



Audit and Risk Management Committee

Date:	Wednesday, 28 September 2011
Time:	6.15 pm
Venue:	Committee Room 1 - Wallasey Town Hall

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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 - 8)

To receive the minutes of the meeting held on 30 June 2011.

3. MERSEYSIDE PENSION FUND ACCOUNTS

Report of the Director of Finance to follow

4. AUDIT COMMISSION - MERSEYSIDE PENSION FUND ANNUAL GOVERNANCE REPORT (Pages 9 - 30)

5. STATEMENT OF ACCOUNTS

Report of the Director of Finance to follow

6. AUDIT COMMISSION - ANNUAL GOVERNANCE REPORT (Pages 31 - 74)

7. ANNUAL GOVERNANCE STATEMENT

Report of the Director of Finance to follow

8. **BUDGET PROJECTIONS 2012/2015 (Pages 75 - 82)**
9. **INTERNAL AUDIT UPDATE**
Report of the Chief Internal Auditor to follow
10. **AUDIT COMMISSION - PROGRESS REPORT (Pages 83 - 120)**
11. **UPDATE ON AUDIT RECOMMENDATIONS RELATING TO LAW, HR AND ASSET MANAGEMENT**
Report of the Director of Law HR and Asset Management to follow
12. **INSURANCE FUND ANNUAL REPORT (Pages 121 - 126)**
13. **CORPORATE RISK AND INSURANCE MANAGEMENT (Pages 127 - 132)**
14. **FRAUD PREVENTION (Pages 133 - 140)**
15. **REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA) - QUARTERLY UPDATE (Pages 141 - 144)**
16. **ANY OTHER URGENT BUSINESS APPROVED BY THE CHAIR (PART 1)**
17. **EXEMPT INFORMATION - EXCLUSION OF MEMBERS OF THE PUBLIC**

The public may be excluded from the meeting during consideration of the following items of business on the grounds that they involve the likely disclosure of exempt information.

RECOMMENDATION – That in accordance with section 100A (4) of the Local Government Act 1972, the public be excluded from the meeting during consideration of the following items of business, on the grounds that they involve the likely disclosure of exempt information as defined by the relevant paragraphs of Part 1 of Schedule 12A (as amended) to that Act. The public interest test has been applied and favours exclusion.

18. **CARE HOMES - CONTINGENCY PLANNING (Pages 145 - 160)**
19. **ANY OTHER URGENT BUSINESS APPROVED BY THE CHAIR (PART 2)**

AUDIT AND RISK MANAGEMENT COMMITTEE

Thursday, 30 June 2011

Present:

Councillor	J Crabtree (Chair)		
Councillors	S Mountney	JE Green	
	A Brighthouse	J Keeley	
	RL Abbey	I Williams	
	D Dodd		

1 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 Green declared a personal interest in agenda item 6 – Internal Audit Annual Report 2010/2011 (see minute 6 post) by virtue of his wife being employed at a school, which had recently been subject to audit.

2 MINUTES

The Director of Law, HR and Asset Management submitted the minutes of the meeting held on 28 March 2011.

Further to minute 88 (Internal Audit Plan 2011/2012), the Interim Director of Adult Social Services presented a detailed update to provide clarification for Members on a number of issues that had been raised, associated with personalisation. He commented that a major programme of work had been undertaken to accelerate the pace of personalisation, which had resulted in the national target being exceeded, contrary to the expectations of the Department of Health in October 2010 and the previous CQC report. On 12 June 2011, a national survey of local authorities' performance on NI130 ranked Wirral 41st of the 153 authorities.

The Interim Director commented also that the DASS reablement service HART (Home Assessment and Reablement Team) had now been replaced by a new service, STAR (Short Term Assessment and Reablement) and he outlined its critical role in supporting people through an assessment and recovery process, which then provided an opportunity for a support planned and personal budget to be organised following their discharge from the service. Interim arrangements were now being phased down in a carefully planned way and work with the independent providers of the enablement part of the service was ongoing to ensure that training was thorough and quality was high.

Resolved –

(1) That the minutes of the meeting held on 28 March 2011, be approved.

- (2) That the detailed update from the Interim Director of Adult Social Services be noted.**
- (3) That the thanks of the Committee be accorded to the Interim Director, staff within DASS and the previous Cabinet Member for the significant improvements achieved in relation to personalisation at a particularly challenging time for local authorities.**
- (4) That the Interim Director be requested to provide a further update to Members direct, in relation to the current position with direct payments.**

3 APPOINTMENT OF VICE-CHAIR

On a motion by Councillor Abbey and seconded by Councillor Crabtree, it was –

Resolved – That Councillor D Dodd be appointed Vice-Chair for the ensuing municipal year.

4 BUDGET PROJECTIONS 2012/2015

The Director of Finance presented the projected budget for 2012/2015, which had been considered by the Cabinet on 2 June 2011 (minute 7 refers). He set out the assumptions which underpinned the projections and reported upon the outcome of grant negotiations and other legislative issues. Balances were projected to be £6.3m at 31 March 2012 and with savings having been taken into account, he reported that there would be a projected shortfall of £20.8m in 2012/2013, £27.6m in 2013/2014 and £30.3m in 2014/2015.

In response to comments from Members in relation to the Census 2011, the Chief Executive indicated that the reduction for Wirral since the Census 2001 was greater than for any other metropolitan or unitary authority. If confirmed, then the reduction in grant receivable could be significant.

Resolved –

- (1) That the budget projections be regularly reviewed.**
- (2) That a more detailed update be presented to the next meeting of the Committee upon the assumptions underpinning the budget projections.**
- (3) That information be provided to Members direct upon the grant implications of the Census 2011.**

5 INTERNAL AUDIT UPDATE

The Chief Internal Auditor reported that in order to assist in effective corporate governance and fulfil statutory requirements, the Internal Audit Section of the Finance Department reviewed management and service delivery arrangements within the Council as well as financial control systems. Work areas were selected for review on the basis of risks identified on the Corporate Risk Register and as assessed by Internal Audit in consultation with Chief Officers and Managers. His

report identified and evaluated the performance of the Internal Audit Section and included details of the actual work undertaken during the period 1 April – 31 May 2011.

He reported that although there were no items of significance for the reporting period identified during the audit process, which required action by Members, he commented upon a number of items of note concerning ongoing audit work in relation to compliance with the CRC Energy Efficiency Scheme; visits to Departmental Management Team meetings to engage with managers regarding the role of Internal Audit during 2011/2012; Online Fraud Training; and 16 to 19 Year Old School Funding.

Resolved – That the report be noted.

6 INTERNAL AUDIT ANNUAL REPORT 2010/2011

The Chief Internal Auditor presented the Internal Audit Annual Report for 2010/2011, which was timed to support the Statement of Internal Control (within the Annual Governance Statement) and which included an opinion on the overall adequacy and effectiveness of the organisation's control environment. On the basis of work undertaken during the year, he concluded that the Council's internal control environment, risk management process and corporate governance, taken as a whole, were adequate and generally effective. Although there were control issues highlighted, which needed to be addressed, the work undertaken during the year had identified good areas of effective control and the Council continued to operate well in a very challenging environment.

Members expressed concern in relation to a number of service specific controls, particularly in relation to key recommendations to the Department of Law, HR and Asset Management, related to the Corporate Governance agenda which required further improvement for the process to continue. Members also expressed their concern that the Department had not developed a robust system to acknowledge and respond to Internal Audit reports and ensure effective implementation of recommendations made.

The Chief Internal Auditor confirmed that officers had been in communication with the Director of Law, HR and Asset Management to identify progress against any outstanding recommendations and an Action Plan would be presented to the next meeting of the Committee in relation to any outstanding key actions or recommendations.

Resolved –

- (1) That the Internal Audit Annual Report 2010/2011 be noted.**
- (2) That an update be presented to the next meeting of the Committee, to include an Action Plan to ensure the effective implementation of any outstanding key recommendations arising from Internal Audit reports.**

7 **CORPORATE RISK AND INSURANCE MANAGEMENT**

The Director of Finance reported upon progress made against the objectives for corporate risk and insurance management and the anticipated developments in the coming months including the plans for 2011/2012. The update report highlighted work around risk and insurance, which sought to support the Risk Management Strategy and maintain the successful management of the Insurance Fund. The Chief Executive echoed views expressed by Members upon the importance of improvements to the Risk Management Strategy and for the Committee to have a key role in its development.

Resolved – That the report be noted.

8 **AUDIT COMMISSION FEES 2011/2012**

The Director of Finance reported upon the Audit Commission fee for 2011/2012, which was based upon a risk based approach to audit planning as set out in the Code of Audit Practice. The Audit Fee of £352,800 included a reduction in fees reflecting the new approach to local Value for Money work and a 3% reduction to reflect lower continuing costs post-implementation of International Financial Reporting Standards. There was also a further reduction from 2010/2011 and the Director commented that it reflected the ongoing work between the Council and the Audit Commission, and their commitment to seek to reduce their fees. He reported that additional work was undertaken in respect of the certification of grant claims and returns which was variable, dependent upon the numbers and types of grant as well as any specific requirements of the grant-paying body. The planned fee for 2011/2012 was £100,000 being a reduction of £28,000 on the 2010/2011 fee.

The District Auditor commented upon the factors which influenced the fees and indicated that a separate audit plan would be issued in December 2011. He provided details of reports that would be issued during the course of the audit and set out what was required from the Council's audit team.

Resolved – That the Audit Fee for 2011/2012 be agreed.

9 **AUDIT COMMISSION FEES 2011/2012 - MERSEYSIDE PENSION FUND**

The Director of Finance reported that the fees to be charged by the Audit Commission for the audit of the accounts and financial statements of the Merseyside Pension Fund for the year ended 31 March 2011 amounted to £60,966, which was consistent with the indicative fees set out in the Audit Opinion Plan presented to the Pensions Committee on 11 January 2011 (minute 64 refers) and reflected an area of audit risk that had been identified during the planning process.

Resolved – That the fees of £60,966 for the audit of the accounts and financial statements of Merseyside Pension Fund for 2011/2012 be noted.

10 **AUDIT COMMISSION PROGRESS REPORT**

The District Auditor presented the Audit Commission Progress Report 2010/2011, which provided an update of ongoing audit work at the Council. He set out the key messages contained within the document, including the significant challenge and risk

associated with the implementation of the International Financial Reporting Standards (IFRS). Value for Money work was progressing to plan and work continued in respect of PIDA disclosures – Adult Social Services and Procurement of Highways and Engineering Services Procurement Exercise (HESPE).

He reported also that the Council was continuing to follow up matches on the 2009/2010 National Fraud Initiative (NFI), with the result that £318k was being recovered following error or fraud. The current NFI recovery figure for 2011/2012 was £29k.

Resolved – That the Audit Commission Progress Report be noted.

11 **AUDIT COMMISSION REPORTS**

The Chief Internal Auditor presented a summary of reviews undertaken by the Audit Commission for the period 1 April 2006 to 31 March 2011 and provided details of the action that Wirral Council, including the Merseyside Pension Fund, had subsequently taken to implement the recommendations contained within the associated reports. He commented that for the monitoring period assurances had been received that all recommendations had been implemented. However, despite a number of requests for evidence to be provided for four reports within the Department of Law, HR and Asset Management, evidence of implementation of the recommendations was not provided and he commented that a number of recommendations had been superseded without having been implemented. However, an assurance had now been provided that the recommendations would be implemented following the introduction of new legislation in the forthcoming year and the Director of Law, HR and Asset Management had been advised to introduce a system to ensure that recommendations made by the Audit Commission were responded to and implemented in a timely manner. In response to comments from Members, the Chief Internal Auditor proposed to present an update to the next meeting of the Committee.

Resolved –

- (1) That the report be noted.**
- (2) That all Chief Officers be reminded to ensure that they respond in an appropriate and timely manner to all recommendations made by the Audit Commission.**
- (3) That an update in relation to compliance with Audit Commission recommendations be presented to the next meeting of the Committee.**

12 **FINANCE DEPARTMENT PLAN**

The Director of Finance presented the draft Finance Department Plan 2011/2012, which outlined the key services, aims and objectives that contributed to the delivery of the Corporate Plan. He reported that performance against the Plan was monitored by the Departmental Management Team on a monthly basis in accordance with the performance management arrangements approved by Cabinet on 14 April 2011. The Leader of the Council, who was the portfolio holder for Finance and Best Value, received a monthly statement showing progress against the key milestones and objectives that underpinned the delivery of the Corporate Plan.

In addition, the Plan incorporated a Departmental Risk Register, which contributed to the Corporate Risk Register. He indicated that at the time of publication there were a number of risks that had a 'likelihood' score of 3 (indicating a high probability that the risk would have an impact on the Council), and was reflective of the change that the Council and the Department was currently undergoing. However, the mitigating controls that were being put in place aimed to reduce those scores and the Risk Register would be refreshed accordingly.

Members sought assurances on how control measures were being put in place, with fewer staff within the Department. Further information was also requested in relation to risks being re-scored, once additional control measures had been applied, and Members also requested the provision of more in depth risk specific training. In response, the Chief Executive indicated that the issues in relation to risk scoring affected all Departments and he proposed that the Council's Risk and Insurance Officer attend the next meeting of the Committee to address those authority-wide issues.

Resolved –

- (1) That the Finance Department Plan 2011/2012 be noted.**
- (2) That a further report be presented to the next meeting of the Committee on the developing approach to risk management.**
- (3) That the Director of Finance be requested to liaise with the Chair and spokespersons in relation to the training requirements of the Committee.**

13 FUTURE OF LOCAL PUBLIC AUDIT

The Director of Finance presented a response that had been sent to the Department for Communities and Local Government (DCLG) to a consultation paper on the Future of Local Public Audit, which had been circulated to each Member of the Committee for comment.

Resolved – That the response to the DCLG consultation be noted.

14 ANTI MONEY LAUNDERING POLICY

The Director of Finance reported that following the publication of CIPFA guidance '*Combating Financial Crime: Further Guidance on Anti-money Laundering for Public Service Organisations (2009)*', the Council's Anti Money Laundering Policy had been updated to ensure compliance with best practice identified by CIPFA and the Society of Local Authority Chief Executives (SOLACE).

Resolved –

- (1) That the revised Anti Money Laundering Policy be noted.**
- (2) That the revised policy be promoted across the Council.**

15 **BRIBERY ACT 2010**

The Director of Finance provided an outline of the Bribery Act 2010 and set out the actions required to ensure compliance. He also set out the sanctions which were applicable to the Council, in the event of a prosecution under the Act, which would be implemented on 1 July 2011. He presented a draft Anti Bribery Policy, which had been prepared in accordance with CIPFA best practice and commented that following discussions with the Head of Legal and Member Services, an action plan had been prepared to ensure that the Council implemented appropriate actions to comply with the requirements of the Act.

Resolved –

- (1) That the Anti Bribery Policy and Action Plan be noted.**
- (2) That the Policy be promoted across the Council.**
- (3) That the Council take appropriate steps to ensure compliance with the legislation as identified in the Action Plan.**

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

The Head of Legal and Member Services, on behalf of the Director of Law, HR and Asset Management presented a quarterly update in relation to the use of covert surveillance by the Council between 11 April 2011 and 1 June 2011. The Home Office Code of Practice on covert surveillance required every Council to report quarterly on its use of RIPA and to approve annually its policy on RIPA.

He commented that a review had been published by the Home Office, which made a number of recommendations concerning local authorities –

- That Magistrate's approval should be required for local authority use of RIPA and should be in addition to the authorisation needed from a senior officer and the more general oversight by elected councillors.
- That the use of RIPA to authorise directed surveillance should be confined to cases where the offence under investigation carries a maximum custodial sentence of six months or more. But because of the importance of directed surveillance in corroborating investigations into underage sales of alcohol and tobacco, the Government should not seek to apply the threshold in those cases.

The proposals had been incorporated into draft legislation and were expected to be enacted in 2012. He expressed the view that if the Bill became law, it would become more difficult to obtain evidence of anti social behaviour. Persistent acts of disorder and nuisance would not pass the threshold and witnesses would be more reluctant to give evidence if the outcome of the case was less certain because the evidence of covert surveillance was no longer available to prove they were telling the truth. They would fear retaliation and the change in the law would protect the right to privacy of suspected perpetrators of anti-social behaviour, which would be regarded as a higher priority than the right of their victims to live peacefully and without fear.

A Member expressed the view that following the publication of the Home Office review, the Council should have taken steps to comply with the recommendations, rather than waiting for a change in the law to take place.

Resolved –

- (1) That the report on the use of covert surveillance be noted.**
- (2) That the Council’s current policy and procedure on RIPA be approved, pending the coming into force of new amending legislation.**

17 **MEMBERS TRAINING**

The Director of Finance reported that the CIPFA guidance ‘*Audit Committees – Practical Guidance for Local Authorities*’ recommended that the Members of an Audit Committee should receive specific training in their role and responsibilities as Members of that Committee. The Director reported that since 2006 the training requirements had been comprehensively achieved at minimum cost by appointing one of the Members of the working party who wrote the CIPFA guidance to undertake the training. The course had been supplied over two sessions at a cost of £2,500.

Members expressed the view that more in depth training would be appropriate, beyond the primary training already undertaken by most Members.

Resolved – That the Director of Finance be requested to liaise with the Chair and spokespersons to agree a suitable training package.

Annual governance report

Merseyside Pension Fund

Audit 2010/11



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Traffic lights
Red ■ Amber ◆ Green ●

Key messages

This report summarises the findings from my 2010/11 audit of the accounts of Merseyside Pension Fund (the Pension Fund) which is substantially complete.

	Our findings
Audit opinion	

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Audit opinion and financial statements

- Subject to satisfactory completion of outstanding matters I plan to issue an unqualified audit opinion on the accounts of Merseyside Pension Fund.
- I identified two material errors in the accounts, the omission of a Net Assets Statement as at 1 April 2009, and a mis-classification of £273m pooled investments as equity. The Pension Fund has agreed to amend the accounts for both of these items.
- I identified a small number of other disclosure errors and one non-trivial accounting error, all of which the Pension Fund has agreed to amend.

