



## Audit and Risk Management Committee

<b>Date:</b>	Thursday, 14 June 2012
<b>Time:</b>	6.15 pm
<b>Venue:</b>	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 - 6)**

To receive the minutes of the meeting held on 13 March 2012.

**3. APPOINTMENT OF VICE-CHAIR**

The Committee is invited to appoint a Vice-Chair for the ensuing municipal year.

**4. INTERNAL AUDIT UPDATE (Pages 7 - 24)**

**5. INTERNAL AUDIT ANNUAL REPORT (Pages 25 - 52)**

**6. CORPORATE RISK AND INSURANCE MANAGEMENT (Pages 53 - 58)**

**7. AUDIT COMMISSION - PROGRESS REPORT**

To follow

**8. AUDIT COMMISSION PROGRESS REPORT - ACTION AREAS (Pages 59 - 64)**

9. **AUDIT COMMISSION - GRANT CLAIMS AND RETURNS REPORT (Pages 65 - 82)**
10. **SUMMARY OF REVIEWS UNDERTAKEN BY AUDIT COMMISSION (Pages 83 - 90)**
11. **SELF ASSESSMENT PROGRESS REPORT (Pages 91 - 100)**
12. **REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA) - QUARTERLY UPDATE (Pages 101 - 104)**
13. **ANY OTHER URGENT BUSINESS APPROVED BY THE CHAIR (PART 1)**
14. **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.

15. **ANY OTHER URGENT BUSINESS APPROVED BY THE CHAIR (PART 2)**

## AUDIT AND RISK MANAGEMENT COMMITTEE

Tuesday, 13 March 2012

Present: Councillor J Crabtree (Chair)

Councillors D Dodd P Hayes  
S Mountney J Keeley  
A Brighouse I Williams

Deputies: Councillors J Salter (In place of RL Abbey)

### 60 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.

### 61 MINUTES

**Resolved – That the minutes of the meeting held on 1 February 2012, be approved.**

### 62 AUDIT COMMISSION - PROGRESS REPORT

The District Auditor presented a report on the progress of the Audit Commission in delivering their responsibilities as external auditors. The report commented upon the financial statements and the value for money (VFM) conclusion and highlighted key emerging national issues and developments. He set out the main points of the Government response to consultation on the future of local public audit and indicated that the government intended to publish draft legislation for pre-legislative scrutiny in Spring 2012.

He provided an update on the externalisation of the Audit Practice and commented that the Audit Commission proposed that for the four contract areas of the North West, West Midlands, London (South) Surrey and Kent, and South West, a contract with a notional value of £41.3m a year, would be awarded to Grant Thornton (UK) LLP with effect from October 2012. This would mark an end to the Commission's own Audit Practice (formerly known as the District Audit Service). However, the procurement service had ensured that the specialised skills of over 700 public sector auditors would be retained in an outsourced market and auditors who were transferring to the successful companies would do so in Autumn 2012. In response to questions from Members, the District Auditor indicated that after October 2012, the deployment of staff would be a matter for Grant Thornton. However, he indicated that a process was being put in place and that considerable work would be undertaken in the coming months to produce a transition plan. A meeting was scheduled for 1 May 2012, as part of the formal consultation process, and he envisaged that the Chair and officers could be in attendance.

The progress report concluded by asking a number of questions for the Committee to consider in order for the authority to assess whether it had received sufficient assurance on emerging issues and a response had been requested from officers.

**Resolved – That the Audit Commission Progress Report be noted.**

## 63 **CERTIFICATION OF GRANT CLAIMS AND RETURNS**

### **A. AUDIT COMMISSION REPORT**

The District Auditor presented his annual report in relation to the certification work undertaken on 2010/2011 grant claims and returns, which was intended to provide assurance to grant paying bodies that claims for grants and subsidies were made properly or that information in financial returns was reliable. He provided an outline of the work undertaken and commented that on completion of the certification work a report would be presented to the Deputy Chief Executive/Director of Finance upon any qualification issues or other further issues that needed to be resolved or where arrangements needed to be improved.

He presented a summary of the 2010/2011 certification work undertaken and provided a comparison with 2009/2010. He highlighted the significant issues that had arisen from the work and commented upon progress made in the implementation of recommendations he had previously made arising from certification work. The anticipated fee for 2010/2011, as notified in the Annual Audit Fee letter issued in April 2010 was £128,000. However, the total fee charged for the certification of 10 grant claims and returns in 2010/2011 would be approximately £120,000, with scope to reduce the fees further through improvements to the control environment, working papers and quality assurance.

### **B. REPORT OF THE DIRECTOR OF FINANCE**

The Deputy Chief Executive/Director of Finance commented upon the issues raised in the Audit Commission report in relation to the 2010/2011 financial year and reported upon how they had been addressed. The Audit Commission Action Plan within the report contained recommendations on a claim by claim basis, which had enabled action points to be directed towards the responsible officers. The Director also provided a summary of the claims, which included amendments made and the fees charged.

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

## 64 **INTERNAL AUDIT UPDATE**

The Chief Internal Auditor reported that in order to assist in effective corporate governance and to 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 monitoring period. He brought to the attention of Members a number of items of note concerning audit work undertaken in relation to the Annual Governance Statement, Counter Fraud, Schools Audits and the National Fraud Initiative (NFI).

The Internal Audit Plan for 2011/2012, approved by the Committee on 28 March 2011 (minute 88 refers), identified all audits required to provide the Council with adequate assurance regarding the effectiveness of its systems to manage and mitigate identified risks to the achievement of the Council's objectives. It was essential therefore that those elements of the audit plan designed to support the provision of the 'annual assurance opinion' on the effectiveness of the Council's control environment and also support the delivery of the Annual Governance Statement were delivered effectively. Following the recent acquisition of additional staffing resource, the Chief Internal Auditor was confident that the objective would be achieved by the year end.

He also provided information on the status of recommendations made in internal audit reports that had been followed up during the monitoring period, and also identified audits undertaken in the period which included recommendations of a high priority nature where a significant risk had been identified that could affect the ability of a specific service area to achieve its key objectives. He provided an indication of the audit opinion of the control environment and he commented that all of the action plans in respect of the audits had been returned fully completed, with the exception of those identified below. Those returned all identified appropriate timescales for the implementation of recommendations that had been agreed to mitigate or remove weaknesses. Relevant managers had been contacted regarding the return of overdue action plans in respect of –

- Bidston Village Primary School
- Townfield Primary School
- Members Allowances, Sources of Income (Law/HR/AM)
- Building Security – Wallasey (Law/HR/AM)
- Redeployment (LAW/HR/AM)
- Departmental Risk Management (LAW/HR/AM)
- Departmental Risk Management (DASS)

In response to comments from the Chair in relation to schools audits, the Chief Internal Auditor reported that work was ongoing with Chairs of governing bodies. He had also liaised with officers from CYPD to explore what support measures for schools could be put in place.

**Resolved –**

- (1) That the report be noted.**
- (2) That relevant managers be instructed to ensure that Audit Action Plans are returned in a timely manner in order to ensure compliance with high priority recommendations.**
- (3) That an update report be presented to the next meeting of the Committee.**

## 65 INTERNAL AUDIT PLAN 2012/2013

The Chief Internal Auditor presented the draft plan of work for Wirral Council's Internal Audit Service for 2012/2013. However, the Service was currently the subject of an external review and he commented that following the outcome of this and any subsequent changes in the structure of the service, alterations may be required to be made to the planned areas of work. In addition to this, and as part of the routine annual process a number of meetings were currently taking place with Chief Officers and their management teams to identify the current and emerging risks and confirm

the accuracy of risk registers. This was an essential part of the planning process to ensure that risks to objectives being achieved in their respective service areas were identified and audit work programmes formulated to assess the adequacy of controls in those areas. He indicated that regular reports on this would be presented to the Committee in due course, identifying any necessary changes to the Audit Plan as they arose.

He commented that the Internal Audit Plan was focused on reviewing the critical areas and including those issues identified by Chief Officers and in recent external reports, in order to provide assurances to the Chief Executive and the Leader of the Council who were jointly required to sign the Annual Governance Statement. The Plan amounted to a total planned resource of **2787** audit days, of which **2437** days would support the provision of the annual assurance opinion on the effectiveness of the Council's control systems and the Annual Governance Statement.

In response to a question from a Member as to whether auditors undertook work to ensure that policy decisions were implemented, the Chief Internal Auditor indicated that compliance testing was carried out across the Authority to ensure that control environments and processes were in place.

**Resolved – That the report be noted and the Internal Audit Annual Plan 2012/2013 be endorsed.**

## 66 **ANNUAL GOVERNANCE STATEMENT 2011/2012**

The Deputy Chief Executive/Director of Finance presented the Annual Governance Statement 2011/2012 and reported that its preparation and publication was necessary to meet fully the statutory requirement set out in Regulation 4 of the Accounts and Audit Regulations 2003 (amended 2006 and 2011).

The CIPFA/SOLACE Delivering Good Governance in Local Government Framework stated that governance was about how the Authority ensured that it was doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It comprised the systems, processes and controls, and cultures and values, by which the Authority was directed and controlled and through which it accounted to, engaged with, and, where appropriate led the community. The Director referred to the six core principles of good governance set out in the Framework and he highlighted the existing, well established process within the Council for the review of the control system and the preparation of the Annual Governance Statement.

The Statement referred to the 2011/2012 financial year and, subject to any material changes to the control environment and corporate governance arrangements, would be as presented and signed by the Leader of the Council and the Chief Executive. Any amendments would be reported to this Committee in September 2012 following the completion of the audit of the accounts 2011/2012.

**Resolved – That the Annual Governance Statement 2011/2012 be endorsed and appended to the Statement of Accounts 2011/2012.**

## 67 **SELF ASSESSMENT**

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. The Director indicated that the Chair, in conjunction with auditors, had completed the checklist which was appended to his report. He also presented a draft Action Plan that had been developed following the exercise, which contained recommendations to improve the existing arrangements and to address any risks. Implementation would be monitored by Internal Audit and an update report would be presented to a future meeting of the Committee.

The District Auditor referred to the recommendation for the Committee to assess the performance of external audit and indicated his willingness to provide such assistance as the Committee deemed necessary.

**Resolved –**

- (1) That the self assessment checklist and the draft action plan be approved.**
- (2) That liaison be undertaken with Chief Officers to ensure the effective delivery of the Action Plan and a progress report be presented to the next meeting of the Committee.**
- (3) That, for the forthcoming municipal year, a skills assessment be undertaken for Members of the Audit and Risk Management Committee and an appropriate training programme be put in place for Committee Members and deputies.**
- (4) That the officers be requested to ensure that all paperwork for inclusion in Committee agendas is available for publication and dispatch at least two Fridays before each meeting.**

68 **ANNUAL 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 report to the Cabinet on the work it had undertaken. He presented a draft Annual Report for 2011/2012, which had been prepared by the Chair in consultation with Internal Audit, and in accordance with the CIPFA best practice publication 'A Toolkit for Local Authority Audit Committees'. The report demonstrated how the Committee had fulfilled its terms of reference during a very difficult year and how it was fully committed to helping to improve the Council's governance and control environments during what was expected to be a very challenging year ahead, following the recent publication of external reports highly critical of the Councils governance arrangements.

