1	-	3*
Income – Law, HR & Asset Management	3	-	3*

3.2. All of the action plans in respect of the audits identified have been returned fully completed and identify appropriate timescales for the implementation of recommendations agreed to mitigate or remove weaknesses.

**4. FINANCIAL AND STAFFING IMPLICATIONS**

4.1. There are none arising from this report.

**5. LOCAL MEMBER SUPPORT IMPLICATIONS**

5.1. There are no local member support implications.

**6. LOCAL AGENDA 21 STATEMENT**

6.1. There are no local agenda 21 implications.

**7. PLANNING IMPLICATIONS**

7.1. There are no planning implications.

**8. EQUAL OPPORTUNITIES IMPLICATIONS**

8.1. There are no equal opportunities implications.

**9. COMMUNITY SAFETY IMPLICATIONS**

9.1. There are no community safety implications.

**10. HUMAN RIGHTS IMPLICATIONS**

10.1. There are no human rights implications.

**11. BACKGROUND PAPERS**

11.1. Internal Audit Annual Plan 2010/11.

11.2. Audit Reports.

**12. RECOMMENDATION**

12.1. That the report be noted.

DAVID A GARRY  
CHIEF INTERNAL AUDITOR

FNCE/230/10

**INTERNAL AUDIT PLAN 2010/11**

**WORK CONDUCTED/ONGOING – 1 SEPTEMBER to 31 OCTOBER 2010**

**1. SYSTEMS**

- (a) Finance
  - Central Cashiers
  - Council Tax - Bailiff Services
  - Housing Benefits - Overpayments
  - Housing Benefits - Payments
  - Housing Benefits - Local Housing Allowance
  - Libraries
  - Pensions - Risk Management
  - Pensions – Investment & Contracts
  - Debtors – Recovery and Write Off
  - NNDR - Valuations
  - Payroll Control
  
- (b) Law, HR and Asset Management
  - Corporate Governance
  - Whistleblowing
  - Establishment Control
  - Members Allowances
  - Income
  
- (c) Children & Young People
  - Schools - Reviews
  - Financial Management Standard in Schools assessments
  -
  
- (d) Technical Services
  - Final Accounts
  - Floral Pavilion
  - Highways Asset Management System
  - Income Monitoring
  - HESPE
  
- (e) Adult Social Services
  - Procurement
  - Permanent Residents Care
  - Debtors
  
- (f) Corporate Services
  - Performance Management (PI's)
  - Houses in Multiple Occupation
  - Contracts
  - Income

- (g) Corporate Systems
  - Corporate Governance
  - Annual Governance Statement
  - National Fraud Initiative
  - Grants to Voluntary Organisations
  - Freedom of Information

**2. SCHOOLS**

- (a) 3 FMSIS Schools (incl Follow Ups)
- (b) 11 Schools audited

**3. ICT**

- (a) Mobile Telecommunications
- (b) Information Assurance
- (c) Removable Media
- (d) Data Transfer Security
- (e) Access Controls – Academy
- (f) Corporate Back Ups
- (g) Publishing Public Sector Information
- (h) Access Controls - Documentum

**4. ANTI-FRAUD**

- (a) National Fraud Initiative
- (b) Anti Fraud Team set up.
- (c) IDEA – Payroll/Creditors/Debtors
- (d) Overseas Travel
- (e) Data File Transfers
- (f) Receipt of Tenders
- (g) BT Data Analysis

**5. INVESTIGATIONS**

- (a) Pensions
- (b) DASS
- (c) Contact Grant Application

**6. OTHER**

- (a) Wirral Methodist Housing Association
- (b) Family Housing Association
- (c) 5 Final Accounts (totalling £2.4m examined)

## WIRRAL COUNCIL

### AUDIT AND RISK MANAGEMENT COMMITTEE

22 NOVEMBER 2010

### REPORT OF THE CHIEF INTERNAL AUDITOR

#### INTERNAL AUDIT ANNUAL PLAN REVIEW

#### 1. EXECUTIVE SUMMARY

- 1.1. At the meeting of this Committee on 28<sup>th</sup> September, I indicated that I wished to present a report to this meeting to explain the need to review the 2010/11 Internal Audit Plan.
- 1.2. This report identifies the areas I consider should not be included in the Plan and the topics I consider can be deferred to enable suitable resources to be made available to review the control over significant risks to the Council that have become apparent.

#### 2. THE INTERNAL AUDIT PLAN AND EMERGING ISSUES

- 2.1. The purpose of the Internal Audit Annual Plan is to identify and record the risks that are assessed as essential to be audited within the year, so that a “safe” opinion on the control environment of the Council can be presented at the year-end, and any issues identified considered for inclusion when preparing the Annual Governance Statement.
- 2.2. The Plan is constructed on a “risk “basis and is considered “dynamic” in that it is essential we constantly review and amend it during the year, as new risks emerge. There is a system to authorise changes which includes provision for significant changes being reported to the Audit and Risk Management Committee.
- 2.3. The Council is in a period of significant change because of the implications of Budget cuts which will lead to the restructuring of departments and reductions in staff whilst still having to deliver services, some at an enhanced level, which is likely to result in diminution of controls and the consequent increase in risks and greater potential for error and fraud. Critical issues are identified below and will consequently be included in the remaining portion of this year’s Plan. However, several staff in Internal Audit are interested in accepting the offer of severance and if they are allowed to accept, further revision of the Annual Plan will be necessary.

- Strategic Change Programme

The role of Internal Audit in this project will include providing detailed assurance to support the implementation of this major corporate project by evaluating progress against targets and compliance with best professional

practice. However, successful implementation of the project is essential, and so to assist in alleviating risk to the Council, Internal Audit should review procedures and systems being developed.

- Care Quality Commission

This, together with the PIDA investigation, is one of a number of risk issues in DASS. 29 recommendations were made by the CQC, each of which referred to several issues. It is likely there will be a re-inspection in 2011 and a new Director is in charge of the Department consequently, it is essential that the Action Plan developed to address the issues raised in the inspection report on the Department of Adult Social Services is fully implemented. The issues are likely to be complex and resource intensive for Internal Audit to verify as Internal Audit staff is not specialist social service professionals, in the way Care Quality Commission inspectorate are.

- Governance

Two PIDA reports were addressed by the Council and the Audit Commission recently. The nature of the issues raised could lead to queries over the wider corporate governance of the Council and if similar situations that gave rise to the PIDA's exist in other areas. This is a significant financial and reputational risk to the Council, so I will commit audit resources to reviewing controls to address the areas of risk.

- ICT Strategic Review

Following the resolution by Cabinet on 14 October 2010 that the recommendations arising from the review of ICT provision in the Council by SOCITM, there are likely to be significant changes in procedures and controls over the provision of this crucial service that underpins the well being and effectiveness of the whole organisation.

- Centralisation of Finance Services

The transfer of the financial services currently in other Departments, agreed by Cabinet on 14 October, to the Department of Finance will result in changes in the systems, which will have significant control implications.

- Personal Budgets

The roll out of an offer of personal budgets to all eligible Wirral residents will have significant risks.

- Counter Fraud

The implementation of the Bribery Act, 2010 has significant risk implications for all organisations.



The restructure of departments and reduction in staff will have significant effects on procedures which might result in diminution of controls thus resulting in increased risks and greater potential for error and fraud.

If these areas were not included in the Plan for this year, there could be significant doubt over the quality of assurance that could be given on the control environment of the Council at the year end, and any unresolved weaknesses would likely to have to be included in the Annual Governance Statement at the year end.

### **3 PROPOSED AMENDMENTS TO THE PLAN**

- 3.1 The days estimated as necessary to conduct the audits on the areas identified will be made available by:
- i) Removing some audits of low risk areas from the Plan.
  - ii) Reducing time spent on audits identified as low risk by conducting less testing and focusing only on essential controls.
  - iii) Reviewing several risk ratings which has resulted in revision of the need to include some areas in the Plan.
  - iv) Reducing the allocation of time on audit of final capital accounts and some grants as funding is no longer available in these areas so consequently audits are no longer required.
  - v) Revising procedures so that more use is made of Control Risk Self Assessments , particularly in follow-up audits.

This process will not materially adversely affect the quality of the Chief Internal Auditor's Annual Report and opinion on the Council's control environment as audits are still planned to review the risks, and it has enabled 180 days to be made available, mostly from the Service Specific Controls area of the Annual Plan, as reported to this Committee on 24 March 2010.

- 3.2
- i) There is currently time planned for audits of the Strategic Change Programme and at the 14 October meeting of the Cabinet, an additional Principal Auditor post , with responsibility for conducting assurance work in place of the Finance Department senior manager whose post has been transferred to the Director of Technical Services, was authorised.
  - ii) There is also currently included in the Plan a review of the controls over Safeguarding Adults with Learning Disability which was the subject of the report by the Care Quality Commission.
  - iii) Governance is presently in the Plan, which included a review of PIDA procedures and specific work to review the implementation of the recommendations made following the DASS PIDA.

Consequently, together with the extra days made available should enable the areas identified to be reviewed effectively, though further revision might be needed depending upon potential losses of audit staff and further risks identified or audits and investigations requested by Chief Officers.

## 4 OTHER OPTIONS

- 4.1 Consideration was given to proposing to withdraw from the contracts to provide internal audit services to two local housing associations, and to withdraw from the agreement to conduct FMSiS inspections for schools but it was not assessed as necessary to take such actions presently though it might be essential in the future if resources are not available in Internal Audit. If this action is taken, it would be necessary for the schools to make alternative arrangements for FMSiS inspections that are satisfactory to the Director of Finance.
- 4.2 Consideration was also given to decreasing significantly the frequency of visits and depth of work conducted at schools. The indications are that some authorities have completely withdrawn from school visits and others rely more on the supervision by Education Departments. Individual school's budgets are all significant. Procedures, contracts and controls are largely decided by schools themselves and thus visits are justified as a result of any risk rating, but it might be necessary to consider the resources devoted to them and reach agreement with the Director of Children's and Young Persons Department concerning his Department's role.
- 4.3 It was not considered necessary to implement these options immediately as sufficient resources are estimated to be available to complete the revised Plan. If the option described in 4.1 were selected, there would be significant immediate difficulties for schools as it is a legal requirement that FMSiS inspections are performed. Schools would have to select appropriate alternative providers which would require significant time to manage. To implement Option 4.2 will necessitate consultation, discussion and agreement with the Director of Children and Young Persons Department and schools which would be likely to be very time consuming, but it is intended to commence these discussions as it is necessary to make more resources available to address other risks .
- 4.4 Internal Audit has worked with the managers and Directors of the Departments reviewed to agree scopes of audits, findings and practical recommendations. It is envisaged that the role is likely to have to become more "directive" particularly if weaknesses in corporate governance are revealed, or doubts over compliance are revealed in the assurance work. In accordance with standard practice, I will continue to report all critical items identified as a result of audits being completed to this Committee for their consideration of suitable action.
- 4.5 If staff in Internal Audit are able to accept the offer of EVR or severance, it is likely that further revision of the Plan will be necessary to allocate resources available to the perceived high risks areas.

## 5 LOCAL MEMBER SUPPORT IMPLICATIONS

- 5.1 There are no local member support implications.

6        **LOCAL AGENDA 21 STATEMENT**

6.1      There are no local agenda 21 implications.

7        **PLANNING IMPLICATIONS**

7.1      There are no planning implications.

8        **EQUAL OPPORTUNITIES IMPLICATIONS**

8.1      There are no equal opportunities implications.

9        **COMMUNITY SAFETY IMPLICATIONS**

9.1      There are no community safety implications.

10      **HUMAN RIGHTS IMPLICATIONS**

10.1     There are no human rights implications.

11      **BACKGROUND PAPERS**

11.1     Internal Audit Annual Plan.

12      **RECOMMENDATION**

12.1     That the report be noted.

DAVID A GARRY  
CHIEF INTERNAL AUDITOR

FNCE/232/10

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## WIRRAL COUNCIL

### AUDIT AND RISK MANAGEMENT COMMITTEE

22 NOVEMBER 2010

### REPORT OF THE CHIEF INTERNAL AUDITOR

#### INTERNAL AUDIT ORGANISATION

#### 1. EXECUTIVE SUMMARY

1.1. At the meeting of this Committee on 28<sup>th</sup> September, I was asked to present a short report to this meeting to clarify the organisation of Internal Audit.

1.2. This report identifies the reporting lines and supervision, establishment, staff qualifications, costs, planning and work.

#### 2. INTERNAL AUDIT – PURPOSE & FUNCTION

2.1. All local authorities are required by the Accounts and Audit Regulations, 2009 to make provision for internal audit as they state that a local authority “must maintain an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper practices in relation to internal control”. The definition of internal audit and standards for professional practice are contained in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom, 2006.