Before I complete my audit

I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Pension Fund during 2010/11.

I ask you to confirm to me

I ask the Pension Fund Committee to:

- consider the matters raised in this report before recommending approval of the Pension Fund accounts to Wirral Borough Council's (the Council's) Audit and Risk Management Committee (the ARMC).
- take note of the adjustments to the Pension Fund's accounts which are set out in this report (Appendix 2);
- recommend the approval of the letter of representation (Appendix 3) to the ARMC on behalf of the Pension Fund before I issue my opinion and conclusion; and
- recommend the ARMC approve management's response to the proposed action plan (Appendix 4).

I ask the ARMC to:

- consider the matters raised in this report and the recommendations of the Pension Committee before it:
 - approves the Council's financial statements;
 - approves the letter of representation (Appendix 3) before I issue my opinion and conclusion; and
 - agrees a response to the proposed action plan (Appendix 4).

Financial statements

The Pension Fund’s financial statements are an important means by which the Council accounts for its stewardship of the funds. The members of the ARMC have final responsibility for these statements. It is important that the members of the ARMC consider my findings before adopting the Council’s financial statements.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements.

Matters outstanding are:

- I have not received a final set of accounts including all the amendments agreed on audit
- I have yet to complete elements of my testing, in particular on:
 - Contributions, and
 - Investments

Appendix 1 contains a copy of my draft report for inclusion in the Council’s Statement of Accounts.

I received the Annual Report for the Pension Fund on 1 September. If there are no material inconsistencies with the financial statements governance statement and the Governance Statement reflects compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance, I will issue an unqualified opinion. Appendix 1a contains a copy of my draft report for inclusion in the Pension Fund’s Annual Report.

Errors in the financial statements

I identified two material errors in the Pension Fund’s accounts. The first is that, in common with most local government pension funds, the accounts did not include a Net Assets Statement as at 1 April 2009. It is a requirement of IFRS 1 First time adoption of IFRS that bodies include a comparative Net Assets Statement at the date of transition to IFRS. The second is a misclassification of two investments totalling £273m as equity rather than pooled investments.

I also identified one non-material error in the value of investments and a small number of other disclosure errors.

The Pension Fund management has agreed to amend the accounts for all of the errors I identified.

For details of all of the amended errors, see Appendix 2.

The Pension Fund management are also amending the draft accounts to increase the value of investments by £6.7m. In accordance with its accounting policy, the Pension Fund had used the latest audited accounts (as at 30 September 2010) to value an unquoted investment. However, by the time of our audit, accounts as at 31 December 2010 were available for the investment and we identified the movement in valuation.

Recommendation

Recommendation

- R1** Ensure that any changes to the investment ledger after it has been reconciled with the general ledger are also reflected in the accounts.
- R2** Review the latest available information on unquoted investments as part of a formal process considering potential adjusting post balance sheet events between the preparation and members' approval of the accounts.

Specific risks and areas of judgement

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Key audit risk and our findings

Key audit risk

Finding

1. Triennial Actuarial Valuation Review

The Fund has completed a Triennial Actuarial Valuation Review reflecting its position at 31 March 2010. Whilst this is not a direct audit opinion risk, it is a key issue as regards the ongoing governance of the Fund. There are risks of increased deficits leading to additional costs from increased employer contributions.

An actuarial valuation is attached to the Pension Fund's accounts.
No employer has defaulted on their contributions in the year.

2. Move to 'OpenAir' system

The Fund replaced the system used to monitor and control internally managed investments, 'Shareholder', with the 'OpenAir' system in 2010/11. There is a risk that the balances will not be accurately transferred between systems and a risk that effective controls are not in place in the new system.

Internal Audit reconciled the closing book cost figures from 'Shareholder' to the opening book cost figures within 'OpenAir'. They did not identify any discrepancies.

3. Impact of voluntary redundancy

I am aware that Wirral Council is undergoing a voluntary redundancy process whereby a significant number of employees will leave in 2010/11. This may affect the capacity of the finance team to deliver materially correct statements within agreed timescales.

The Pension Fund provided its accounts for audit within the statutory deadline on 28 June.

4 First time application of International Financial Reporting Standards

From 2010/11 the Pension Fund is required to adopt the International Financial Reporting Standards (IFRS) Code. The Code sets out the proper accounting practices that bodies must follow and requires some additional disclosures for 2010/11.

We found one material error in the Pension Funds application of IFRS – in common with most local government pension funds the Fund omitted a transitional Net Asset Statement.

5 Financial pressures – contributing employers

We are aware that contributing bodies to the pension fund are under financial pressure and in many cases are offering voluntary early retirement, voluntary redundancy and possibly may need to make compulsory redundancies in the near future. This may place additional workload on the Pensions team in dealing with the large volume of severance arrangements

We did not find evidence of any backlog in pensions administration as a result of an increase in workload from increased numbers of severance cases in contributing bodies.

6 Reconciliations between AXiSe and the General Ledger

The Pension Fund did not carry out reconciliations between the values in AXiSe Pensions Payroll and membership administration systems to those in the General Ledger in 2009/10. These are essential procedures which are intended to give the Pension Fund assurance that transactions in the fund account are correctly stated as well as providing controls assurance over receipts and payments in key areas.

The Pension Fund has reconciled lump sums in AXiSe and the ledger.
We have asked for evidence of a reconciliation of other transactions.

7 Timeliness of contributions

Regulation 42(2) of the Local Government Pension Scheme Regulations 2008 requires employer authorities to pay employee contributions to the administering authority within 19 days of the end of the month to which they relate. Our review of contributions in 2009/10 found that whilst most bodies pay on time, some smaller bodies missed these deadlines regularly, breaching the regulations.

We have asked for evidence of the timeliness of contributions from employer authorities.

8 Valuation of unquoted investments

The Pensions Statement of Recommended Practice (SORP) requires the valuation of investments to be at market value or where the value is not readily ascertainable, at the Fund's estimate of 'fair value'. The Pension Fund's accounting policies describe the methodology used for these investments as 'at manager's valuation' and the process followed for both alternatives and private equity relies on valuations reports provided by the investment managers and/or administrators. It is essential that the preparers of the pension fund financial statements are satisfied that the valuations provided by these specialists comply with the requirements of the SORP. Guidance issued by Pensions Research Advisory Group (PRAG) provides a framework of due diligence for preparers of Pension Fund statements

The Pension Fund developed a due diligence questionnaire based on the PRAG framework. It has used this when considering the valuation of investments.

9 Contract with Capital Dynamics

The Pension Fund's private equity valuation process relies on monitoring undertaken by Capital Dynamics Ltd under an arrangement dating back to 1991. Our review in 2009/10 of the contract identified that the contract is out of date and does not specify the valuation work.

A new contract with Capital Dynamics Ltd was signed in June 2011.

10 Compensatory added years

The Pension Fund's receipts and payments were overstated by £12m in 2009/10 due to the incorrect inclusion of compensatory added years (CAYs). CAYs are awarded under the Local Government Regulations 2000 and therefore fall outside of the LGPS. The LGPS (Misc) Regulations 2009 now permit employers to convert CAYs into pension service, however there has to be a resolution by the employing authority to do this conversion by 31 March 2012.

The Pension Fund managers have confirmed that no employing authority has made a resolution to convert CAYs into pension service. (I have asked that members also confirm this in the letter of representation). The Pension Fund has therefore excluded CAYS from its income and expenditure in 2010/11. It has also amended the comparative figures for 2009/10.

Significant weaknesses in internal control

I have not identified any significant weaknesses in internal control

I only report those weaknesses I identify during the course of the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

I have only one matter to report to you:

Accounting practices, policies, estimates and financial closures

Issue	Findings and recommendations
1. Disclosure of pooled and internally managed investments The accounts initially disclosed internally managed investment balances in aggregate only. Pooled investment vehicles were also disclosed in aggregate only. Whilst this disclosure does comply with the SORP, in my opinion this does not give the reader of the accounts adequate information on the nature of these investments.	The Pension Fund management agreed that the information could be enhanced and agreed to change the disclosure to be more useful to the user of the accounts.

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. I have included a draft at Appendix 4

Appendix 1 – Draft independent auditor’s report to the members of Wirral Borough Council

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Wirral Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Finance is responsible for the preparation of the pension fund’s Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

i For inclusion in the Council’s Statement of Accounts

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword [and the *annual report*ⁱ] to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011 other than liabilities to pay pensions and other benefits after the end of the scheme year and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Page 10 **Opinion on other matters**

In my opinion, the information given in the explanatory foreword [and the content of the *Annual Report*ⁱⁱ] for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

ⁱ I will insert these words if there are no matters arising from my review of the Council's annual report.

ⁱⁱ I will insert these words if I have no matters arising from my review of the Council's annual report.

Appendix 1a – Draft independent auditor’s report for inclusion in Pension Fund Annual Report

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

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Wirral Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Finance is responsible for the preparation of the pension fund’s Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. I read all the information in the annual report to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011 other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the annual report for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance.

Appendix 2 – Amendments to financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Adjusted misstatement	Nature of adjustment	Fund account		Net assets statement	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Transitional IFRS net asset statement omitted	Include net assets statement as at 1 April 2009				
Misanalysis of investments	£139m investment in Amundi Global Emerging Markets and £134m investment in M&G Global Emerging Markets categorised as equity investments rather than pooled investments				
10,000 units in L'Oreal Prime de Fidelité omitted from net assets statement	Increase value of investments in net assets statement and increase change in market value of investments in funds account		728	728	

Other disclosure errors

- a small number of typographic errors and mis-castings
- gross up £4m Forward Euro contracts and £4m associated liabilities in investments disclosure note
- £0.5m transitional fund manager balance categorised as equity rather than cash
- The contributions note does not disclose that an element of regular employer contributions represents deficit funding

Appendix 3 – Letter of representation

Merseyside Pension Fund - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors and officers of the Merseyside Pension Fund (the Fund), the following representations given to you in connection with your audit of the Fund's financial statements for the year ended 31 March 2011.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Fund for the completeness of the information provided to you, and for making accurate representations to you.

Supporting records

All relevant information and access to persons within the entity has been made available to you for the purpose of your audit, and all the transactions undertaken by the Fund have been properly reflected and recorded in the financial statements.

Irregularities

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

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Fund has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of the Fund's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Compensatory added years (CAYs)

No employing authority has made a resolution to convert CAYs into pension service.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Appendix 4 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	Ensure that any changes to the investment ledger after it has been reconciled with the general ledger are also reflected in the accounts.	3	Group Accountant	Yes	A review of information flows has already begun.	June 2012
6	Review the latest available information on unquoted investments as part of a formal process considering potential adjusting post balance sheet events between the preparation and members' approval of the accounts.	3	Group Accountant	Yes		Sept 2012

Appendix 5 – Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

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0844 798 7070

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

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



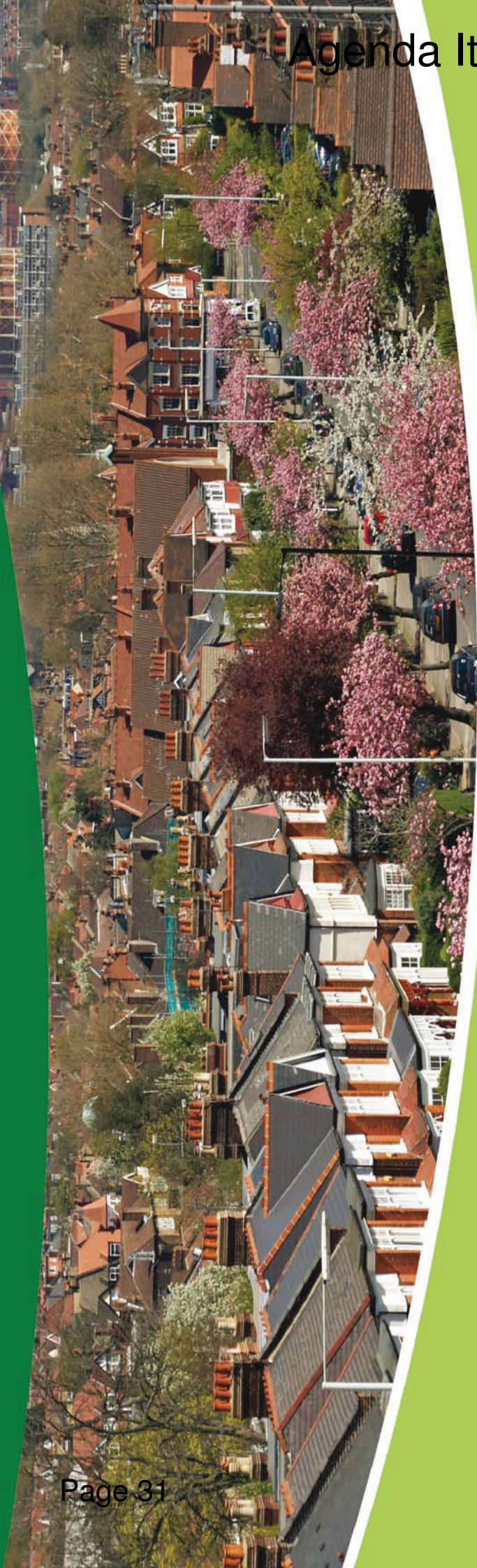
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Annual governance report

Wirral Council

September 2011

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Agenda Item



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Traffic light explanation

■ Red ◆ Amber ● Green

Key messages

This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

	Traffic light
Unqualified audit opinion	
Proper arrangements to secure value for money	
Weaknesses in internal control	

Audit opinion and financial statements

This has been a very challenging year for the public sector and Wirral, like some other councils has struggled to produce accurate accounts under the new International Financial Reporting Standards (IFRS). My audit of your financial statements is substantially complete. Subject to the satisfactory clearance of a number of outstanding issues, I plan to issue an audit report including an unqualified opinion on the financial statements (including Merseyside Pension Funds statements)

- There was a material amendment of £64.8m to the cash flow statement and a number of other errors that indicate there was limited quality assurance of the accounts approved by the Director of Finance.

- There were a significant number of errors in the IFRS restatement exercise and the audit extended from January to the end of August 2011 due to the number of versions presented for audit.
- The deadline for approval of the accounts by the Director of Finance was not met. Working papers were not presented for audit to the deadline and some were not to standard.
- Non-current assets remain a major weakness in internal control and resulted in a significant number of the errors in the statements.
- The amendments have not changed the overall general fund balance.

Value for money

We have some concerns about whether Wirral Council has proper arrangements to secure value for money in its use of resources. I plan to issue a qualified opinion that draws attention to weaknesses identified in the arrangements for securing value for money in respect of the HESPE contract and other governance and internal control issues arising from whistleblowing issues and from the recording and control of assets. My opinion will, however, conclude that with the exception of these matters, I am satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

- The Council has proper arrangements in place for securing financial resilience. The Council generally achieved its saving and financial targets in 2010/11, aided by the large scale voluntary redundancy scheme that was implemented. During the year, the 'Change Programme' was not on course to deliver planned savings over the medium term although savings were delivered in 2010/11. The financial position was monitored closely during the year by a strategic budget monitoring group and the Council finished the year with a better than planned balance on its general fund and set a balanced budget for 2011/12. Progress on the 2011/12 budget is adequate but challenging with significant pressures, especially in the Department of Adult Social Services (DASS). The current budget shortfall for 2012/13 is £25.3m and the Council will shortly be considering how to close the gap. Delivery of the Change Programme is crucial to achieving this.
- We have some concerns about whether Wirral Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The Council is prioritizing its resources within tighter budgets, for example by achieving cost reductions and has delivered a number of objectives within its Corporate Plan with plans in place to deliver further improvements. However, it is not able to demonstrate that it is improving efficiency and productivity in some areas, for example in respect of the Highways and Engineering Services Procurement Exercise (HESPE) contract. We reviewed the benefits realization of the HESPE contract which has now been in operation for the last two and a half years and found that the Council is not able to determine whether it is receiving better value for the money spent.
- There are also a number of governance and internal control issues that are impacting on the efficiency and effectiveness of the Council, for example, arising from the whistleblowing issues in DASS and Technical Services. We have also raised concerns over the recording and control of assets.

Before I complete my audit

I confirm to you
My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Audit Practice Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I identified the following threats to independence in that the son of a member of the audit team works at the Council, and the relative of another member of the team has had some dealings regarding land, buildings and planning. I applied the following safeguard that reduced these threats to an acceptably low level: no work on payroll or insurance has been carried out by the first individual and no work on land, buildings or planning by the second individual.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

I ask you to confirm to me

I ask the Audit and Risk Management Committee to:

- consider the matters raised in the Pension Fund Annual Governance report and the recommendation of the Pensions Committee
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- approve the letter of representation, provided alongside this report, on behalf of the Council before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (Appendix 5).

Financial statements

Opinion

Subject to the satisfactory clearance of a number of outstanding issues, I plan to issue an audit report including an unqualified opinion on the financial statements. I also plan to issue an unqualified opinion on the MPF financial statements

The accounts approved by the Director of Finance and presented for audit contained a material error of £64.8m on the cash flow statement and a number of other errors.

There were a significant number of errors in the IFRS restatement exercise and a number of versions were presented for audit.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters on the Council accounts, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

As Wirral Council is the administering authority for the Merseyside Pension Fund (MPF), the Fund's accounts form part of the Council's statement of accounts. The audit of the Pension Fund has been completed and there is a separate Annual Governance Report (AGR) that is being considered by the Pensions Committee on 19 September and the Audit and Risk Management Committee on 28 September. The Pension Fund AGR also states that subject to satisfactory clearance of outstanding matters on the MPF accounts, I plan to issue an unqualified opinion on the financial statements. Members need to be aware of the issues in the Pension Fund AGR prior to considering and the overall statement of accounts.