Reference was made to the continuing active involvement of the Council in the civil law reform process. The Committee was advised that the two yearly external actuarial report commissioned to review the sum required to fund liability claims within the limits of the self-insured liability was not being conducted this year.

**Resolved – That the draft Audit and Risk Management Committee Annual Report 2011/2012 be approved and referred to the Cabinet.**

69 **CORPORATE RISK AND INSURANCE MANAGEMENT**

The Director of Finance reported upon progress made against the objectives for corporate risk and insurance management and highlighted the anticipated developments in the coming months.

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

70 **CORPORATE RISK REGISTER**

The Director of Finance reported upon the process followed in analysing the issues contained within the draft Corporate Risk Register which had been presented to the Cabinet on 13 October 2011 (minute 150 refers). He commented that the Corporate Risk Register was a key element of the Risk Management Strategy. It summarised those areas of uncertainty which had greatest potential to prevent or frustrate delivery of the Corporate Plan and how the Authority was seeking to tackle them. In turn those actions influenced the content of Departmental Service Plans and the allocation of resources and, as such, were closely aligned with the Corporate Planning process. Consequently, success in managing those risks was a key factor in overall performance. The Director presented the fully populated document and reported that, whereas it had been agreed by the Cabinet on 2 February 2012 (minute 277 refers), it would be looked at again as part of the work of the Improvement Board.

**Resolved – That the Corporate Risk Register be endorsed.**

71 **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. He commented that since 2006 the training requirements had been comprehensively achieved at minimum cost by the appointment of Anna Klonowski, who was one of the members of the working party that wrote the CIPFA guidance. The training course had previously been supplied over two sessions at a cost of £2500 and, to date had been viewed by Members of the Committee as very useful.

**Resolved – That the existing trainer, Anna Klonowski, be retained for Members Training in 2012/2013, the first training session to be arranged early in the new municipal year, before the first scheduled meeting of the Committee in June 2012.**



## WIRRAL COUNCIL

### AUDIT AND RISK MANAGEMENT COMMITTEE

14 JUNE 2012

<b>SUBJECT:</b>	<b>INTERNAL AUDIT UPDATE</b>
<b>WARD/S AFFECTED:</b>	<b>ALL</b>
<b>REPORT OF:</b>	<b>CHIEF INTERNAL AUDITOR</b>
<b>RESPONSIBLE PORTFOLIO HOLDER:</b>	<b>COUNCILLOR ADRIAN JONES</b>
<b>KEY DECISION ?</b>	<b>NO</b>

#### **1.0 EXECUTIVE SUMMARY**

- 1.1 In order to assist in effective corporate governance and fulfil statutory requirements, the Internal Audit Section of the Finance Department reviews management and service delivery arrangements within the Council as well as financial control systems. Work areas are selected for review on the basis of risks identified on the Corporate Risk Register and as assessed by Internal Audit in consultation with Chief Officers and Managers.
- 1.2. This report identifies and evaluates the performance of the Internal Audit Section and includes details of the actual work undertaken during the period. There are a number of items of note concerning audit work undertaken that are brought to the attention of the Members for this period and these are identified at Section 2.7.
- 1.3. The Internal Audit Plan for 2012/13 was approved by this Committee at its meeting in March 2012.
- 1.4. The Internal Audit Plan identifies all audits required to provide the Council with adequate assurance regarding the effectiveness of its systems to manage and mitigate identified risks to the achievement of the Council's objectives. It is essential therefore that those elements of the audit plan designed to support the provision of the 'annual assurance opinion' on the effectiveness of the Council's control environment and also support the delivery of the Annual Governance Statement are delivered effectively.

#### **2.0 BACKGROUND AND AUDIT OUTPUT**

- 2.1. This report summarises the audit work completed during the period 1<sup>st</sup> March 2012 to 31<sup>st</sup> May 2012. The specific nature of the work that has been undertaken or is currently ongoing is identified in Appendix I. 42 audits were undertaken during this period identifying 50 high priority recommendations to address risks and improve systems in operation across the Council. Management has agreed to implement all of the recommendations made within a satisfactory timescale and follow up audits are scheduled to monitor progress. Those reports identifying high priority recommendations are analysed in more detail in section 2.6 of this report.

2.2. The Service constantly evaluates the effectiveness of its performance including a number of performance indicators in key areas that includes the provision of sufficient resource to deliver the annual Internal Audit Plan and ensuring that all of the audits identified in the plan are delivered on schedule. This is particularly important at the present time as the requirement for Internal Audit involvement in a number of important corporate initiatives has increased dramatically.

2.3. Due to significant shortfalls in staffing resource experienced during 2011/12 and the resulting problems that this caused regarding delivery of the audit plan this situation will continue to be monitored and reported to Members, the Chief Executive and the Section 151 Officer for appropriate remedial actions to be taken.

#### 2.5. Follow Up Audits

The table attached at Appendix 2 identifies the status of those recommendations made in internal audit reports that have been followed up during the period:

#### 2.6 Audits Identifying High Priority Recommendations

(a) The table at Appendix 3 identifies audits undertaken over the period which include recommendations of **a high priority nature** where a significant risk has been identified that might affect the ability of a specific service area to achieve it's key objectives. The table also indicates the audit opinion provided on the effectiveness of the control environment, where 4\* indicates an excellent rating and 1\* poor. Actual recommendations are identified where the audit opinion provided is 1\*:

(b) All of the action plans in respect of the audits identified have been returned fully completed. These all identify appropriate timescales for the implementation of recommendations agreed to mitigate or remove weaknesses.

#### 2.7. Items of Note

##### (a) Counter Fraud

Following the enforced absence of the two members of staff from the Counter Fraud Team and their subsequent short term replacement with a number of temporary appointments, work in this area is progressing well. A number of proactive audits designed to detect any fraudulent activity across a number of systems have been completed in the following areas:

Payroll – Ghost Employees  
Credit Cards  
Corporate Travel

In addition to this, the team has been busy delivering the counter fraud message across the Council through the development of various training tools and face to face sessions including the delivery of a new Money Laundering presentation to over three hundred front line staff. Feedback has so far been excellent with over 84% of recipients indicating that the sessions had exceeded expectations, raising awareness of this potential risk and how to report any concerns.

The team is currently providing professional input to six investigations that are currently ongoing across the Authority.

Work has also been completed to update the Fraud Risk Evaluation Diagnostic provided by CIPFA and designed to evaluate and test the effectiveness of the Council's existing arrangements for the prevention of fraud and the organisations appetite for fraud prevention. The results of this exercise indicate that a significant amount of work has been undertaken since the previous exercise and the Council now has many areas of good practice in operation that complies with current best professional practice. However, a number of areas are identified where further work is required and a number of assignments have been included in the Counter Fraud audit plan to assist officers in improving arrangements in these areas. In some cases, it is acknowledged that work has already begun and the outcome of this will be reported to this Committee in due course:

- Further publicising the Whistleblowing Policy;
- Developing a more holistic approach to fraud investigation across the authority;
- Quantifying losses to fraud and corruption on a council-wide basis;
- Ensuring investigating officers have the necessary authority to obtain information;
- Provision of a corporate code of ethics for all investigating officers;
- Creating a central point for receipt and recording of all investigation reports to help identify council-wide weaknesses;
- Removing any ambiguity and contradictions from key policies;
- Applying a consistent approach to sanctions, prosecution and police referrals across the council.

(b) Court of Protection

An audit is currently being undertaken of the Court of Protection system to evaluate the effectiveness of the controls in operation. This is the system whereby the Director of Adult Social Services has responsibility for the management of the finances of an adult who lacks the capacity to manage their own affairs and has no other person to assist. A meeting was held with the Director of Adult Social Services to alert him of the emerging findings ahead of the production of the report on account of their being significant issues identified. It is anticipated that the opinion on the control environment will be a 1 \* rating with potentially 18 high priority recommendations, based upon the findings at this moment in time. Issues currently identified include the following:

- A lack of any documented procedures or consistent way of working, so that there is no assurance that the requirements of the Office of the Public Guardian (the government body who oversees such cases) are being met;
- A lack of adequate control over the clients' bank accounts held and the payments made;
- Potential care implications of closing the case to social workers once COP status is assigned.

The Directors response has been very positive, and there are indications that some urgent actions have already been taken to address identified weaknesses.

The report is due to be finalised later this month and will include more detailed information relating to the audit and the findings; an action plan will be included identifying all of the recommendations and the timescale for implementation. Members of this Committee will continue to be kept informed of the progress being made by the department to address these issues.

(c) Procurement of Commissioned Care

Work has recently been undertaken to review systems in operation over the procurement of commissioned care by DASS. The review focussed upon the compilation and update of lists of care providers, the responsibilities within the decision-making process in allocating care packages, and ongoing liaison and monitoring of the quality of care provided. The exercise also involved us testing a sample of payments, contracts, and monitoring frameworks. The audit report identified a number of areas of significant weakness in control and included five high priority recommendations to address these issues; these have been agreed with management and are identified at Appendix 2. Internal Audit will be undertaking follow up work in July of this year to evaluate progress made and any issues identified will be reported to Chief Officers and Members at the next meeting of this Committee.

(d) Children In Need

An audit is currently being completed of the system in operation within CYPD for utilising the petty cash system to provide cash payments to children (parents/guardian) in exceptional circumstances. This service is provided in law under s17 of the Children Act 1989.

The findings of the review indicated that there are fundamental weaknesses within the existing system in operation and a 1\* opinion on the effectiveness of the control environment has been provided in a report to the Chief Officer that also identifies seven high priority recommendations covering all aspects of basic financial procedures. An action plan and implementation timetable in respect of these has been agreed and follow up work has been scheduled to evaluate progress made. Chief Officers and Members of this Committee will be notified in due course of the findings of this work. The actual recommendations are identified at Appendix 2 to this report.

### **3.0 RELEVANT RISKS**

- 3.1 Appropriate actions are not taken by officers and Members in response to the identification of risks to the achievement of the Council's objectives.
- 3.2 Potential failure of the Audit and Risk Management Committee to comply with best professional practice and thereby not function in an efficient and effective manner.

### **4.0 OTHER OPTIONS CONSIDERED**

- 4.1 No other options considered.