2.2. The Chartered Institute of Internal Auditors specifies that the role of internal audit is “to provide independent assurance that an organisation’s risk management, governance and internal control processes are operating effectively. Internal audit address issues that are fundamentally important to the survival and prosperity of the organisation. Unlike external auditors, they look beyond financial risk and statements to consider wider issues such as the organisation’s reputation, growth, impact on the environment and the way it treats its employees. It is valuable as it provides an independent, objective and constructive opinion, but in order to do this, it is essential that Internal Audit is staffed with people who are independently-minded and have a remarkably varied mix of skills and knowledge as they can be required to advise project teams managing an immensely difficult change programme or investigate complex allegations, which will require different skills.”

#### 3. INTERNAL AUDIT: BEST PRACTICE

3.1 The fundamental function of Internal Audit is to be able to conduct sufficient and adequate audits on the whole of the Council’s control environment to enable the Chief Internal Audit to deliver an adequately evidenced annual

audit opinion which is an essential part of the Annual Governance Statement.

It is also desirable that Internal Audit, where resources and skills exist, provide additional services including fraud-related enquiries and consultancy work, as these services apply the professional skills of Internal Audit through a systematic and disciplined approach and the issues addressed may contribute to the Chief Internal Auditor's opinion on the control environment.

#### **4. INTERNAL AUDIT IN WIRRAL COUNCIL**

4.1. Internal Audit in Wirral Council is a "section" in the Finance Department. It is unique in that it is not part of a "division" as are other sections and is managed by the Chief Internal Auditor, as section head, and Deputy Chief Internal Auditor who also has responsibility as a Group Auditor. The Chief Internal Auditor reports to the Deputy Director of Finance, as the direct supervisor of the Section, on behalf of the Director of Finance who is responsible for the Authority "maintaining an effective internal audit" in accordance with the Accounts and Audit Regulations, 2009.

4.2. The Section's establishment is 23, of which 21 posts are currently filled by full-time staff, 2 by staff working half-time and there is also a supernumerary Modern Apprentice currently working in the Section. (Appendix 1)

The range of qualifications held by staff, and those for which staff are studying, is included in Appendix 2. Those studying are subject to the Department policy to rotate such staff to other sections to gain a wide experience of work.

The time lost due to sickness is minimal; the average currently for this year is 0.22 days per staff member which compares well with statistics of all other employees.

4.3. The total staff cost of the Section is £ 640,000 plus on-cost in 2010/11 budget.

4.4. In accordance with best professional practice, the Section, though part of the Department of Finance and staffed by mostly accountancy-qualified people or those training for accountancy qualifications, as well as some members of the Chartered Institute of Internal Auditors, is a "corporate resource". This means that audits are planned and conducted to review all aspects of risk to the Council rather than purely auditing financial matters. Internal Audit provides a service to management at all levels by giving independent evidence-based opinions on the effectiveness of controls in systems but does not replace management or operate as a control in any system.

4.5. The annual Internal Audit Plan is prepared by considering:  
i) The corporate and relevant Departmental risk registers.  
ii) The views of the Audit Commission.

- iii) The views of the Director of Finance.
- iv) The views of the Chief Executive.
- v) The views of the Directors and managers of the Departments.
- vi) Issues that Internal Audit is aware of from professional contacts and other sources such as inspections (OFSTED, CQC).

The draft is submitted to the Deputy and Director of Finance, and Chief Executive for comment and subsequently presented to Audit and Risk Management Committee for comment, suggestions and approval.

The purpose of the Plan is to identify the areas of risk in the Authority that must be audited so that the Chief Internal Auditor can present an annual report on the control environment of the whole authority that will be presented to the Audit and Risk Management Committee and used as part of the evidence for compiling the Annual Governance Statement.

To comply with best practice and professional standards, it is essential that the annual internal audit report provides a “safe” opinion to enable “reasonable assurance” on the effectiveness of the control environment of the Council to be given. “Safe” is the term used to indicate that all significant areas of risk as identified in the Annual Plan have been audited effectively. This is the essential purpose of Internal Audit and deviation of resources away from this, endangers the ability of the Section to fulfil this role.

- 4.6. As the Audit Plan is based on “risk”, it is subject to change during the year as new high priority risks emerge. There is a process to authorise and record changes to the Plan which includes the reporting of significant change to Audit and Risk Management Committee. As new risks are added to the Plan, low priority risks must be removed to enable the staff resource available to complete the total audits identified to be able to provide a “safe” annual opinion.

Other items that affect the Audit Plan include:

- i) Requirements to conduct audits to investigate areas of concern to managers because Internal Audit is seen as independent.
- ii) Requirements for auditors qualified as “Investigating Officers” in accordance with the Council’s disciplinary procedure, to conduct investigations of alleged cases of serious and gross misconduct.
- iii) Responding to requests for advice to managers on the appropriate ways to implement procedures and policies, and resolve queries. These can consume significant amounts of resources and require planned work to be re-prioritised and the Plan amended.

Internal Audit work is based on full co-operation and openness from “clients” whom are relied upon to help identify possible risks through knowledge of their own procedures and “business”, whereas “investigating” generally occurs when there is a suspicion of “wrong-doing” or deception and an

absence of co-operation. "Inspection" is conducted by people qualified and experienced in the professional details of the work under inspection.

Internal Audit staff in the Council are trained in the accountancy and audit professions so have knowledge and skills in auditing controls but are not qualified as "inspectors" of professional skills or investigating in a "detective role", though they are frequently asked to perform such work as being the best option available.

4.7. The reporting framework for Internal Audit is:

- i) The Chief Internal Auditor and Deputy CIA meet the Chief Executive every three months to brief him on issues identified, and work conducted, planned and receive subjects he identifies as appropriate for audit.
- ii) The Chief Internal Auditor and Deputy CIA meet the Deputy Director of Finance every month to brief him and discuss new areas for audit.
- iii) Audit reports on areas perceived as of corporate significance are brought to the attention of the Deputy Director of Finance.
- iv) The Chief Internal Auditor presents to Audit and Risk Management Committee in his own name, uniquely for an officer not a Department Director. The draft report is presented to the Deputy Director of Finance before final submission to the Committee.

## 5. **INTERNAL AUDIT: FUTURE DEVELOPMENTS**

5.1 Internal Audit at Wirral aspires to achieve the best possible standards as described in Paragraph 3, above, which is a higher level than required. It generally succeeds in this aim but difficulties are regularly encountered because the requirement to provide consultancy and investigation services draws significantly on the resources and skills available in the Section, and the requirement to be able to provide an effective annual opinion on the control environment can be jeopardised. The Annual Plan is frequently revised to accommodate requests for Internal Audit to fulfil the wider role desired, as well as to address newly emerging risks, as described in the report to this Committee on the "Internal Audit Annual Plan Review".

## 6. **FINANCIAL AND STAFFING IMPLICATIONS**

6.1. There are none arising from this report.

## 7. **LOCAL MEMBER SUPPORT IMPLICATIONS**

7.1. There are no local member support implications.

## 8. **LOCAL AGENDA 21 STATEMENT**

8.1. There are no local agenda 21 implications.



9. **PLANNING IMPLICATIONS**

9.1. There are no planning implications.

10. **EQUAL OPPORTUNITIES IMPLICATIONS**

10.1. There are no equal opportunities implications.

11. **COMMUNITY SAFETY IMPLICATIONS**

11.1. There are no community safety implications.

12. **HUMAN RIGHTS IMPLICATIONS**

12.1. There are no human rights implications.

13. **BACKGROUND PAPERS**

13.1. Internal Audit Strategy.

13.2. Internal Audit Charter.

13.3 Internal Audit Annual Report

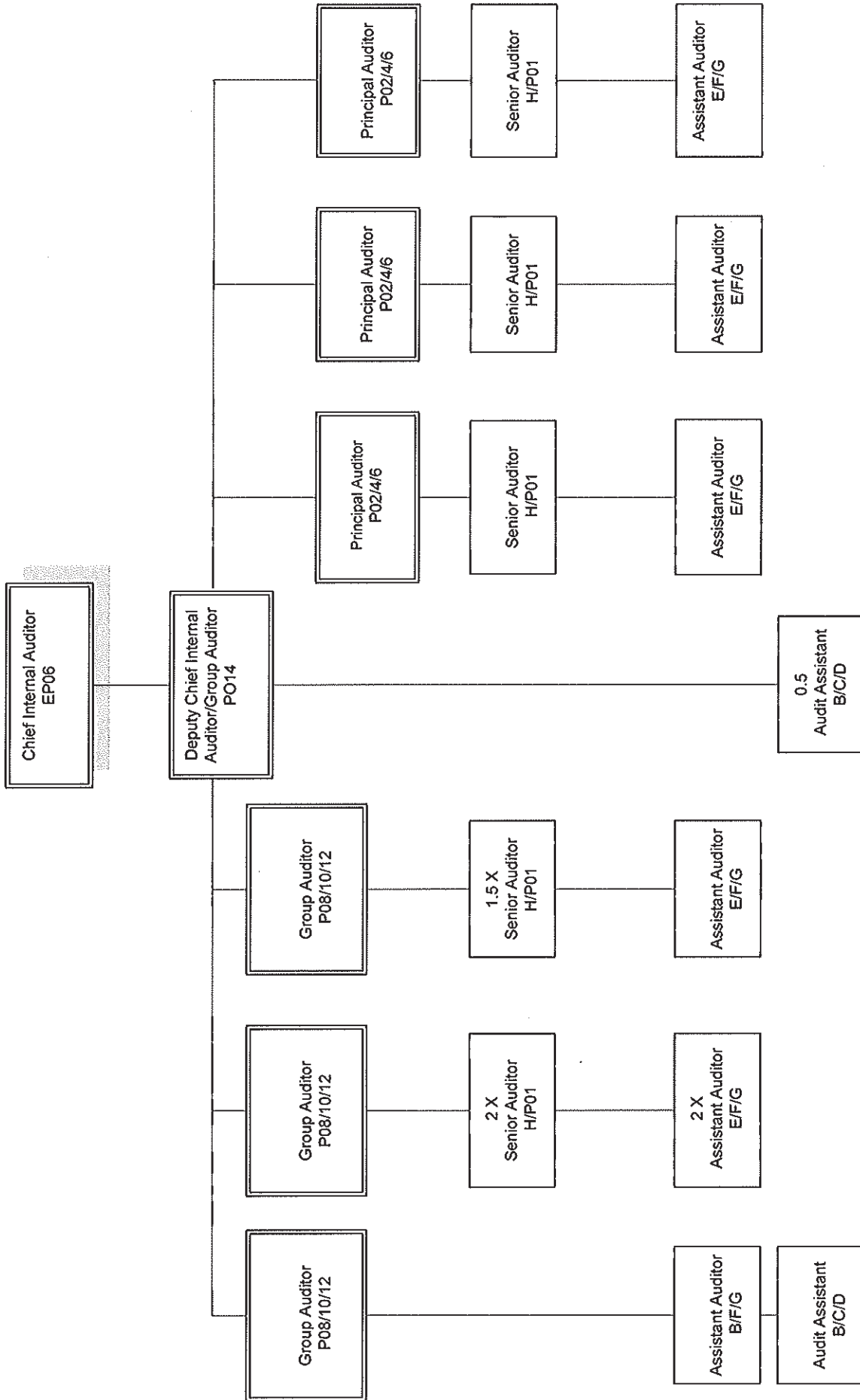
14. **RECOMMENDATION**

14.1. That the report be noted.

DAVID A GARRY  
CHIEF INTERNAL AUDITOR

FNCE/231/10

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**INTERNAL AUDIT STAFF QUALIFICATIONS**

CPFA	4
CIIA	6
CPFA (Diploma Public Audit)	2
AAT	9

**INTERNAL AUDIT STAFF TRAINING**

CPFA	5
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Note:- Some Staff have dual qualifications

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## **WIRRAL COUNCIL**

### **AUDIT AND RISK MANAGEMENT COMMITTEE**

**22 NOVEMBER 2010**

#### **REPORT OF THE DIRECTOR OF FINANCE**

#### **IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS**

##### **1. EXECUTIVE SUMMARY**

- 1.1. The purpose of this report is to inform Members of the implications of the full introduction of International Financial Report Standards (IFRS).
- 1.2. This Committee is responsible for Governance and for the approval of the Statement of Accounts. It is important for Members to understand how IFRS will impact on the Council, especially as the preparation of financial statements must be in accordance with statutory requirements and timescales.
- 1.3 The changes required to implement IFRS are largely around how items are accounted for and presented in the Statement of Accounts. Members should request any further information required to help understand what is going to take place. I am keen to widen understanding of a number of technical accounting changes to the published Statements of Account.

