

# AUDIT AND RISK MANAGEMENT COMMITTEE

Thursday, 14 June 2012

Present: Councillor J Crabtree (Chair)

Councillors JE Green S Foulkes  
A Brighthouse J Walsh  
RL Abbey P Hayes  
D Dodd D McCubbin

Ex Officio: Councillor P Williams

## 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 his personal interest in agenda item 4 – Internal Audit Update (see minute 4 post) by virtue of him being a governor of Calday Grange Grammar School, which had been the subject of an audit which identified high priority recommendations.

No other declarations were made.

## 2 MINUTES

**Resolved – That the minutes of the meeting held on 13 March 2012, be approved.**

## 3 APPOINTMENT OF VICE-CHAIR

On a motion by Councillor R Abbey and seconded by Councillor S Foulkes, it was –

**Resolved (5:0) – That Councillor Darren Dodd be appointed Vice-Chair for the ensuing municipal year.**

## 4 INTERNAL AUDIT UPDATE

The Chief Internal Auditor reported that 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. The report provided a summary of the audit work undertaken between 1 March 2012 and 31 May 2012 and he indicated that during the period, 42 audits were undertaken, which identified 50 high priority recommendations to address risks and improve systems in operation across the Council. The audit opinion upon the effectiveness of the control environment ranged from 4\* (excellent) to 1\* (poor) and the report identified actual recommendations where the audit opinion provided was 1\*.

He provided an analysis of the high priority recommendations and commented that follow up audits were scheduled to monitor progress and ensure that the recommendations made were implemented within a satisfactory timescale. All of the action plans had been returned fully completed and all identified appropriate timescales for the implementation of recommendations agreed to mitigate or remove weaknesses. Items of note were in relation to Counter Fraud, Court of Protection, Procurement of Commissioned Care and Children in Care.

Members commented on the importance of actions being followed within agreed timescales and indicated that specific high priority audit recommendations should be widely circulated to Members of this Committee, the Cabinet and appropriate scrutiny committees, in order for effective monitoring to take place. In response to further comments in relation to the star (\*) rating system, the Chief Internal Auditor indicated that, at the time of its adoption, it had been based on CIPFA guidance and available best practice. It would always involve an element of judgement and audits were all supervised and subject to challenge. However, auditors were always researching ways to improve the system and the topic would be addressed in detail in forthcoming audit training sessions.

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

**Resolved –**

- (1) That as the Internal Audit Update report has highlighted serious weaknesses in various Departments, the Audit and Risk Management Committee wishes to make sure that all recommendations for improvement are carried out: Therefore, a further report be presented on this valuable work, which can be used as an improvement tool at all levels of the Council's operations – the report to be presented also to the Improvement Board, Cabinet and relevant Scrutiny Committees.**
- (2) That a formal mechanism for monitoring progress be adopted, dictated by Internal Audit, in line with Committee cycles.**
- (3) That the Chief Internal Auditor be requested to have regard to the views expressed by Members and to submit a further report to the next meeting of the Committee upon how in future Audit recommendations, action plans and timescales will be presented to Members.**

## **5 INTERNAL AUDIT ANNUAL REPORT**

The Chief Internal Auditor presented the Internal Audit Annual Report for 2011/2012, which specified the Internal Audit assurance opinion on key areas of the Council's activity. He reported that the audits conducted during the year were in accordance with the Internal Audit Plan 2011/2012 (minute 88 (28 March 2011) refers) and were principally planned to review the financial control systems in compliance with the requirements of the Accounts and Audit Regulations. However significant attention was also paid to key risks in the following areas –

- Performance Management
- Anti Fraud and Corruption
- Corporate Governance
- Risk Management
- ICT Systems
- Service Delivery.

Members expressed concern with regard to some of the timescales for action, referred to in the Annual Report and commented that greater monitoring should be undertaken by Members periodically during the year to ensure that audit recommendations/action plans were being complied with. Members also suggested that greater emphasis should be placed on ensuring that decisions of the Council and Cabinet were being implemented.