### **5.0 CONSULTATION**

- 5.1 Members of this Committee are consulted throughout the process of delivering the Internal Audit Plan and the content of this regular routine report.

### **6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

- 6.1 There are none arising from this report.

### **7.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS**

- 7.1 There are none arising from this report.

### **8.0 LEGAL IMPLICATIONS**

- 8.1 There are none arising from this report.

### **9.0 EQUALITIES IMPLICATIONS**

- 9.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) No because there is no relevance to equality.

### **10.0 CARBON REDUCTION IMPLICATIONS**

- 10.1 There are none arising from this report.

### **11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

- 11.1 There are none arising from this report.

### **12.0 RECOMMENDATION**

- 12.1. That the report be noted and appropriate action be taken by the Members as deemed necessary.

### **13.0 REASON FOR RECOMMENDATION**

- 13.1 To provide the Members with assurance that the Council is taking appropriate measures to comply with statutory requirements to provide an adequate and effective internal audit service.
- 13.2 To ensure that risks to the Council are managed effectively.
- 13.3 To ensure that the Council complies with best practice guidance identified in the CIPFA publication 'A Toolkit for Local Authority Audit Committees'.

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### **APPENDICES**

- Appendix 1: Internal Audit Work Conducted/Ongoing – March to May 2012  
Appendix 2: Follow Up of Audit Recommendations Status  
Appendix 3: Audits Identifying High Priority Recommendations

### **REFERENCE MATERIAL**

Internal Audit Plan 2012/13  
Internal Audit Plan 2011/12

### **SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>
Audit and Risk Management Committee	Routine report presented to all meetings of this Committee.

**INTERNAL AUDIT PLAN 2011/12 and 2012/13**

**WORK CONDUCTED/ONGOING – MARCH TO MAY 2012**

**1. SYSTEMS**

- (a) Finance
  - Housing Benefits Write Offs
  - Housing Benefits PO Payouts
  - NNDR Write Offs
  - Banking Contract
  - Risk Management
  - Pensions – Contributions
  
- (b) Law, HR and Asset Management
  - Corporate Governance
  - Payroll
  - Registrars
  - Risk Management
  - Compromise Agreements
  - Members Allowances/Expenses
  
- (c) Children & Young People
  - Governance
  - Children in Need Assessments
  - Financial Assessments
  - Metro Catering
  - Risk Management
  - Schools Bursar Support
  
- (d) Technical Services
  - Cultural Services Establishments
  - Payments (COLAS)
  - Risk Management
  - Governance
  
- (e) Adult Social Services
  - Procurement of Commissioned Care
  - Financial Protection
  - Governance
  - Swift Replacement
  - Risk Management
  
- (f) Regeneration Housing
  - Grants
  - Governance
  - Risk Management
  - Vehicle Fleet Management
  - European Social Fund

- (g) Corporate Systems
  - Annual Governance Statement
  - National Fraud Initiative
  - Performance Indicators
  - Contracts Completion
  - Conflict Declarations
  - Gifts and Hospitality
  - Constitution
  - Corporate Contracts
  - Risk Management
  - Controlled Stationary

## 2. **SCHOOLS**

- (a) Thematic Reviews - Financial Systems
- (b) Full Reviews – Primary Schools

## 3. **ICT**

- (a) Social Networking
- (b) Webmail
- (c) HR Self Service
- (d) Removable Media
- (e) Mobile Phones

## 4. **ANTI-FRAUD**

- (a) National Fraud Initiative
- (b) Counter Fraud Awareness exercise
- (c) Corporate Credit Cards
- (d) Members Expenses
- (e) Overseas Travel
- (f) Car Hire

## 5. **INVESTIGATIONS**

The service is currently providing support and input to seven active cases.

## 6. **OTHER**

- (a) Final Accounts



## FOLLOW UP OF AUDIT RECOMMENDATIONS – STATUS

Audit name	Dates		Opinion	Recommendations			Status
	Original report issue date	Follow-up date		High	Med	Low	
Cashiers - Establishment Bankings	09/11	02/12	3*	1	1	2	All implemented
Payroll Control & Compliance	11/11	4/12	3*	0	1	1	All implemented
Removable Media	05/11	11/11 04/12	1*	5	4	0	<p>4 High priority recommendations are outstanding however we are aware that this issue was discussed at the Information Strategy Group (ISG) on 19<sup>th</sup> April 2102, where it was agreed that an action plan to implement the outstanding recommendations would be circulated to ISG for agreement, whilst acknowledging that:</p> <ul style="list-style-type: none"> <li>• Access to USB ports will be restricted, via the McAfee solution, and enabled on a case by case basis when authorised following a business case.</li> <li>• Communication to staff is key. A global email will be circulated identifying key stages and dates and what is required of staff.</li> </ul> <p>The outstanding Recs are:</p> <ol style="list-style-type: none"> <li>1. A Corporate Risk Assessment should be performed, by an appropriate senior corporate group, to identify business areas in which the use of removable media is appropriate or should not be allowed. Identified risks should be recorded in the developing ICT Risk Register.</li> </ol>

							<p>2. Consideration should be given to:</p> <p>a) Disabling the use of USB ports for unauthorised devices</p> <p>b) Developing a procedure for enabling USB ports where a legitimate business case exists.</p> <p>As a total prohibition may have a negative impact on service delivery, for example where there is a legitimate requirement to upload digital photographs in Technical Services, it is recommended that effort is targeted in high risk areas as identified in 1.</p> <p>It is acknowledged that significant costs may be incurred in "locking down" all desktop / laptop configurations. The risks, costs and benefits should be considered by ISG.</p> <p>3. The iProcurement catalogue should be updated to include only media which conform to Authority standards for encryption.</p> <p>4. Guidance should be given on the secure use of USB Flash Drives, such as how to enable and configure security options. Guidance should also state how devices are to be labelled, if at all, to reduce their attractiveness to unauthorised users.</p>
Mobile Phone Usage	09/11	04/12	1*	5	2	0	<p>All recommendations remain outstanding however we understand that action is currently being undertaken by officers to address these issues by:</p> <ul style="list-style-type: none"> <li>• Determining a new policy (which is with HR to progress),</li> <li>• Identifying officers who currently have a mobile phone, and recording this on an asset register.</li> <li>• Introducing a reduced ability to order different types of phones in a more controlled environment via iProcurement.</li> </ul>

						<ul style="list-style-type: none"><li>• Allowing private phone calls to be made, subject to an automated recharge in relation to the cost of the calls.</li></ul> <p>Outstanding recommendations:</p> <ol style="list-style-type: none"><li>1. The Mobile Phone Policy should be subject to a joint review by the Department of Law, HR and Asset Management and the Department of Finance with all further findings and recommendations made in this report considered for appropriate inclusion. It is recommended that the policy is owned by Human Resources as a corporate policy.</li><li>2. Internal Audit maintains that centralising the processes for managing the Authority's mobile phone system would provide greater control than the current decentralised arrangements. However, if this can not be implemented due to factors such as resource implications, it is then recommended that Human Resources:<ol style="list-style-type: none"><li>i. Utilise the HR system as a repository for maintaining records of all employees that have been issued a mobile phone, including defining a process to ensure that these records are updated accordingly;</li><li>ii. Consider if pre-determined roles that require mobile phone technology can be identified, in collaboration with Council Chief Officers, and included within appropriate HR systems;</li><li>iii. Develop a business case template for employees requesting a mobile phone; and</li><li>iv. Establish a process for the transfer of mobile phones between employees or suspending/removing devices from the supplier's contract.</li></ol></li><li>3. To ensure the Council is not continuing to pay for unused/unauthorised mobile phones, the Finance Department should provide Chief Officers with a list of all</li></ol>
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							<p>unknown mobile numbers in order for them to be identified. Action should then be taken to suspend/cancel appropriate mobile phone lines as appropriate.</p> <p>4. A procurement group should be established, consisting of representation from IT Services and Corporate Procurement, to review the use of high end mobile phones in the Council. The procurement group should establish:</p> <p>i. The specification and selection of suitable handsets that are based on cost, technology infrastructure and user needs that should be included in the future contract tender documentation;</p> <p>ii. The compliance requirements in respect to Government Connect Code of Compliance (CoCo) for any mobile phone deemed appropriate for use by the Council; and</p> <p>iii Whether any approved mobile phones and dongles can be classified as catalogue items on the i-Procurement system instead of going through the non-catalogue route process to provide greater control.</p> <p>5. IT Services, in consultation with the Payments Manager, should identify the required information that should be collected at the point of order for all mobile phones to ensure electronic billing can be utilised efficiently and effectively and expenditure can be coded to the correct cost centre. Additionally, it should be ensured that all mobile phone orders are included as part of the electronic billing process.</p>
Orretts Meadow Primary School - Payroll and Personnel systems.	11/11	04/12	3*	2	1	2	All implemented

Registrars	07/11	04/12	1*	10	0	0	<p>5 recs were partially implemented, 3 not implemented:</p> <ol style="list-style-type: none"> <li>1. i. A regular independent check should take place of the payroll summary sheet to the wedding diary and be evidenced with a signature and date.</li> <li style="margin-left: 2em;">ii. The system for recording details of all ceremonies should be reviewed to show all information clearly.</li> <li>2. A review of the collection, recording and banking of all income should take place to include a separation of duties and evidence to confirm. These procedures should be documented and included in the procedures manual.</li> <li>3. An independent check should take place of the record of certificates issued or spoilt by the Registrars who work independently. This should be evidenced with a date and signature.</li> </ol>
St Annes Primary School Creditors	11/11	04/12	3*	1	1	0	All implemented
European Social Fund	11/11	04/12	3*	0	2	0	All implemented
St Georges Primary School: Dragon Club	08/11	04/12	1*	10	10	14	7 currently outstanding although remain within the implementation timetable agreed.