##### **2. BACKGROUND INFORMATION**

- 2.1 The 2007 Budget announced the introduction of IFRS based financial reporting for the government and the public sector from 2008/09. The Government and the NHS were required to adopt IFRS for their 2009/10 accounts. The adoption by Local Government is required for the 2010/11 accounts.
- 2.2 The main reason for the change to IFRS is to bring consistency and comparability in both the private and public sectors throughout the world. The private sector has been using IFRS since 2005.
- 2.3 Under the Accounts and Audit (England) Regulations 2003 (as amended) the Council's published accounts must comply with proper practice. For the Statement of Accounts 2009/10 proper practice was the Local Authority Statement of Recommended Practice (SORP). For the Statement of Accounts 2010/11 proper practice will be the Code of Practice on Local Authority Accounting. This Code complies with IFRS. It is therefore a statutory requirement on all Councils to adopt these standards.

### 3. **IMPACT OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

3.1 The impact of much of IFRS will be presentational with new terminology and new statements being introduced and a significant increase in the number of notes in the Statement of Accounts. There are however a small number of areas which will change significantly. These involve changing systems and processes, and the basis of recording certain accounting transactions. An impact assessment gives a summary of the significant effects of IFRS for the Council.

#### 3.2. Impact Assessment

##### Significant Change

<b>Area of Change</b>	<b>Details of Key Change</b>	<b>Relevant Standard</b>
Fixed Assets	All fixed assets to be assessed against the Standards. Changes include component accounting, annual impairment reviews, recognition of a wider range of intangible assets, new definitions for assets held for sale and investment properties.	<b>IAS 16 – Property Plant &amp; Equipment</b> <b>IAS 36 – Impairment of Assets</b> <b>IAS 38 –Intangible Assets</b> <b>IAS 40 – Investment Property</b> <b>IFRS 5 – Assets held of Sale</b>
Leases	A new method of assessing finance and operating leases. Identification of assets used by contractors to provide services.	<b>IAS 17</b> <b>IFRIC 4</b> <b>IFRIC 12</b>
Segmental Reporting	Introduction of an additional analysis of income and expenditure based on the operational organisation of the Council.	<b>IFRS 8</b>
First Time Adoption	Requirement to demonstrate the conversion of existing accounts to the new basis, including the restatement of 2009/10	<b>IFRS 1</b>

##### Medium Change

<b>Area of Change</b>	<b>Details of Key Change</b>	<b>Relevant Standard</b>
Accounting Policies	Revision to some current policies to comply with new reporting standards	<b>IAS 8</b>



Presentation of Financial Statements/Increased Disclosures	Substantial changes to the main accounting statements and a larger number of notes to the accounts.	<b>IAS 1</b>
Employee Benefits	Conversion of employee benefits such as leave into monetary value as at each 31 March.	<b>IAS 19</b>
Cash Flow Statement	The identification of new categories of cash equivalents.	<b>IAS 7</b>
Related Party Disclosures	Greater information on related parties required in the Statements.	<b>IAS 24</b>
Government and Non Government Grants	Once the grant conditions are met they are recognised in the Income and Expenditure Account.	<b>IAS 20</b>

#### Minor Change

<b>Area of Change</b>	<b>Details of Key Change</b>	<b>Relevant Standard</b>
Inventories	Measurement at either lower of cost or net realisable value.	<b>IAS 2</b>

### 3.3 Effect on the Statement of Accounts

3.3.1 Although IFRS will be implemented in full for 2010-11, there is a need to include comparative information for 2009-10 in the first IFRS based statements of accounts. This means that the accounts for 2009-10 approved on 28 September 2010 by the Committee will have to be recalculated. This is called restating. This will mean, for example, that accruals for untaken annual leave will need to be calculated at 31 March 2009 in order to provide an opening figure at 1 April 2009 to enable the 2009-10 accounts to be restated on an IFRS basis. Another key principle is that retrospective changes are required to leases and asset valuations to restate them on an IFRS basis to ensure full IFRS compliance.

3.3.2 The main financial statements under IFRS are as follows:

- Movement in Reserves Statement
- Comprehensive Income and Expenditure Statement
- Balance Sheet
- Cash Flow Statement
- Notes to the Accounts

## **4. IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS**

4.1 The implementation of IFRS requires the Council to ensure that the accounting and other systems are set up to supply information required to produce IFRS compliant accounts. All IFRS standards and regulations must be fully understood and interpreted. This is to ensure that they can be complied with in the correct manner and to minimize external audit challenge of the accounts. The key aspect of implementation is to produce a Statement of Accounts for the year ending 31 March 2011, with compliant comparatives. There will also be a need to give further training and guidance to both officers and Members.

4.2 Work has commenced on the conversion to IFRS. A Project Team has been formed. Due to final accounts and the commencement of the budget process in recent months progress has been limited. However, progress has been made in the following areas:

### Impact assessment of relevant standards

All IFRS standards have been reviewed. An assessment of those standards that will have the greatest effect upon the Council has been made, from which a project plan has been developed to direct the work required. It has also driven the focus of work on fixed assets, leases and re-formatting the statement of accounts.

### Fixed Assets

A new asset accounting system has been implemented. This is IFRS compliant and will enable the required information to be held. Further work has been completed to investment properties and assets for sale.

### First Time Adoption

Work has commenced on the conversion of the Statement of Accounts 2009/10 to the IFRS compliant format statements.

### Segmental Reporting

Work has been undertaken to reconcile budget monitoring information to the annual published information.

### Leasing

Existing operating leases have been assessed against the new standards. Contracts that involve the use of an asset have been identified. The next stage is to determine the value of these assets.

### Employee Benefits

The pay accrual for teachers has been calculated. For non-teaching staff a sample has been constructed. The next stage will be to use this to obtain holiday information for this group of staff.

- 4.3 It is anticipated that a restated balance sheet will be calculated by 31 December 2010. The intention is to present this and an update on progress to the Committee on 17 January 2011.

## **5 FINANCIAL AND STAFFING IMPLICATIONS**

- 5.1 At this stage the implementation is being managed within existing staffing resources. However the degree of work and capacity in Financial Services, Human Resources and Asset Management is being kept under review.

## **6. EQUAL OPPORTUNITIES IMPLICATIONS**

- 6.1. There are none arising directly from this report.

## **7. HUMAN RIGHTS IMPLICATIONS**

- 7.1. There are none arising directly from this report.

## **8 COMMUNITY SAFETY IMPLICATIONS**

- 8.1. There are no specific implications arising from this report.

## **9. LOCAL MEMBERS SUPPORT IMPLICATIONS**

- 9.1. There are no specific implications for any Member or Ward.

## **10. LOCAL AGENDA 21 IMPLICATIONS**

- 10.1. There are none arising directly from this report.

## **11. PLANNING IMPLICATIONS**

- 11.1. There are none arising from this report.

## **12. BACKGROUND PAPERS**

- 12.1. Audit Commission Briefing Papers –  
IFRS – Reporting on operating segments  
IFRS – Progress on the transition to IFRS  
IFRS – Accounting for employee benefits  
IFRS – Practical implications of restating non-current assets  
IFRS – A Guide for senior managers and Members  
IFRS – Accounting for non-current assets  
IFRS – Identifying and accounting for leases
- 12.2 Chartered Institute of Public Finance and Accountancy – Code of Practice on Local Authority Accounting

13. **RECOMMENDATIONS**

- 13.1 That the Committee notes the implications for the Council of the introduction of International Financial Reporting Standards.
- 13.2 That the progress made on the implementation of IFRS be noted.

IAN COLEMAN  
DIRECTOR OF FINANCE

FNCE/226/10

# Audit Commission Progress Report

Wirral Council

Audit 2009/10

Date **November 2010**

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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.

# Key messages

- 1 This report provides members with an update of our ongoing work at the Council and informs you of the risks arising from the audit, under International Standard on Auditing (United Kingdom and Ireland) 300. The key messages to draw to members' attention are:

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## Fees

- The new coalition government has stated that it is abolishing the Audit Commission. We will keep members informed of the impact on the audit and on fees (paragraph 2).

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## Opinion on the statement of accounts

### 2009/10

- Our Annual Governance Reports (AGRs) for Wirral Council and Merseyside Pension Fund were presented to the Audit and Risk Management Committee on 28 September (paragraph 21).
- The District Auditor gave unqualified opinions on the statements of account for Wirral Council and Merseyside Pension Fund on 30 September 2010 (paragraph 21)

### 2010/11

- The implementation of International Financial Reporting Standards (IFRS) will be a significant challenge for the Council (paragraph 25).
- Our audit approach for 2010/11 will be determined by new and more demanding International Standards on Auditing (ISAs) (paragraph 30).
- Our work documenting and testing systems and processes is about to commence (paragraph 34).

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## Value for money conclusion

### 2009/10

- The value for money conclusion was reported in the AGR presented to the September meeting of the Audit and Risk Management Committee (paragraph 37).
- The District Auditor gave an unqualified value for money conclusion confirming that the Council has satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources (paragraph 38)

## 2010/11

- The approach to our local VFM audit work in 2010/11 will be more targeted. We will focus on how the Council:
  - secures financial resilience; and
  - prioritises resources within tighter budgets (paragraph 41).

---

### Public Interest Disclosure Act (PIDA) work

- Work on the PIDA in respect of the Directorate for Adult Social Services (DASS) continues (paragraph 44).
- Work on the PIDA in respect of the Highways and Engineering Services Procurement Exercise (HESPE) is now complete and was reported to the September meeting of the Audit and Risk Management Committee (paragraph 48).

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### National Fraud Initiative 2008/09

- The Council has made good progress on reviewing and investigating the matches with the exception of:
  - Council Tax - started to investigate some of the matches identified within the department
  - Accounts Payable - not yet reviewed creditors matches. At least £55,495 of creditors savings were identified from the previous NFI exercise (paragraph 50)
- As at June 2010 the Council had identified a potential £1,852,390 of overpayments made through error or fraud, including late savings from 2006/07 NFI and forward savings. This is likely to increase when creditors and council tax matches are investigated (paragraph 51).

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### Grant claims and returns 2009/10

- Grant claims work is progressing to schedule (paragraph 54)

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### Annual Audit Letter 2009/10

- Our Annual Audit Letter, summarising the key issues for the year, will be agreed by the end of November and presented to a subsequent Cabinet meeting and the Audit and Risk Management Committee in January (paragraph 58).

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### Audit team and key contacts

- We have updated the key officer contacts for the new Acting Chief Executive (paragraph 61).



### Members' resources

- Members' resources have been updated with the latest reports published by the Audit Commission. We have also provided a full list of International Financial Reporting Standards (IFRS) reports and briefings for management and members (paragraph 65).

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# Audit plan

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## Audit Commission

- 2 The Secretary of State for Communities and Local Government announced on 13 August that the Audit Commission would be abolished in 2012/13. The Audit Commission is currently considering how this will be managed and plans are underway to develop an audit practice to continue external audit in the public sector. We will keep members up to date about the impact on external audit at Wirral and on how this will affect fees.

---

## 2010/11 plan

- 3 The letters with the proposed fees for 2010/11 for audit and assessment were agreed with officers in April and were presented to members on 30 June 2010. Alongside the audit fees letter we presented the Work programme and scales of fees 2010/11, the new Code of Audit Practice 2010 and the Statement of Responsibilities of Auditors and Audited bodies

### Audit fee

- 4 The total indicative fee for the audit for 2010/11 is £392,000 (excluding VAT), a 0.5% increase on the planned fee of £390,000 for 2009/10. This is less than the Audit Commission's anticipated 6% increase for 2010/11 for the first year of International Financial Reporting Standards (IFRS) and is in line with our commitment to reduce the 2010/11 fee as noted at meetings with officers and members.
- 5 Members should also note that the Commission has confirmed that it would subsidise the 'one-off' element of the cost of transition to International Financial Reporting Standards (IFRS) for local authorities and police and fire and rescue authorities from 2010/11. You will therefore receive a refund from the Audit Commission of £21,904 which brings the fee charged for 2010/11 to £370,096.
- 6 The letter sent by the Audit Commission to the Council made it clear that we will continue to deliver the audit in line with the statutory Code of Audit Practice under which we are required to give a value for money conclusion alongside the opinion on the financial statements.

### Grant claims and returns fee

- 7 The planned fee for grant claims and returns is £125,000.

### Assessment and inspection fee

- 8 The fee letter agreed with officers in April showed the total indicative fee for inspection as £49,153. The implication for the inspection fee will be updated when the position has been agreed.

## Audit plan

### National Fraud Initiative (NFI)

- 9 We presented the work programme and scale of fees for NFI 2010/11 to members on 30 June 2010. The rate for metropolitan borough councils remains at the 2008/09 rate of £4k. The NFI is run over a two-year period, so the scale of fees covers the two financial years 2010/11 and 2011/12. We will bill for these fees in two equal annual instalments.

