

# AUDIT AND RISK MANAGEMENT COMMITTEE

Wednesday, 1 February 2012

Present:

Councillor J Crabtree (Chair)

Councillors D Dodd JE Green  
S Mountney I Williams  
A Brighthouse

Deputies:

Councillors J Salter (In place of RL Abbey)

49 **MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST**

Members were asked to consider whether they had personal or prejudicial interests in connection with any item(s) on this agenda and, if so, to declare them and state what they were. No such declarations were made.

50 **MINUTES**

**Resolved – That the minutes of the meeting held on 29 November 2011, be approved.**

51 **ANNUAL GOVERNANCE REPORT 2010/2011 - ACTION PLAN UPDATE**

Further to minute 23 (28 September 2011), the Deputy Chief Executive/Director of Finance presented an update upon progress in the implementation of a series of actions set out in the Audit Commission Annual Governance Report Action Plan.

**Resolved – That the progress on delivering the Action Plan be noted.**

52 **STATEMENT OF ACCOUNTS 2011/2012 - REVIEW OF ARRANGEMENTS**

The Deputy Chief Executive/Director of Finance provided details of the actions being taken to improve the completion of the accounts and the production of the Statement of Accounts for 2011/2012. The Annual Governance Report 2010/2011 and the Statement of Accounts for 2010/2011 had both highlighted a number of issues with the 2010/2011 closedown and had set out actions to facilitate improvements in the closure process for 2011/2012. The Director indicated the Auditors key findings and set out the actions being taken to address the key messages –

- That a framework for **Quality Assurance** of the final accounts process and Statement of Accounts is developed and implemented.
- In relation to **capacity**, to ensure that adequate resources are identified and used to support the achievement of the 2011/2012 closedown plan.
- To undertake collaborative working with the Audit Commission to improve the production of **working papers** in the 2011/2012 closedown.
- To arrange a briefing session for **Members** for July 2012.

In response to comments from Members in relation to bringing forward the September 2012 meeting of the Committee to allow for improved governance, the Director indicated that last year, the introduction of the International Financial Reporting Standards (IFRS) had caused difficulties for many local authorities. Nevertheless, the Accounts were published by the end of September deadline and he anticipated that all deadlines would be met in the current year. However, if the meeting was brought forward, any work that remained outstanding could be completed after the Committee had met.

**Resolved –**

- (1) That the progress and plans to improve the completion of the Statement of Accounts for 2011/2012 be noted.**
- (2) That, to improve the Council's governance arrangements, the September 2012 meeting of the Committee be brought forward by one week.**

53 **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 November/December 2011. He highlighted a number of issues related to an unforeseen shortfall in staffing resource and commented also upon the following items of note concerning audit work undertaken during the monitoring period –

- Care Quality Commission (CQC)
- Counter Fraud Investigation
- DASS Procurement (Day to Day)
- Universal Youth Support Service Accounts
- Cultural Services
- School Audits

Members referred to the concerns that had been expressed at the last meeting of the Committee (minute 38 (29 November 2011) refers) in relation to the DASS Day to Day Procurement system and commented upon the unacceptable delays in ensuring compliance with high priority Audit recommendations. The District Auditor confirmed that appropriate actions had now been undertaken and that there had been administrative issues associated with the transfer of responsibility from one department to another. The Director of Law, HR and Asset Management proposed to investigate why high priority recommendations had not been implemented in a timely manner and undertook to provide a full explanation to Members direct. The Chief Executive proposed also that a review of systems should be undertaken to ensure that the Council was not exposed to risk.

**Resolved –**

- (1) That the report be noted.**
- (2) That all high priority recommendations and any other particular concerns identified by Internal Audit be brought to the attention of the Chair.**
- (3) That, if any Audit recommendations are not implemented in a timely manner, the appropriate Chief Officer be required to attend the Audit and Risk Management Committee and provide an explanation for the non-compliance.**

**54 AUDIT COMMISSION - PROGRESS REPORT**

The District Auditor presented the Audit Commission Progress Report dated 24 January 2012, which provided an update of ongoing work at the Council. Initial planning had been completed for the 2011/2012 audit (see minute 55 post) and a detailed working paper requirements document would soon be issued to officers for the development of more detailed milestone dates for completion of the accounts and audit of the statements. Initial planning had been completed for the 2011 work on the Value for Money conclusion and he commented also that follow up work for the finalised HESPE report was being undertaken.

He referred to the Government response to consultation on the future of local public audit and provided also an update on the externalisation of the Audit Practice. Other matters of interest included making the local authority IFRS accounts more accessible and understandable. The District Auditor set out also a number of key considerations for the Committee, in respect of the issues highlighted in the briefing paper.

**Resolved –**

- (1) That the Audit Commission Progress Report be noted.**
- (2) That reports be presented to future meetings of the Committee upon each of the key considerations set out in the Progress Report.**

**55 AUDIT COMMISSION - AUDIT PLAN**

The District Auditor presented the Audit Plan, which set out the work for the 2011/2012 audit of Wirral Council, based on the Audit Commission's risk-based approach to audit planning. He identified the significant risks to the audit opinion and commented that, alongside his work on the accounting statements, he also proposed to review and report to the National Audit Office on the Council's Whole of Government Accounts (WGA) return. The extent of the review and the nature of the report would be specified by the National Audit Office.