### Audits Identifying High Priority Recommendations

The following table identifies audits undertaken over the period which include recommendations of a **high priority nature** where a significant risk has been identified that might affect the ability of a specific service area to achieve its key objectives. The table also indicates the audit opinion provided on the effectiveness of the control environment, where 4\* indicates an excellent rating and 1\* poor. Actual recommendations are identified where the audit opinion provided is 1\*:

Audit	Total Recs Agreed (H)	Recs Not Agreed	Audit Opinion Provided	High Priority Recommendations
Controlled Stationery	5(1)	-	2*	Procedures for the administration of controlled stationery should be formally documented and be available for reference. The procedures should incorporate assigned responsibilities and ordering policies etc.
Hillside Primary School	7(2)	-	3*	<ol style="list-style-type: none"> <li>1. The school's procurement procedures should be adhered to all times specifically around the authorisation of payments.</li> <li>2. To ensure an effective separation of duties, the Scheme of Delegation and the Authorised Signatory List should be reviewed and amended to ensure all staff on the Authorised Signatory List is allocated a delegated limit in their own right.</li> </ol>
Vehicle Fleet Management	7(1)	-	3	Procedures for the acquisition of vehicles, maintenance of vehicles and the calculation of recharges and submission of journals should be documented, approved and made available to all appropriate officers. These procedures should be kept up to date to reflect any changes that are made.
Risk Management Framework	2(2)	-	2*	<ol style="list-style-type: none"> <li>1. The Executive Team and all senior management should be fully communicated with to ensure full support for the Risk Management approach.</li> </ol>

				2. The Risk Management Module should be included within the project management system.
DASS Procurement Of Commissioned Care	5(5)	-	2*	<ol style="list-style-type: none"> <li>1. Risk assessment methodology should be devised for visits to Care Homes and Care Providers.</li> <li>2. Sub analysis codes should be reviewed.</li> <li>3. A Clear evidence trail as to why a specific provider has been selected should be maintained at all times.</li> <li>4. Formalised links with other Councils regarding satisfaction of care provided to the client should be developed.</li> <li>5. Clearly evidenced links with the Care Quality Commission should be maintained at all times.</li> </ol>
Financial Assessments – Personal Finance Unit	4(1)	-	2*	<p>To improve data quality and ensure that a consistent approach is applied to the calculation of financial assessments, management checks should be undertaken and used to:</p> <ul style="list-style-type: none"> <li>• Quantify the results from the checks; consider the reasons for errors and the impact,</li> <li>• Monitor performance over time,</li> <li>• Identify and implement appropriate training and other corrective action.</li> </ul>
Children in Need Payments	9(7)	-	1*	<ol style="list-style-type: none"> <li>1. Comprehensive review of procedures and ensure all locality offices comply with these.</li> <li>2. A receipt should be obtained and held on file for the total value of the payment issued. If a receipt has not been obtained the reason</li> </ol>

				<p>should be documented appropriately.</p> <p>2.i. All PB11A forms should be authorised and dated before a payment is issued.</p> <p>2.ii Head of Branch (HOB) documents should be completed appropriately including the name of the approving officer.</p> <p>2iii The procedures should be updated to include the level above which a HOB should be obtained. All localities should adhere to the correct procedure for HOB approval.</p> <p>2iv Access, alteration and approval of the HOB document should be limited to authorised staff.</p> <p>3. The parent/carer should sign and date the PB11A form to confirm a payment has been received.</p> <p>4. Emergency cash payments should be monitored and action taken as appropriate Evidence of monitoring should be held on file to confirm. Consideration should be given to allocating a separate code for emergency cash payments</p> <p>5. Cash should be held in a safe which is locked unless access is required. Access should be limited to authorised staff. Consideration should be given to reducing the number of staff authorised to issue payments.</p> <p>6. The Planning and Resources Branch should liaise with the Accountancy Section to discuss updating the annual petty cash return document to ensure that it includes the requirement to record the bank balance. Furthermore, the £272.72 interest identified as the variance for one locality should be clarified as to what action should be taken.</p> <p>7. The discrepancy highlighted on the petty cash return for one locality should be investigated and resolved. Internal audit should be informed of the outcome.</p>
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Calday Grange Grammar School	8(6)	-	1*	<ul style="list-style-type: none"> <li>• Review, update and approval of authorised signatories</li> <li>• Review and approval of limits of delegated authority</li> <li>• Review, update and approval of Financial Procedures Manual to reflect current activities</li> <li>• Clear separation of duties in the lettings system</li> <li>• Raising of orders prior to the service or supply of goods.</li> <li>• Review and increased clarity of school's financial regulations, covering levels for verbal and written quotations</li> </ul>
Brackenwood Junior School	15(14)	-	1*	<ul style="list-style-type: none"> <li>• Updating of Financial Procedures Manual to include all areas</li> <li>• Opportunity to make a Declaration of interest at all Committee meetings</li> <li>• Separation of duties re payroll, debtors and creditors</li> <li>• Data Protection registration document update</li> <li>• Prepare inventory</li> <li>• Petty cash balancing and reconciliation</li> <li>• Payroll documents checking and authorisation</li> <li>• Level for obtaining verbal quotes should be set and approved</li> <li>• Review of authorised signatory list and delegated limits</li> <li>• Use of non order system for items other than utilities</li> <li>• Charge policy production and approval</li> <li>• Receipting</li> <li>• Meals income recording, reconciliation and review</li> <li>• Key holding</li> <li>• Licence agreement for letting of school premises.</li> </ul>

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## WIRRAL COUNCIL

### AUDIT AND RISK MANAGEMENT COMMITTEE

14 JUNE 2012

<b>SUBJECT:</b>	<b>INTERNAL AUDIT ANNUAL REPORT</b>
<b>WARD/S AFFECTED:</b>	<b>ALL</b>
<b>REPORT OF:</b>	<b>CHIEF INTERNAL AUDITOR</b>
<b>RESPONSIBLE PORTFOLIO HOLDER:</b>	<b>COUNCILLOR ADRIAN JONES</b>
<b>KEY DECISION ?</b>	<b>NO</b>

#### 1 EXECUTIVE SUMMARY

- 1.1 The Internal Audit Section of the Finance Department plans and completes audits to review all relevant areas of risk.
- 1.2 Reports, including recommendations produced following audits are presented to managers. An overall report is produced annually.
- 1.3 This report presents the Annual Audit Report for 2011/12.

#### 2. BACKGROUND

- 2.1 The Accounts and Audit Regulations require that a local authority "shall maintain an adequate and effective system of internal audit".
- 2.2 In order to meet the statutory requirements the Internal Audit Section has conducted audits to review the operation of the internal control systems. The work has been conducted in accordance with professional standards set by the Audit Practices Board, CIPFA and the Chartered Institute of Internal Auditors.
- 2.3 The attached Internal Audit Annual Report specifies the Internal Audit assurance opinion on key areas of the Council's activity for 2011/12.
- 2.4 The audits conducted during the year 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.

2.5 The Audit Plan was compiled on a risk assessment basis that included consideration of the sensitivity and complexity of all risks identified. Client requests, systems being developed and the availability of resources were also other factors also taken into account during the year.

2.6 The Internal Audit Plan for 2011/12 was approved by this Committee in March 2011.

### **3.0 RELEVANT RISKS**

3.1 Appropriate actions are not taken by officers and Members in response to the identification of risks to the achievement of the Council's objectives.

3.2 Potential failure of the Audit and Risk Management Committee to comply with best professional practice and thereby not function in an efficient and effective manner.

### **4.0 OTHER OPTIONS CONSIDERED**

4.1 No other options considered.

### **5.0 CONSULTATION**

5.1 Members of this Committee are consulted throughout the process of delivering the Internal Audit Annual Report.

### **6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

6.1 There are none arising from this report.

### **7.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS**

7.1 There are none arising from this report.

### **8.0 LEGAL IMPLICATIONS**

8.1 There are none arising from this report.

### **9.0 EQUALITIES IMPLICATIONS**

9.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) No because there is no relevance to equality.

### **10.0 CARBON REDUCTION IMPLICATIONS**

10.1 There are none arising from this report.

### **11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

11.1 There are none arising from this report.

## **12.0 RECOMMENDATION**

12.1. That the report be noted and appropriate action be taken by the Members as deemed necessary.

## **13.0 REASONS FOR RECOMMENDATION**

13.1 To provide the Members with assurance that the Council is taking appropriate measures to comply with statutory requirements to provide an adequate and effective internal audit service.

13.2 To ensure that risks to the Council are managed effectively.

13.3 To ensure that the Council complies with best practice guidance identified in the CIPFA publication 'A Toolkit for Local Authority Audit Committees'.

**REPORT AUTHOR:** Mark P Niblock  
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## **APPENDICES**

Appendix 1: Internal Audit Annual Plan 2011/12

## **REFERENCE MATERIAL**

Internal Audit Plan 2011/12  
CIPFA Code of Practice for Internal Audit

## **SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>
Audit and Risk Management Committee	Annual report presented to June meetings of this Committee every year.

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**Wirral Council  
Internal Audit Service**

**Annual Internal Audit Report  
2011/2012**

**May 2012**

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Appendix A: Scope, Responsibilities and Assurance



## **1 Introduction**

### **Purpose of This Report**

- 1.1 As part of Wirral Council, the Internal Audit Service is an assurance function that primarily provides an independent and objective opinion on the adequacy of the whole of the organisation's control environment. The scope, responsibility and assurance function role is defined in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (as reported to this Committee and attached at Appendix A). It requires the head of internal audit to provide a written report to those charged with governance, timed to support the Statement on Internal Control – now subsumed into the Annual Governance Statement – which includes an opinion on the overall adequacy and effectiveness of the organisation's control environment. This report presents my opinion based upon the work the Internal Audit Service has performed.
- 1.2 This report covers the period 1 April 2011 to 31 March 2012 and supports the Annual Governance Statement for that year.
- 1.3 The scope of our work, management and audit's responsibilities, the basis of the assessment, and access to this report are set out in Appendix A to this report.

### **Interim Reports**

- 1.4 This report builds on the matters reported which remain relevant and have been the subject of discussions throughout the year with the Chief Executive, Chief Officer's and individual senior management teams.
- 1.5 I have also reported summaries of some of the key areas of our work to the Audit and Risk Management Committee as they have been completed.

David A Garry  
Chief Internal Auditor  
Wirral Council

## 2 Summary Assessment

### Overall Opinion

- 2.1 On the basis of our programme of work for the year, I can conclude that the Council's internal control environment, taken as a whole is **adequate and generally effective** as there are sound control systems largely in place though there must be substantial improvement in applying the procedures as there have been significant issues for the Council during the year, which have arisen principally because there have been failures to follow systems and procedures correctly. I have identified individual themes that present limited exceptions to this broad conclusion, and have set these out below.
- 2.2 Whilst recognising that there are control issues which need to be addressed, our work during the year has identified good areas of effective control and the Council continues to provide effective services in a very challenging environment.

### Key Issues and Themes

- 2.3 The Council's agenda has been very challenging for a number of years and these pressures will undoubtedly increase in the foreseeable future due to the very demanding and extremely difficult economic and financial climate at present. The public sector is currently experiencing a significant period of unprecedented change that has and will continue to require the Council to implement severe and radical structural changes across the whole of the organisation. In addition, important changes in legislation and policy directly affecting the Council and its partners are anticipated in the not too distant future. The Council's funding situation will continue to be tight as central government reduces expenditure in this area and local communities place increasing demands on Council's services.
- 2.4 The impact of this on the Council has to date involved radical measures to reduce expenditure through significantly restructuring and re-focussing of service delivery areas. These fundamental changes to the way in which the Council operates will continue to have significant impact on the control environment in many areas of the Council's activities and require management to ensure that corresponding risks in these areas are effectively managed. In addition, during periods of financial uncertainty and economic downturn fraud against public bodies has been shown to increase exponentially and the Council must ensure that adequate controls remain in place across the organisation to reduce and manage the risk presented.
- 2.5 In addition to this, to this, a number of external reviews conducted during the year have identified some significant weaknesses in the governance arrangements currently in operation across the Council and have clearly indicated the need for significant change and

improvement in this area. The findings and recommendations arising from Internal Audit work conducted throughout the year were in accordance with this view and a number of specific areas for improvement that include senior management taking proper ownership of these issues and ensuring that effective consistent governance arrangements are effectively embedded within the culture of the organisation were identified .