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### 2009/10 plan

- 10 We issued our initial audit fees letter for 2009/10 to Cabinet on 23 April 2009 and the Audit and Risk Management Committee on 29 June 2009, which set out the work that we proposed to undertake in order to satisfy our responsibilities under the Audit Commission's Code of Audit Practice. The fee for the audit of the financial statements and the value for money conclusion was confirmed in the Annual Audit Letter as £390,000. The planned fee for grant claims and returns is £128,000.
- 11 We are working with officers to reduce the fee for future years. The actions that the Council can take to help to reduce the fee include:
  - Manage and respond to issues and complaints raised within the Council and by members of the public to reduce the issues brought to our attention
  - Manage and mitigate significant audit risks
  - Demonstrate that there is a sound control environment
  - Provide us with complete and materially accurate financial statements and other evidence
    - with good supporting working papers
    - within agreed timeframes.
- 12 We prepared a detailed 2009/10 opinion plan and value for money plan that was discussed with and agreed with officers and presented to the Audit Committee on 24 March 2010. Our Annual Governance Report being presented to members on 28 September 2010 confirmed that the fee remains adequate.

---

### Public interest disclosure act (PIDA) work

- 13 We have continued to carry out work on the PIDA in respect of the Directorate of Adult Social Services (DASS) and we received a further PIDA on procurement. These issues were not anticipated when the fees were originally set and we have previously agreed that we will charge an additional fee when we complete the work.

### PIDA DASS

- 14 We are continuing to monitor the Council's actions in dealing with the issues raised and do not at present anticipate any further fee.

- 15 Our report on the PIDA regarding the HESPE was presented to members in September. It notified members that we charged an additional fee of £20,000 for our work.

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# Opinion

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## 2009/10

- 16** The District Auditor was required to issue an audit report by 30 September 2010 giving his opinion on whether the Council's accounts give a true and fair view of the financial position of the Authority as at 31 March 2010. Our Opinion Plan presented to members in January 2010 set out in more detail the audit work we proposed to carry out in relation to the audit of the financial statements 2009/10 for Wirral Council, including the audit of the Whole of Government Accounts. We also updated the timetable and the table of audit risks in subsequent progress reports.
- 17** There was a separate Opinion plan and progress report in respect of Merseyside Pension Fund's financial statements.
- 18** Our work was split into 3 elements:
- updating and documenting our knowledge of the main financial systems;
  - interim controls testing; and
  - audit of the financial statements.

### Knowledge of the main financial systems and controls testing

- 19** We have completed our work on updating our knowledge and documenting the main financial systems. There are no significant issues that we wish to bring to the notice of members other than the risks identified in the plan and updated in our last progress report.

### Reliance on internal audit

- 20** We have discussed our respective audit approaches with Internal Audit with the aim of placing reliance on some areas of its work in 2010/11.

### Audit of the financial statements

- 21** Our audit of the financial statements approved by members in June 2010 is complete and was reported to the September meeting in the 2009/10 Annual Governance Report (AGR). The District Auditor gave unqualified opinions on the statements of account for Wirral Council and Merseyside Pension Fund on 30 September 2010.
- 22** During the audit we considered the additional risks that are appropriate to the current financial statements audit and set them out in a table in our last progress report. Our findings against these risks are set out in the AGR.

### Update to opinion plan

- 23 The tables below update our 2009/10 opinion plan for members. Overall there was some delay although we met the deadline for giving an opinion on the accounts and value for money conclusion by 30 September 2010.

**Table 1 Planned outputs**

The planned outputs from the opinion audit are set out below.

Planned output	Indicative date	Update and progress
Opinion audit plans	31 December 2009	Completed
Update to opinion audit plans and feedback on interim audits (if appropriate)	March 2010	Update in progress report.
Annual governance reports	30 September 2010	Presented to ARMC 28 September
Auditor's reports giving an opinion on the financial statements	30 September 2010	Opinion given on 30 September 2010

**Table 2 Key milestones and deadlines**

There was some delay although we gave the opinion on the accounts and value for money conclusion by the deadline of 30 September 2010

Task	Deadline	Update and progress
Agreement of Opinion Plan with officers	Draft by end of November Final by mid December	Completed to plan
Progress meetings - pre statements	Six weekly	Completed to plan
<b>Presentation of Opinion Plan to ARMC</b> Finance to present covering report including explanation of the final accounts process and the roles of the Pensions Committee and Audit and Risk Management Committee	<b>18 January 2010</b> (papers by 29 December)	<b>Completed to plan</b>
ISA+ 315 knowledge of the entity	January 2010	Completed to plan
Control testing	February 2010	Completed to plan
<b>ARMC consider draft Annual Governance Statement</b> <b>Update of Opinion Plan presented to ARMC</b>	<b>24 March 2010</b> (papers by 10 March)	<b>AGS considered at ARMC March 2010</b> <b>Opinion plan updated in progress reports.</b>
<b>ARMC member training (proposed)</b>	<b>May/early June 2010</b>	<b>Continuing</b>

## Audit plan

Task	Deadline	Update and progress
Early substantive pre-statements testing	Mid June 2010	Complete
<b>Receipt of pre-audit accounts by ARMC and auditor</b>	<b>14 June 2010</b>	<b>Pre-audit accounts received by ARMC and auditor 25 June 2010</b>
Working papers provided to the auditor	By 30 June 2010	Some received 5 July 2010 and remaining provided throughout the audit
Pensions Committee to challenge accounts and make recommendations to ARMC	Before ARMC meeting (by 30 June 2010)	Pensions Committee meeting held 28 June 2010 as planned
<b>ARMC to challenge and approve accounts, including Annual Governance Statement and Pension Fund Statements.</b> Finance to present pre-audit statement of accounts and covering report	<b>By 30 June 2010</b> (papers out by 16 June)	<b>ARMC meeting held 30 June 2010 as planned</b>
Start of detailed testing on main statements	30 June 2010	Delayed due to delay in accounts and working papers
Completion of fieldwork on main statements	6 August 2010	Fieldwork completed where we had adequate working papers provided at the start of the audit. Fieldwork completed on PFI on 25 August - delayed due to complexity of issues, eg foundation schools.
Receipt of WGA and working papers	8 July 2010	Received 19 July 2010
Completion of fieldwork on WGA	6 August 2010	Completed 26 August - delayed due to delay in Audit Commission guidance.
Progress meetings - post statements	Weekly	Completed to plan
Agreement of errors and uncertainties for Finance to complete covering reports and amend statements	20 August 2010	Completed to plan - some working papers; decisions regarding amendment and PFI

Task	Deadline	Update and progress
		issues outstanding.
Draft Annual Governance Reports from Audit Commission to officers	3 September 2010	Completed to plan.
Meeting with officers to agree final AGRs (Final AGRs will highlight any outstanding issues that will be updated at meetings with members)	Meetings by 8 September 2010 Final AGRs by 13 September 2010	Met Director of Finance on 7 September - to plan. Ongoing issues at 13 September were highlighted in the reports. Final draft shared with Chair ARMC at meeting 13 September 2010.
Pensions Committee - to consider the Pension Fund AGR and any action plan, any amendments to statements and the Letter of Representation - to make recommendations to ARMC	Before ARMC meeting below (by 30 September 2010) Papers out by 13 September	Meeting 27 September 2010 MPF AGR sent to officers 13 September 2010
<b>ARMC to receive Annual Governance Reports, including any verbal update on outstanding issues (Wirral and MPF)</b> Finance to present covering reports and post-audit statements	<b>By 30 September 2010</b> Papers out by 13 September 2010	<b>Meeting 28 September 2010. Final published version Wirral Council AGR sent to officers 15 September 2010.</b> Final draft shared with ARMC Chair 13 September 2010.
Final check of post-audit statements	By 30 September 2010	Completed to plan
<b>Issue of opinions by the District Auditor</b>	<b>By 30 September 2010</b>	<b>Completed to plan</b>
<b>Audited accounts published by the Council</b>	<b>By 30 September 2010</b>	<b>Completed to plan</b>
<b>Whole of Government Accounts return submitted</b>	<b>1 October 2010</b>	<b>Completed to plan</b>



### Chief Accountants' workshops

- 24** The Audit Commission runs workshops every year for chief accountants to ensure that consistent messages about technical issues are shared with audited bodies. Key finance officers attended the workshop at Warrington on 4 February 2010.

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## 2010/11

### International Financial Reporting Standards (IFRS) 2010/11

- 25** 2010/11 is the first year that the accounts need to be prepared in accordance with IFRS. However, councils are required to implement some elements for the 2009/10 accounts and this was reported in the AGR.
- 26** We completed an initial survey of preparedness for IFRS in November 2009 and assessed the Council as 'red' risk overall. This was due to the following:
- The timetable was not in line with Chartered Institute of Public Finance and Accounting (CIPFA) guidance
  - The new asset management system was not being implemented until February 2010 and we had reported material weaknesses in asset records in our 2008/09 audit of accounts
  - The Council had a complex Private Finance Initiative PFI scheme that would need to be considered for inclusion on the balance sheet (this impacted the 2009/10 accounts)
  - Little work had been carried out to consider leases
- 27** We previously assessed group accounts and employee benefits as 'green'.
- 28** We reported to the Audit and Risk Management Committee in September that our updated assessment of the Council was 'amber' overall. We also provided a set of graphs setting out Wirral's progress and issues compared to other councils. We reported that the key risk areas where Wirral Council varies significantly from comparator authorities is:
- leases – Wirral is amongst the 7% of authorities overall that are assessed as red (8% metropolitan boroughs and 5% of northern authorities)
  - Wirral is not 'on track' against the project plan – 69% of authorities overall are 'on track' (67% metropolitan boroughs and 74% of northern authorities). This may also put at risk future milestones such as restating the 2009/10 accounts and drafting a model set of skeleton IFRS compliant financial statements.
  - the Audit and Risk Management Committee has had no involvement on IFRS implementation - 87% of audit committees overall have been kept updated and 49% of those and a further 3% have also questioned officers on progress (87% metropolitan boroughs and 85% of northern authorities).

- 29 The latest Audit Commission report setting out the national findings from the survey is available at [Audit Commission website - IFRS implementation](#). We will be updating the Audit Commission survey in January 2010.

### Table 3 IFRS implementation 2010/11

The Council is assessed as 'amber' risk overall

Issue	Findings
Governance and oversight	The role of the Audit and Risk Management Committee in the implementation of IFRS has been limited
Timetable	The Council is not on track against its project plan. An impact assessment has been completed but opening balances have not been restated. Officers plan to restate the 2009/10 accounts and draft a model set of skeleton IFRS compliant financial statements including policies and notes before the end of December 2010
Non-current assets	We assessed the risk as 'amber'. Concerns remain regarding information required in respect of vehicles plant and equipment and infrastructure assets. The systems need to be set up to satisfy component accounting.
Leases and other lease type arrangements	We assessed the risk as 'red'. There has been no review of leases and other lease type arrangements to determine the appropriate accounting treatment for these.
Employee benefits	We assessed the risk as 'amber' Although systems are in place, the 2009/10 accrual for holiday pay has not yet been calculated. A new payroll and HR system is planned.
Group accounts	We assessed the risk as 'green'. The Council does not currently have any arrangements that would require it to produce group accounts.

Audit Commission survey 30 July 2010

### Changes to International Standards on Auditing

- 30** The audit of the financial statements is governed by a framework established by International Standards on Auditing (ISAs). As with all guidance and frameworks, auditing standards are frequently revised and updated, often in a piecemeal fashion. However, in 2009 the auditing professional completed a comprehensive project to enhance the clarity of all the ISAs. This is known as the Clarity Project.
- 31** One of the main objectives of the Clarity Project was to promote greater consistency of application between auditors. This has been done by reducing the ambiguity within existing ISAs and improving their overall readability and understandability.
- 32** The new clarified framework will apply to the audit of your 2010/11 financial statements. Because of the new standards, you can expect to see some changes in the way the audit team delivers your audit and the information they request from you.
- 33** In summary the main changes you will see relate to:
- **Journals:** ISA (UK&I) 330 (The Auditor's response to assessed risks), requires us to review all material year-end adjustment journals. We can do this by using interrogation tools such as CAATs (Computer aided audit techniques), IDea software or excel, depending on the compatibility of your general ledger software. We will discuss a suitable approach to this work soon.
  - **Related Party Transactions;** ISA (UK&I) 550 (Related parties) requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also review minutes and correspondence for evidence of related party transactions and carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.
  - **Accounting Estimates;** ISA (UK&I) 540 (Auditing Accounting Estimates, Including Fair Value Accounting Estimates, And Related Disclosures) requires us to look at your accounting estimates in detail. As part of the audit we will request a list of these from you. We will need to know in particular:
    - the process you use to make your accounting estimates;
    - the controls you use to identify them;
    - whether you use an expert to assist you in making the accounting estimates;
    - whether any alternative estimates have been discussed and why they have been rejected;
    - how you assess the degree of estimation uncertainty (this is the level of uncertainty arising because the estimate cannot be precise or exact) ; and
    - the prior year's accounting estimates outcomes, and whether there has been a change in the method of calculation for the current year.
  - **Reporting deficiencies in internal control:** ISA (UK&I) 265 (Communicating Deficiencies In Internal Control To Those Charged With Governance And Management) is a new standard. If we identify a deficiency in any of your internal

controls during the audit, we will undertake further audit testing to decide whether the deficiency is significant. If the deficiency is significant, we will report it in writing to the Audit and Risk Management Committee as those charged with governance.