Outstanding matters

As at 6 September 2011 I still need to complete the following audit procedures

- supporting information for the £9.5m deficit on revaluation of Property Plant and Equipment (PPE) assets disclosed on the face of the Comprehensive Income and Expenditure Statement (CIES)
- final adjustments relating to PPE disclosures and non-agreement between the ledger and asset system
- review of information in the annual report/summary accounts to ensure consistency with the published accounts
- final check of the amended statements and the annual report
- completion of the review of Whole of Government Accounts (WGA)
- completion of review of the Annual Governance Statement (AGS).

I will update members at the Audit and Risk Management Committee on 28 September 2011, but my view is that it is unlikely that any of these issues would result in a material impact on the Council's financial position or a change to my planned opinion.

Errors in the financial statements

The accounts presented for audit contained a material error of £64.8m to the cash flow statement that has been amended by officers. The surplus on provision of services from the Comprehensive Income and Expenditure Statement (CIES) was incorrectly entered as a deficit in the first line of the cash flow statement. An incorrect balancing adjustment was then entered into line 2 of the statement. In addition, the cash flow statement did not reconcile to the cash equivalents entry on the face of the balance sheet.

The errors that were amended and affect the main statements are set out at Appendix 2 (amendments to notes are set out at the section below on quality). There is no overall change to the general fund balance from the amendments.

There is currently one unadjusted error (see Appendix 3).

- The deficit on revaluation of PPE assets line on the face of the CIES has not been fully supported. The supporting papers appear to include items which should be reported under net cost of services.

Recommendation

Members should consider whether to amend the statements for the unadjusted error. If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected error is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected error to the representation letter.

Financial statements

Wirral Council's financial statements and Annual Governance Statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the Annual Governance Statement.

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Key audit risk and our findings

Key Audit Risk

1. IFRS transition

The Council rated at amber in last IFRS survey but red on leases. Progress still behind schedule. Risk that 2010/11 accounts are materially misstated as new accounting requirements have not been considered or implemented correctly by the Council. This is considered a significant risk.

Finding:

Wirral, like some other councils, has struggled to produce accurate accounts under the new International Financial Reporting Standards (IFRS) and did not meet its project plan milestones or deadlines. There were a significant number of errors in the IFRS restatement exercise and a number of versions were presented for audit. This resulted in our restatement review extending from January to the end of August 2011. The material and significant amendments to the IFRS restatement included:

- Up to 2009/10, a number of investment property assets were valued at £1 due to the valuation method used being based on peppercorn rents. On review of these assets it was found that they are being used to provide a Council service and therefore have been valued at existing use. This issue resulted in £4.15m of the total £8m recognition and amendment of asset values under IFRS.
- Note 48 gives the reader of the accounts an overview of the changes in the accounts due to IFRS. This note required a number of amendments from the version originally supplied due to the length of time required to complete the IFRS restatement.
- Capital grants unapplied decreased by £2.2m as the Council was unable to supply information on conditions relating to these grants.
- Cash and cash equivalents were amended by £3.7m as a result of a change to accounting policy between versions.

Financial statements

Key audit risks and our findings *continued*

Key Audit Risks

2. Change in senior management

Changes to Chief Executive and Directors for Corporate Services, Regeneration, Adult Social Services, Children and Young People. Risk that disruption reduces level of supervision and review and therefore operation of high level controls.

3. Financial pressures

Following significant reduction in central government funding, the Council is experiencing significantly increased financial pressures. Increased risk of financial misreporting (considered in fraud risk assessment)

4. Voluntary redundancy (VR)

A significant number of staff at the Council are expected to leave employment during 2010/11 and 2011/12. Risks that key staff at the Council leave thereby putting pressure on the arrangements to complete the audit, and increasing pressure on management to demonstrate VR process generates savings. We will also need to consider the accounting treatment in 2010/11 (e.g. how will severance payments be accounted for and ultimately funded as not in 2010/11 budget)

Finding:

We found no evidence of failures in high level controls but the level of errors in the statements presented for audit indicates that there was limited quality assurance on the accounts approved by the Director of Finance.

We found no evidence of any fraudulent financial mis-reporting.

Some key finance staff have left and others have been diverted by the financial pressures and in dealing with additional work arising from the VR exercise. We have no concerns about the accounting treatment of the VR in 2010/11.

Key audit risks and our findings *continued*

Key Audit Risks

Finding:

5. Closedown arrangements

Working papers and accounts not provided on time, significant issues identified during 2009/10 were not resolved until relatively late in the audit. Risk that if repeated in 2010/11 the audit will not be completed as audit resourcing window is missed (audit team 'onsite' prior to working papers and accounts) and material issues are not resolved prior to opinion deadline

The deadline for approval of the accounts by the Director of Finance was not met. Working papers were not presented for audit to the deadline, some were not to standard although there was improvement in some working papers. The IFRS restatement exercise was not completed to deadline. This has had a significant effect on the audit resource pressures over the summer. There are a number of outstanding issues at the date of writing this Report but they are not likely to be material.

6. Manual entries in accounts

Weaknesses identified in respect of journals, off ledger adjustments, changes in senior management and deficiencies in asset records.

There are no significant concerns arising but officers should consider whether the ledger is being used to maximum effect.

7. Housing benefits (HB) expenditure and grant income

Our deadline to complete the certification of the housing benefits subsidy claim is after our opinion deadline on the accounts.

We have completed sufficient testing on the HB claim to provide us with assurance that there is no material impact on the statements or the Council's financial position

8. Previous year issues

19 non-trivial misstatements (including 3 material misstatements) in the 2009/10 audit – the risk of reoccurrence will be considered and reflected in our audit testing strategy. Issues arising included:

- PFI schools transferred to foundation status
 - Statement of recognised gains and losses (STRGL)
 - Balance sheet assets
 - Service expenditure analysis on the income and expenditure account
 - PFI - lifecycle costs
- Non-current assets remains an area of significant concern
- PFI schools transferred to foundation status – a further 2 PFI schools transferred in 2010/11 and have been properly accounted for; assets have been disposed of but the liabilities remain.
 - Statement of recognised gains and losses (STRGL) – this statement has been replaced under IFRS but internal inconsistencies involving reserves continued
 - Balance sheet assets – this has been an area of significant concern again this year in respect of vehicles, plant and equipment (VPE)

Key audit risks and our findings *continued*

Key Audit Risks

- Bad debt provision for council tax.

9. Unadjusted misstatements identified in the 2009/10 audit

The value of unadjusted misstatements previously identified must be considered in conjunction with any misstatements identified in the 2010/11 audit.

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Finding:

- Service expenditure analysis on the income and expenditure account – no significant issues arising
- PFI lifecycle costs – the Council does not have adequate information to ensure that lifecycle costs are capitalised appropriately and this is noted below under internal control
- Bad debt provision for council tax – this has been reviewed and the Council's estimate is reasonable.

I have considered the impact of unadjusted items from the 2009-10 audit on the current audit and concluded none of the items have a direct affect on reported balances in 2010-11. However, unadjusted items for which no value could be attributed due to issues of control which have re-occurred in this audit include

- a lack of detailed analysis of PFI lifecycle costs to ensure they are appropriately capitalised. Wirral Council accountants have set up meetings with the PFI suppliers to address this issue for 2011-12.
- accurate recognition and de-recognition of PPE assets
- internal inconsistencies involving reserves

10. Asset records

Weaknesses were identified in previous audits in relation to the Council's asset records. If no action is taken there is a risk of misstatement in the following areas:

- existence of Vehicles, Plant and Equipment (VPE)
- capitalisation of expenditure on infrastructure assets

VPE - we still have significant concerns in respect of VPE and the issues are set out below.

Infrastructure assets - records to support capitalisation of expenditure in 2010/11 have improved but there is a lack of historical records.

Community assets – land and buildings have been reviewed as part of the IFRS restatement exercise and we have no further significant concerns.

Key audit risks and our findings *continued*

Key Audit Risks

Finding:

- completeness of community assets.

Other community assets are unlikely to be material although the Council needs to ensure that inventories are up to date.

11. Annual Governance Statement (AGS)

Concerns that the statement did not comply with CIPFA guidance and was inconsistent with our knowledge of the Council.

We are still reviewing this and will update members at the meeting on 28 September 2011.

Recommendation

Ensure that assets are valued and reported on a consistent, supported basis in line with IFRS classifications.

Ensure that recognised gains and losses reported in the statements and through the ledger are consistent with supporting information and reported consistently throughout the main statements and reserves.

Ensure that the plans to maintain control over the classification of lifecycle costs in PFI schemes are put in place and monitored

Financial statements

These weaknesses are only those I identified during the course of the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

- Significant weaknesses in internal control
- Non-current assets remains a significant concern.
- The level of errors in the accounts indicates that quality assurance has been limited

Internal control issues and our findings		
Description of weakness	Potential effect:	Management action:

Depot equipment

We found that depot equipment had not been included in the asset register or the balance sheet.

Assets and capital charges understated. Accounting policy not complied with.

None.

Vehicles

We found that we could not trace some education and gritting vehicles back to the asset register.

We cannot conclude whether they have been accounted for correctly. There is a possibility that assets and capital charges understated. Accounting policy not complied with.

Still reviewing.

Depreciation

We found that some asset lives in our sample could not be agreed between the asset register and the valuers report.

Potential for incorrect capital charges calculated and reported in the CIES and balance sheet.

For 2010/11 WMBC officers carried out further work to demonstrate the total impact this year was trivial at £36k. For future years the valuers report and asset register asset life figures will be reconciled before producing the statements.

Internal control issues and our findings

Description of weakness

Potential effect:

Management action:

QA of accounts

There was limited quality assurance of the accounts.

Material errors in the statements approved by the Director of Finance

Increase resources in future years.

Related Parties

The related party disclosures rely on declaration of interest forms being returned by officers and members. There were 4 current member non returns, despite chasing by finance, and there were incomplete returns for members who left during the year.

Related party disclosures could be incomplete. WMBC may be unaware of existing relationships with other bodies, suppliers or contractors.

We have discussed improvements to the related party and declaration of interest process, including timing and ensuring that an up to date declaration is a formal part of leaving a post.

PFI life cycle costs

PFI lifecycle costs are capitalised as they are incurred. Officers were able to provide total costs and a breakdown of works carried out, but could not link the two together.

The Council does not have adequate information to ensure that lifecycle costs are capitalised appropriately.

A meeting has been set up to discuss this with the PFI partner.

Recommendation

Vehicles, plant and equipment (VPE) – strengthen controls over verification of VPE assets including verifying assets in the register exist and are in use as well as confirmation that assets in use are recorded in the register.

Quality assurance of the accounts – strengthen controls to ensure errors in the financial statements are minimised; there must be adequate resources and contingency to enable robust review of the accounts approved by the Director of Finance

Financial statements

Quality of your financial statements

We have identified a number of areas where policies were not complied with and financial statements disclosures were not consistent within the accounts.

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

There were a total of 53 amendments to disclosures: 14 amendments to values in disclosure notes, 39 inconsistency and rounding corrections. There were also a number of editing amendments. These are the more significant issues I want to raise with you.

Accounting practices, policies, estimates and financial disclosures

Issue

Disclosure note 13 – Property plant and equipment – movement on balances.

This note was not consistent with the entries in the main statements. Although the balance sheet was correct, the amendments resulted in changes to the CIES, Movement in Reserves Statement (MIRS), the Cash Flow Statement and Notes 13, 8 and 23. This was due to a variety of errors, for example in impairment, revaluation and depreciation.

Disclosure note 48 – Impact of the adoption of International Financial Reporting Standards (IFRS)

This note was not consistent with the entries we reviewed as part of the restatement exercise.

Disclosure note 32 – Officers' Remuneration

This note originally provided incorrect information within the bandings on the statement.

Accounting practices, policies, estimates and financial disclosures

Issue

Vehicles, plant and equipment

The Council's accounting policies for capitalisation of assets was not followed in respect of some education and gritting vehicles.

Operating leases

The Council carried out detailed work to identify underlying leases in ongoing arrangements. While not material, the Council did find some property leases that should be classified as operating leases, but disclosed no operating leases in the disclosure note to the accounts.

Findings and recommendations:

Financial statements

We experienced significant difficulties during the audit due to the lateness of the IFRS restatement exercise and the approved accounts. Working papers were also late, not complete and some were not to standard

Significant difficulties encountered during the audit

The Council did not complete the IFRS restatement exercise in line with its project plan, some statements were not restated and presented to us for review prior to receipt of the 2010/11 accounts and we also received a number of versions of the restated statements which we were required to review. We received the first element of the restated accounts in January and completed our review of the exercise at the end of August 2011 following responses to our queries. This meant that we were still carrying out our review during the main audit and this impacted on our timetable and resources throughout the audit.

The accounts were approved by the Director of Finance and submitted for audit on the evening of 4 July 2011 which is after the deadline. During the year the Accounts and Audit Regulations were updated and the 2011 Regulations confirmed that the Director of Finance must approve the accounts by 30 June (previously members were required to approve the accounts by 30 June). Prior to this change, our original deadline for receiving the accounts was 20 June 2011 which was subsequently changed to 30 June 2011. This late start to the audit had some impact on our timetable and resources.

The deadline for presenting working papers was not met and they were not complete. During the year we agreed which working papers would be presented with the accounts (revised deadline of 30 June 2011). The first working papers were received on 7 July and the trial balance (required to ensure we are auditing the correct figures and to pick testing samples) was not received until 13 July 2011. Working papers for group accounts were still being requested on 17 August 2011. As working papers were late and incomplete we were not able to progress our audit efficiently and it also had a significant effect on our timetable and resources.

The standard of working papers was variable. When we received them, most working papers were adequate although some were not to standard, for example non-current assets. Working papers for financial instruments and the collection fund were good and provided early in the audit.

Recommendation

Ensure that the accounts production process has contingency time and quality assurance time built into it, to reduce the number of avoidable errors in the statements presented for audit.

Ensure that working papers are produced to support the Statement of Accounts, and that these working papers reconcile to the accounts, supporting systems and provide the agreed information. This would give the Council greater assurance that the financial statements are accurate, reduce the time taken to complete the audit and reduce the volume of queries to officers during the audit.

Significant matters that were discussed or subject to correspondence with management

During the year, officers kept me informed of the plans for and progress on the redundancy exercise. We raised no concerns regarding the accounting treatment in 2010/11.

Other significant matters relevant to the reporting process

The Council is planning to produce an Annual Report/Summary of Accounts document following completion of the audit. We will need to review this to ensure it is consistent with the published statements.

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 6 contains the draft letter of representation.

Value for money

Value for money conclusion

I have identified weaknesses in your arrangements to secure value for money in your use of resources and plan to issue a qualified opinion.

The Council has adequate systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future, although delivery of the Change Programme is crucial to ensuring financial resilience.

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

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

I have some concerns about whether Wirral Council has proper arrangements to secure value for money in its use of resources. I plan to issue a qualified opinion that draws attention to weaknesses identified in the arrangements for securing value for money in respect of the HESPE contract and other governance and internal control issues arising from whistleblowing issues and from the recording and control of assets. My opinion will, however, conclude that with the exception of these matters, I am satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Value for money criteria and our findings

Criterion

1. Financial resilience
The organisation has proper arrangements in place to secure financial resilience.

Findings:

The Council has proper arrangements in place for securing financial resilience. The Council generally achieved its saving and financial targets in 2010/11, aided by the large scale voluntary redundancy scheme that was implemented. During the year, the 'Change Programme' was not on course to deliver planned savings over the medium term although savings were delivered in 2010/11. The financial position was monitored closely during the year by a strategic budget monitoring group and the council finished the year with a better than planned balance on its general fund and set a balanced budget for 2011/12.

Value for money criteria and our findings

Criterion

Focus for 2010/11:
The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

Findings:

Progress on the 2011/12 budget is adequate but challenging and the Council is currently predicting a general fund balance of £7.4m (£11.5m at June 2011). However, there are significant pressures across the Council, especially in the Department of Adult Social Services (DASS) where the predicted overspend is currently £7m (August 2011). Although there is currently a satisfactory level of balances to mitigate this for 2011/12, they cannot be relied on longer term. Leadership and management of the financial position will be vital to ensure a balanced budget in 2012/13 and this will be even more challenging due to the planned retirement of the current director and recruitment of a new director.

The current budget shortfall for 2012/13 is £25.3m and the Council will shortly be considering how to close the gap. Delivery of the Change Programme is crucial to achieving financial resilience.

Value for money

Value for money conclusion

I have identified weaknesses in your arrangements to secure value for money in your use of resources.

The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions but is not able to demonstrate that it is improving efficiency and productivity in some areas, for example in respect of the HESPE contract.

Value for money criteria and our findings *continued*

Criterion

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Findings:

We have some concerns about whether Wirral Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. Although cost reductions are generally being achieved it is not clear whether efficiency and productivity are being improved.

The Council has delivered a number of objectives within its Corporate Plan and there are plans in place to deliver further improvements. For example, the market management review in DASS is reducing the payments to care home providers to bring back to the average for the sector and putting in place arrangements to assess the efficiency and effectiveness of the service going forward.

However, there are a number of Change Programme projects currently assessed as 'red' (at June 2011), such as Looked after Children, Learning Disabilities, Disposal of Assets, Office Rationalisation and some areas of Procurement. In addition, there are a number of indicators that are currently assessed as 'red', for example the indicator for financial assessments completed within 30 days is significantly under target.

Value for money criteria and our findings *continued*

Criterion

Findings:

We reviewed the benefits realization of the Highways and Engineering Services Procurement Exercise (HESPE) contract which has now been in operation for the last two and a half years and found that the Council is not able to provide information on activity and performance to determine whether it is receiving better value for the money spent.