- 2.6 Others areas identified for improvement following audit work conducted include Performance Management and the need for more robust and transparent systems that include more detailed monitoring and reporting arrangements for managers, Chief Officers and Members.
- 2.7 Concerns have been reported to Chief Officers regarding the lack of consistently documented and communicated controls in some areas, including corporate governance and the resulting lack of consistency in the controls operated between departments and even within individual departments and service areas. It is anticipated that the benefits arising from the significant restructuring of the Council's departments and the implementation of the changes identified will be fully realised in the not too distant future.
- 2.8 There is a pressing need to ensure that sufficient focus is given to the Council's on-going activities and its infrastructure as well as in the areas subject to the greatest change. This will be particularly relevant to the information and technology systems infrastructure, which should underpin much of the Council's work and efficiency savings in the near future.
- 2.9 A recurring issue that needs to be addressed by the Council with some urgency involves the continuous failure of the organisation to meet invoice payment targets. This issue has been reported to management and actions are being taken to address these concerns, Internal Audit has scheduled work for 2012/13 in this area to evaluate progress targeting key payment areas.
- 2.10 Increasing demands are being placed on the Council's services by the changing national agenda, the need for change and many other similar initiatives and developments scheduled. Service specific drivers will undoubtedly require significant enhancements to be made to key applications and service deliverers must continue to adapt and develop to ensure that they can sustain these services.
- 2.11 Despite this the Council still does however continue to be well regarded overall and achieves a lot, providing valuable services to a large and diverse community. However, much will be required of staff at a time when many will be concerned for their job security and when many are under pressure arising from the changes already in hand. It will be vitally important to ensure that the Council's most basic financial and operational controls are robust, consistent, widely understood and consistently applied.

- 2.12 Additional information and a short summary of all our work for each area of the Council is provided in section 3.

### **Implications for the Annual Governance Statement**

- 2.13 In making its Annual Governance Statement the Council considers the Chief Internal Auditors opinion in relation to its internal control environment, risk management processes and corporate governance. The Annual Governance Statement therefore again refers to the need for further work to implement and ensure compliance with consistent control policies and procedures across the Council.
- 2.14 Some changes to the Annual Governance Statement process are proposed for 2012/13 following some weaknesses in systems identified during 2011/12 exercise. The changes include a revised process and new documentation for obtaining manager's assurances in key areas, refocusing the questions asked, and requiring more detailed comment from them regarding the adequacy and ownership of arrangements in place. The new system should promote more ownership and 'buy-in' to the process from officers; a further change to be implemented will involve Internal Audit no longer chasing these assurance returns. In future any failure on behalf of Chief Officers to comply will be documented and reported in the Annual Governance Statement to further promote ownership and prevent over reliance on internal audit.
- 2.15 Additional audit work is scheduled for 2012/13 to evaluate the response by Chief Officers to the issues identified following external reviews and more proactive testing will be undertaken in key areas throughout the year and reported to the Chief Executive and Members.
- 2.16 Improvements required in a number of key areas of the Council's business and as identified in this report have been reported to senior management for inclusion in the Annual Governance Statement for 2011/12.

### **Implications for the review of the effectiveness of the System of Internal Audit**

- 2.17 The Council is required by legislation to undertake an annual review of the effectiveness of its system of internal audit and to report the findings of this review to the audit committee. Since the term "system of internal audit" does not have a commonly understood meaning, the Technical Audit Panel of the Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance which defines it as:

*"The framework of assurance available to satisfy a local authority that the risks to its objectives, and the risks inherent in undertaking its work, have been properly identified and are being managed by controls that are adequately designed and effective in operation."*

- 2.18 This guidance regards heads of internal audit as central to this framework of assurance and requires them to acquire an understanding of both the Council's risks and its overall whole control environment and also of the sources of assurance available to it.
- 2.19 As we have implemented the audit plan during the year we have taken into consideration the assurance also provided to the Council by external bodies, including the Audit Commission, Ofsted, the Care Quality Commission, the Office of Surveillance Commissioners and various other external bodies.

### **3 Summary of Internal Audit Work Undertaken**

- 3.1 In forming my opinion on the Council's internal control environment, I have considered the work undertaken by the Internal Audit Service throughout the year (as well as, to a more limited extent, that of external providers of assurance) and I have set out below short summaries of the reports we have made to individual service areas within the Council.

#### **Management's Responses to our Findings**

- 3.2 Each of the issues I have set out in this report has been discussed with the relevant management teams as well as with the Chief Executive and Chief Officers. Action plans have been agreed and actions are already being taken; the Internal Audit Service will follow up our findings during the course of 2012/13 and provide further support to managers to implement pragmatic solutions to the control issues identified.

#### **3.A. Cross-Cutting Issues**

- 3.3 The Council's risk management process remains effectively co-ordinated corporately although issues regarding the updating of departmental registers, clear allocation of responsibilities and streamlined reporting lines need to be addressed as the Council's strategy and framework are reviewed and refreshed. The Council has adopted a pragmatic approach to risk management, although the corporate Risk and Insurance Manager has been made aware that there is a need for a more widespread ('embedded') understanding of the Council's approach within all levels of management and for more comprehensive training in this area of operations.
- 3.4 The Service has conducted audits of key corporate systems evaluating the adequacy of arrangements in key areas such as performance management, compliance with legislative, HR and constitutional requirements and prepared reports for Chief Officers identifying areas for improvement in these areas. The Service continues to provide input to Council operations to support improving governance arrangements by attending the Council's Corporate Governance working group chaired by the Chief Executive and by providing a senior member of staff on secondment to support the work of the Governance Team. In addition, significant ongoing work is being undertaken with Chief Officers to ensure that systems are improved and that the requirements of the Annual Governance Statement process are complied with.
- 3.5 Work is undertaken annually by the Internal Audit Service to provide the evidence required to support the production of the Annual Governance Statement in compliance with the CIPFA/SOLACE Delivering Good Governance in Local Government Framework. During 2011/12 problems have been experienced and reported regarding the completion of Chief Officer and management assurance

statements to support the AGS and changes are proposed for 2012/13 as identified above in 2.14.

- 3.6 Work scheduled for 2012/13 includes more emphasis on Council policy and systems in operation over Decision Making including, Equality and Diversity, Media Protocol and more detailed work to review Departmental and Corporate Plans including and linked to Performance Management.

### **3.B. Corporate or Common Control Systems**

- 3.7 The Internal Audit Service has undertaken a substantial amount of work on the controls that under-pin the Council's work whatever operational service is being provided and in whatever service area or department. These controls manage the risks of the Council's day to day operations that are operated in common across the whole organisation.
- 3.8 In 2011/12 we focussed on the corporate financial control systems, ICT systems, counter fraud arrangements and other systems where risks were identified as being significant and in operation over the whole of the Council.

#### **Key Issues in relation to Corporate or Common Control Systems**

- 3.9 I have previously reported that a wide range of controls and different procedures designed to achieve the same objectives across the Council is supported by diverse documentation, much of it not always readily accessible to staff. Senior managers have agreed that documented governance procedures should be collated and made consistent across the Council where possible, and that the accessibility of information, particularly through use of the intranet, should be improved.
- 3.10 Performance Management systems have been affected by ongoing corporate changes and the relocation of officers involved in many corporate processes, this situation should improve during 2012/13 as the new arrangements become embedded. Issues of concern identified in reports for Chief Officers include the structure and frequency of reporting of performance data to the Executive Team and the process for the co-ordination and reporting of performance data to the Corporate Performance Team in a consistent structured manner to enable meaningful assessments of the organisation's overall performance. It is considered essential that a clear timetabling of corporate and departmental reporting requirements is established for performance indicator targets and that subsequent monitoring is undertaken including that relating to any associated issues. Audit work has identified a clear need for more corporate performance monitoring, a key function that is not currently performed effectively, perhaps due to a lack of resource in this area.

- 3.11 The Service has continued to support the implementation of strategic change across the Council, providing assurance regarding progress for individual projects in areas such as Corporate Procurement, Banking Contracts, e-Auctions and Supporting People. More work of this nature is included in the Internal Audit Plan for 2012/13.

### **Corporate Financial Control Systems**

- 3.12 Financial control is a key element of the Council's control environment and the core financial systems include, for example, the Payroll, Benefits, Revenues and Main Accounting systems. These systems have been agreed with the Audit Commission as 'key' and each has been reviewed to comply with the International Standards on Auditing.
- 3.13 Whilst we are able to provide assurance that there is a minimum of an adequate level of control in the majority of the key financial systems, some issues were identified this year that required management action. A review of the online Sundry Debtors Recovery system within departments identified a number of risks that were not effectively managed and measures have now been introduced to significantly improve the level of control within these systems.
- 3.14 We have continued to develop a suite of Computer Assisted Audit Techniques (CAATS) that enable us to test whole databases as well as samples of individual transactions. These techniques have become an important element of our counter-fraud work, as well as being used to support our work on key financial systems.
- 3.15 During 2011/12 we used CAATS to identify potential duplicate Creditor Payments over the period and identified a number of instances in which duplicate payments had been made through the Creditors system. All identified anomalies have been investigated by management and appropriate actions taken including designing and implementing controls to prevent recurrence. Management are committed to addressing this problem, however, further work is required to ensure that these controls operate to full effect in the future.
- 3.16 Similar testing of the Payroll systems provided assurance regarding the accuracy of standing data and payments made and received over a specified period. A number of suspicious employee matches were identified including instances of some ex-employees being paid in months following their leaving dates and actions have been agreed for management to investigate these further. Other actions required to increase controls in these areas have been discussed and agreed with senior management.
- 3.17 Our reviews of the Main Accounting system undertaken during the year included assessments of the General Ledger, Treasury Management, Budget Cycle and Bank Reconciliation systems and whilst actions were agreed with management to address some relatively low risk issues overall the opinions on the control



environment were of a three or four star rating, which is a very effective level of assurance and encouraging for management.