In response, the Chief Internal Auditor commented that Internal Audit produced for each Department a monthly review that could be provided to Members, which identified areas of weakness, actions required and relevant timescales.

**Resolved – That subject to officers having regard to the views expressed by Members, the report be noted and appropriate action be taken as necessary.**

## 6 CORPORATE RISK AND INSURANCE MANAGEMENT

The Acting Chief Finance Officer reported upon progress made against the objectives for Corporate Risk and Insurance Management and anticipated developments in the coming months. He outlined progress in relation to Insurance and Risk Management and set out the key areas of responsibility for the Risk and Insurance Team. He also highlighted the main individual tasks to be undertaken during the year with target dates for completion and confirmed that regular progress reports would continue to be presented to the Committee, with updates on significant risks also presented to the Cabinet as part of the Quarterly Performance and Financial Review. He provided also a brief overview of the issues that had been identified for the next period.

Members questioned whether the Council had an effective system of risk management and expressed a view, subject to intensive training being provided, that elected Members, in addition to the Executive Team, had a role to play in relation to the review of the Corporate Risk Register, as part of the corporate performance monitoring process.

**Resolved – That, subject to officers having regard to the views expressed by Members, the Corporate Risk and Insurance Management report be noted.**

## 7 AUDIT COMMISSION - PROGRESS REPORT

The Audit Commission Audit Manager presented the report of the District Auditor, which set out progress in the delivery of responsibilities as external auditors and which highlighted key emerging national issues and developments of interest to Members. The report referred to findings in relation to the financial statements and to significant risks identified relevant to the VFM conclusion and planned audit response. Other areas of work focused upon 2010/2011 grant claims and returns (see minute 9 post) and the report outlined the Government response to consultation on the future of local public audit and the externalisation of the Audit Practice.

Other matters of interest were in relation to the Annual Fraud and Corruption Survey and National Fraud Initiative, which had identified almost £229m of fraud, overpayments and errors.

The Audit Commission Audit Manager advised the Committee that she had prepared a brief supplement in relation to the progress report national template, which had recently been released. With the agreement of the Chair and, subject to it being

published as an urgent item, the supplement was circulated for Members' consideration, rather than wait until the September meeting of the Committee. The document included a further update on outsourcing the work of the Audit Practice and on the residual Audit Commission.

Other matters of interest related to the development of UK-wide Public Sector Internal Audit Standards, the rights of local electors, the role of the NAO in local VFM studies and the publication of the CIPFA guide to Local Government Finance Reforms. The document referred also to the publication of the Audit Commission briefing paper 'Local Payment by Results', which considered potential issues arising from local authorities using PbR as a method of commissioning and paying for services. In response to questions from Members, the Deputy Director of Finance indicated that a detailed report on all of the issues set out in the progress reports, including Payment by Results, would be presented to the next meeting of the Committee.

**Resolved – That the progress report and update be noted.**

## **8 AUDIT COMMISSION PROGRESS REPORT - ACTION AREAS**

The Acting Chief Finance Officer reported that the Audit Commission Progress Report presented to each meeting of this Committee made reference to areas that Members may wish to consider. As requested by the Committee, he provided detail with regard to the action taken by the Council in respect of the following matters identified in the January/March Progress Reports –

- Auditing the 2010/2011 Accounts
- Lets be Clear: Making Local Authority IFRS Accounts More Accessible and Understandable
- Managing Workforce Costs
- Joining Up Health and Social Care
- CIPFA Prudential Code for Capital Finance
- 2011/2012 Accounts: CIPFA Guidance Notes for Practitioners

**Resolved – That the responses to the issues identified in the Audit Commission Progress Reports be noted.**

## **9 AUDIT COMMISSION - GRANT CLAIMS AND RETURNS REPORT**

Further to minute 63 (13 March 2012), the District Auditor presented a supplement to the Certification of Grant Claims and Returns Annual Report. The supplementary report summarised the outcomes of certification work for the two claims and returns that were outstanding at the time the annual report was produced. The final two claims were in respect of –