**34** Our work documenting and testing systems and processes is about to commence.

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# Value for money conclusion

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## 2009/10

- 35 We agreed a value for money conclusion plan with officers and presented it to the Audit Committee in January 2010. We have updated the timetable below to show progress to date and changes to our original plan.
- 36 Every year the Audit Commission applies a proportionate approach to the work and determined that we would not be doing any work on one of the criteria at any councils in 2009/10 - natural resources - and will carry forward the assessment of 'yes' on that criteria from 2008/09. This was the first year that we assessed whether the Council plans, organises and develops its workforce effectively to support the achievement of its strategic objectives.
- 37 We substantially completed our work on the assessment for the value for money conclusion 2009/10 in April 2010. We met with the Director of finance on 20 April 2010 to discuss preliminary feedback and reported the outcome in our Annual Governance Report to the Audit Committee and Risk Management Committee on 28 September 2010. We will also report any significant findings in the annual audit letter but will not be reporting a score for the use of resources.
- 38 The District Auditor gave an unqualified value for money conclusion confirming that the Council has satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

### Risk based reviews

- 39 As part of our work to inform the value for money conclusion we completed reviews the following
  - Performance management. The final report was presented to members at the Audit Committee and Risk Management Committee on 30 June 2010
  - Managing attendance. The final report was presented to members at the Audit Committee and Risk Management Committee on 28 September 2010.

### Update to value for money conclusion plan

- 40 The value for money conclusion plan progressed to targets. Members should note the impact of the abolition of CAA on our reporting.

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## Table 4 Update to and progress on value for money timetable

The timetable has been updated for actions completed and changes to the plan. Members should note the impact of the abolition of CAA on our reporting.

Date	Original activity/milestone	Update and progress
November 2009	Draft plan to Council	Completed to plan

December 2009	Agree plan with Lead Director	Completed to plan
Mid December 2009	Audit Commission national report 2008/09 including scores and examples of strong performance and outcomes to support learning for the 2009/10 assessment	Completed to plan
November - March 2010	Fieldwork	Completed to plan
January 2010	VFM profile tools available from the Audit Commission	Slight delay but now complete
<b>January 2010</b>	<b>Plan to the Audit &amp; Risk Management Committee</b>	<b>Completed to plan</b>
March 2010	Cheshire/Mersey local quality assurance	Completed to plan
Early April	Interim feedback to Lead Director	Completed 20 April 2010
21 April 2010	Indicative scores submitted by audit team to Audit Commission	Completed to plan
10 - 21 May 2010	Audit team area QA and internal challenge	Completed to plan
May 2010	Issue and agree draft managing attendance report. Finalise report by the end of May 2010.	Partially complete by May 2010. Report discussed and final agreed subject to completion of action plan. Presented to ARMC 28 September 2010.
June/July 2010	Consideration of final evidence of outcomes and agreement of draft value for money conclusion	Completed to plan
30 July 2010	Final scores submitted to Audit Commission	CAA abolished and we will not be scoring UoR
2 - 27 August 2010	National quality assurance process	Cancelled
End August 2010	Agreement of final value for money conclusion and scored UoR judgements	Agreement of final value for money conclusion in progress. We will not be scoring UoR
Early September	Draft Annual Governance Report to officers	Sent 3 September 2010 as planned

## Value for money conclusion

Mid September	Final Annual Governance Report to members	Required 13 September 2010. Final draft shared with ARMC Chair 13 September 2010. Final published version sent to officers 15 September 2010.
<b>Late September 2010</b>	<b>Audit &amp; Risk Management Committee</b> (papers out 2 weeks before)	<b>Now confirmed as 28 September 2010</b>
October/November 2010	Draft organisational assessment report shared with the Council	CAA abolished - work on organisational assessment has stopped
Late November 2010	Final organisational assessments reported as part of CAA reporting. Issue annual audit letter.	CAA abolished so no reporting. Annual audit letter as planned.

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### 2010/11

- 41** Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.
- 42** The VFM conclusion for 2010/11 will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:
- securing financial resilience; and
  - prioritising resources within tighter budgets.

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# PIDA work

- 43 Work on two PIDA disclosures in respect of adult social services and the Highways and Engineering Services Procurement Exercise (HESPE) continues.

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## Adult social services

- 44 We are continuing to monitor the Council's progress in responding to our 2007/08 report: *Adult Social Services - Follow up of PIDA Disclosure* which was considered by the Audit and Risk Management Committee in September 2008.
- 45 A key issue was in respect of the charging policy applied at three supported living units. Following a number of reports by Internal Audit, the Audit and Risk Management Committee has recommended to Cabinet that users at these units should have been charged at lower rates and should be reimbursed back to December 2000 for the amounts overcharged. We have confirmed that this is reflected in the statement of accounts.
- 46 Cabinet has commissioned an independent investigation into the whistleblower's allegations of bullying and harassment. The Leader of the Council has also commissioned an independent review to confirm that all issues raised by the whistleblower have been appropriately dealt with.
- 47 The Director of Adult Social Services has reported to members on progress against the original action plan in our PIDA report. The Council is taking forward the actions and we will continue to review and monitor the actions as part of our on-going work with the Council. Our review and subsequent reviews by the Council have confirmed the whistleblowers concerns around charging, financial control, compliance with policies and procedures and governance between 1997 and 2006.

## Procurement of highways and engineering services

- 48 During 2008/09 we received a PIDA disclosure in respect of the process for awarding the Highways and Engineering Services Procurement Exercise (HESPE) contract. The report was presented to members at the Audit Committee and Risk Management Committee on 28 September 2010. The Council is currently responding to the recommendations and preparing the action plan.



# National Fraud Initiative

## 2008/09 - 2009/10

- 49** The National Fraud Initiative (NFI) is the UK-wide antifraud programme developed by the Audit Commission. A data matching exercise is carried out comparing information held by and between around 1,300 organisations including councils, the police, hospitals and nearly 100 private companies. This helps to identify potentially fraudulent claims, errors and overpayments. Where matches are identified these are presented to the organisations to investigate. For example, when data matching shows a person listed as deceased and also in receipt of a pension, the Council will investigate and, if appropriate, stop pension payments. The Audit Commission fee to the Council is £4k over two years for this exercise.
- 50** The exercise is carried out every two years with the last exercise being carried out in 2008/09. The Council has continued reviewing the output from the 2008/09 NFI matching exercise in 2009/10. Internal audit co-ordinates the follow-up of matches, which is undertaken by the responsible department. The Council has made good progress on reviewing and investigating the matches with the exception of:
- Council Tax - started to investigate the matches identified within the department
  - Accounts Payable - not yet reviewed creditor matches. At least £55,495 of creditors errors/frauds were identified from the 2006/07 NFI exercise.
- 51** As at June 2010 the Council had identified the potential errors and frauds in the Council as £1,852,390 (this includes late savings from NFI 2006/07 and forward savings on overpayments). This is likely to increase when creditors and council tax matches are investigated. The table below quantifies these errors and frauds.

**Table 5 NFI 2008/09 matches for Wirral Council**

Type of match	Errors/frauds identified	Example of match/ comments
Housing benefit	£140,506	HB claimant to student loan or to payroll at the Council
Additional Housing Benefit Investigations	£9,600	Administrative penalties and official cautions
Pensions plus forward savings	£74,905 £1,512,088	Pension gratuity to Department for Work and Pensions deceased
Payroll and other	£2,200	Wirral Council payroll to other

Type of match	Errors/frauds identified	Example of match/ comments
investigations		organisations' payrolls or UK visa
Overpayments relating to ad-hoc areas	£47,759	Private home care residents to continuing care payments
Late savings from 06/07	£65,332	

Source: Audit Commission, 6 June 2010.

- 52** At the end of October the Council has identified that as a result of investigating the 2008/09 matches:
- 28 frauds have been detected with a value of over £55k
  - 296 errors have been detected with a value of over £200k
  - The Council is in the process of recovering £256k and has stopped future payments where applicable.
- 53** The national report on NFI 2008/09 was published in May 2010 and is available at [Audit Commission website -NFI 2008/09](#).

# Grant claims and returns

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## 2009/10

- 54** The 2008/09 grant claims and returns report was presented to the March 2010 meeting of the Audit and Risk Management Committee. The 2009/10 programme and it is progressing to schedule. Two claims are currently still in progress and seven claims have been completed. Of the seven completed claims, all Council and audit deadlines were met, we amended three claims and qualified three claims:
- Housing and Council Tax Benefits Scheme - received from the Council 30 May 2010 (deadline 31 May 2010). We are carrying out early testing and are progressing well on this. Audit deadline 30 November 2010.
  - National non-domestic rates grant - received from the Council 18 June 2010 (deadline 25 June 2010). Audit deadline 25 September 2010. Now complete - Council and audit deadlines met; no amendment or qualification.
  - Teachers' pensions return - received from the Council by 30 June 2010. Audit deadline 30 November 2010. In progress.
  - Disabled facilities grant - received from the Council 29 June 2010 (deadline 30 June 2010). Audit deadline 30 September 2010. Now complete - Council and audit deadlines met; no amendment or qualification.
  - Single programme grants - 4 grant claims received from the Council by Council 30 June 2010. Audit deadline 30 September 2010. All complete - all Council and audit deadlines met; three claims amended and two claims qualified.
  - General Sure Start grant - received from the Council 21 July 2010 (deadline 31 July 2010). Audit deadline 31 October 2010. Now complete - Council and audit deadlines met; no amendment; qualified certificate.
- 55** We are on course to complete the outstanding claims by the deadline of 30 November 2010. The claims and returns report for 2009/10 will be presented to the January 2011 meeting of the Audit and Risk Management Committee.

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# Annual Audit Letter

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## 2008/09 - key findings

**56** The Annual Audit Letter, presented to the Audit Committee meeting in March 2010 reported the outcome of the 2008/09 audit programme:

- Wirral Council Opinion and Value for Money Conclusion - unqualified opinion and value for money conclusion given 30 September 2009;
- Merseyside Pension Fund Opinion - unqualified opinion given 30 September 2010
- use of resources assessment - scored 2 for all criteria (performing adequately).

**57** The reports completed to support our findings and dates of issue are shown below. All reports are presented to the Audit and Risk management Committee and copies can be obtained from the Council. Internal Audit follows up progress on the action plans.

- Annual Governance Report 2008/09 - Wirral Council, September 2009
- Annual Governance Report 2008/09 - Merseyside Pension Fund, September 2009
- Auditor's report 2008/09 containing opinion on Wirral Council's accounts and value for money conclusion, 30 September 2009
- Auditor's report 2008/09 containing opinion on Merseyside Pension Fund's accounts, 30 September 2009
- Improvement through better financial management 2008/09, September 2009
- Governance of partnerships 2008/09, June 2009
- Ethical governance diagnostic 2008/09, June 2009
- Triennial review of Internal Audit 2008/09, December 2009
- Data quality spot checks 2008/09, December 2009
- Performance management interim report 2008/09, August 2009
- Community cohesion 2008/09, September 2009
- Procurement and commissioning 2008/09, November 2009
- Grant claims and returns (2007/08 programme), December 2009
- Annual audit letter 2008/09, December 2009
- Grant claims and returns 2008/09, March 2010

### 2009/10

- 58** Our Annual Audit Letter, summarising the key issues for the year, will be agreed by the end of November and presented to a subsequent Cabinet meeting and the Audit and Risk Management Committee in January.

# The audit team and key contacts

- 59** The key members of the audit team for the 2009/10 audit have not changed from that set out in our opinion and value for money plans. The current team is shown in the table below.
- 60** I can confirm that the audit is being carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence and there are no conflicts to report to members.

**Table 6 Audit team**

Name	Contact details	Responsibilities
Mike Thomas District Auditor	<a href="mailto:m-thomas@audit-commission.gov.uk">m-thomas@audit-commission.gov.uk</a> 0844 7987043 or 07879 667712	Overall delivery and reporting of the audits of the Council and Merseyside Pension Fund including quality and outputs. Signing the opinion, conclusion and certificate. Liaison with councillors, the Chief Executive and corporate and service directors
Liz Temple-Murray Audit Manager	<a href="mailto:l-temple-murray@audit-commission.gov.uk">l-temple-murray@audit-commission.gov.uk</a> 0151 666 3483 or 07769 887358	Manages, quality assures and coordinates the different elements of the audit work on Wirral Council (including liaison with the Pension Fund Audit Manager). Key point of contact for the Director of Finance, Head of Finance, Head of Pensions and Chair of the Audit and Risk Management Committee. Annual Governance Report for Wirral Council.
Caroline Davies Audit Manager	<a href="mailto:caroline-davies@audit-commission.gov.uk">caroline-davies@audit-commission.gov.uk</a> 0151 666 3481	Supports the Audit Manager on Wirral Council. Manages, quality assures and coordinates the different elements of the audit work on Merseyside Pension Fund. Key point of contact for the Head of Pensions, the Financial Controller and the Chair of the Pensions Committee.