The District Auditor was also required to reach a conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness and he set out the significant risks to the value for money conclusion. The fee for the audit was

£352,800, which represented a 10% reduction on the audit fee for 2010/2011 and he indicated the specific actions the Council could take to reduce the fee.

In response to a question from a Member in relation to how the Audit Commission would interact with ongoing peer review work involving the Local Government Association (LGA), the District Auditor stated that he would be interested in the findings of such a review and would be prepared to comment upon it. The recently established Improvement Board could work in a variety of ways and any involvement of the Audit Commission would be to ensure that arrangements were in place to achieve value for money.

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

**56      AUDIT COMMISSION - MERSEYSIDE PENSION FUND AUDIT PLAN**

The District Auditor presented the Audit Plan 2011/2012 for the Merseyside Pension Fund, based upon the Audit Commission's risk-based approach to audit planning. He highlighted the specific audit risks that could have an impact on the Pension Fund's financial statements and set out the audit testing strategy. The scale fee for the audit was £59,181 and he proposed that the work would be completed and opinions issued by 30 September 2012.

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

**57      INSURANCE FUND BUDGET 2012/2013**

The Deputy Chief Executive/Director of Finance reported upon the elements which made up the Insurance Fund, the cost of running the Risk and Insurance Section and the Budget for 2012/2013. The Insurance Fund Budget was to adequately fund insurable risk and ensure the equitable allocation of insurance costs. It was one element of the Council Budget setting process and was agreed by the Cabinet on 24 November 2011 (minute 198 refers).

He commented that Wirral Council had operated an Insurance Fund since its formation and was one of the first local authorities to adopt a high degree of self-insurance when large excesses on liability and material damage insurance were negotiated in the 1980s. Self-funding was a fundamental element of the risk management strategy and it provided a greater incentive to deal with risk more effectively since any reduction in claims directly benefited the Authority. He set out the premia charged in recent years in respect of the three principal risks covered by the Fund – Combined Liability; Material Damage and Business Interruption; and Comprehensive Motor, and he highlighted the relevant risks and resource implications.

**Resolved –**

- (1) That the Insurance Fund Budget 2012/2013 be noted.**
- (2) That savings to schools (subject to Academy transfers) of £226,000 and increased costs to the General Fund of £20,000 for 2012/2013 be noted.**

## 58 CORPORATE RISK AND INSURANCE MANAGEMENT

The Deputy Chief Executive/Director of Finance reported upon progress made against the objectives for corporate risk and insurance management and he set out the anticipated developments in the coming months. An item of note related to an Employers' Liability case, initially valued at over £250,000 by the claimant solicitors, which was discontinued in December 2011 without any payment to the claimant, just two weeks prior to the scheduled trial. The case had been open for over four years and highlighted the value brought to the claims process by the operations of the Risk and Insurance Team. The Team had established a full and detailed defence that was likely to have been successful at trial, after the Council's insurers had initially sought to settle the claim. Under the insurance contract the first £250,000 of the claim would have been met by the Insurance Fund. The Director commented that whilst the scale of the saving on this individual claim was unusual, the principles and timescales involved were common.

He commented also that amongst the current portfolio of almost 800 open liability claims, there were five cases that had the individual capacity to exceed £100,000 in damages and legal costs, with one currently reserved at a level that would substantially exceed the £250,000 policy deductible. As with all claims, irrespective of value, effective procedures were put in place to ensure that a valid defence was raised wherever possible and the most economic and timely settlement was attained whenever this was not the case.

A Member referred to the evaluation of the Corporate Risk Management Strategy and to the significant number of improvement actions that had been identified. He commented that there appeared to be little evidence of work being undertaken to effectively manage risk and reduce the risk scores within the Council's Risk Register. He commented that it was essential for the Risk Register to be accurate for the formulation of the Audit Plan and he expressed a view that the Chair of the Committee should be actively involved in setting the Risk Management Strategy.

### **Resolved –**

- (1) That the report be noted.**
- (2) That the Chair be requested to liaise with those officers responsible for the development of the Risk Management Strategy and to identify those key areas that this Committee would wish to be involved in.**
- (3) That the officers be requested to ensure that the Council's Risk Register is regularly reviewed, monitored and updated.**

## 59 REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA) - QUARTERLY UPDATE

In accordance with the Home Office Code of Practice on covert surveillance, which required every Council to report quarterly on its use of the Regulation of Investigatory Powers Act 2000 (RIPA), the Director of Law, HR and Asset Management presented a summary of the use of covert surveillance by the Council between 1 September 2011 and 16 January 2012.

He reported that 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 Local Government Association (LGA) had provided considerable evidence, which showed how evidence obtained through the proper use of RIPA had helped local authorities support communities. On 26 January 2011, the Home Office published its review and made the following recommendations concerning local authorities, which had been incorporated in the Protection of Freedoms Bill that was progressing through the House of Lords –

- 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.
- The use of RIPA to authorise directed surveillance should be confined to cases where the offence under investigation carried 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.

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

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