- 3.18 Debtor, NNDR and Housing Benefits accounts submitted for write off during the year have been verified on a sample basis to provide assurances that full recovery action has been completed and the amounts submitted are considered acceptable.
- 3.19 We have also undertaken work on the Council's key financial systems and have concluded that overall each of the following systems are adequately designed and effectively operated in practice:

- Cash and Banking
- Payroll
- Expenses
- Council Tax
- Main Accounting
- Creditors
- Insurance
- Procurement
- Pensions
- Treasury Management
- Housing Benefits
- VAT Compliance
- NNDR
- Debtors

#### **Corporate Human Resources Systems, including Payroll**

- 3.20 A number of reviews of different elements of the Payroll systems including counter fraud arrangements were completed during the year, so as to provide assurance that the key controls are operating effectively. The reviews provided a good level of assurance over the controls in place and also indicated that the standing data was generally sound, payments made were appropriate and no potential or actual occurrences of fraud were identified. A number of issues were identified and actions agreed with management to investigate were appropriate and improve the arrangements to strengthen the controls in operation. We will continue to monitor progress made in this area during 2012/13 and have scheduled more detailed testing and review work to assess this.
- 3.21 The Job Evaluation exercise has still not been concluded at Wirral and the Council remains in a unique position of not having fully concluded this exercise. Human Resources management acknowledge that this must be completed during 2012/13 and audit will be monitoring this situation.
- 3.22 Other corporate Human Resources issues of concern relate to the existing policy of retaining officers on the redeployment listing for indeterminate periods of time and without proper justification or business case as well as the provision of training and development outside of the approved Matrix Consultancy contract.

### **ICT Systems and Controls**

- 3.23 The Council's approach to, and management of, information risks is continuing to mature. An audit review of Information Assurance highlighted some enduring issues around roles and responsibilities, information risk strategy and staff training. The overall opinion provided was that information assurance was not yet truly embedded within the culture of the organisation and that whilst there were pockets of good practice there was scope for much more work to be undertaken to implement a joined up authority wide approach to this very important issue. The ongoing restructuring of the IT Services section, together with other organisational changes should provide an excellent opportunity to implement improved Information Management and Assurance procedures with much clearer reporting lines throughout the Authority. The Internal Audit Service will continue to monitor progress and provide advice in these areas during 2012/13 as well as reporting any concerns in these areas to Chief Officers and Members.
- 3.24 The Internal Audit Service has undertaken a detailed review of the processes surrounding the procurement and administration of Mobile Phones including an examination of usage across the Council. Several issues were identified that require a re-evaluation of how the organisation utilises these devices and has more robust policy, procedures and controls in operation. Management are currently working to implement various actions identified that will improve the control environment and reduce overall costs in this area.
- 3.25 Efficient and secure Agile Working will be fundamental to the success of the Authority's Office Accommodation Strategy. In 2011/12 we reviewed a number of systems which underpin Mobile and Remote working, such as Webmail, Wireless Networks and the use of Portable Devices to access Authority information and prepared reports for senior management identifying areas for improvement.
- 3.26 Many of the Council's objectives depend on resilient, modern ICT systems supported by first-class staff with efficient processes and procedures. 2012/13 will continue to be a busy year for IT Services as the division implements the recommendations of the SOCITM report, rolls out virtualised desktops to support agile working and continues to improve the support of staff, Members and systems. Internal Audit will play an active role, throughout the year, in ensuring that all new systems, both technical and procedural, have good systems of control.
- 3.27 The Council has made good progress to develop effective Information Security in general, and continues to improve its Information Governance systems although further work is still required in this area. Findings arising from audit reviews undertaken during 2011/12

have identified a number opportunities for development that are currently being addressed by senior management.

### **Counter Fraud and Investigatory Work**

- 3.28 During 2011/12 the development of the Counter Fraud Team within the service has continued with significant progress being made in a number of key areas. The team has clearly established itself as a 'corporate' function and has become increasingly involved with issues and investigations arising from all departments.
- 3.29 The development and promotion of the on-line training facility by the team has seen almost 50% of the workforce complete this training to date. This has clearly raised awareness amongst the workforce of potential threats and provided detailed guidance concerning appropriate actions for staff to take when presented with this type of threat. This training has been supplemented by the provision of more detailed direct training for front line officers covering a range of subjects including Money Laundering.
- 3.30 During the year the team has been involved with eight investigations across the Authority, providing advice and guidance to officers and in some cases where appropriate conducting the investigation.
- 3.31 An exercise was completed to evaluate the effectiveness of the Counter Fraud Team against best professional practice by completing the CIPFA Fraud Evaluation Diagnostic as well ensuring that the service complied with the National Fraud Authority's Local Government Fraud Strategy. This effectively allowed the team to build on from the Fraud Questionnaire exercise, conducted in 2010/11 and gauge the progress being made including the overall impact on the organisation. The findings of this work will continue to inform the work of the team during 2011/12 and beyond.
- 3.32 Policies have been updated during the year for Money Laundering and Bribery Act legislation and promoted across the Council. Specific training will continue to be provided to all those members of staff employed in areas where risks are deemed to be greatest during 2012/13.
- 3.33 A suite of computer assisted audit techniques has been developed and used to identify potential financial irregularities by interrogating financial and other databases and which closely links our audit and investigatory work. These tests will continue to be conducted during 2012/13 and any data generated investigated.
- 3.34 Proactive counter fraud work conducted during the year has included audits of the use of corporate Credit Cards that resulted in some significant issues being identified that entailed the removal of a staff members credit card facility and corresponding disciplinary action.

- 3.35 Other work carried out has included reviews of Travel and Subsistence and Overseas Travel systems and involved the verification of a sample of claims submitted by officers. Some significant issues were identified concerning compliance with Council Policy and agreements subsequently reached with the relevant Chief Officers for appropriate actions to be undertaken.
- 3.36 A detailed investigation into the activities of a partner organisation highlighted the need for more robust documented partnership arrangements across the Council that include clear identification of roles, responsibilities and management arrangements including access rights.

#### **Confidential Reporting (Whistle-blowing)**

- 3.37 The Council's Confidential Reporting policy provides Council employees with a structured process where they can raise concerns in confidence. During 2011/12 further audit work was conducted to ascertain the level of awareness of and understanding of the policy amongst Wirral Council staff. The main findings from the review indicated that significant work still needs to be undertaken corporately to promote the policy and clarify the process to be followed by staff. Management have undertaken work in this area and these actions should strengthen the arrangements. More audit work is scheduled to evaluate the effectiveness of these actions during 2012/13.

#### **National Fraud Initiative**

- 3.38 The Audit Commission requires all local authorities to participate in its biennial National Fraud Initiative (NFI), which is a national exercise in using computer assisted audit techniques, and specifically data matching. The NFI exercise consistently results in significant savings to the Council, arising largely from payments recovered or stopped.
- 3.39 We collated and submitted the required data to the Audit Commission for the current exercise and have received reports highlighting areas for further investigation. This data is currently being analysed and investigated by Wirral Council staff and a summary report will be provided by us to the Director of Finance identifying savings and actions required in due course. A number of actions have been taken across the Council to strengthen arrangements in place in an attempt to prevent fraud in these areas, following this exercise.

#### **Gifts and Hospitality and Conflict of Interest**

- 3.40 A corporate review of Gifts and Hospitality and Conflict of Interest procedures and compliance was undertaken during the year that highlighted issues across the organisation regarding significant variations in awareness and application of the appropriate procedures. Some departments were provided with 1 star opinions on

the effectiveness of their arrangements and appropriate actions agreed to improve arrangements.

### **Constitution / Legal Issues**

- 3.41 The Service provided input to the annual review of the Constitution to provide the Head of Legal and Member Services with assurances regarding the adequacy of the proposals and compliance with the requirements of the outcome of the Localism Act. Specific advice and guidance was provided during the year regarding interpretation of the Contract Procedure Rules.

### **Commissioning and Procurement**

- 3.42 Work has been undertaken to evaluate controls in operation over specific systems that include the Electronic Tendering Portal, Estimates for Work Contracts, Corporate Contracts and Evaluation Models with reports prepared for management identifying areas for improvement that include the lodging of evaluation models with the Corporate Procurement Unit, an issue that should be resolved with developed use of the Chest as the tendering portal. It is also vital that all Departments utilise the iProcurement system and that any spend incurred outside of this system is monitored, reported upon and followed up by relevant Chief Officers to ensure continued best value for the organisation. More audit work is scheduled in this area for 2012/13 to ensure continued compliance with this important corporate policy.

## **3.C. Service Specific Controls**

### **Adult Social Services Department**

- 3.43 There are a considerable number of areas where controls should be strengthened further to improve the department's overall internal control environment, it is however acknowledged that in some areas controls have been adequately designed and are generally operating satisfactorily. Management responses to the findings from our work and those of external inspectorates have been positive and indicate that action has or will be taken where issues have been identified. Follow up work is scheduled in this area for 2012/13 to ensure that sufficient progress is made to address issues of concern.
- 3.44 The findings of work conducted on the Procurement of Commissioned Care indicated the need for significant improvements to address five high priority recommendations covering a range of issues including the maintenance of evidence trails and measuring and monitoring satisfaction with care providers. Management have agreed to address these issues with some urgency. More work will be conducted in this area during 2012/13 to evaluate progress made.
- 3.45 Detailed work was undertaken during the year of the Care Quality Commission Improvement Plan to evaluate progress being made by the Department. The Improvement plan was the Departments

response to concerns raised regarding safeguarding and learning disability and sought to address these issues through a range of targets and milestones. The audit review work conducted was highly appreciated by the department as being independent and objective and is likely to be something that will be repeated in other areas in this age of 'self regulation'.

- 3.46 Other issues concerning Gifts and Hospitality and Conflicts of Interest have been raised with senior management and actions agreed to address concerns in these areas. More work will be conducted in this important area of governance during 2012/13.

### **Children and Young People Department**

- 3.47 Overall, the departments internal control environment is generally satisfactory; controls are adequately designed and effectively operated, although there are some areas where controls should be strengthened further including the system in place for Youth Services, specifically bank account management. Significant issues were also identified with many Schools regarding the effectiveness of their internal controls and the support provided to them by the Bursars Unit. Detailed discussions took place with senior management from the department and various actions were agreed to address all of the issues identified and improve the systems of control in operation.

### **Technical Services Department**

- 3.48 Overall, the internal control environment in operation within the department is generally considered to be effective, however there is some cause for concern regarding Cultural Services. Generally controls over systems are well designed and managed. Management response to our work has been good and action is always taken promptly in response to the findings of our work. All internal audit reports are personally considered jointly by the Director and the relevant Head of Service and appropriate actions delegated to responsible officers and implementation monitored accordingly.
- 3.49 Concerns over the robustness of the financial procedures in operation at Cultural Services establishments, particularly around the collection of income have been expressed in audit reports following an extensive Control Risk Self Assessment exercise conducted across all of the establishments. The exercise was proven to be very beneficial as it resulted in a heightened awareness amongst managers of the risks existing at these types of establishments, and the effective controls that they need to put in place. We now believe that there is a need for the results of the exercise to drive a full review by the Head of Service of the financial procedures in this area and have notified the department accordingly.
- 3.50 Some other areas for improvement were identified following audits conducted during the year and appropriate actions taken to address

issues raised within agreed timescales. These included Birkenhead Park and the Williamson Art Gallery.