## The audit team and key contacts

Name	Contact details	Responsibilities
		Annual Governance Report for Merseyside Pension Fund.
Rob Metcalf Audit Team Leader	<a href="mailto:r-metcalf@audit-commission.gov.uk">r-metcalf@audit-commission.gov.uk</a> 0151 666 3484	Leads fieldwork and audit team on opinion and value for money conclusion work. Key point of contact for and liaison with the Head of Finance and the Chief Accountants.
Dave Wilson Performance Manager	<a href="mailto:da-wilson@audit-commission.gov.uk">da-wilson@audit-commission.gov.uk</a> 0844 7987333 or 0774 8930598	Managed, quality assured and coordinated some elements of the audit work on the value for money conclusion
Kath Johnson Phil Kuehnle and Tony Whitehead  Performance Specialists	<a href="mailto:ka-johnson@audit-commission.gov.uk">ka-johnson@audit-commission.gov.uk</a> 0844 7983579 <a href="mailto:p-kuehnle@audit-commission.gov.uk">p-kuehnle@audit-commission.gov.uk</a> 0844 798 3663 <a href="mailto:t-whitehead@audit-commission.gov.uk">t-whitehead@audit-commission.gov.uk</a> 0151 666 3509	Completed audit work on the value for money conclusion. Kath Johnson carried out the fieldwork on the Managing Attendance review. Tony Whitehead carried out the fieldwork on the HESPE PIDA.

61 Wirral Council key officer contacts for the audit are set out in the table below.

**Table 7 Wirral Council key officer contacts**

Key officers of the Wirral Council team

Name	Contact details	Responsibilities
Jim Wilkie Acting Chief Executive	<a href="mailto:jimwilkie@wirral.gov.uk">jimwilkie@wirral.gov.uk</a> 0151 691 8589	Accountable Officer Governance framework and signing the Annual Governance Statement.
Ian Coleman Director of Finance	<a href="mailto:iancoleman@wirral.gov.uk">iancoleman@wirral.gov.uk</a> 0151 666 3056	Section 151 Officer Preparation and certification of accounts that present fairly the financial position of Wirral Council at 31 March 2010. Preparation and certification of accounts that present fairly the

Name	Contact details	Responsibilities
		financial position of Merseyside Pension Fund at 31 March 2010. Agreement of final AGRs. Lead officer for the value for money conclusion.
Bill Norman Director of Law, Asset Management and HR	<a href="mailto:billnorman@wirral.gov.uk">billnorman@wirral.gov.uk</a> 0151 691 8498	Monitoring Officer Considering the legality of transactions.
Tom Sault Head of Financial Services	<a href="mailto:tomsault@wirral.gov.uk">tomsault@wirral.gov.uk</a> 0151 666 3407	Preparation and quality assurance of Wirral Council's accounts. Agreement of draft AGR for Wirral Council. Key contact for the value for money conclusion.
Jenny Spick Chief Accountant - Operations	<a href="mailto:jennyspick@wirral.gov.uk">jennyspick@wirral.gov.uk</a> 0151 666 3582	Preparation of accounts and coordination and liaison during the audit.
Dave Garry Chief Internal Auditor	<a href="mailto:davegarry@wirral.gov.uk">davegarry@wirral.gov.uk</a> 0151 666 3387	Review of and assurance on risk management, corporate governance and financial control.

Wirral Council

62 Wirral Council key member contacts for the audit are set out below:

**Table 8 Wirral Council key member contacts**

Key members involved in the audit have changed with the new administration

Name	Contact details	Responsibilities
Councillor Jeff Green Council Leader	<a href="mailto:jeffgreen@wirral.gov.uk">jeffgreen@wirral.gov.uk</a>	Governance framework and signing the Annual Governance Statement
Councillor Simon Mountney Chair of the ARMC	<a href="mailto:simonmountney@wirral.gov.uk">simonmountney@wirral.gov.uk</a>	Considers, approves and signs the accounts on behalf of the Council

Wirral Council



## The audit team and key contacts

**63** In addition, all members of the Audit & Risk Management Committee are responsible for:

- Considering both the Council's and Merseyside Pension Fund's (MPF's) statements of accounts prior to approval by 30 June. This includes the Annual Governance Statement in the Council's accounts,
- The responsibilities of the Council under section 151 of the Local Government Act 1972 to make proper provision for its financial affairs.

**64** At the meeting in September members' role is to consider the post audit financial statements for the Council and MPF and our Annual Governance Reports (AGRs) which set out the key issues that you should consider before we complete the audits. Members are be required to:

- consider the matters raised in the AGRs before approving the financial statements
- take note of any adjustments to the financial statements set out in the reports
- agree to adjust any errors in the financial statements which management has declined to amend or set out the reasons for not amending the errors
- approve the letters of representation on behalf of the Council before the District Auditor issues his opinions and value for money conclusion; and
- agree the Council's response to the proposed action plans

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# Members' resources

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## Audit Commission information for members

- 65** The Audit Commission has developed councillor update newsletters which are available on the website. These online resources have been developed to meet the needs of members of councils. It is hoped that they will assist you in fulfilling your challenging role. These newsletters are aimed specifically at councillors and are available at the following <http://www.audit-commission.gov.uk/localgov/nationalstudies/pages/default.aspx> .

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## Upcoming reports

- 66** The following are the studies that the Audit Commission is currently proposing:
- Local government workforce: What are the most effective means for councils to achieve savings from the pay bill while protecting the quality of services? This study will explore how councils can do this, including how they address working patterns, staffing tiers and numbers, rates of pay, and reward packages. It will identify barriers to achieving savings and their solutions as well as highlight innovative approaches to configuring workforces in response to financial cutbacks.
  - Managing with less (Autumn 2010): This research project aims to help councils respond to the challenges of public spending reductions. It examines the approaches taken by local councils in responding to the need to make savings and to managing with less, and at how and why decisions are made. There will be a particular focus on the data and information used; the involvement of members and partners; and the balance between short, medium and longer term planning
  - Review and challenge in councils (Spring 2011): Councils need to have effective means for reviewing and challenging their major activities, priorities and risks. This project will research how this can be done effectively and efficiently. Research will identify the principles that best underpin review and challenge in councils. These principles will provide the basis for a series of questions to help those responsible for council governance assess their review and challenge arrangements.
  - Road maintenance (Spring 2011): What works in road maintenance, in the context of a tough funding environment? This study will help councils make difficult decisions on road maintenance spending priorities through four key areas:
    - the strategic use of asset management
    - decision-making and prioritisation
    - potential savings from procurement arrangements
    - effective partnership working
  - Schools workforce management (Spring 2011): Our 2009 report, 'Valuable lessons', set out savings that could be made by schools through better balance

## Members' resources

management and more effective procurement. This study will focus on how schools, working with local authorities, can maintain or improve the value for money of their workforce deployment

- Improving value for money in adult social care (Summer 2011): The aim of this research is to help councils and their health partners achieve better value for money in the commissioning and delivery of adult social care

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## Published reports:

### Latest releases



- **Financial management of personal budgets;** Challenges and opportunities for councils. Published 28 October 2010. This report examines personal budgets in adult social care and considers the financial management and governance implications for councils. It reviews the approaches to transition from providing services to providing personal budgets, the choices for allocating money, and how councils can plan for the financial implications. It also considers changes in social care commissioning and the governance arrangements needed for personal budgets. It is aimed at finance staff and staff in adult social care departments interested in personal budgets. The report includes a self-assessment checklist to help councils review progress in implementing personal budgets and identify areas for improvement.



- **Protecting the public purse;** Fighting fraud against local government and local taxpayers. Published 27 October 2010. we describe what has happened in the field of fraud detection and prevention since 2009 and set out the findings from our recent fraud survey. Last year England's councils detected around £99 million worth of benefit fraud, over £15 million worth of council tax fraud, and £21 million worth of other types of fraud including false insurance claims, and abuse of the disabled parking 'blue badge' scheme. In addition nearly 1,600 homes have been recovered by councils with a replacement cost of approximately £240 million. We also describe the action taken by some councils to tackle fraud and provide links to tools to help councils improve their counter-fraud defences. Our updated checklist gives organisations providing public services another opportunity to consider how effective they are at responding to the risk of fraud. Also available is a [single person discount comparator tool](#) that allows local authorities to compare their levels of council tax single person discount with their predicted levels, based on a national average.



- Finance improvement tool.** Published 16 September 2010. Following our 'Under Pressure' study (February 2010), we have developed a finance improvement tool to help councils respond to the financial challenges of an ageing population and identify scope for improvement.



- Strategic financial management in councils,** 8 September 2010. Delivering services with a reduced income. In our latest report, we reveal how organisations that manage their finances strategically are more adaptable and resilient when money is tight, and how other councils can learn from them. Councils need to make some urgent and tough decisions. 'Strategic financial management in councils' is aimed at all council staff, especially those who hold the purse strings of local government. In it, we point out potential financial pitfalls, highlight successes, and feature a value for money self-assessment questionnaire that can be used locally. The findings in the report are supported by a good-practice checklist that describes the key issues for improving financial management. Councillors and managers can use the checklist to evaluate their current approach to financial management.



- Local government pensions in England** - an information paper - 29 July 2010. In our latest information paper, we examine the long-term affordability of the Local Government Pension Scheme, and look at steps that could be taken to put it on a better financial footing.
- Local government claims and returns,** 27 July 2010. The level of amendments and the number of qualification letters issued by auditors in 2008/09 shows some authorities can improve their preparation of claims and returns. The first Audit Commission annual report on certification work, published on Thursday 29 July, shows that in 2008/09 Audit Commission auditors certified claims and returns from local authorities for schemes covering £45.6 billion of public money. Auditors agreed amendments to claims and returns totalling £54.5 million. Eight schemes had total amendments over £1 million and auditors qualified 673 (24 per cent) claims and returns. For the housing and council tax benefits scheme, 85 per cent of benefits claims had qualifications or amendments or both. Certification of 2008/09 claims and returns cost local authorities £18.7 million which is 0.04 per

cent of the total value certified. [Local government claims and returns: The Audit Commission's report on certification work 2008/09 \(July 2010\) \(AC external website\)](#)



- **Against the odds. Re-engaging young people in education, employment or training** - 7 July 2010. We reveal how councils need a new approach in getting to grips with the needs of their local teens, in order to make scarce resources work harder for those at greatest risk of long-term unemployment.



- **A review of collaborative procurement across the public sector**, 21 May 2010. The National Audit Office and the Audit Commission have jointly produced this review. It draws on Audit Commission research in local government, carried out during the autumn of 2009. The review finds that although collaborative procurement has the potential to improve value for money, the public sector procurement landscape is fragmented, with no overall governance. Consequently, public bodies are incurring unnecessary administration costs by duplicating procurement activity, and they are paying a wide range of prices for the same commodities, even within existing collaborative arrangements. It recommends that, given the size of public sector procurement spend and the potential to significantly improve value for money, public bodies should work together much more effectively than they currently do. And there should be a clear framework to coordinate public sector procurement activity.

- **Countdown to IFRS - Identifying and accounting for leases**, 17 March 2010. Councillors have a part to play in preparing for International Financial Reporting Standards (IFRS), especially those on finance and audit committees. Alongside a general briefing on IFRS, the Commission published a checklist for members with finance responsibilities. See below.



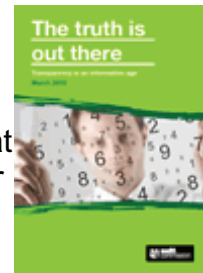
- **By mutual agreement**, 16 March 2010. Severance deals serve councils and the taxpayer. But our research shows that not all pay-offs are justified. Competent chief executives sometimes lose their jobs needlessly, and less effective individuals have been paid-off rather than dismissed.



- **Healthy balance**, 11 March 2010. Does your ward have a high number of teenage pregnancies, or is there growth in childhood obesity? This briefing says the NHS allocated £21 billion in 2009/10 on the basis of inequalities in health between areas. The impact of the spending is unclear.



- **The truth is out there**: A discussion paper, 5 March 2010. Information is essential: it helps you make better decisions. Making more and better information available to the public should help them evaluate the decisions their elected representatives are making, what public money is spent on and with what result. This discussion paper looks at how councils and health trusts, social workers, doctors and police can improve data and analysis made available to the public.



- **Under pressure: Tackling the financial challenge for councils of an ageing population**, 18 February 2010. Councils need to understand the nature and needs of residents who are ageing. The report stresses growth in the number of older citizens affects all services. We need better working across boundaries.