Report by exception

The Audit Commission requires me to report by exception where significant matters come to my attention, which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

There are a number of governance and internal control issues that are impacting on the efficiency and effectiveness of the Council. For example, arising from the whistleblowing issues in DASS and Technical Services that have been or are in the process of being reported to members. We have also raised concerns over the recording and control of assets over a number of years and although there is some improvement there are still major weaknesses in internal control, especially in respect of vehicles, plant and equipment.

Recommendation

Ensure there are robust plans in place to ensure financial resilience going forward, and that the change Programme is delivered.

Ensure there is strong leadership and management in DASS during the changeover of the Director post to ensure that the overspending is managed

Ensure there are robust systems in place to manage and monitor performance to assess Value for Money.

Appendix 1 – draft Auditor’s Report

DRAFT INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF WIRRAL BOROUGH COUNCIL

Opinion on the Authority accounting statements

I have audited the accounting statements of Wirral Borough Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Wirral Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Finance is responsible for the preparation of the Authority’s Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation

of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Wirral Borough Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Wirral Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Finance is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

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

Authority's responsibilities

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

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of qualified conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.


I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We reviewed the benefits realization of the Highways and Engineering Services Procurement Exercise (HESPE) contract which has now been in operation for the last two and a half years and found that the Council is not able to provide information on activity and performance to determine whether it is receiving better value for the money spent.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, with the exception of the matter reported in the basis for qualified conclusion paragraph above, I am satisfied that in all significant respects Wirral Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

The Audit Commission's guidance also requires me to report by exception on any other significant additional matters that come to my attention and which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in the use of resources. Such a matter has come to my attention relating to significant weaknesses in governance and internal control arrangements for whistleblowing issues arising in DASS and Technical Services and in the control of assets.

 **Certificate**

I certify that I have completed the audit of the accounts of Wirral Borough Council and Merseyside Pension Fund in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

[Signature]

Michael Thomas, Officer of the Audit Commission

Audit Commission, Liverpool Office, 3rd Floor, Millennium House, 60 Victoria Street,
Liverpool L1 6LD

September 2011

Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Adjusted misstatement	Nature of adjustment	Dr £'000s	Comprehensive income and expenditure statement	Dr £'000s	Balance sheet
<p>Depreciation amount charged through asset note and asset register different to that charged through income statement and reserves. A manual reversal of the final quarter depreciation for a disposed of asset had been made in error. The correct amount had already been processed through the asset register</p>	<p>The adjustment corrects this incorrect posting in the CIES, through the MIRS, in the Cash Flow statement and in the various notes and unusable reserves where the incorrect depreciation figure has been used.</p>	74	Cr £'000s	Dr £'000s	Cr £'000s
<p>An asset was included as an addition in the asset register at an incorrect value and the accounts reflected this and the subsequent impairment to report the total balance at the correct value.</p>	<p>The adjustment reduces the additions figure and the impairment figure, adjustments which net each other off and leave the correct totals.</p>			42	42
<p>Revaluation reversals of previous impairment had been taken to the revaluation reserve without first reversing the impact of impairment charged to CIES</p>	<p>An element of revaluation that represents reversal of impairment credited to CIES. The effect on the reserves is written out through the revaluation reserve reported in the MIRS, and therefore amends total unusable reserves reported on the balance sheet.</p>		875		875

Adjusted misstatement	Nature of adjustment	Comprehensive income and expenditure statement		Balance sheet	
		Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
The surplus on provision of services from the CIES was incorrectly entered as a deficit in the first line of the cash flow statement. An incorrect balancing adjustment was then entered into line 2 of the statement	Cash flow statement line 1 £(64,800)k adjustment, Cash flow statement line 2 £64,800k adjustment.	n/a	n/a	n/a	n/a
The cash flow statement did not reconcile to the cash and cash equivalents on the face of the Balance Sheet	The Cash Flow statement has been restated and the cash and cash equivalents figure amended to agree to the Balance Sheet figure.	n/a	n/a	n/a	n/a
The staff leave accrual was understated in the statements in error and did not reflect the supporting calculations.	Increase the accrual to the correct value by debiting expenditure against service lines in the CIES. The opposite entry is required to increase the accrual held on the balance sheet.	1,290	1,290		1,290
The loss on disposal figure included in the CIES was not consistent with the loss on disposals reported elsewhere in the statements. The CIES required a correction of 607k.	The CIES figure is adjusted by 607k. The adjustment corrects an inconsistency between CIES and the MIRS, resulting in no net impact on the balance sheet.	607	607	n/a	n/a

Appendix 3 – Unadjusted misstatements in the financial statements

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements. If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Unadjusted misstatement	Nature of required adjustment	Comprehensive income and expenditure statement	Balance sheet
		Dr £'000s	Cr £'000s
		Cr £'000s	Dr £'000s

The deficit on revaluation of PPE assets line on the face of the CIES has not been fully supported. The supporting papers appear to include items which should be reported under net cost of services

Not yet known (awaiting further response)

not known

n/a

Appendix 4 –Glossary

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Appendix 4 -Glossary

Materiality and significance

The Accounting Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Appendix 4 -Glossary

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission. The criteria set by the Audit Commission for 2010/11 cover financial resilience and economy, efficiency and effectiveness.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. **These** comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

Appendix 5 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
5	Members should consider whether to amend the statements for the unadjusted error. If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected error is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected error to the representation letter	3				
10	Ensure that assets are valued and reported on a consistent, supported basis in line with IFRS classifications.	2	Reg Huyton Finance Tony Simpson Law, HR and Asset Management	Yes	Work is undertaken each year to value the Councils assets. This will involve looking across asset categories to ensure consistency and compliance with IFRS classifications.	March 2012

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
10	Ensure that recognised gains and losses reported in the statements and through the ledger are consistent with supporting information and reported consistently throughout the main statements and reserves.	2	Jenny Spick Finance	Yes	During 2011/12 working papers to support the Statement of Accounts will be developed to include verifications and cross referencing of figures within the statements.	June 2012
10	Ensure that the plans to maintain control over the classification of lifecycle costs in PFI schemes are put in place and monitored	2	Reg Huyton Finance Tom Quigley Children and Young Peoples Department	Yes	In preparation for the 2011/12 Statement of Accounts details will be sought from our PFI schools contractor. The aim of this is to identify and monitor lifecycle costs.	Ongoing
13	Vehicles, plant and equipment (VPE) – strengthen controls over verification of VPE assets including verifying assets in the register exist and are in use as well as confirmation that assets in use are recorded in the register.	3	Reg Huyton and Jenny Spick Finance All Council Departments	Yes	Procedures will be developed and implemented to verify VPE assets. This will involve seeking assurances from all Council departments.	June 2012
13	Quality assurance of the accounts – strengthen controls to ensure errors in the financial statements are minimised; there must be adequate resources and contingency to enable robust review of the accounts approved by the Director of Finance.	2	Tom Sault Finance	Yes	The arrangements for quality assurance will be reviewed and updated. For 2011/12 we will look to increase the level of resources dedicated to this aspect of the production of the Statement of Accounts.	June 2012

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
17	Ensure that the accounts production process has contingency time and quality assurance time built into it, to reduce the number of avoidable errors in the statements presented for audit.	2	Tom Sault Finance	Yes	Quality Assurance time is always built into the timetable. For 2011/12 closedown it is important that this time is realised and effectively used.	June 2012
17	Ensure that working papers are produced to support the Statement of Accounts, and that these working papers reconcile to the accounts, supporting systems and provide the agreed information. This would give the Council greater assurance that the financial statements are accurate, reduce the time taken to complete the audit and reduce the volume of queries to officers during the audit.	2	Jenny Spick and Group Accountants Finance	Yes	For the 2011/12 work will be undertaken to develop working papers that link through to the Statement of Accounts through the use of electronic files/spreadsheets and the Council financial package.	June 2012

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
21	Ensure there are robust plans in place to ensure financial resilience going forward, and that the change Programme is delivered.	3	Chief Executive and Directors	Yes	Budget predictions are reported to Cabinet and the Change programme is regularly monitored. Work is currently underway to examine options to improve financial resilience through the budget process for 2012/13 and the Medium Term Financial Plan. The post is currently out to advert with a closing date of 14 th September 2011.	Ongoing
21	Ensure there is strong leadership and management in DASS during the changeover of the Director post to ensure that the overspending is managed	3	Chief Executive	Yes		March 2012
21	Ensure there are robust systems in place to manage and monitor performance to assess Value for Money	3	Chief Executive and Directors	Yes	The Councils systems for managing and monitoring Value for Money will be developed in 2011/12.	Ongoing

Appendix 6 – Draft Letter of Representation

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

date 28 September 2011

TD your ref
a my ref
e please ask for lan Coleman

Dear Sir,

DRAFT

Wirral Borough Council - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Wirral Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, and for making accurate representations to you.

Uncorrected misstatements

Either

There are no uncorrected financial statements misstatements.

OR

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

Details to be included etc.

I also confirm that the adjustments have no impact upon the level of balances, reserves or provisions of the Council at 31 March 2011.

Supporting records

All relevant information and access to persons within the Council has been made available to you for the purpose of your audit, and all the transactions undertaken by the Council have been properly reflected and recorded in the financial statements.

Irregularities

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

I also confirm that I have disclosed:

- a) my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;

- b) my knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others; and
- c) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

I confirm:

- a) the appropriateness of the measurement method, including related assumptions and models, the consistency in application of the process;
- b) the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council, where relevant to the accounting estimates and disclosures;
- c) the appropriateness of the carrying value of Council fixed assets;
- d) the completeness and appropriateness under the financial reporting framework; and

- e) subsequent events do not require adjustment to accounting estimates and disclosures included within the financial statements.

Use of Experts

The Council has used experts in specific areas to assist in the preparation of the Statement of Accounts, and discussed and disclosed these to you during the audit.

Financial Guarantees

The Council has given no financial guarantees in financial year to 31 March 2011.

Related party transactions

I confirm that I have disclosed the identity of Wirral Council related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of Wirral Borough Council

I confirm that this letter was agreed by the Audit and Risk Management Committee of Wirral Borough Council on 28 September 2011.

Name	Ian Coleman
Position	Director of Finance
Date	28 September 2011

Our reference MT-Ltm

12 September 2011

Councillor Crabtree
Chair, Audit and Risk Management Committee
Wirral Borough Council
Wallasey Town Hall
Brighton Street, Wallasey
Wirral
CH44 8ED

Direct line 07879667712
Email m-thomas@audit-
commission.gov.uk

— Dear Councillor Crabtree and members of the Audit and Risk Management Committee

Annual Governance Report 2010/11

I am pleased to present the results of my audit work for 2010/11. I discussed and agreed a draft of my report with the Chief Executive and Director of Finance on 12 September 2011 and updated it as issues have been resolved. I will provide an update on outstanding matters to the Committee on 28 September.

My report sets out the key issues that you should consider before I complete the audit. It asks you to:

- consider the matters raised in the Pension Fund Annual Governance Report and the recommendation of the Pensions Committee (separate report);
- consider the matters raised in the report before approving the financial statements (pages 1 to 17);
- note the adjustments to the financial statements set out in this report (appendix 2);
- agree to adjust the error in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the error (appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (appendix 6); and
- agree your response to the proposed action plan (appendix 5)

Yours sincerely

Michael Thomas
District Auditor

Audit Commission, 3rd Floor, Millennium House, 60 Victoria Street, Liverpool, L1 6LD
T 0151 233 4276 F 0151 236 3668 www.audit-commission.gov.uk

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WIRRAL COUNCIL

AUDIT & RISK MANAGEMENT COMMITTEE

28 SEPTEMBER 2011

SUBJECT	BUDGET PROJECTIONS 2012-15
WARD/S AFFECTED	ALL
REPORT OF	DIRECTOR OF FINANCE
RESPONSIBLE PORTFOLIO HOLDER	COUNCILLOR STEVE FOULKES
KEY DECISION	YES

1.0 EXECUTIVE SUMMARY

1.1 Following the agreement of the budget for 2011-12 at the Council meeting on 1 March 2011, this report presents the projected budgets for 2012-15. It was presented to the Cabinet on 1 September 2011.

2.0 RECOMMENDATION

2.1 That the budget projections be regularly reviewed.

3.0 REASON FOR RECOMMENDATION

3.1 Regular reporting of the projected financial prospects is a requirement of good corporate and financial planning.

4.0 BACKGROUND AND KEY ISSUES

4.1 Assumptions Underpinning the Projections

- a) Inflation - Provision is made for price inflation of 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 2012-13 and are assumed to increase by 2% per annum from 2013.
- b) Capital Financing - Cabinet on 21 February 2011 agreed a capital programme at an increased revenue cost of £1.9m in 2012-13.
- c) Pension Fund - the increase arising from the actuarial valuation including the impact of the outsourcing of the highways and engineering services contract will increase the contribution by £0.3m in 2012-13 and by £0.3m in 2013-14. The revaluation scheduled for March 2013 will be implemented from 2014.
- d) National Insurance – Employers NI changes will cost an additional £1m.
- e) Waste Disposal - Landfill Tax is increasing by £8 per ton per annum, an increase of 50% between 2010-11 and 2014-15. The levy is assumed to increase by £1.5m per annum from 2013.
- f) Merseytravel - From 2013 the levy is assumed to increase by £1m per annum.

- g) Schools - it is assumed that the Schools Budget will vary in line with the Dedicated Schools grant.
- h) Academies – the Department for Education will reduce the budget by a further £0.9m in 2012-13 to fund academies.
- i) Neighbourhood Management – Cabinet on 2 June 2011 agreed to increase the budget by £0.4m to be funded by the Local Services Support Grant.
- j) Home to School Transport – Cabinet on 2 June 2011 agreed to increase the budget by £0.2m to be funded by the Local Services Support Grant.
- k) Integrated Transport – Cabinet on 23 June 2011 agreed to increase the budget by £0.3m.
- l) Housing – Cabinet on 21 July 2011 agreed to increased housing expenditure of £0.3m to equal the New Homes Bonus.
- m) Adult Social Services Re-provision - £3.5m identified as part of budget preparation.
- n) 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.
- o) Other Unavoidable Growth - a number of items of unavoidable growth of less than £0.2m will arise. These usually total about £1m per annum.

4.2 Grant Negotiations

- 4.2.1 The Local Government Finance Settlement for 2011-12 incorporated a provisional settlement for 2012-13, in which the Formula Grant will be reduced by £14m.
- 4.2.2 The Spending Review 2011-15 incorporated four year projections for local government expenditure. However the Finance Settlement only provided figures for 2011-13. Figures for 2013-15 will be subject to the outcome of the Local Government Resource Review (LGRR). Clearly this will have a major impact on the budget projections for 2013-15 included in the appendix. The Terms of Reference for phase I of the LGRR were reported to Cabinet on 14 April 2011. A consultation paper on phase I, localisation of business rates, is reported elsewhere on this agenda, as is a report on phase II, community budgets. Subsequent phases will be reported to Cabinet as they are released.
- 4.2.3 The Government has announced a new general grant, the Local Services Support Grant of £1.2m. This absorbs a number of previous specific grants totalling £0.5m and was reported to Cabinet on 2 June 2011.
- 4.2.4 The New Homes Bonus of £0.3m has also been released as a general grant which was reported to Cabinet on 2 June 2011.

4.3 **Other Legislative Issues**

- 4.3.1 Independent Public Service Pensions Commission – Final recommendations issued on 10 March 2011. The detailed Government response is expected in Autumn.
- 4.3.2 Welfare Reform Bill – Implementation of Universal Credit and a Local Council Tax Benefit System due to commence in 2013. The Local Council Tax Benefit System will result in a reduction of grant of £3.2m.
- 4.3.3 Localism Bill - Will require a local referendum if a proposed Council Tax increase is considered to be excessive from 2012-13.
- 4.3.4 Council Tax Revaluation - This has been deferred until after 2015.
- 4.3.5 **Census** - 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 (ONS) has 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. The ONS has confirmed that the analysis of the Census data should be completed for incorporation into the Finance Settlement for 2013-14.

4.4 **Balances**

- 4.4.1 The budget for 2011-12 includes balances of £14.1m.
- 4.4.2 The final phase of the Early Voluntary Retirement/Voluntary Severance Scheme covering those staff due to depart in early 2011-12 is projected to utilise £4.4m of the balances.
- 4.4.3. The budget for 2011-12 will utilise £2.8m of the balances to fund one-off expenditure.
- 4.4.4. HM Treasury has announced two increases to National Insurance which will cost an additional £1m.
- 4.4.5. Cabinet on 17 March 2011 agreed to reinstate the budget for Fernleigh for 2011-12 at a cost of £0.5m.
- 4.4.6. Cabinet on 2 June 2011 received details of the Local Services Support Grant and the New Homes Bonus.
- 4.4.7. Cabinet on 23 June 2011 agreed that integrated transport would not deliver the previously agreed savings but would instead cost an additional £0.3m.
- 4.4.8. Closure of the Accounts for 2010-11 which was reported to Cabinet on 23 June 2011 resulted in a net overspending of £3.3m.
- 4.4.9. The Insurance Fund Annual Report presented to Cabinet on 23 June 2011 transferred £0.9m to balances.

- 4.4.10. The Treasury Management Annual Report presented to Cabinet on 23 June 2011 transferred £3.0m to balances.
- 4.4.11. Cabinet on 23 June 2011 agreed to transfer the Connexions Pension Reserve of £4.7m to General Fund balances.
- 4.4.12. This had originally been identified to meet reprovision costs of £3.5m in Adult Social Services in 2011-12.
- 4.4.13. Cabinet on 21 July 2011 agreed to allocate an amount equal to the New Homes Bonus for housing expenditure.
- 4.4.14. Therefore the projected balances are as follows:-

	£m
Budgeted opening balance	14.1
Overspending 2010-11	-3.3
Insurance Fund	0.9
Treasury Management	3.0
Connexions Pension Reserve	4.7
Adult Social Services Reprovision	-3.5
EVR/VS	-4.4
Policy Options 2011-12 only	-2.8
National Insurance	-1.0
Fernleigh	-0.5
Local Services Support Grant	0.5
Integrated Transport	<u>-0.3</u>
Projected Balance	7.4

- 4.4.15. The minimum recommended balances are £6.0m.