### **Finance Department**

- 3.51 Overall the departments internal control environment is considered to be effective with controls well designed and operated. Audits and inspections are mainly welcomed as an opportunity to seek assurances regarding the adequacy and effectiveness of systems in place. In some areas, including Housing Benefits Disputes and Appeals, Financial Services General Ledger and Treasury Management, systems were assessed as being excellent. Management are largely proactive when considering and designing necessary controls and are aware of the value of having strong systems in operation. Risk and control advice is provided on an ongoing basis to the development of revised systems and procedures.
- 3.52 Some areas for improvement were identified that included the systems in operation over Departmental Creditors and Debtors. Meaningful discussions have taken place with management regarding the most effective methods of reducing risks and developing more robust systems. Issues identified following audits have in the main, been addressed and where this is not the case work is currently in progress and will be followed up.

### **Pension Fund**

- 3.53 On the basis of the work undertaken during the year, overall the internal control environment is adequately designed and operated, with some areas such as the Benefits and Payroll services being particularly well controlled.
- 3.54 However, given the nature of the Pension Fund operations and the significance of the finances involved, its inherent risk level is significant. Pension Fund management continues to pay attention to ensuring that these risks are effectively managed, assisted by significant Internal Audit work during 2012/13 which will include additional work areas that include Investments Contributions.

### **Regeneration**

- 3.55 Overall, the departments internal control environment is generally sound; controls are adequately designed and operated. However there are a small number of areas where audit work conducted during the year indicated that the systems of control in operation should be strengthened further. Management responses to the findings from our work have been positive and indicate that action has or will be taken where issues have been identified.

- 3.56 The department continues to be very active in driving forward positive change and has only recently won a national award for its Investment Strategy.
- 3.57 Procedures for the award of Grants to Voluntary Organisations both within the department and across the Council as a whole have a number of acknowledged problems, mostly relating to the consistency of approach and implementation of procedures. The recommendations arising from work conducted during the year are being addressed by the Department and further audit work to verify the progress made is to be carried out in 2012/13.
- 3.58 The Regeneration Department has undergone significant organisational change during 2011/12, with the addition of some services previously managed elsewhere and as procedures within the newly configured department embed; Internal Audit will continue to undertake significant work in this area, so as to provide the required assurances on their effectiveness.

#### **Law, HR and Asset Management**

- 3.59 The audit work conducted during the year highlighted that there are a number of key recommendations which require attention. Many of these relate to the Corporate Governance agenda. Consequently, the overall control environment is assessed as only being satisfactory as it is acknowledged that further improvements are required.
- 3.60 Issues identified during the year include systems in operation over Day to Day Procurement where a number of significant issues need to be addressed to improve the effectiveness of the control environment.
- 3.61 Other issues identified of significance include the Registrars function that was provided with a 1 star 'poor' opinion on the effectiveness of its internal control environment and a report prepared for management identifying ten high priority recommendations. We would expect to see significant progress to address these issues as a matter of urgency and more work has been scheduled in this area for 2012/13 to follow up work completed.
- 3.62 As has been widely reported previously it is of the greatest importance, that the Department implements a robust system for acknowledging and responding to Internal Audit reports and ensuring effective implementation of the recommendations made.

#### **Wirral Schools**

- 3.63 The 2011/12 audit plan included a new approach and risk assessment in respect of school audits that enabled audit resources to be targeted more effectively to those schools deemed to be of the highest risk. A range of factors, including the results and date of the last audit, the schools budget position and other high profile issues were used to select those schools deemed to be of the highest risk. In addition to this the type of audits undertaken at Schools has been developed so



that specific areas of internal control can be targeted individually, such as Debtors, Creditors, Budgets and Treasury Management, and Payroll and Personnel. A full audit of all risk areas is also undertaken.

- 3.64 The use of this targeted and highly risk aware approach has generated a total of five school audits, identified below that have resulted in a 1 star opinion and included significant numbers of High Priority recommendations relating to a range of systems weaknesses.

Stanton Road Primary

Bidston Village Primary

Holy Spirit Catholic and CE Primary

Brackenwood Primary

Calday Grange Grammar

- 3.65 This approach has been most beneficial focussing management attention, and has resulted in raised awareness of the need for robust internal controls in schools particularly during periods of economic decline and financial hardship when risks increase. Requests for training and awareness sessions were met during the year, with Internal Audit advising schools of common areas of weakness, and identifying ways to improve these. Such developments are very positive in raising standards of control over time.

- 3.66 All of the issues identified in the reports were discussed with Headteachers and Governors were appropriate and required actions subsequently taken by them to improve the systems in operation.

- 3.67 Due to the success of this approach more work of this nature is scheduled 2012/13. In addition to this more work is also scheduled with the School Bursars Unit to ensure that effective support is being provided to schools.

### **Follow-up Work**

- 3.68 We have undertaken work to ascertain progress in implementing agreed recommendations resulting from earlier years' reviews. All of the recommendations we have agreed with management have either been implemented as agreed or are in the process of being implemented. Revised action plans have been obtained detailing the progress to date and a timescale for full implementation where this has not already been achieved. Regular update reports on this are included within routine audit reports to the Audit and Risk Management Committee.

## **4 Internal Audit Inputs**

- 4.1 In fulfilling its duty to consider the performance of the Internal Audit Service, the Audit and Risk Management Committee will be interested, on behalf of the Council, to understand the way that the Internal Audit Service has been staffed and its resources deployed.

### **Internal Audit Service Establishment - 2011/12**

- 4.2 The Internal Audit Service has a very professionally competent and committed workforce that has adapted well to enforced changes and developments in working practices implemented during the year by management to increase efficiency. These measures were necessary to address a significant shortfall in staffing resource experienced throughout the year.
- 4.3 Recruiting and retaining suitable qualified and experienced staff is the key to the successful achievement of the Audit Plan and being able to address the many other issues and investigations that arise during each year. The problems of staffing have constantly been a concern and have been regularly reported to the Audit and Risk Management Committee. The widening role and area of responsibility of Internal Audit continues to exacerbate this problem but staff are continuously gaining experience and enhancing their ability to address new issues. Though the remit has increased significantly, the Service has downsized but it is considered that it should be able to provide an effective service with the help of Chief Officers in identifying risks and implementing recommendations swiftly.
- 4.4 The Internal Audit Service has also particularly felt the loss of two members of staff from the Counter Fraud Team for a significant part of the year, although the extent of the impact of this was reduced slightly by the acquisition of two temporary members of staff for the final quarter of the year and impact upon the plan delivery was kept to a minimum.
- 4.5 A number of vacancies have also existed at Assistant, Senior and Group Auditor level during the year for a number of different reasons and has impacted upon the Service's ability to deliver the plan in its entirety. The actual impact upon the plan delivery was however lessened slightly by the appointment of a number of temporary members of staff during the final quarter of the year.
- 4.6 Sickness levels amongst the internal audit workforce are amongst the lowest in the Council and compare very favourably with all national indicators, a considerable achievement given the very stressful nature of the audit work at times. The total number of days lost due to sickness per employee during the year was 3 days. The current rate for the Service is 2.5 days which compares very favourably with the target for the Council as a whole.
- 4.7 Following an external review of the Service it is envisaged that some strengthening will take place and additional resource may be made

available during 2012/13 to enable the delivery of increased work in a number of key areas that include Counter Fraud and Governance.

### **Internal Audit Plan - 2011/12**

- 4.8 Due to staffing issues experienced during the year including the secondment of one of only two Group Auditors out of the Section and the loss of the two members of staff that make up the Counter Fraud Team for a large proportion of the year it was necessary to make a number of adjustments to the plan during the year. This was reported to the Audit and Risk Management Committee during the year and the changes endorsed by them. The Service was therefore able to utilise 2484 days in total to deliver the Audit Plan during 2011/12 and consequently was able to complete 177 audits plus follow ups which equates to 84% of the planned work.
- 4.9 This represents a significant achievement and recognises the important work undertaken by the service to increase performance and productivity following the reduction in staffing resource during the year. Importantly, the Service has completed all of the Assurance audits identified in the Audit Plan as being essential to the provision of our 'annual opinion' on the effectiveness of the Council's control environment.
- 4.10 This assurance work is required by the Audit Commission, supports the production of the Annual Governance Statement and is essential to the well being of the organisation. Regular meetings take place between officers from Audit Commission and the Internal Audit Service to discuss audit work and findings and the Commission continue to work very closely with Internal Audit in specific areas.
- 4.11 The total time involved in managing the Internal Audit Service and providing support to the senior management team and Members together amounts to 300 days against a plan of 350 days.
- 4.12 The individual audits completed and days spent on each area of our audit plan, by service area, are set out in the table overleaf:

Wirral Council Internal Audit Service  
Annual report for the year ended 31 March 2012

Audit Area	Planned Audits	Planned Audit Days	Actual Outturn		Variance (%)	
			Audits	Days	Audits	Days
<b>CROSS CUTTING RISKS</b>						
Corporate Governance	8	130	8	165	-	27
Risk Management	7	70	7	77	-	10
Other Work (estimated)	3	200	6	92	50	-54
<b>SUB-TOTAL</b>	<b>18</b>	<b>400</b>	<b>21</b>	<b>334</b>	<b>17</b>	<b>-17</b>
<b>SERVICE SPECIFIC RISKS</b>						
Adult Social Services	8	189	8	93	-	-51
Children and Young Peoples	28	379	25	427	-11	13
Technical Services	9	139	5	104	-44	-25
Regeneration, Housing & Planning	11	183	5	82	-54	-55
Law, HR & Asset Management	6	94	6	94	-	-
Finance	4	84	3	18	-25	-79
Pensions	5	109	5	82	-	-25
<b>SUB-TOTAL</b>	<b>71</b>	<b>1177</b>	<b>57</b>	<b>900</b>	<b>-20</b>	<b>-24</b>
<b>CORPORATE/COMMON RISK</b>						
Financial Systems	24	504	20	360	-17	-29
ICT Systems	26	388	19	324	-27	-16
Commissioning & Procurement	10	144	10	136	-	-6
Human Resources	6	95	3	54	-50	-43
Partnerships	2	30	2	23	-	-23
Constitution	5	37	5	27	-	-27
Contracting	12	85	12	76	-	-11
Anti Fraud	36	400	30	250	-23	-38
<b>SUB TOTAL</b>	<b>121</b>	<b>1683</b>	<b>101</b>	<b>1250</b>	<b>-18</b>	<b>-26</b>
<b>TOTAL CONTROL OPINION</b>	<b>210</b>	<b>3260</b>	<b>177</b>	<b>2484</b>	<b>-16</b>	<b>-24</b>

## **1. Scope, Responsibilities and Assurance**

### **1.1. Approach**

1.1.1. In accordance with the CIPFA Code of Audit Practice, the scope of internal audit encompasses all of the Council's operations, resources and services including where they are provided by other organisations on their behalf.