- **Giving children a healthy start: A review of health improvements in children from birth to five years**, 3 February 2010. Have the large sums spent on young children from 1999 to 2009 improved their health? The study examines local service planning and delivery, and how councils and primary care trusts can improve services and access for vulnerable groups, lone and teenage parents and black and minority ethnic communities.



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### International Financial Reporting Standards (IFRS)

- 67 We have listed the IFRS reports and briefings available on the Audit commission website for management and members.

#### Countdown to IFRS - a checklist for members, 17 March 2010

- 68 This report is included in the list above and is brought to members' attention as it is a fundamental change in financial reporting. From 2010/11 local government will be required to prepare accounts in accordance with international accounting standards (IFRS). A failure to achieve successful transition to IFRS would cause significant reputational damage not only to individual authorities but to the local government sector as a whole.
- 69 Poor preparation will heighten the risk that accounts will not meet requirements and so attract a qualified auditor's opinion or be published late. At a practical level, there is a risk that avoidable additional costs will be incurred if the implementation timetable is not well managed or is allowed to slip. The transition process is a real test of self regulation by local government.
- 70 The audit committee (or its equivalent) needs to be sufficiently aware of the requirements of IFRS to ensure the transition project is on track. In order to help members discuss their IFRS transition plan with relevant officers we have set out a number of suggested questions in a checklist available at the following link: [IFRS member checklist](#)

#### Complete list of resources

- [IFRS: reporting on operating segments](#) → 29 October 2010. Our latest briefing on the countdown to IFRS covers principles and practical issues that authorities should consider when reporting on operating segments.
- [International Financial Reporting Standards: Progress on the transition to IFRS](#) → 5 October 2010. The deadline for local authorities to produce IFRS-compliant accounts is fast approaching. Successful implementation of IFRS will testify to the ability of local government to manage a major change in its financial arrangements. The paper draws on a survey completed in July 2010 by auditors of all local authorities, fire and rescue authorities, and police authorities, on local government's progress on transition to IFRS. In this paper we:
  - make comparisons with a baseline assessment taken in November 2009;
  - set out relevant lessons from the NHS experience of transition, as NHS bodies have implemented IFRS a year earlier than local government; and
  - outline the key actions that authorities should be taking at this stage
- [Countdown to IFRS: Accounting for employee benefits - 15 July 2010](#)  
Issues authorities may face when accounting for employee benefits.
- [Countdown to IFRS: Managing the practical implications of restating non-current assets - 17 June 2010](#)  
Guidance on managing the practical implications of restating non-current assets.

- [Countdown to IFRS: Summary paper - 8 June 2010](#)  
A guide for senior managers and members.
- [Countdown to IFRS: Accounting for non-current assets - 17 May 2010](#)  
Introducing international financial reporting standards (IFRS) for Accounting for non-current assets.
- [Countdown to IFRS - Checklist for councillors - 17 March 2010](#)  
Councillors checklist - discussing IFRS transition plans with officers.
- [Countdown to IFRS - Identifying and accounting for leases - 17 March 2010](#)  
Issues arising from the introduction of International Accounting Standard (IAS) 17: Leases.
- [Countdown to International Financial Reporting Standards \(IFRS\) - 19 February 2010](#)  
Implementation of IFRS in local government.
- [IFRS briefing paper 3 for local government - 4 May 2009](#)  
Managing the transition to IFRS.
- [IFRS briefing paper 2 for local government - 1 September 2007](#)  
The move to international financial reporting standards - how can your auditor help?
- [IFRS briefing paper 1 for local government - 1 May 2007](#)  
The move to international financial reporting standards.



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## WIRRAL COUNCIL

### AUDIT & RISK MANAGEMENT COMMITTEE

22 NOVEMBER 2010

### REPORT OF THE DIRECTOR OF FINANCE

#### CORPORATE RISK AND INSURANCE MANAGEMENT

##### 1. EXECUTIVE SUMMARY

- 1.1. This report provides information to Members on recent progress made against the existing objectives for this service and the anticipated developments in the coming months.

##### 2. INSURANCE MANAGEMENT PROGRESS

- 2.1 Liability statistics for the second quarter of 2010/11 have been produced. These show that 397 public liability claims had been received by the end of Quarter 3 (compared to 271 at the end of Quarter 3 2009). A significant proportion of the increase relates to the exceptional snow and ice claims from January and February 2010 although the underlying trend now also appears to be slightly upward. This trend was recognised as a possibility and factored into the current funding model. The highways repudiation rate has dropped to around 80% for the current year but this anomaly is based on a very low settlement rate and the majority of the cases have been settled at little cost.
- 2.2. The retained insurance brokers conducted a market testing exercise in advance of the expiry of the marine insurance policy on 30 September 2010. Renewal was secured with the holding insurer, Navigators & General, at a cost of £8,800 which is £3,200 less than the 2009/10 premium. A similar exercise was conducted for Uninsured Loss Recovery services in relation to motor claims. The most competitive price (£925 per year) was provided by the existing supplier MAPS Legal Services and a three year contract with the option of a two year extension has been agreed.
- 2.3. The Insurance Fund Budget 2011/12 has been prepared for consideration by Cabinet on 25 November 2010. As far as possible the charges reflect the risk brought to the Insurance Fund by each client department requiring analysis of individual areas which have been subject to change given the recent organisational and structural changes within the Council. The charges to individual schools will follow the agreement of the Insurance Fund Budget.
- 2.4. Changes have been made Insurance to the inspections of boilers, to deliver savings and officers are now looking at lifting plant. If assurance can be obtained that the general legal obligations under the Provision and Use of Work Equipment Regulations are met by existing maintenance and servicing arrangements then inspections of these items could also cease.

- 2.5. Work continues on large liability losses / historic abuse / mesothelioma and other industrial disease claims. The long awaited “trigger” judgement from the Court of Appeal in relation to asbestos related claims in mid-October failed to clarify the issues and the matter is now proceeding to the Supreme Court. Wirral has no specific involvement in the test cases but the repercussions could potentially leave the Authority effectively uninsured for historic asbestos related claims. Whilst a prudent approach to reserving for these matters has been taken within the latest Actuarial Study a negative decision would have longer term funding implications.
- 2.6. An on-site audit of liability claims handling quality was carried out by the Risk & Insurance Team. The quality of the handling service provided by Zurich Municipal remains generally high, although some breaches of the service level agreement were identified.
- 2.7. Service level agreements for schools have been revised for a new five year traded service agreement. Schools do have the option to purchase insurance elsewhere but are retained as the package offered is competitive. Unfortunately the Authority will be unable to offer any service to schools who convert to Academy status as there is insufficient insurable interest for them to remain as part of any Council policies.

### **3. RISK MANAGEMENT PROGRESS**

- 3.1. The study being undertaken on reviewing the Council approach to risk management is progressing. The on-line survey of managers in relation to risk management maturity has been conducted as have business context interviews with Chief Officers and senior Members. The initial findings are being reviewed and a report will be prepared.
- 3.2. A refresh of the Corporate Risk Management Strategy has been undertaken and is being reported to Cabinet on 25 November 2010.
- 3.3. The Risk Ranking Surveys of secondary schools were completed ahead of schedule on 21 October 2010. The results of the surveys will influence schools insurance charges for 2011/12 onwards. Preparatory work for the extension of the survey programme to include primary and special schools and Early Years Centres has now commenced.
- 3.4. An update on progress made towards improving the management of corporate risks was included in the 2010/11 Quarter 2 Performance and Financial Review reported to Cabinet on 4 November 2010 with supporting documents within the Council Library.

3.5. The individual risk registers for each Local Area Agreement (LAA) priority area were reviewed at the end of Quarter 2 and a summary of key risks to the six thematic partnerships prepared as part of the Performance and Risk Report for the Local Strategic Partnership Executive Board.

3.6. On 27 October 2010 a training course was held for Members which looked at risk and uncertainty. Whilst both theoretical and practical, it incorporated the need for a 'balanced' approach in considering both the negative and the positive issues associated with risk and uncertainty.

#### **4. INSURANCE MANAGEMENT – ISSUES FOR NEXT PERIOD**

4.1. Liability claim statistics for the third quarter of 2010/11 will be produced and assessed for long term trends. Looking forward, the Council is facing significant challenges with reductions in Government funding. Decisions to meet the challenges will, almost inevitably, increase the potential for claims.

4.2. Preparations will begin for the renewal of the Liabilities, Motor, Engineering and Computer policies. As indicated above it is likely that from 2011/12 the Engineering inspection contract will be restricted to items where there is a legal requirement to inspect.

4.3. Work has begun on a procurement exercise for insurance broking services ahead of the expiry of the existing contract with Griffiths & Armour. The process will be finalised as the contract ends on 31 December 2010.

#### **5. RISK MANAGEMENT – ISSUES FOR NEXT PERIOD**

5.1. The Risk Management Study will continue with the issuing of the initial report on how the Council approach to managing risk and uncertainty can be improved.

5.2. A review of the Corporate Risks is expected to be undertaken in conjunction with the refresh of the Corporate Plan and the setting of the Council Budget 2011/12. As referred to in section 4.1 the Council is facing significant challenges and decisions taken will, potentially, involve a degree of increased risk which should be considered at the time the decisions are taken.

5.3. Progress on the management of the existing Corporate Risks will be reviewed and included in the 2010/11 Quarter 3 Performance and Financial Review to be reported to Cabinet in February 2011.

5.4. The individual risk registers for all Local Area Agreement (LAA) priority areas will be reviewed and significant risks incorporated into the Quarter 3 Performance and Risk Report.

#### **6. FINANCIAL IMPLICATIONS**

6.1. There are none arising directly from this report.

**7. STAFFING IMPLICATIONS**

7.1. There are none arising directly from this report.

**8. EQUAL OPPORTUNITIES IMPLICATIONS**

8.1. There are none arising directly from this report.

**9. ENVIRONMENTAL IMPACT STATEMENT**

9.1. There are none arising directly from this report.

**10. LOCAL MEMBER SUPPORT IMPLICATIONS**

10.1. There are none arising directly from this report.

**11. BACKGROUND PAPERS**

11.1. Data from the Figtree claims database

11.2 Liability claim statistics.

**12. PLANNING IMPLICATIONS**

12.1. There are none arising directly from this report.

**13. RECOMMENDATION**

13.1. That the report be noted.

IAN COLEMAN  
DIRECTOR OF FINANCE

FNCE/229/10

## **AUDIT & RISK MANAGEMENT COMMITTEE – 22 NOVEMBER 2010**

### REPORT OF THE DIRECTOR OF LAW, HR AND ASSET MANAGEMENT

#### **REGULATION OF INVESTIGATORY POWERS ACT 2000**

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#### **1. EXECUTIVE SUMMARY**

This report summarises the use of covert surveillance by the Council between 1 September and 8 November 2010.

#### **2. BACKGROUND**

- 2.1 The Regulation of Investigatory Powers Act 2000 (RIPA) governs how public bodies use surveillance methods: The Council may use covert surveillance for the purpose of preventing or detecting crime or preventing disorder.
- 2.2 The origin of RIPA lies in the Human Rights Act 1998 which places restrictions on the extent to which public bodies may interfere with a person's right to respect for his or her home and private life and correspondence during the course of an investigation into suspected criminal activities. The provisions of RIPA ensure (in summary) that any such interferences are in accordance with the law and are necessary and proportionate (i.e. the seriousness of the suspected crime or disorder must outweigh any possible interferences with the personal privacy of the persons being investigated and of persons who associate with them).
- 2.3 The Council's Constitution authorises the Directors of Law, HR and Asset Management, Technical Services and Finance to designate Heads of Service and Service Managers to authorise the use of covert surveillance in accordance with the procedures prescribed by RIPA.
- 2.4 The Office of Surveillance Commissioners (OSC) is responsible for overseeing the operation of RIPA. The OSC inspected the Council on 1 July 2009. The outcome of that inspection was reported to the Committee on 23 September 2009. The Committee approved amendments to the Council's Policy and Guidance Document made in response to the Report.
- 2.5 New Codes of Practice on covert surveillance have been published by the Home Office. As from 1 April every Council should report quarterly to its Audit and Risk Management Committee on its use of RIPA. The last such report was made to the Committee on 28 September 2010.

#### **3. THE USE OF RIPA BY THE COUNCIL**

- 3.1 Between 1 September 2010 and 8 November 2010 the Council granted 9 authorisations for covert surveillance.