4.5. **Savings**

- 4.5.1. Cabinet has agreed to the following savings:-

	2012-13	2013-14	2014-15
	£000	£000	£000
Human Resources IT System	474	100	20
Family Group Conferencing	130		
IT Services	400	400	400
Benefits	1,200		
Printing Services	<u>250</u>		
	2,454	<u>500</u>	<u>420</u>

- 4.5.2. In addition to the savings agreed by Cabinet the Strategic Change Programme Board has agreed to the following additional savings for 2012-13:-

	£000
Looked After Children	670
Disposal of Assets	310
Office Rationalisation	123
Street Lighting	100
DASS Market Management	<u>847</u>
	2,050

4.5.3. The full year effect of the Early Voluntary Retirement/Voluntary Severance scheme savings totalling £24m will be achieved in 2012/13. This will increase to £27m after the additional cost of the pensions has been met in 2017.

5.0 RELEVANT RISKS

5.1 Any projections carry risks. For 2012-13 the Government has indicated the provisional Formula Grant and so the risks are primarily with the expenditure projections which will be influenced by changes to Government policies, inflation, and delivery against budgets in 2011-12.

5.2 For 2013-15 the Government proposes significant changes to the grant distribution system which could cause major changes to these projections.

6.0 OTHER OPTIONS CONSIDERED

6.1 All of these projections represent my assumptions of the most likely outcome from a wide range of available options.

7.0 CONSULTATION

7.1 The Government will be consulting on a number of issues which will impact on the budget projections. I will respond to all consultation exercises to try to ensure the best outcome for Wirral.

8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

8.1 There are no direct implications arising from this report.

9.0 RESOURCE IMPLICATIONS – FINANCIAL

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

10.0 LEGAL IMPLICATIONS

10.1 There are none arising directly from this report.

11.0 EQUALITIES IMPLICATIONS

11.1 There are none arising directly from this report.

12.0 CARBON REDUCTION IMPLICATIONS

12.1 There are none arising directly from this report.

13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1 There are none arising directly from this report.

FNCE/204/11

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APPENDICES

Budget Projections 2012-15

REFERENCE MATERIAL

Budget - HM Treasury - March 2011
Independent Public Service Pensions Commission Report - March 2011
Spending Review - HM Treasury - October 2010
Medium Term Financial Strategy 2011-14 - November 2010
Local Government Finance Settlement 2011-13 - DCLG - January 2011
Council Budget 2011-12 - March 2011

SUBJECT HISTORY

Council Meeting	Date
This report is revised for each meeting of the Cabinet.	

**Wirral Council
Budget Projections 2012-15**

	2012-13	2013-14	2014-15
	£m	£m	£m
Base Budget	294.8	281.0	267.2
Increased Requirements			
Pay Inflation	1.0	3.5	3.5
Price Inflation	4.2	4.2	4.2
Capital Financing	1.9	2.0	2.0
Pension Fund	0.3	0.3	2.5
National Insurance	1.0	-	-
Academies	0.9	-	-
Waste Disposal	-	1.5	1.5
Merseytravel	-	1.0	1.0
Neighbourhood Management	0.4	-	-
Home to School Transport	0.2	-	-
Integrated Transport	0.3	-	-
Housing	0.3	-	-
DASS Re provision	3.5	-	-
Council Tax Benefit	-	3.2	-
Other Unavoidable Growth	1.0	1.0	1.0
Efficiency Investment	<u>2.0</u>	<u>2.0</u>	<u>2.0</u>
	311.8	299.7	284.9
Reduced Requirements			
Income Inflation	-1.0	-1.0	-1.0
Savings Agreed	- 2.5	-0.5	-0.4
Additional Savings	<u>- 2.0</u>	<u>-</u>	<u>-</u>
	306.3	298.2	283.5
Resources			
Formula Grant	144.8	131.0	117.0
Council Tax Grant	3.3	3.3	3.3
Local Services Support Grant	1.2	1.2	1.2
New Homes Bonus	0.3	0.3	0.3
Council Tax	<u>131.4</u>	<u>131.4</u>	<u>131.4</u>
Forecast Resources	281.0	267.2	253.2
Shortfall	25.3	31.0	30.3

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Progress report

Wirral Council September 2011

Audit 2010/11

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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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 as follows.

The Audit Commission

- The Audit Commission has started the procurement process to outsource the work of its in-house Audit Practice with effect from the 2012/13. The Audit Practice is planning to submit an in-house bid.

Fees

- The Audit Commission has now confirmed the programme of work and scale of fees for local government for 2011/12 and is consulting on a further rebate.

Opinion on the statement of accounts

- The implementation of International Financial Reporting Standards (IFRS) was a significant challenge for the Council and a significant risk for our audit.
- The outcome of the Wirral's opinion audit is reported in our Annual Governance Report 2010/11.
- The Merseyside Pension Fund audit is reported in a separate Annual Governance Report.

Value for money conclusion

- Our value for money work is reported in our Annual Governance Report.

Public Interest Disclosure Act (PIDA) work

- Work on the PIDA in respect of the Directorate for Adult Social Services (DASS) continues
- We are currently following up the PIDA in respect of the Highways and Engineering Services Procurement Exercise (HESPE) and will report back to members at a future meeting.

National Fraud Initiative (NFI)

- The Council is continuing to follow up matches on the 2009/10 NFI with the result that £318k is being recovered following error or fraud.
- The 201/12 matches were release by the Audit Commission in January 2011 and the current figure for recovery stands at £29k.

Grant claims and returns

- Our grants work for 2010/11 has started.

Annual Audit Letter 2009/10

- Our Annual Audit Letter, summarising the key issues for the year, was presented to Cabinet and the Audit and Risk Management Committee in January.

Audit team and key contacts

- We have brought two potential conflicts to members' attention.

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.

Audit plan

Audit Commission

2 The Department for Communities and Local Government (DCLG) announced in August 2010 plans to abolish the Audit Commission and put in place new arrangements for auditing England's local public bodies. DCLG stated its intention to transfer the Commission's existing in-house Audit Practice to the private sector from 2012/13 and in due course abolish the residual elements of the Commission. The new regime will see the end of the Commission's responsibilities for overseeing and commissioning local audit and its other statutory functions, including those relating to studies into financial management and value for money.

3 The Commission worked with DCLG and has now formally launched the process for outsourcing the work of the Audit Practice and has issued Contract Notices in the Official Journal of the European Union. It has also published two other key documents relating to the procurement. The first is the [Procurement strategy \(PDF, 161kb\)](#) setting out the objectives of the procurement exercises and how they will be carried out. The second document is the formal [Protocol \(PDF, 194kb\)](#), to which all Commission staff have been required to sign up, to ensure propriety in the preparation of any employee-led bids which could form the basis of a new and distinctive provider in the market, possibly a mutual.

4 The table below provides the key milestones currently planned for the procurement of principal bodies. This is intended as a guide and while the Commission does not intend to depart from the timetable it reserves the right to do so at any stage.

Table 1: **Timetable for outsourcing**

The outcome of the outsourcing will be known in the Spring and the Commission will consult with Audited Bodies in April 2012

Key milestone	Date	Progress
Issue Contract Notices in the Official Journal of the European Union	5 September 2011	Completed to plan
Issue pre-qualification questionnaires (PQQ) on request	From 5 September 2011	Completed to plan
Deadline for return of PQQs	7 October 2011	<i>Date o/s</i>
Issue invitations to tender and anonymised TUPE information to selected suppliers	w/c 24 October 2011	<i>Date o/s</i>

Key milestone	Date	Progress
Deadline for submission of tenders	16 December 2011	<i>Date o/s</i>
Approval of contract awards	w/c 20 February 2012	<i>Date o/s</i>
Consultation with audited bodies on appointments	23 April - 13 July 2012	<i>Date o/s</i>
Approval of auditor appointments	w/c 23 July 2012	<i>Date o/s</i>
Appointments for 2012/13 commence	1 September 2012	<i>Date o/s</i>
Staff transfer to firms awarded contracts	31 October 2012	<i>Date o/s</i>

Source: Audit Commission@ September 2011

5 We have discussed developments with chief officers and have reaffirmed the Commission's, and our own, commitment to delivering a high quality and effective audit service right through to the date the transfer to new arrangements takes place. We will continue to keep you up to date on developments.

2010/11 plan

6 The letters with the proposed fees for 2010/11 for audit and assessment were agreed with officers in April 2010 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.

7 The impact of the latest Audit Commission proposals on fees on Wirral Council for 2010/11 is summarised in the table below:

Table 2: **Work programme and fees 2010/11**

This represents the latest position on proposed fees for 2010/11. The scale fee for the 2010/11 audit is £363,000.

Work programme	Original fee £	Rebate/ reduction £	Latest fee proposal
Financial statements	257,612	21,904	235,708
Whole of government accounts	7,466	-	7,466
Value for money	126,922	12,705	114,217

Work programme	Original fee £	Rebate/ reduction £	Latest fee proposal
Total audit	392,000	34,609	357,391
Managing performance	16,630	16,630	0
Economic development	32,523	32,523	0
Total inspection	49,153	49,153	0
Certification of claims and returns	128,000	-	128,000
National Fraud Initiative *	2,000	-	2,000
Total work programme	571,153	83,762	487,391

Source: Audit Commission, December 2010

Note: The Audit Commission is sending rebates directly to audited bodies to avoid confusion with the annual audit fee - the figures for rebates in this table are estimates.

* NFI is £4,000 every 2 years.

Audit fee

8 The total indicative fee for the audit for 2010/11 is £392,000 (excluding VAT), a 0.5 per cent increase on the fee of £390,000 for 2009/10. This was less than the Audit Commission's anticipated 6 per cent 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.

9 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 from 2010/11. You will have received a refund from the Audit Commission of £21,904 which brings the fee charged for 2010/11 to £370,096.

10 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. The impact of stopping Comprehensive Area Assessment (CAA), including the cost of making several hundred staff redundant, has limited the level of rebates the Commission can afford to give bodies in 2010/11. However, the Commission now proposes to rebate 3.5 per cent for single-tier councils in

respect of the new approach for value for money. The rebate will be sent out shortly and brings the audit fee down to **£357,391**.

11 These reductions, and the earlier rebate for the additional audit costs from the transition to International Financial Reporting Standards (IFRS), mean that Wirral's audit fee for 2010/11 is around 1 per cent less when compared to the scale fee and 9 per cent less when compared to the original fee. We will discuss with the Director of Finance the impact on fees of the difficulties encountered during the audit.

Grant claims and returns fee

12 The planned fee for grant claims and returns is £128,000.

Assessment and inspection fee

13 The fee letter agreed with officers in April showed the total indicative fee for inspection as £49,153. The Commission now proposes not to charge inspection fees for work already carried out in this financial year on the managing performance part of the organisational effectiveness assessment. This is because there was no value to the work once CAA ended.

National Fraud Initiative (NFI) 2010/11

14 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.

2011/12 plan

Audit fee

15 The [Work programme and scales of fees 2011/12](#) document was published on 25 February 2011 and confirms significant reductions in audit fees, reflecting both the new approach to local value for money (VFM) audit work and a reduction in the ongoing audit costs arising from the introduction of International Financial Reporting Standards. The [scale fee for each audited local government, housing and community safety body](#) are also available.

16 The proposed 2011/12 scale fee for Wirral is £352,800. We have assessed the fee for Wirral Council for 2011/12 and have agreed with the Director of Finance that it will be at the scale fee of £352,800.

17 The Commission is consulting on a reduction of 10 per cent from the published 2011/12 scale fees for principal bodies. This continues its programme, begun before the announcement in August 2010 of the abolition of the Commission, to deliver cost cuts of £70 million (30 per cent) over a three-year period.

NFI 2011/12

18 As noted above, the NFI fee is £4,000 over two years and so the Council will be billed £2,000 in 2011/12.

Opinion

Wirral Council 2010/11

19 The District Auditor is required to issue an audit report by 30 September 2011 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 2011. Our Opinion Plan was presented to members of this Committee in January 2011 and set out in more detail the audit work we proposed to carry out in relation to the audit of the financial statements 2010/11 for Wirral Council, including the audit of the Whole of Government Accounts. We have updated the timetable at Appendix 2 to this report.

20 There is a separate Opinion plan in respect of Merseyside Pension Fund's financial statements which was also presented to members of this Committee in January 2011. Progress on the Pension Fund is summarised in a separate section below and reported in the Annual Governance Report being presented at the Pensions Committee on 19 September 2011 and the Audit and Risk Management Committee on 28 September 2011.

21 2010/11 is the first year that the accounts need to be prepared in accordance with IFRS and represents a significant challenge for the Council and a significant risk for our audit. Our work on the council's statement of accounts is split into two elements.

- Pre-statements audit:
 - updating, documenting and walking through your systems;
 - identifying and testing key controls;
 - reviewing the control environment and general IT controls;
 - reviewing the implementation of IFRS; and
 - any early testing.
- Post statements audit:
 - testing material balances and ensuring the statements are in line with accounting standards.

Pre-statements audit

22 We did not progress to plan on all areas of the pre-statements audit. The key area of delay is the IFRS restatement work and issues are set out below and in our Annual Governance Report 2010/11.

Systems and controls

23 We have completed work on updating, documenting and walking through your systems and assessing the control environment, including IT controls:

- *Documenting and walking through your systems*: we have not identified any significant weaknesses in how your systems produce materially accurate figures in the financial statements
- *Identifying and testing key controls*: no significant issues identified in our testing of accounts payable and payroll; we raised issues regarding fixed assets,
- *Control environment*: we have not identified any significant weaknesses in overall management controls or risk management
- *IT controls*: we assessed that Wirral's IT controls give us adequate assurance that the systems that provide information for the financial statements will not lead to material mis-statement in the Councils accounts.

International Financial Reporting Standards (IFRS)

24 2010/11 is the first year that the accounts need to be prepared in accordance with IFRS and last year we completed two surveys in November 2009 and July 2010 to assess the Council's preparedness.

25 In November 2009 we assessed the Council as 'red' risk overall and following the July 2010 survey we reported to the Audit and Risk Management Committee in September 2010 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 varied significantly from comparator authorities were leases, progress against project plan and Involvement of the Audit and Risk Management Committee. (see Appendix 1).

26 The latest Audit Commission report setting out the national findings from the survey is available at [Audit Commission website - IFRS implementation](#).

27 We updated the Audit Commission survey in January 2011 and provided information on the national comparisons to officers. Our overall assessment for the January 2011 survey is 'red' as the Council is not on track against its project plan. We received IFRS re-stated opening balances in January and the 2009/10 comparatives, the policies and disclosures up to July 2011. The material and significant amendments are set out in our Annual Governance Report 2010/11.

Post-statements Audit

28 Our post-statements audit is reported in our Annual Governance Report.

Chief Accountants' workshops

29 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 1 February 2011.

Merseyside Pension Fund 2010/11

30 The 2010/11 audit plan was presented to the Pensions Committee and the Audit and Risk Management Committee in January 2011. It confirmed the proposed fee of £54,065 for 2010/11.

31 The plan included areas of risk to our audit opinion. The plan also set out the timetable for delivery of the 2010/11 audit and this is attached at Appendix 2 to this report.

32 The results of our audit, including our findings and conclusions in respect of the risks in our plan are set out in the Pension Fund Annual Governance Report.

33 The proposed fee for 2011/12 has been agreed with the Director of Finance at £60,966.

Value for money conclusion

34 The District Auditor is required to give a statutory value for money (VFM) conclusion on whether the Council has satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

35 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.

36 Our value for money conclusion is reported in our Annual Governance Report.

PIDA work

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

Adult social services

38 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. A key issue was in respect of the charging policy applied at three supported living units.

39 The previous administration commissioned an independent investigation into the whistleblower's allegations of bullying and harassment and this has now been reported to Cabinet.

40 The previous Leader of the Council also commissioned an independent review to confirm that all issues raised by the whistleblower have been appropriately dealt with. We understand that the fieldwork is now complete and will be reported to members shortly.

Procurement of highways and engineering services

41 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. We agreed that we would continue to monitor the Council's response to the recommendations in the action plan.

42 Our follow-up work on the action plan and review of the Council's information on the benefits realisation process is underway and will be reported to members in November 2011.

National Fraud Initiative

43 The National Fraud Initiative (NFI) is the UK-wide anti-fraud programme developed by the Audit Commission. A data matching exercise is carried out every two years 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.

44 Internal audit co-ordinates the follow-up of matches, which is undertaken by the responsible department. Matches are reviewed on an ongoing basis and the figures below reflect the position at 14 March 2011.

NFI 2008/09 - 2009/10

45 The Council is reviewing the output from the 2008/09 NFI matching exercise which identified 20,325 matches. At the beginning of March 2011 the Council has identified that as a result of investigating the 2008/09 matches:

Table 3: **Fraud and error identified from the 20,325 NFI 2008 matches**

Fraud and error	September 2010	March 2011
Total matches progressed	5,901* - 29%	7,605 - 37%
Frauds identified	28 frauds	82 frauds (70 relate to council tax)
Errors identified	296 errors	539 errors
Value of frauds and errors	£255k	£326k
Recovering**	£256k	£318k
Still progressing	14,424*	12,720 (creditors 4,715; council tax - 6496; 1,519 other)

Source: Audit Commission NFI 14 March 2011

* information at 13/10/10

** The Council is in the process of recovering this amount and has stopped future payments where applicable

46 The national report on NFI 2008/09 was published in May 2010 and is available at [Audit Commission website -NFI 2008/09](#).

47 Now that work on NFI 2008/09 should be nearing completion the Audit Commission withdrew access to most of the NFI 2008/09 matches on March 28 2011. Council tax matches will remain on the system for the immediate future as these were released at a later date than the other matches.