- Flood and Coastal Erosion Management
- Sure Start early years and childcare grant and Aiming High for Disabled Children grant

A qualification letter had been issued in respect of each claim and the District Auditor set out the key issues that had been raised in the letter to the Deputy Chief Executive and Director of Finance. He provided also a summary of recommendations that had arisen from the certification work and the actions that had been agreed for implementation. He presented also a summary of certification fees arising from the 2010/2011 work and highlighted reasons for any significant changes from 2009/2010.

Members expressed their concern with regard to some of the issues highlighted in the report, particularly in relation to failings associated with the Flood and Coastal Erosion Management contract.

**Resolved – That the report and agreed actions be noted.**

10 **SUMMARY OF REVIEWS UNDERTAKEN BY AUDIT COMMISSION**

The Chief Internal Auditor reported that in order to assist in effective corporate governance and fulfil statutory requirements, the Internal Audit Section of the Finance Department reviewed management and service delivery arrangements within the Council as well as financial control systems. Work areas were selected for review on the basis of risks identified on the Corporate Risk Register and as assessed by Internal Audit in consultation with Chief Officers and Managers. He presented a summary of reviews undertaken by the Audit Commission for the period of April 2011 to February 2012, and provided details of the action that Wirral Council, including Merseyside Pension Fund had subsequently taken to implement the recommendations within the associated reports.

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

11 **SELF ASSESSMENT PROGRESS REPORT**

The Chief Internal Auditor reported that to comply with best professional practice the Audit and Risk Management Committee was required to complete an annual evaluation of its role and effectiveness as part of the systems of internal audit. The CIPFA publication 'A Toolkit for Local Authority Audit Committees' recommended the use of a self assessment checklist to achieve the task and the Chair completed the checklist and presented a report to this Committee on the findings and recommended actions (minute 67 (13 March 2012) refers).

He presented an Action Plan that had been developed following the exercise, which identified recommendations to improve the existing arrangements and address any risks. It had been updated to identify the progress made to implement the identified recommendations.

**Resolved – That the updated self assessment checklist be approved.**

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

The Director of Law, HR and Asset Management presented a quarterly summary of the use of covert surveillance by the Council between 17 January and 1 June 2012. The Regulation of Investigatory Powers Act 2000 (RIPA) governed how public bodies used surveillance methods and he indicated that the Council used covert surveillance for the purpose of preventing or detecting crime or preventing disorder. He outlined the key issues in relation to the operation of RIPA and commented that between 17 January 2012 and 1 June 2012 the Council granted four authorisations for directed covert surveillance.

Two authorisations were granted to obtain evidence of serious offences of fly-tipping at a site in the Borough where the offences were occurring on a regular basis, causing environmental damage and requiring costly cleanup operations. Two authorisations were granted also to obtain evidence of alleged anti-social behaviour.

In the first case, the surveillance had recorded incidents that corroborated witness evidence of alleged harassment and, in the second case, the surveillance was authorised to obtain evidence of multiple breaches of an Anti-Social Behaviour Order, which would shortly lead to the arrest of the offender.

The Protection of Freedoms Act 2012 had now been enacted and, the Director indicated that when it came into force, the following changes in the law would affect local authorities –

- Magistrate's approval would be required for local authority use of RIPA and would 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 would be confined to cases where the offence under investigation carried a maximum custodial sentence of six months or more except in relation to underage sales of alcohol and tobacco, where the threshold would not apply.

The Director reported also that Ibrahim Hasan, one of the leading authorities on RIPA, would be providing on 4 September 2012, a full days training to officers on the new legislation. In addition, the Office of Surveillance Commissioners (OSC) had announced that Sir David Clarke, Assistant Surveillance Commissioner, would visit the Council on 8 June 2012 in order to conduct an inspection of the Council's use of covert surveillance.

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

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