- 3.2. Of those authorisations, 5 were for covert surveillance by the Wirral Anti-Social Behaviour Team to gather evidence of serious anti-social behaviour (mainly on housing estates) for use in proceedings for possession injunctions and anti-social behaviour orders. The use of covert surveillance by the installation of cameras and sound recording equipment is a valuable means of overcoming the barriers raised by witness intimidation to evidence obtained by other means. It also is potentially more reliable evidence than the recollection of a witness whose memory may be fallible and whose evidence may be perceived as biased against the defendant.
- 3.3 The reasons for those authorisations were complaints of drunken behaviour, criminal damage, verbal abuse, shouting and intimidation.
- 3.4 Two authorisations were granted for covert surveillance by Wirral Trading Standards officers for use in an investigation with the Police into the sale of fireworks and alcohol to under-age children. Under age volunteers under close supervision entered such premises and attempted to purchase the prohibited goods.
- 3.5 Two authorisations were granted to obtain evidence of serious offences of flytipping at different sites in the Borough where this offence has become a public nuisance.

#### 4. **FINANCIAL, STAFFING, LOCAL AGENDA 21, PLANNING, SOCIAL INCLUSION AND LOCAL MEMBER IMPLICATIONS**

There are no Financial, Staffing, Local Agenda 21, Planning, Social Inclusion and Local Member Implications arising from this report.

#### 5. **EQUAL OPPORTUNITIES IMPLICATIONS**

The purpose of RIPA is to strike a fair balance between the rights of individuals to privacy and the rights of public bodies to act in the public interest to detect and prevent criminal behaviour and disorder.

#### 6. **COMMUNITY SAFETY IMPLICATIONS**

The use of RIPA enables the Council to use covert surveillance to tackle the problem of anti-social behaviour and disorder.

#### 7. **BACKGROUND PAPERS**

The authorisations (which are exempt from publication).

#### 8. **RECOMMENDATIONS**

**That the Committee notes the report on the Council's use of RIPA between 1 September and 8 November 2010.**

BILL NORMAN  
DIRECTOR OF LAW, HR AND ASSET MANAGEMENT



## WIRRAL COUNCIL

### AUDIT AND RISK MANAGEMENT COMMITTEE

22 NOVEMBER 2010

### REPORT OF THE DIRECTOR OF FINANCE

#### ICT STRATEGIC REVIEW

#### 1 EXECUTIVE SUMMARY

- 1.1 A report has been commissioned from Socitm Consulting (the Society of IT Management) into the technologies and organisation of Information Technology (IT) Services. The recommendations of the report were agreed by the Cabinet on 14 October 2010. The Audit and Risk Management Committee on 30 June 2010 requested to see this report after approval by Cabinet.

#### 2 BACKGROUND

- 2.1 IT Services is the Council information technology provider and was formed in 2005 by the merger of Wirral IT Services (WITS) with the departmental IT teams of Corporate Services, Education and Cultural Services, Social Services and Technical Services. This was approved by Cabinet on 1 December 2005.
- 2.2 IT Services delivers services to all Council departments and Members and also to schools in Wirral.
- 2.3 Following an appropriate procurement exercise the Society of IT Management (Socitm Consulting) was engaged to conduct a high level review of the existing ICT provision in the light of current best practice for a major local authority and in the context of stability, scope and sustainable cost in the current financial environment.

This has included an overview of the areas of:

- Hardware and networks
- Applications and systems
- Resilience and availability
- Organisation and structure
- Methodologies and working practices

- 2.4 In addition, a number of members of staff with extensive experience of Wirral Council IT services, infrastructure and departments are reaching an age at which they are able to retire should they so choose which would bring to an end a period of stability and continuity. This means that systems and processes need to be in place which are not reliant on informal networking or accumulated knowledge.

### **3 OVERVIEW OF CONCLUSIONS**

- 3.1 Some services could be rated as “gold” or “silver” e.g. hardware investment while others may be considered as “bronze” e.g. disaster recovery.
- 3.2 Customer perceptions range from excellent to poor and there is poor understanding by customers of the performance of the service.
- 3.3 Each section of IT Services individually provides an effective response to perceived customer needs but those needs are not managed within a corporate governance process.
- 3.4. IT developments should be commissioned as part of the strategic process and aligned with Council priorities as part of improved corporate governance and therefore responsibility should be transferred to the Deputy Director of Finance.
- 3.5. Professional methodologies for assessing and managing projects should be employed, including
- Business cases for all projects and IT investment – this is not currently enforced
  - PRINCE2 – project management methodology
  - MSP (Managing Successful Programmes) framework and concepts
  - ITIL (IT Infrastructure Library) - service management
  - SFIA (Skills Framework for the Information Age) – IT skills structure.
- Cabinet on 15 April 2010 agreed to the implementation of MSP, ITIL and SFIA.
- 3.6. Business lead risk assessments should determine appropriate levels of business continuity and disaster recovery for business processes and service delivery, underpinned by appropriate IT services. This process should be lead by the Deputy Director of Finance.

- 3.7. The Business Architecture team of IT Services should be transferred to the Deputy Director of Finance to separate the determination of security standards from implementation. Again, this would represent good corporate governance.
- 3.8 The previous decision to form a corporate IT unit is endorsed by Socitm Consulting and while any continuing outposts of IT staff should be incorporated, IT staff should be visible in departments in line with the distributed office model.
- 3.9. Emphasis must be placed on improving communication and customer service using corporate Service Level Agreements (SLA's) and centred on a strengthened account management function and service desk.
- 3.10 Most systems remain appropriate but the Council should review the business requirements for Customer Relationship Management (CRM) and Corporate Electronic Document Records Management (EDRM) systems currently in use to determine their ongoing suitability to meet the business demands and timescales.
- 3.11 A future wide area network renewal should consider a “ring” structure rather than a “star” structure for improved resilience.
- 3.12 Despite the requirements of Government Connect, networks will need more flexibility to accommodate a wide variety of different end-user requirements including third party and volunteer access to Council systems in future.
- 3.13 The IT service to schools should remain as it currently is pending any developments in schools provision.

#### **4 HARDWARE AND NETWORKS**

4.1 The Council is pursuing appropriate technologies in areas such as:

- Unix and Windows Server Virtualisation
- Storage Area network
- IP Telephony
- Thin Client Desktop
- Network technology

but needs to further develop appropriate business cases in support of these initiatives to ensure that the maximum value is derived from its investment in these technologies.

- 4.2 A programme of planned, phased replacement and life-cycle management of desk top equipment should be implemented. This will have an impact on resources required for desk top support and will reduce the number of calls to the service desk.
- 4.3 The Wide Area Network design should be reviewed when next appropriate to consider a “ring” design as opposed to a “star” design which will give greater resilience as it reduces dependence on individual points in the network.
- 4.4. Network security should be reviewed to give a more flexible approach e.g. to allow third party access to systems while still complying with Government Connect although it is recognised that having a network shared with schools and libraries is an added complexity.
- 4.5. The increasing need for wireless access and use of mobile media should be addressed in a secure manner where there is a business case for the use of these technologies.

## **5 APPLICATIONS AND SYSTEMS**

- 5.1 Service specific applications are those in common use across Local Government.
- 5.2 The Oracle e-Financials system broadly meets Council requirements and is also in common use.
- 5.3 The Oracle CRM system has attracted criticism for issues with external support and for protracted development times and should be the subject of a business review to determine its suitability. Wirral may have to review this in the future in any case as Oracle’s roadmap for this project is uncertain as it has recently acquired a competing CRM product.
- 5.4 The Corporate Documentum EDRM system attracts similar comments to the Oracle CRM. The business requirements for an EDRM system at corporate level should be reviewed and then the Documentum specification evaluated against these requirements.
- 5.5 The Drupal open source system for the Council and Merseyside Pension Fund websites will give useful experience of the issues around the use of open source and if successful open source may be considered as an alternative sourcing method for other applications.
- 5.6 The Geographical Information System needs to be managed as a corporate technology asset to ensure further corporate exploitation and therefore responsibility should be transferred from the Change Team to IT Services.

## **6 RESILIENCE AND AVAILABILITY**

- 6.1 The central hardware is configured to give a high level of resilience and business continuity but its location is poor for the purpose of disaster recovery.
- 6.2 The location of the data centre rooms, two in the Treasury Building and one in the Hamilton Building is unsatisfactory and should be resolved to provide greater physical separation and reduced reliance on local electricity and telephone networks. This was agreed by Cabinet on 18 March 2010

## **7 ORGANISATION AND STRUCTURE**

- 7.1 All ICT developments should be managed and prioritised in line with corporate priorities and to common standards. This role should be transferred to the Deputy Director of Finance.
- 7.2 The concept of the central IT unit is endorsed and any remaining departmental staff should be absorbed into IT Services.
- 7.3 The Business Architecture team of IT Services should be transferred to the Deputy Director of Finance to separate the determination of security standards from implementation.
- 7.4 IT Services should be reorganised, placing greater emphasis and resources on the communications, performance and service desk functions which will eventually be responsible for first and second line support for all IT systems.
- 7.5 IT Services should engage with Members and other service users to establish the requirement for support outside of normal hours.
- 7.6 The schools IT service, which deals with 95 primary and 13 secondary schools, should remain as it is at present.

## **8 METHODOLOGIES AND WORKING PRACTICES**

- 8.1 The help desk function should be re-named as the Service Desk and should be strengthened to provide a comprehensive contact point for all ICT issues, providing first and second line support, communicating with service users at a variety of levels and encompassing an enhanced account management function.
- 8.2 New corporate Service Level Agreements should be introduced for the benefit of IT Services and clients. These will set the standards of the IT service which is required by the Council and provide a means against which the success of the IT service can be reliably measured.
- 8.3 The new service desk software currently being implemented should act as a base for performance management information.



## 9 PRINCIPAL ACTIONS ARISING FROM THE REPORT

<b>Principal Actions</b>	<b>Responsibility</b>	<b>Comment</b>	<b>Date</b>
Reorganisation of IT Services	Director of Finance		31.12.10
Assess appropriate levels of business continuity and disaster recovery	Deputy Director of Finance	Determine in conjunction with Asset Management Strategy and Health, Safety & Resilience Operations Manager.	30.09.11
Consult re out of hours support	Head of IT Services		31.03.11
Implement ITIL/ SFIA	Head of IT Services	Investigate training opportunities, identify relevant staff. May require assistance from external trainers.	30.09.11
Re-tender Wide Area Network	Head of IT Services	Determine in conjunction with Asset Management Strategy and investigate opportunities for sharing with Health Service.	Earliest 31.03.12
Review suitability of and business requirements for Oracle CRM and Documentum	Deputy Director of Finance/Head of IT Services	Extend current review	31.03.11
Implement planned replacement of desk top equipment	Head of IT Services	In conjunction with "thin client" roll-out and Strategic Asset Review.	From 2010
Review Service Level Agreements	Head of IT Services		31.03.11
Review Communications	Head of IT Services	In conjunction with Head of Tourism and Marketing	31.03.11

## 10 FINANCIAL AND STAFFING IMPLICATIONS

10.1 IT Services has a gross budget of £12.75m as follows:

	£m	
Corporate	10.06	(£8.50m controllable)
Schools Service	2.69	(income from schools)
Total	12.75	

10.2. One of the aims of this strategic review was to assess the possibility of reducing ICT costs by 20% over the period to 2015. Implementation of the recommendations in the report should achieve savings of £1.7m phased over four years.

10.3 The staffing establishment is 188 posts as follows:

Corporate	142
Schools	46
Total	188

10.4 It is anticipated that several of the initiatives currently under way, e.g. desk top thin client or in the near future e.g. lifecycle management of desk tops and fault recording self service, will reduce the need for staff resources.

## 11 EQUAL OPPORTUNITIES IMPLICATIONS

11.1 There are no equal opportunity implications.

## 12 COMMUNITY SAFETY IMPLICATIONS

12.1 There are no community safety implications.

## 13 LOCAL AGENDA 21 IMPLICATIONS

13.1 There are no Local Agenda 21 implications.

## 14 PLANNING IMPLICATIONS

14.1 There are no planning implications



**15 ANTI-POVERTY IMPLICATIONS**

15.1 There are no anti-poverty implications

**16 SOCIAL INCLUSION IMPLICATIONS**

16.1 There are no social inclusion implications

**17 LOCAL MEMBER SUPPORT IMPLICATIONS**

17.1 Members will be consulted on the requirement for out of hours support.

**18 BACKGROUND PAPERS**

18.1 ICT Service Delivery Review – SOCITM Consulting – August 2010.

**19 RECOMMENDATIONS**

19.1. That the recommendations of the report be implemented.

19.2. That, as agreed by Cabinet on 18 March 2010, a further report be prepared on business continuity and disaster recovery.

19.3. That consultation be undertaken on the provision of enhanced out of hours support, any proposals to be reported back to the Cabinet.

19.4. That, as agreed by Cabinet on 15 April 2010, ITIL and SFIA be developed possibility with initial assistance from external trainers.

19.5. That the suitability of the Oracle CRM and Documentum systems be reviewed as part of the current exercise.

19.6. That SOCITM be requested to agree to the public release of the report.

IAN COLEMAN  
DIRECTOR OF FINANCE

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By virtue of paragraph(s) 1 of Part 1 of Schedule 12A of the Local Government Act 1972.

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