NFI 2010/11 - 2011/12

48 The Council provided the required information to participate in the exercise and data matches were provided by the Audit Commission at the end of January 2011. The position in March is set out below:

Table 4: **Fraud and error identified from the 22,917 NFI 2010 matches**

Fraud and error	March 2011
Total matches progressed	1472 cases (mainly pensions, housing benefits and blue badges)
Frauds identified	0 frauds
Errors identified	34 errors
Value of frauds and errors	£32k
Recovering*	£29k
Still progressing	21,445

Source: *Audit Commission NFI 14 March 2011*

* The Council is in the process of recovering this amount and has stopped future payments where applicable

Grant claims and returns

2009/10

49 The 2009/10 grant claims and returns report was presented to this meeting of the Audit and Risk Management Committee.

50 The grants claim programme was successfully completed in 2009/10. All claims were submitted on time, a significant improvement compared to previous years and all claims were also certified on time. Coordination arrangements worked well, there was a slight improvement in the control environment and a reduction in the number of claims requiring amendment and qualification. The amendments resulted in an increase of funding due to the Council of £33,793.

2010/11

51 The 2010/11 programme is underway and comprises the following claims.

- Housing and Council Tax Benefits Scheme.
- National non-domestic rates grant.
- Teachers' pensions return.
- Disabled facilities grant.
- Single programme grants.
- General Sure Start grant.

Annual Audit Letter

2009/10 - key findings

52 The 2009/10 Annual Audit Letter was presented to the January 2011 meeting of the Audit and Risk Management Committee. It was also considered by Cabinet in January 2011.

53 The key issues were:

- unqualified opinion on Wirral Council's 2009/10 financial statements given by the statutory deadline
- unqualified opinion on Merseyside Pension Fund's 2009/10 financial statements by the statutory deadline
- unqualified opinion on the Whole of Government Accounts consolidation pack on 1 October 2010
- unqualified value for money conclusion confirming that the Council has satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources
- our actual fees (£390,000) were in line with our proposed fees as agreed with the Audit and Risk Management Committee at its meeting in June 2009.
- we charged an additional £20,000 for work carried out to deal with an issue under the Public Interest Disclosure Act (PIDA) in relation to the Highways and Engineering Services Procurement Exercise (HESPE).
- we highlighted the current and future challenges for the Council and the corporate and service pressures that will make the achievement of savings challenging including:
 - Delivery of savings from the change programme.
 - Prioritisation of the outcomes from the consultation process and consideration of the options put forward by the Task Forces into a cohesive budget strategy.
 - Maintaining service quality and capacity following the severance and early voluntary retirement exercise.
 - Responding to the improvement agenda, highlighted by the Care Quality Commission, in adult social services whilst keeping within the budget and implementing personal social care budgets.
 - Responding to potentially reduced future government funding as a result of the reduced population figures for Wirral.

The audit team and key contacts

54 The key members of the audit team for the 2010/11 Council and Pension fund audits were set out in our Audit Plans which were presented to the January meeting of the Audit and Risk Management Committee. There is currently no change to either of the teams.

55 I can confirm that the audit of both the Council and the Pension Fund are being carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence. We have reported two potential conflicts in our Annual Governance Report.

Members' resources

Audit Commission information for members

56 The local government national studies programme aims to improve local public services through its independent authoritative analysis of national evidence and local practice. Information on the programme is on the Audit Commission's website at [national studies programme](#).

Advisory Services

57 Our Advisory Services are able to support clients under paragraph 9 of Schedule 2A of the Audit Commission Act 1998 to provide 'advice and assistance' (A&A) to another public body. We have developed a number of briefings and tools to support councils with their efficiency agenda, get better value from partnerships and improve performance. Please contact the District Auditor or Audit Manager if you would like to know more about these improvement tools.

Upcoming reports

58 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 (Spring 2011): 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.
- Schools workforce management (Spring 2011): Our 2009 report, 'Valuable lessons', set out savings that could be made by schools

through better balance 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

Published reports

Latest releases



- **Improving value for money in adult social services**, 2 June 2011. This briefing is the first in a series of briefings that will look at value for money in health and social care and considers what councils might do to provide better, more efficient services. It finds that, as demographic change and financial pressures combine to create tough times for adult social care, councils have looked at many aspects of the service in order to provide better, more efficient services. Better procurement, improved back office arrangements, and a preference for community-based rather than residential care where possible, are just some of the changes that local authorities have implemented to help them meet the challenges they face. But the briefing also finds that the pace and scale of change need to increase if councils want to release material savings, as well as improve care for people.



- **Going the distance - Achieving better value for money in road maintenance**, 26 May 2011. This national report looks at what councils can do to get more for their money in road maintenance, in the face of increasing traffic, severe winters, higher costs, and dwindling highways funding. The report highlights how councils can get more for their money, including cost-saving collaborations with neighbours, asset management to show when road maintenance will be most effective, new ways of keeping residents informed, and weighing short-term repairs against long-term resilience. It includes a series of case studies which demonstrate how some councils have developed strategies that balance growing service demands with reducing resources.



- **Better value for money in schools**, 31 March 2011. These four briefings are designed to help schools make the best

use of their workforce - whether teachers, teaching assistants, or administration and finance staff - at a time when they have to find savings. They aim to help school heads, governing bodies and councils control costs without compromising educational attainment. In addition, the Commission published a summary paper, An overview of school workforce spending, which is targeted at chairs of governing bodies and lead members on children's services.



- **Auditing the accounts 2009/10: Quality and timeliness of local public bodies' financial reporting**, 16 December 2010. A summary of the quality and timeliness of financial reporting by councils, police authorities, fire and rescue authorities and local government bodies.



- **2011/12 Proposed work programme and scale of fees**; published 10 December 2010. We are consulting on our proposed work programme and scales of fees for 2011/12.



- **Against the odds - Re-engaging young people in education, employment or training**; published 3 November 2010. Since the release of the report on 7 July 2010, we have produced a series of maps detailing changes in the proportion and numbers of young people not in employment education and training (NEET)



- **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.



- **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.

- **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.



International Financial Reporting Standards (IFRS)

59 We have listed the IFRS reports and briefings available on the Audit Commission website for management and members. This is the first year of

financial reporting under IFRS and members will be required to approve the accounts on this basis in September 2011.

Complete list of resources

- [The final countdown: IFRS in local government](#) ↗ 17 March 2011. The Commission has published the final briefing paper in its Countdown to IFRS series, reporting on findings from a January 2011 auditor survey on implementation of IFRS in local government.
- [Countdown to 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.
- [Countdown to IFRS: 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.

Appendix 1 IFRS implementation

60 In September 2010 we provided a set of graphs showing Wirral's progress on IFRS compared to other Councils and identified the key risk areas where the Council varied from comparator authorities:

- leases – Wirral is amongst the 7 per cent of authorities overall that are assessed as red (8 per cent metropolitan boroughs and 5 per cent of northern authorities); currently being reviewed.
- Wirral is not 'on track' against the project plan – 69 per cent of authorities overall are 'on track' (67 per cent metropolitan boroughs and 74 per cent 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; currently not on track.
- the Audit and Risk Management Committee has had no involvement on IFRS implementation – 87 per cent of audit committees overall have been kept updated and 49 per cent of those and a further 3 per cent have also questioned officers on progress (87 per cent metropolitan boroughs and 85 per cent of northern authorities); the Committee received reports in November 2010 and January 2011.

Table 5: **IFRS implementation 2010/11**

Issue	Findings November 2009	Findings July 2010	Findings January 2011
Governance and oversight	The role of the Audit and Risk Management Committee in the implementation of IFRS has been limited.	The role of the Audit and Risk Management Committee in the implementation of IFRS has been limited.	The Audit and Risk Management Committee received reports in November 2010 and January 2011.
Timetable	The Council is not on track against its project plan.	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 Council is not on track against its project plan. We received restated opening balances in January and the Council is currently amending these. We expect the amendments and the remaining IFRS statements including

Issue	Findings November 2009	Findings July 2010	Findings January 2011
		the end of December 2010.	policies and notes before the end of March 2011.
Non-current assets	Assessed as 'red'.	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.	We are currently reviewing this as part of the IFRS restatement exercise
Leases and other lease type arrangements	Assessed as 'red'.	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.	We are currently reviewing this as part of the IFRS restatement exercise
Employee benefits	Assessed as 'green'	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.	We are currently reviewing this as part of the IFRS restatement exercise
Group accounts	Assessed 'green'	We assessed the risk as 'green'. The Council does not currently have any arrangements that would require it to produce group accounts.	We are currently reviewing this as part of the IFRS restatement exercise

Source: Audit Commission surveys, November 2009, July 2010 and January 2011

Appendix 2 Wirral Council - opinion timetable

Wirral Council timetable

61 The timetable is proceeding to plan for some areas. Our work on IFRS has been delayed due to non or late receipt of information from the Council.

Table 6: **Agreed timetable for the financial statements audit**

This timetable will be kept up to date and members of the Audit and Risk Management Committee (ARMC) will be informed of any significant changes.

Activity	Date	Update at June 2011
Agreement of plan with officers	Draft by mid December 2010 Final by end December 2010	Completed as planned
Progress meetings with officers pre statements	Monthly	Ongoing as planned
Training provided by officers to ARMC members on IFRS	January 2011 March 2011 June 2011	Reports received November 2010 and January 2011. Training 14 July 2011
Presentation of plans to members of ARMC**	ARMC 17 January 2011	Completed as planned
Audit progress reports to ARMC	17 January 2011 28 March 2011 June 2011 September 2011 November 2011	Completed as planned to June 2011.
Receipt of IFRS restated accounts by ARMC and auditor		1st version of restated opening balance sheet received 14 January 2011.
<ul style="list-style-type: none"> ■ Opening balance sheet at 1 April 2009 ■ Comparative figures for 2009/10 for all the statements 	31 December 2010 Mid January 2011	Final versions of comparatives, policies and disclosures received by beginning July 2011.
Working papers for IFRS	Mid January	Some received in

Activity	Date	Update at June 2011
restatement provided to the auditor	2011	January; some outstanding in mid August (provided by end August).
Audit of IFRS restated accounts	Mid January to mid February 2011	Delayed due to non or late receipt of all restated accounts. Work completed end August 2011.
Feedback to officers and members on the audit of the IFRS restated accounts	Officers by end February ARMC 28 March 2011 - in Progress report	Delayed due to non or late receipt of all restated accounts. We have reported the latest position in these progress reports throughout the process.
ISA+315 knowledge of the entity including documenting and walking through material information systems	December 2011 - January 2011	Completed as planned
Evaluating the control environment including IT controls	December 2010 - January 2011	Completed as planned
Controls and relevant early substantive testing	Mid January to mid February 2011	Delayed - as above due to IFRS restatement. Some controls testing not dependant upon IFRS was completed to plan.
Feedback to officers and members of ARMC on the pre-statements audit	Officers by end February ARMC 28 March & 30 June 2011 - in Progress reports	Interim report 14 June 2011. No significant issues to bring to members' attention except for issues summarised in report above.
ARMC consider draft Annual Governance Statement (AGS) presented by officers	ARMC 28 March 2011	Complete - was on agenda for March 2011.
Any further early substantive testing	Mid June 2011	Completed to plan

Activity	Date	Update at June 2011
<p>Receipt of pre-audit accounts** by:</p> <ul style="list-style-type: none"> ■ ARMC - to review prior to challenge and approval at meeting by 30 June 2011 ■ and auditor - to complete detailed post-statements planning prior to fieldwork 	16 June 2011	<p>ARMC are no longer required to approve the accounts prior to audit following the recent change in the Accounts and Audit Regulations 2011. *</p> <p>Auditor to receive accounts approved by DoF by 30 June 2011. Received evening of 4 July 2011.</p>
Pensions Committee to challenge MPF accounts and make recommendations to ARMC	Before ARMC meeting (by 30 June 2011)	No longer applicable due to the change in the Accounts and Audit Regulations 2011. *
ARMC to challenge and approve accounts, including AGS and Pension Fund Statements.	By 30 June 2011	No longer applicable due to the change in the Accounts and Audit Regulations 2011. *
Working papers provided to the auditor	1 July 2011	Not met - received in stages from 7 July
Start of detailed testing on main statements	4 July 2011	Not met as lack of working papers; trial balance not received until 17 August 2011
Progress meetings with officers post-statements	Weekly	Met as planned and liaison arrangements worked well
Completion of fieldwork on main statements	5 August 2011	Timetable slipped due to later receipt of accounts and receipt and standard of working papers.
Receipt of Whole of Government Accounts (WGA) and working papers	22 July 2011	Submitted to National Audit Office (NAO) on 29 July 2011 in line with revised deadline; received for audit 11 August 2011 in line with new arrangements. Working papers received on 17 August 2011.

Activity	Date	Update at June 2011
Completion of fieldwork on WGA	15 August 2011	ongoing at 12 September
District Auditor review of audit work	15 August 2011	Delayed. Interim review 17 August 2011.
Agreement of errors and uncertainties for Finance to complete covering reports and amend statements**	19 August 2011	Delayed. Interim errors and uncertainties communicated 17 August 2011.
Draft Annual Governance Reports from Audit Commission to officers**	5 September 2011	Draft AGR shared on 5 September and hardcopy sent 6 September 2011.
Meeting with officers to agree final AGRs** (AGRs will highlight any outstanding issues that will be updated at meetings with members)	Meetings by 7 September 2011 Final AGRs by 12 September 2011	Meetings held on 5 September with DoF and 12 September 2011 with CE and DoF. Final MPF AGR 8 September 2011 Final Wirral AGR 13 September 2011
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 2011)	Meeting now confirmed for 19 September 2011.
ARMC to:	By 30 September 2011	Meeting now confirmed for 28 September 2011.
<ul style="list-style-type: none"> ■ consider the matters raised in the Pension Fund AGR and the recommendation of the Pensions Committee ■ consider the matters raised in Wirral Council's AGR and any tabled or verbal update on outstanding issues ■ take note of any adjustments to the financial statements and agree to adjust the errors in the financial statements 		

Activity	Date	Update at June 2011
<p>management has declined to amend or set out the reasons for not amending the errors</p> <ul style="list-style-type: none"> ■ approve the letter of representation on behalf of the Council and for the Pension Fund ■ agree the Council's response to the proposed action plans ■ approve the financial statements 		
<p>District Auditor to issue opinions** (and value for money conclusion) Audited accounts published by the Council**</p>	<p>By 30 September 2011</p>	<p>On course providing amended accounts and supporting working papers provided by 23 September 2011.</p>
<p>WGA return certified and submitted by District Auditor</p>	<p>1 October 2011</p>	<p>Recent revision to 30 September 2011 following Accounts and Audit Regulations 2011. On course providing amended accounts and supporting working papers provided by 23 September 2011.</p>

Source: Wirral Council Audit Plan 2010/11, January 2011 & update Septembere 2011.

* revised following consultation on the Accounts and Audit Regulations 2010.

Merseyside Pension Fund timetable

62 The timetable is proceeding to plan for some areas. Our work on IFRS has been delayed due to non or late receipt of information from the Council.

Table 7: Agreed timetable for the financial statements audit

This timetable will be kept up to date and members of the Audit and Risk Management Committee (ARMC) will be informed of any significant changes.

Activity	Date	Update at June 2011
Agreement of Opinion Plan with officers	Draft by early December 2010 Final by end December 2010	Completed as planned
Progress meetings - pre statements	Quarterly	Completed as planned
Presentation of Opinion Plan to members Finance to present covering report including explanation of the final accounts process and the respective roles of Pensions and Audit and Risk Management Committees	Pensions Committee 11 January 2011 ARMC 17 January 2011.	Completed as planned
ISA+315 work - understanding the entity	From November 2010	Completed on receipt of final information received in August 2011
Pre statements control and early substantive testing	February/March 2011	Completed as planned
Planning of and arrangements for IAS19 assurance work	March 2011	Completed as planned
Pre statements testing of initial IAS19 assurance work and investment valuation	Late May/early June 2011	Completed as planned.
Working papers provided to auditors	Mid June 2011	Will now be presented with the pre-audit accounts - working papers received in stages after the statements and approved accounts.
Receipt of pre audit accounts by Pensions Committee, Audit and Risk	20 June 2011	ARMC are no longer required to approve nor Pensions

Activity	Date	Update at June 2011
Management Committee and auditor		Committee to consider the accounts prior to audit following the recent change in the Accounts and Audit Regulations 2011. * Auditor to receive accounts approved by DoF by 30 June 2011. Pensions statements received 28 June but approved accounts not received until 4 July 2011.
Pensions Committee to challenge accounts and make recommendations to ARMC	Before ARMC meeting (by 30 June 2011)	No longer applicable due to the change in the Accounts and Audit Regulations 2011. *
ARMC to challenge and approve Council accounts, including Annual Governance Statement and Pension Fund Statements.	By 30 June 2011	No longer applicable due to the change in the Accounts and Audit Regulations 2011. *
Start of detailed post statements testing	June 2011	Will not be June 2011 due to later planned receipt of accounts due to revised Accounts and Audit Regulations 2011 - detailed testing started 4 July 2011.
Post statements progress meetings	Weekly	Discussions or meetings held
Completion of fieldwork on statements	Mid August 2011	Continuing at 12 September
Agreement of Errors and Uncertainties	19 August 2011	Not met due to continuing testing - meeting 17 August discussed progress.
Draft MPF Annual Report provided to auditors	19 August 2011	Draft received 31 August 2011
Draft Annual Governance	5 September	Met - draft sent 2

Activity	Date	Update at June 2011
Report from Audit Commission to officers	2011	September 2011
Meeting with officers to agree final AGRs (AGRs will highlight any outstanding issues that will be updated at meetings with members)	Meetings by 7 September 2011 Final AGRs to officers and members by 12 September 2011	AGR agreed at meeting 5 September 2011; Final AGR sent to officers and Committees 8 September 2011
Final version of Annual Report available for audit agreement	16 September 2011	Will be delayed due to delay in draft.
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 2011)	Meeting now confirmed for 19 September 2011.
ARMC - to consider Annual Governance Report, including any verbal update on outstanding issues	By 30 September 2011	Meeting now confirmed for 28 September 2011.
Final check of post-audit statements and annual report	By 30 September 2011	Final amendments not yet received
Issue of opinion by District Auditor	By 30 September 2011	On course providing amended accounts and supporting working papers provided by 23 September 2011.

Source: Merseyside Pension Fund audit plan 2010/11, January 2011.

* revised following consultation on the Accounts and Audit Regulations 2011.

WIRRAL COUNCIL

AUDIT AND RISK MANAGEMENT COMMITTEE

28 SEPTEMBER 2011

SUBJECT:	INSURANCE FUND ANNUAL REPORT
WARD/S AFFECTED:	ALL
REPORT OF:	DIRECTOR OF FINANCE
RESPONSIBLE PORTFOLIO HOLDER:	COUNCILLOR STEVE FOULKES
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

- 1.1 This report provides a review of the Risk and Insurance activity during 2010/11 and the plans for 2011/12. It also details the current status of the liability, fire and motor claims Insurance Fund and the impact of measures taken to improve the management of risk. The report was presented to the Cabinet on 23 June 2011.

2.0 RECOMMENDATION

- 2.1 That the transfer of £946,654 from the Insurance Fund to General Fund balances at 31 March 2011 be noted.

3.0 REASON FOR RECOMMENDATION

- 3.1 Officers assessment is that the sum represents the excess over that needed to meet losses and its release will not present a risk to the stability of the Insurance Fund.

4.0 BACKGROUND AND KEY ISSUES

Approach to Risk Financing

- 4.1 Since 1988 the Council has self-insured a significant proportion of legal liability both to members of the public and to other organisations for injury or damage to property that it may cause in carrying out its business. The Council also self-insures damage to Council buildings, motor accidents involving Council vehicles, damage to equipment, and a range of minor risks.
- 4.2 Self-funding losses to a certain level is part of the overall Risk Management Strategy as it provides a greater incentive to deal with risk more effectively given that any reduction in claims directly benefits the Authority. The level of self insurance is set with reference to both the availability of a stable long term Insurance Fund and with regard to the appetite for risk.

- 4.3 Claims are met from the Insurance Fund with the Fund being maintained through annual contributions from all departments.

Review of Liability Reserves and Provisions

- 4.4 To help ensure that the Fund is sufficient to meet the cost of liability claims every two years a review is undertaken by an external actuary who assesses the amount needed to fund anticipated liabilities for previous years.
- 4.5 The outcome of the formal study carried out in 2010 was reported to Cabinet on 2 September 2010. With the actions taken to prevent claims arising, progress in mitigating / resolving claims and the consequent reduction in potential liabilities Cabinet agreed to the release of the £3.4 million surplus from the Insurance Fund to General Fund balances.
- 4.6 In the intervening years a self-evaluation is undertaken as was the case for liabilities incurred as at 31 March 2011. The figure required was calculated by taking the sum recommended by the actuary for losses as at 31 March 2010 adjusted for the premium received and losses met by the Fund in 2010/11.
- 4.7 The self-evaluation indicated that a sum of £7,278,000 was required as at 31 March 2011 to meet outstanding liabilities:-

Class	Actual Provision 31/03/11	Revised Provision 31/03/11	Difference
	£	£	£
Combined Liability	7,878,337	7,278,337	600,000

- 4.8 The surplus of £600,000 can be returned to the General Fund Balance.

Review of Other Reserves and Provisions

- 4.9 The Insurance Fund underwrites a number of other classes of business and holds sums in respect of uninsured risks and to pay for risk improvement measures. These figures are also reviewed each financial year.
- 4.10 The 2011 review identified that these elements of the Fund contained £346,654 above that which was needed to fund claims. Again as a consequence of actions taken to reduce the potential for losses and the continuing improvements in claims management, the cost of claims had reduced faster and to a greater degree than forecast.
- 4.11 The surplus of £346,654 in respect of the other sections of the Insurance Fund can also be returned to the General Balance.

Insurance and Risk Management 2010/11

- 4.12 Throughout 2010/11 regular progress reports on Risk and Insurance Management were presented to the Audit & Risk Management Committee.
- 4.13 Improvements reported in claims management in previous years have been sustained through the continuing efforts of departments to manage their liability risk. Allied to this are the 'firm but fair' stance on liability; the continuing active involvement in claims handling; and the counter-claims fraud strategy. The claims handling and legal services contracts continue to assist in reducing both claims numbers and the overall cost to the Council of this area of risk.
- 4.14 Severe winter weather in 2009/10 and 2010/11 resulted in a sharp increase in the number of liability and property claims and a large cluster of Employers Liability claims also created a significant workload.
- 4.15 In association with Zurich Municipal risk ranking surveys were conducted on all primary schools, special schools and Early Years Centres. This programme has been of great benefit with each school given an individual report on good practice and areas where improvements could be made.
- 4.16 Consequent to involvement in the Lord Justice Jackson Review during 2010, one of my officers was invited by the Ministry of Justice to meet with the Justice Minister to represent the views of local authorities in connection with the consultation process on proposed reforms to civil litigation funding and costs. The issues under consideration have the potential for a negative impact on the performance of the liability element of the Insurance Fund. Wirral Council maintained a prominent role throughout the consultation process with further meetings and discussions taking place and, with the consultation process now closed, the outcome is awaited from the Ministry of Justice.
- 4.17 The Insurance Fund Budget 2011/12 was approved by Cabinet on 25 November 2010. Cabinet noted the savings to the General Fund of £588,000 and to Schools of £285,000. The latter is a consequence of more effective procurement by the team and sustained improvements in the claims experience.
- 4.18 The contract for Insurance Broking and Advice was reported to the Audit & Risk Management Committee on 17 January 2011. The annual cost is approximately £7,000 lower than for 2009/10. Liverpool City Council has expressed interest in joining this contract which was issued on a collaborative basis.
- 4.19 In relation to partnerships enhanced risk management arrangements were introduced to support the Local Strategic Partnership (LSP). Improved processes for producing and managing risk registers for individual thematic partnerships and for the LSP as a whole were introduced.
- 4.20 Following the refresh of the Corporate Plan work began with Chief Officers to review the Corporate Risk Register. This work continues and a draft version of the updated register will be the subject of a report to Cabinet.

4.21 Guidance for officers on the inclusion of information on risks and opportunities in reports to Members was revised. Regular quality checks on reports presented to Cabinet have been undertaken and feedback provided to departments to help ensure continuous improvement.

Insurance and Risk Management 2011/12

4.22 Regular reports on the progress of Insurance and Risk Management will continue to be presented to the Audit and Risk Management Committee. There will also be regular updates on significant risks as part of the quarterly Performance and Financial Review reports presented to Cabinet.

4.23 A significant area of work will be improvements to the Risk Management Strategy and framework. Some of the tasks listed below relate directly to this initiative and the table outlines the principal areas and the target dates for completion.

Task	Target Date
Conduct market-testing exercise for Academy Schools insurance	May 2011
Support Chief Officers in reviewing Corporate Risks	May / June 2011
Review of funding for insured liabilities	May 2011
Discuss priorities for future risk management with Executive Team	June 2011
Negotiate annual renewal of Property, Money, Fidelity Guarantee & Personal Accident insurance contracts	June 2011
Develop risk management training for Members	July/August 2011
Audit of external liability claims handlers' performance	August 2011
Negotiate annual renewal of Marine Insurance contract	September 2011
Present the Insurance Fund Budget 2012/13	November 2011
Review of key departmental risks for 2012/13.	March 2012
Negotiate annual renewal of Liabilities insurance contract	March 2012
Review Motor, Computer and Engineering insurance contracts Option to extend each contract for a further 2 years. Officers will take a view prior to expiry as to whether extensions would represent good value.	March 2012

5.0 RELEVANT RISKS

5.1 The release of money from the Insurance Fund could potentially leave it exposed in the event of a series of major losses. However, liability is limited by aggregate excesses and for some policies the Fund reflects the maximum liability for that risk in any one year. In respect of other risks the amount within the Fund is influenced by the Risk & Insurance Team understanding of claims patterns and costs. Expenditure on major losses would be incurred over several years allowing time to supplement funding should it be necessary.

5.2 Insurance charges (including those for schools) are calculated six months before the start of each financial year. Schools converting to Academy status can no longer be covered by the Council insurance arrangements. Uncertainty over which schools will convert and the date of conversion presents a risk that the Insurance Fund will not recover sufficient premiums to meet claims from schools. This is mitigated by ensuring that developments are known as early as possible and by using the Fund to help off-set some of the potential shortfall.

5.3 The growing number of Academies does present a potential opportunity for the service. The Team has created an insurance facility for Academy schools through which insurance would be provided by the insurance market and the Team would run procurement exercises, provide support on renewals and claims, and give general insurance advice. This enables schools to continue to contract with a service they value whilst providing a modest source of income for the Authority.

6.0 OTHER OPTIONS CONSIDERED

6.1. The balance in the Insurance Fund over that needed to meet claims could have been retained.

7.0 CONSULTATION

7.1 Secondary Schools have been closely involved in the development of the insurance facility for Academy Schools.

8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

8.1 There are no direct implications arising from this report.

9.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

9.1 The continuing effective and pro-active approach to managing insured risk is reflected in the assessment of the amounts required in the Insurance Fund to meet current and future claims.

9.2 During 2010/11 Cabinet agreed to the release of £3.4 million from the Insurance Fund to the General Fund balance following the Actuarial Review. The Insurance Fund Budget 2011/12 resulted in a reduction in contributions from departments and schools of £0.9 million. This Review now seeks Cabinet agreement to the transfer of a further £0.9 million from the Fund at the end of the 2010/11 financial year.

10.0 LEGAL IMPLICATIONS

10.1 There are no direct implications arising from this report.

11.0 EQUALITIES IMPLICATIONS

11.1 There are no direct equalities implications arising from this report.

12.0 CARBON REDUCTION IMPLICATIONS

12.1 There are no carbon usage implications arising from this report.

13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1 There are no planning implications. Actions taken as a result of the Risk Ranking Surveys will assist with the safety of staff pupils and visitors in schools.

FNCE/163/11

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SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Insurance Fund Annual Report - Cabinet	23 June 2011
Insurance Fund Budget 2011/12 - Cabinet	25 November 2010
Insurance Fund Actuarial Review - Cabinet	2 September 2010
Insurance Fund Annual Report - Cabinet	24 June 2010
Insurance fund Budget 2010/11 - Cabinet	14 January 2010
Insurance Fund Annual Report - Cabinet	25 June 2009
Insurance Fund Budget 2009/10 - Cabinet	27 November 2008
Insurance Fund Annual Report - Cabinet	9 July 2008

WIRRAL COUNCIL

AUDIT & RISK MANAGEMENT COMMITTEE

28 SEPTEMBER 2011

SUBJECT	CORPORATE RISK AND INSURANCE MANAGEMENT
WARD/S AFFECTED	ALL
REPORT OF	DIRECTOR OF FINANCE
RESPONSIBLE PORTFOLIO HOLDER	COUNCILLOR STEVE FOULKES
KEY DECISION	NO

1.0 EXECUTIVE SUMMARY

- 1.1 This report details progress made against the objectives for corporate risk and insurance management and the anticipated developments in the coming months.

2.0 RECOMMENDATION

- 2.1 That the Corporate Risk and Insurance Management report be noted.

3.0 REASON FOR RECOMMENDATION

- 3.1 Regular update reports are presented to this Committee on the work around Risk and Insurance which seek to support the Risk Management Strategy and maintain the successful management of the Insurance Fund.

4.0 BACKGROUND AND KEY ISSUES

Insurance Management progress

- 4.1 The Risk and Insurance Team continues to undertake a role in matters relating to the Jackson review of civil litigation. One officer is, by invitation, representing the views of self insured local authorities on the principal defendant lobbying group which is recognised by the Ministry of Justice as a key voice in the debate. This has provided direct access and influence to civil servants and key political figures and has shaped the national debate towards an acceptance that the cost of litigation to society is unsustainable and has led to an apparent political willingness for change. This remains an important area of work as the proposed bills and civil rule changes could have long term implications for the Insurance Fund and Wirral continues to have direct influence at the heart of the debate.
- 4.2 The liability claims statistics for the quarter ending 30 June 2011 were compiled and analysed. The trend for larger numbers of public liability claims continues (the rise being attributed to the harsh winter and current economic conditions). Between 500 and 600 claims are forecast to be received for 2011. Whilst this will be the largest number of claims since 2004/05 efficiencies in claims handling mean that costs should remain within budget.

- 4.3 Technically challenging work has continued on large liability losses / historic abuse / mesothelioma and other industrial disease claims; vibration related claims continue to emanate from the Parks & Countryside Service and claims for industrial deafness / noise induced hearing loss in relation to historic periods (some going back over 40 years) have maintained an upward trend. Claim specifics cannot be provided in this open format report but a discontinuance has recently been agreed on a potentially high profile Human Rights Act claim.
- 4.4 Further meetings were held with the insurance brokers JLT Public Sector Risks to progress the service plan for 2011/12.
- 4.5 The Property, Money, Fidelity Guarantee and Personal Accident / Business Travel policies were all renewed on 30 June 2011. Actual costs were within estimates for most policies. The exception was the Property policy where the actual premium exceeded the estimate by 3% because of an increase in building cost inflation which had not been forecast when budgets had been prepared.
- 4.6 Revised sums insured were collated in advance of the renewal of the Marine insurance policy on 30 September 2011. Terms have been received from insurers. As the premium is within the 2011/2 budget the Council brokers have been instructed to proceed with renewal.
- 4.7 Six Academy schools have taken out Service Level Agreements with the Risk & Insurance Team for professional advice and support in relation to insurance. Insurance packages have been put in place for four of those schools with the remaining two to be implemented by 1 October 2011. The project has taken up more capacity than anticipated but the lessons learnt will be of assistance in respect of future work in this area. Liaison also continues with other schools that are considering a move to Academy status. Initial feedback from schools using the service is very positive as they are appreciative of the assistance provided. Whilst the initial transfer of these schools out of the Insurance Fund has a negative impact on the 2011/12 budget, this work is expected to provide revenue of up to £5,000 per year for each secondary academy from 2012/13.
- 4.8 Zurich Municipal was asked to indicate by early September 2011, the level of premium and service charge expected in relation to the Engineering and Motor insurance contracts. These policies are subject to Long Term Agreements which expire on 31 March 2012 but which can be extended for a further two years subject to there being no reduction in cover or increase in rating. An early indication is necessary to allow sufficient time to comply with procurement timescales if remarketing is required. The positive management of the motor risk coupled with a reduction in fleet size will justify an improvement in the insurance rating and claims handling charges.

Risk Management Progress

- 4.9 The Executive Team has considered, and agreed, the current key risks relating to the delivery of the Corporate Plan. The Risk & Insurance Team is currently working with individual departments to understand how the risks are being controlled.

- 4.10 A training session providing Members with an introduction to risk management was delivered on 7 September 2011.
- 4.11 The Risk Ranking Surveys of primary and special schools and early years centres was completed in July 2011. Whilst overall feedback was very positive a number of areas for general improvement were identified. A report summarising the findings has been shared with the Department for Children & Young People and should help to inform future investment in schools.
- 4.12 The Executive Team met on 23 June 2011 to discuss a report on risk management arrangements and agreed that improvements were needed to help the Authority meet the major internal and external challenges which it faces. The Team also identified the priorities which should influence any future corporate approach to risk and uncertainty. This will form part of a report to Cabinet on 13 October 2011 on the Risk Management Strategy and the Management of Risk and Opportunity.

Insurance Management – Issues for Next Period

- 4.13 Liability claims statistics for the second quarter of 2011/12 will be compiled.
- 4.14 The Marine Insurance policy will be renewed.
- 4.15 If the Long Term Agreements are not extended on the Engineering and Motor insurance policies the Risk & Insurance Team will begin the process of a competitive tender for these contracts.
- 4.16 Work with Academy Schools will continue. Individual cover packages will be implemented for the schools converting to Academy status on 1 October 2011 with meetings arranged with schools anticipating conversion at the start of 2012.
- 4.17 The Insurance Fund budget for 2012/13 should be prepared and reported to Cabinet on 24 November 2011.

Risk Management – Issues for Next Period

- 4.18 The risk information supporting the Corporate Finance and Performance Review will be updated and included in the end of September review for Cabinet and detailed in the supporting Risk Monitoring Summary.
- 4.19 Should Cabinet approve the proposal to develop a new corporate approach to the management of risk and uncertainty the Risk & Insurance Team will begin the process to develop a detailed project plan and conduct an analysis of the gaps between existing framework and processes and current best practice.
- 4.20 The revised list of key strategic risks to the delivery of the Corporate Plan will be analysed and an initial review conducted by the Executive Team as these will form the revised Corporate Risk Register for consideration by Cabinet.

5.0 RELEVANT RISKS

5.1 No decisions are required in relation to this report. As such there are no risks or opportunities to report.

6.0 OTHER OPTIONS CONSIDERED

6.1 These are not applicable in respect of this monitoring report.

7.0 CONSULTATION

7.1 No specific consultation has been undertaken with regard to this report.

8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

8.1 Guidance for voluntary groups assists them in understanding whether they need to procure liability insurance in their own name.

9.0 RESOURCE IMPLICATIONS

9.1 The Academy Schools initiative undertaken by the Risk & Insurance Team has the potential to generate income to offset insurance administration costs.

9.2 There are no staffing implications arising directly from this report.

10.0 LEGAL IMPLICATIONS

10.1 There are none arising directly from this report.

11.0 EQUALITIES IMPLICATIONS

11.1 There are none arising directly from this report.

12.0 CARBON REDUCTION IMPLICATIONS

12.1 There are none arising directly from this report.

13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1 There are none arising directly from this report.

FNCE/206/11

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REFERENCE MATERIAL / SUBJECT HISTORY

Council Meeting	Date
An update report is presented to each meeting of the Audit and Risk Management Committee	

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WIRRAL COUNCIL

AUDIT AND RISK MANAGEMENT COMMITTEE

28 SEPTEMBER 2011

SUBJECT:	FRAUD PREVENTION
WARD/S AFFECTED:	ALL
REPORT OF:	DIRECTOR OF FINANCE
RESPONSIBLE PORTFOLIO HOLDER:	COUNCILLOR ADRIAN JONES
KEY DECISION?	NO

1.0. EXECUTIVE SUMMARY

- 1.1. Corporate fraud is a crime that is increasing in both the public and private sectors. In Local Government it is becoming more complex as a result of business transformation and the extended use of partnerships, outsourcing and new technologies.
- 1.2. This report covers fraud prevention in the Council and identifies the roles of the various teams in pursuit of this aim.

2.0. RECOMMENDATION

- 2.1. That the report be noted.

3.0. REASONS FOR RECOMMENDATION

- 3.1. To ensure Members are aware of actions being taken to prevent fraud.
- 3.2. Cabinet on 14 April 2011 requested this report on fraud prevention which was presented to Cabinet on 21 July 2011.

4.0. BACKGROUND AND KEY ISSUES

4.1. Internal Audit

- 4.1.1. In compliance with the Accounts and Audit Regulations and operating to standards set out in the CIPFA Code of Practice for Internal Audit in Local Government, the Internal Audit Section gives assurance on the adequacy of internal controls operating across the Council and provides advice to management where control weaknesses are identified. This fundamental role of Internal Audit serves to counter fraud in a general sense. Work undertaken is directly concerned with targeting fraud and ensuring that the Council is in the best possible position to deter would be fraudsters.

- 4.1.2 One such targeted exercise was a review of counter fraud arrangements across the Council. This review was undertaken in line with the CIPFA publication, 'Managing the Risk of Fraud-Actions to Counter Fraud and Corruption' which was published in October 2008, produced by the CIPFA Better Governance Forum Counter Fraud Advisory Panel. It is aligned to the National Fraud Strategic Authority and NHS Performance Indicators, and is recommended by organisations such as ALARM and the Institute of Internal Auditors.
- 4.1.3 The review resulted in the production of a report and action plan. An update report in respect of the review findings was presented to the Audit and Risk Management Committee on 18 January 2010. The report recognised the value of the Council having Codes of Practice for Members and employees and corporate policies on Whistle-blowing, Anti-Fraud and Corruption, Money Laundering, Benefits Investigations, Pre-employment Screening and Gifts and Hospitality. Areas of good practice were also recognised in areas such as Insurance claim processing, Housing Benefit Fraud Investigations, and participation in the National Fraud Initiative.
- 4.1.4 The review did however identify a number of improvements which could be made to the counter fraud arrangements and as a consequence a remit for a specialist Internal Audit Counter Fraud Team was drawn up to implement these changes.
- 4.1.5 The Counter Fraud Team co-ordinates all fraud related matters and acts as the first point of contact for all such matters for officers within the Council and external agencies such as the Audit Commission. The role as co-ordinator of fraud related matters enables the Team to monitor fraudulent acts and identify trends and possible emerging control weaknesses and communicate these promptly to all employees, for example through issuing warnings on the Intranet.
- 4.1.6 The Internal Audit Counter Fraud Team has been instrumental in the updating or introduction of key policies aimed at fighting fraud. For example:
- the Anti-Fraud Policy has been redrafted to reflect a zero tolerance to fraud and a commitment to reducing losses: This was approved by the Cabinet on 15 April 2010
 - the Anti-Money Laundering Policy has been updated and approved by the Cabinet on 2 June 2011. Understanding of money laundering by key frontline employees has been tested and specialist training is planned for those needing further instruction
 - An Anti-Bribery Policy has been prepared in line with CIPFA guidelines and approved by the Cabinet on 2 June 2011. It has been promoted to all employees through the Council intranet.

4.1.7 That part of the Internal Audit plan which refers to fraud includes tasks to cover:-

- **Creating a counter fraud culture,**
- **Preventing Fraud and**
- **Detecting Fraud.**

Examples of tasks include the development and delivery of Staff Fraud Awareness Training (summer 2011); pro-active fraud detection work utilising specialist interrogation software and the audit of systems traditionally vulnerable to potential fraud (expenses, credit cards, mobile telephones, advertising hoardings.) A corporate fraud hotline has recently been set up and this will be promoted through the intranet, the One Brief, One Council magazine and online training.

4.1.8 The Counter Fraud Team also has a key role in investigating large value or complex frauds and providing advice to other Investigating Officers involved in disciplinary investigations. Two of the Counter Fraud Team have successfully completed the CIPFA Certificate in Investigation Practice. As a result, investigations undertaken and advice given comply with best practice as set out in European and UK legislation and adopt professional advanced interviewing techniques. This professionalism provides for the best possible outcome for the Council, should any case end up in court.

4.1.9 The fraud threat is ever changing and the restructuring of Council departments provides opportunities for controls to be weakened or key roles to disappear. To address this possibility the counter fraud arrangements will be reviewed during 2011/12 using the 'Fraud Risk Evaluation Diagnostic' (FRED) which builds on the successful Red Book and puts it into an electronic format. FRED presents opportunities to compare Wirral procedures against best practice in other Local Authorities.

4.2 National Fraud Initiative

4.2.1. The Audit Commission requires all local authorities to participate in the biennial National Fraud Initiative (NFI), which is a national exercise which uses computer assisted audit techniques, and specifically data matching, to identify potential fraud. The NFI has identified a significant number of matches (20,325 in 2008 and 23,832 to date for the 2010 exercise) which must then be investigated by officers of the Council.

4.2.2. NFI exercises have resulted in significant savings to the Council, arising largely from payments recovered or stopped where the Council had made payments in error. After the investigation of the matches the 2008 exercise resulted in the identification of 84 frauds and 547 errors with a total value of £328,963. As the key contact within the Council the Deputy Chief Internal Auditor plays a vital role in managing the NFI exercise, liaising with contacts across the Council both before the submission of data and during the investigation of data matches. By maintaining contact with responsible officers across the Council, the Deputy Chief Internal Auditor is able to monitor progress in investigating potential frauds which informs regular updates to the Finance Department Management Team. This ensures that those responsible for investigating data matches have an incentive to act.

4.2.3 While the NFI exercise has proved valuable it does reflect only a snapshot of matches at a given point in time, albeit across a broader range of match data than would be available to the Council through any other means. Additional in house initiatives seek to extend the interrogation of data, in an attempt to detect fraud, to include more frequent “snapshots” Such initiatives include the use of IDEA software by Internal Audit to interrogate financial and other databases and in house data matching exercises in the Housing Benefit Fraud Team. In 2010 an internal audit data matching exercise resulted in the identification of £ 30,000 of duplicate payments for the Council to reclaim. There were 36 HB cases identified through internal proactive exercises which included the matching of Housing Benefit data to other data held by the Council.

4.3 Risk Management and Fraud Prevention

4.3.1 The Risk and Insurance Team review all risk registers created in respect of departmental plans. All risks are considered in relation to their effect on the Council objectives. Fraud is primarily considered to be an operational risk, whose impact is for the most part financial (i.e. it results in a loss of financial resources). The Team attempts to encourage Council departments to consider risk in a broad, but structured, way. One of the tools used is the guidance which is produced and distributed in relation to the identification, analysis and recording of risks to the delivery of departmental and divisional plans. The guidance contains a number of Risk Categories which are designed to give structure to the identification process. These are also contained in the Corporate Risk Management Strategy. Each category gives examples of the type of risk which would fall into it. Fraud is specifically mentioned. The Risk Management Team meets regularly with the Corporate Planning, Engagement and Communication Team to discuss potential improvements to the risk management framework. There are a number of points arising from the most recent set of departmental plans which include the need to maintain a focus on operational risks such as fraud.

4.4 Insurance Fraud Prevention

4.4.1 The zero tolerance to insurance fraud is promoted through pamphlets which encourage members of the public to report any suspicions about Insurance Fraud through the Insurance Fraud Hotline. Participation is encouraged through the offering of a reward for information leading to a conviction. The hotline has resulted in a number of reports since its introduction.

4.4.2 Use of the Claims Underwriters Exchange (CUEpi) by Wirral’s partner agencies (solicitors and insurers) also maximises the probability that any attempt to make a fraudulent insurance claim against the Council is picked up at the earliest possible stage.

4.5. Housing Benefits

- 4.5.1. Housing Benefits claims administration is prescribed by legislation and robust evidence and information verification procedures exist to secure the gateway to Benefit and minimise the opportunity for fraud and error. Working procedures are based upon the Department for Work and Pensions (DWP) 'verification framework' which helps to ensure that we are paying the right benefit to the right people. We also operate a review programme based on risk, concentrating on the groups which, through analysis, are most likely to have an incorrect benefit entitlement. This process includes direct access to the DWP Customer Information System (CIS). Claims are not put into payment until the framework requirements are satisfied. The quality assurance process requires that a sample of claims is checked with the outcome submitted on a quarterly basis to the DWP – Wirral's accuracy rate is currently 96%. Risk based intervention or reviews can be either postal or through a visit to the claimants home. If a claimant does not co-operate with a review the claim is suspended.
- 4.5.2 A significant number of Housing Benefit(HB) fraud referrals are received by the HB Fraud Investigation Team. Over the past four years the number has consistently been in excess of 1500 ranging from 1594 in 2007/08 and peaking at 2178 in 2009/10. In 2010/11 the number of referrals was 1859. There is a dedicated investigation team which conducts joint working as necessary with other agencies such as DWP. The work is both proactive and reactive: Proactive is essentially intelligence work i.e. action prompted through data matches such as NFI/HBMS (Housing Benefit Matching Service) and local initiatives. Reactive is in response to allegations of fraud, fraud referrals whether raised internally or externally, or anonymously by way of the fraud hotline or via e-mail. In 2010/11, 64 referrals were received via the fraud hotline and 31 via e-mail.
- 4.5.3 Other proactive measures to maximise the detection of Housing Benefit frauds include annual HB fraud awareness training for all Revenues Benefits and Customer Services staff and the dissemination of useful information in relation to fraud alerts via the weekly internal bulletin. The Division also has an agreed protocol for the sharing of information with Merseyside Police. Data analysis of case load, demographics and potential hotspots is also undertaken every two years as a means of identifying potentially fraudulent claimants.
- 4.5.4 Where fraud is identified the options are that the claimant be prosecuted, receive an administrative penalty (under which the claimant pays 30% of the total amount overpaid on top of repaying the amount over claimed), or receive a formal caution. Between 2002/03 and 2010/11 the investigation of fraudulent Housing Benefit claims resulted in 161 prosecutions, the issuing of 465 cautions and 247 administrative penalties.

4.6 Council Tax

4.6.1 The National Fraud Initiative provides leads about potential Council Tax fraud which are then investigated by the Council Tax Section. The current exercise which looks at Single Person Discounts has identified 97 frauds and 425 errors to date with a total value of £91,500

4.6.2 An additional in house exercise was undertaken prior to the latest NFI exercise. The in-house exercise resulted in a large reduction in Single Person Discounts from 57,606 to 54,910 a reduction of 2,696 producing savings of £767,000.

4.6.3 The Council Tax Section is constantly evaluating new methods of Single Person Discount verification.

5.0. RELEVANT RISKS

5.1. The Council is not adequately protected against corporate fraud and corruption.

6.0. OTHER OPTIONS CONSIDERED

6.1. No other options considered.

7.0. CONSULTATION

7.1. Relevant Sections of the Finance Department have been consulted in preparing this report.

8.0. IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

8.1. There are none arising from this report.

9.0. RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

9.1. There are none arising from this report.

10.0 LEGAL IMPLICATIONS

10.1. There are none arising from this report.

11.0. EQUALITIES IMPLICATIONS

11.1. There are none arising from this report.

12.0. CARBON REDUCTION IMPLICATIONS

12.1. There are none arising from this report.

13.0. PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1. There are none arising from this report.

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FNCE/166/11

APPENDICES

None

REFERENCE MATERIAL

CIPFA/SOLACE Delivering Good Governance in Local Government Framework
CIPFA Managing the Risk of Fraud – Actions to Counter Fraud and Corruption
CIPFA 'Fraud Risk Evaluation Diagnostic'
Audit Commission 'Protecting the Public Purse'

SUBJECT HISTORY (last 3 years)

Council Meeting	Dates
Cabinet (Anti-Money Laundering Policy)	22 May 2008
Cabinet (Anti Fraud and Corruption Policy)	15 April 2010
Audit and Risk Management Committee (Protecting the Public Purse)	17 January 2011
Cabinet (Bribery Act and Anti-Money Laundering Policy)	2 June 2011
Cabinet (Fraud Prevention)	21 July 2011

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WIRRAL COUNCIL

AUDIT AND RISK MANAGEMENT COMMITTEE

28 SEPTEMBER 2011

(SUBJECT:	REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA)
WARD/S AFFECTED:	ALL
REPORT OF:	THE DIRECTOR OF LAW, HR AND ASSET MANAGEMENT
RESPONSIBLE PORTFOLIO HOLDER:	GEORGE DAVIES
KEY DECISION?	NO

1.0 SUMMARY

- 1.1 This report summarises the use of covert surveillance by the Council between 1 June 2011 and 1 September 2011.
- 1.2 This report was requested in the work plan for the Committee.

2.0 RECOMMENDATION/S

That members note the contents of the report on the use of covert surveillance.

3.0 REASON/S FOR RECOMMENDATION/S

The Home Office Code of Practice on covert surveillance requires every Council to report quarterly on its use of RIPA.

4.0 BACKGROUND AND KEY ISSUES

- 4.1 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.
- 4.2 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).

- 4.3 The Council's Constitution authorises Directors to designate Heads of Service and Service Managers to authorise the use of covert surveillance in accordance with the procedures prescribed by RIPA.
- 4.4 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.
- 4.5 New Codes of Practice on covert surveillance have been published by the Home Office. As from 1 April 2010 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 30 June 2011.

5.0 THE USE OF RIPA BY THE COUNCIL

- 5.1 Between 1 June 2011 and 1 September 2011 the Council granted 7 authorisations for covert surveillance.
- 5.2 Two authorisations were granted to obtain evidence of serious offences of fly-tipping at sites in the Borough where this offence has become a public nuisance. One has led to a prosecution.
- 5.3 Five authorisations were granted to obtain evidence of alleged anti-social behaviour. One authorisation has provided evidence for possession proceedings and three authorisations are current (at the time of writing this report). Anti-social behaviour has included alleged racial harassment, intimidation, the lighting of fires in derelict property, criminal damage, drunken and abusive behaviour and the playing of loud music.

6.0 CHANGES IN LEGISLATION

- 6.1 In July 2010 the Home Secretary announced a review focusing on which security powers could be scaled back in order to restore the balance of civil liberties, including the use of RIPA by local authorities. The review was overseen by Lord MacDonald QC. The Local Government Association provided considerable evidence showing how evidence obtained through proper use of RIPA helped local authorities support communities.
- 6.2 On the 26 January 2011 the Home Office published its review and made the following recommendations concerning local authorities;
- Magistrate's approval should be required for local authority use of RIPA and should be in addition to the authorisation needed from a senior officer and the more general oversight by elected councillors.
 - Use of RIPA to authorise directed surveillance should be confined to cases where the offence under investigation carries a maximum custodial sentence of six months or more. But because of the importance of directed surveillance in corroborating investigations into underage sales of alcohol and tobacco, the Government should not seek to apply the threshold in these cases.

- 6.3 The above proposals have been incorporated in the draft legislation and are expected to be enacted in a year's time.
- 6.4 If the Bill becomes law, it will become more difficult to obtain evidence of anti social behaviour. Persistent acts of disorder and nuisance will not pass the threshold. Witnesses will be more reluctant to give evidence if the outcome of the case is less certain because the evidence of covert surveillance is no longer available to prove they are telling the truth. They will fear retaliation. The change in the law will protect the right to privacy of suspected perpetrators of anti-social behaviour which will be regarded as a higher priority than the right of their victims to live peacefully and without fear.
- 6.5 Evidence obtained by authorised cover surveillance has been used to support civil proceedings for anti-social behaviour, and in prosecutions for fly-tipping, underage sales of tobacco, and of counterfeit goods. It is a valuable resource for a local authority provided proper safeguards are in place to prevent its abuse.

7.0 RELEVANT RISKS

Less effective prosecution of instances of anti social behaviour.

8.0 OTHER OPTIONS CONSIDERED

The Council has to accept the will of Parliament.

9.0 CONSULTATION

None

10.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

None

11.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

None at present.

12.0 LEGAL IMPLICATIONS

- 12.1 The current review of the Regulation of Investigatory Powers Act will require the Council to review its procedures for authorising directed surveillance, access to communications data and the use of covert human intelligence sources.
- 12.2 Training on the proposed new legislation was delivered on 7 June 2011 by Ibrahim Hasan (an acknowledged expert in the field) to Authorising and Applying Officers.
- 12.3 Pending the implementation of the proposed new legislation the Council's current policy on the use of RIPA still applies.

13.0 EQUALITIES IMPLICATIONS

Any directed surveillance used will be authorised and conducted in accordance with the requirements of the Regulation of Investigatory Powers Act, including any new requirements concerning approval by a magistrate.

14.0 CARBON REDUCTION IMPLICATIONS

None

15.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

See paragraph 6.

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REFERENCE MATERIAL

SUBJECT HISTORY (last 3 years) AND BACKGROUND PAPERS

Council Meeting	Date
Reports to the Audit & Risk Management Committee	23 September 2009 30 June 2010 28 September 2010 22 November 2010 28 March 2011 30 June 2011
Report to the Cabinet	26 November 2010

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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