### **1.2. Responsibilities of Management and Internal Auditors**

1.2.1 It is management's responsibility to maintain systems of risk management, internal control and governance. Internal audit is an element of the internal control framework assisting management in the effective discharge of its responsibilities and functions by examining and evaluating controls. Internal auditors cannot therefore be held responsible for internal control failures.

1.2.2. However, we have planned our work so that we have a reasonable expectation of detecting significant control weaknesses. We have reported all such weaknesses to Chief Officers as they have become known to us, without undue delay, and have worked with them to develop proposals for remedial action.

1.2.3. Internal audit procedures alone do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

1.2.4. Internal audit's role includes assessing the adequacy of the risk management processes, key internal control systems and corporate governance arrangements put in place by management and performing testing on a sample of transactions to ensure those controls were operating for the period under review.

### **1.3. Basis of Our Assessment**

1.3.1. My opinion on the adequacy of control arrangements is based upon the result of internal audit reviews undertaken and completed during the period in accordance with the plan approved by the Audit and Risk Management Committee. We have obtained sufficient, reliable and relevant evidence to support the recommendations that we have made.

### **1.4. Limitations to the Scope of Our Work**

1.4.1. There have been no limitations to the scope of our work.

### **1.5. Limitations on the assurance that internal audit can provide**

1.5.1. There are inherent limitations as to what can be achieved by internal control and consequently limitations to the conclusions that can be

drawn from our work as internal auditors. These limitations include the possibility of faulty judgement in decision making, of breakdowns because of human error, of control activities being circumvented by the collusion of two or more people and of management overriding controls. Also there is no certainty that internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks which may arise in future.

- 1.5.2. Decisions made in designing internal controls inevitably involve the acceptance of some degree of risk. As the outcome of the operation of internal controls cannot be predicted with absolute assurance any assessment of internal control is judgmental.

## **1.6. Access to this Report and Responsibility to Third Parties**

- 1.6.1. I have prepared this report solely for Wirral Council. As you are aware, this report forms part of a continuing dialogue between the Internal Audit Service, the Director of Finance, Chief Executive, Audit and Risk Management Committee and management of the Council. It is not therefore intended to include every matter that came to our attention during each internal audit review.
- 1.6.2. I acknowledge that this report may be made available to other parties, such as the external auditors. I accept no responsibility to any third party who may receive this report for any reliance that they may place on it and, in particular, I expect the external auditors to determine for themselves the extent to which they choose to utilise our work.

## WIRRAL COUNCIL

### AUDIT & RISK MANAGEMENT COMMITTEE

14 JUNE 2012

<b>SUBJECT</b>	<b>CORPORATE RISK AND INSURANCE MANAGEMENT</b>
<b>WARD/S AFFECTED</b>	<b>ALL</b>
<b>REPORT OF</b>	<b>ACTING CHIEF FINANCE OFFICER</b>
<b>RESPONSIBLE PORTFOLIO HOLDER</b>	<b>COUNCILLOR PHIL DAVIES</b>
<b>KEY DECISION</b>	<b>NO</b>

#### 1.0 EXECUTIVE SUMMARY

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

#### 2.0 BACKGROUND AND KEY ISSUES

##### **Insurance Management progress**

2.1 The active involvement with the ongoing civil law reform process is continuing and the Council has been represented at two national meetings on this issue (19 March and 9 May) representing both Wirral and the Association of Local Authority Risk Managers (ALARM).

2.2 Liability claims statistics for Q4 2011/12 were completed. The overall picture for public liability claims is relatively steady at between 450 and 500 claims per year although this was assisted this year by the mild winter. Employers' liability claims remain a growing problem. The bulk of the workload continues to relate to non standard Employers Liability (EL) and Public Liability (PL) matters. Defamation, vibration white finger, noise induced hearing loss, abuse, failure to protect, stress and bullying are just some examples of the complex matters currently handled.

2.3 On 28 March 2012 the Supreme Court decision in respect of the Employers Liability (EL) insurance trigger litigation ruled that EL policies respond as at the date of initiation or causation of the disease or injury (at the time when the person was exposed). This is significant for Wirral and other local authorities because it means that a 'claw back' in the Scheme of Arrangement for Municipal Mutual Insurance (MMI) is now almost certain to be triggered. Under this MMI can recover from the Council a percentage of claims payments made since the Scheme began in 1993. Provision has been made within the insurance Fund for potential costs but if the claw back does not enable MMI to achieve a solvent run off the Council may also have to fund a part of the cost of future claims. The situation is being closely monitored and will be considered in future funding studies.

- 2.4 In March 2012 Merseyside Police made an arrest in connection with a fraudulent highway liability claim brought against the Council. This case is one of the more blatant examples of fraud as a serious injury was sustained by the claimant but not in the manner alleged as the highway defect allegedly causative of the injury was apparently created by the claimant some months after the actual accident that occurred elsewhere. Details are awaited from the Crown Prosecution Service as to whether they are to pursue the prosecution.
- 2.5 The Insurance Fund accounts for 2011/12 had been completed including an internal review of reserves and provisions which results in a transfer of funds to the Council general balances. This will be included in the Insurance Fund Annual Report to Cabinet in July.
- 2.6 A new manager has been appointed by Council's brokers JLT Public Sector Risks to service the Councils account. As indicated previously although the contract gives the Council the right to end the broking contract in such circumstances the performance of the new post holder is under review.
- 2.7 Renewal terms for those policies expiring on 31 March 2012 were received:-

<b>Policy</b>	<b>Insurer</b>	<b>Estimate</b>	<b>Actual</b>	<b>Difference</b>
		<b>£</b>	<b>£</b>	<b>£</b>
Liability	Zurich Municipal	142,500	140,000	-2,500
Liability Claims Handling	Zurich Municipal	65,900	* 67,000	+1,100
Professional Indemnity	Aviva	12,000	10,300	-1,700
Motor	Zurich Municipal	37,500	31,800	-5,700
Engineering	Zurich Municipal	110,200	117,600	+7,400
Computer	HSB Haughton	15,000	14,000	-1,000
Foster Care – All Risks	Axa	11,100	10,300	+800
Foster Care – Legal Expenses	Abbey Legal Protection	3,100	3,000	-100

\* Deposit charge. Maximum could be £95,200 depending on claims numbers.

- 2.8 As part of the work supporting Academies competitive quotations were obtained and a comprehensive stand alone insurance package put in place for Hilbre High School ahead of its planned conversion to Academy status on 1 June 2012.
- 2.9 A proposal to extend the insurance programmes for all academy schools to a common renewal date of 1 September 2013 is being progressed with the holding insurer, Zurich Municipal, and the schools. This will enable the administration of a fully competitive tender for the insurances of these schools in early 2013/14 and produce an estimated £40,000 fee income for the Fund in 2012/13.



- 2.10 As part of its programme for improving the management of insurance and following the advice given by Wirral's risk and insurance team, Sefton Council have now formally joined the Wirral lead litigation defence services contract. This contract had been issued on a collaborative basis. Further avenues for joint working are being explored.

### **Risk Management Progress**

- 2.11 In developing the Council's performance management arrangements agreement has been reached with Concerto Support Services Limited over a specification for enhancements to the functionality of the system to capture analyse and report risk information. The cost will be met from the Risk Management Fund.
- 2.12 The future Risk Management Framework has seen a draft proposal prepared for consideration by the Acting Chief Executive before being progressed with the leadership, both Elected Members and Chief Officers.
- 2.13 The Risk & Insurance Officer has conducted a critical appraisal of the risk registers for all Departmental Service Plans for 2012/13 and has provided feedback to assist with continuous improvement. Specific support was provided to the Department of HR, Law & Asset Management on options for improving structures and processes for managing risks to the department's objectives
- 2.14 A review of the Corporate Risk Register was undertaken at the end of March 2012 and the results included in the Corporate Risk Monitoring Summary appended to the Corporate Performance and Financial Review being reported to cabinet in June 2012.

### **Objectives for 2012/13**

- 2.15 The principal areas of responsibility for the Risk and Insurance Team remain:-
- (i) Procuring appropriate, cost effective, external insurance cover and claims handling services. Administering annual renewals
  - (ii) Maintaining accurate records of properties, fleet vehicles and other assets
  - (iii) Managing the Insurance Fund and associated Budgets.
  - (iv) Investigating and administering internally insured claims.
  - (v) Making decisions on tactics and procedure in relation to pre-litigated and litigated claims.
  - (vi) Managing the performance of claims handlers and legal providers.
  - (vii) Facilitating and providing appropriate training to Members and officers.
  - (viii) Supporting Members and Chief Officers in improving the policy, framework and processes for managing risk and opportunity.
  - (ix) Supporting all areas of the Council in the identification, analysis and management of risk.

- 2.16 The table shows the main individual tasks to be undertaken during the year and the target dates for completion. A significant area of work concerns improvements to the Risk Management Framework and processes.

<b>Task</b>	<b>Target Date</b>
Undertake the in-house review of funding for insured liabilities	May 2012
Discuss with leadership proposals for improvements to Risk Management Framework and processes	June 2012
Roll out new risk management module of Concerto project management system	August 2012
Negotiate annual renewal of Marine Insurance contract	September 2012
Complete the Insurance Fund Budget 2013/14	November 2012
Begin exercise to remarket and procure the Property, Business Interruption, Money and Fidelity Guarantee insurance contracts	January 2013
Manage the renewal of the Liabilities, Motor, Engineering, Computer and Foster Care policies	February 2013
Review of key departmental risks for 2013/14	Feb/Mar 2013

- 2.17 Regular reports on the progress of Insurance and Risk Management will continue to be presented to 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.

#### **Insurance Management – Issues for Next Period**

- 2.18 Support for the civil law reform process will continue with work in connection with the process of reform to civil litigation costs.
- 2.19 The management of liability claims is expected to continue, particularly with regard to the number and scope of complex claims, demanding a substantial part of the available resources.
- 2.20 A complete revaluation of the Council's civic regalia and the silver collection in the Williamson Art Gallery will be undertaken and is expected to result in an increased sum insured and in turn a larger premium.
- 2.21 Renewal terms for the Council's Property, Business Interruption, Money and Fidelity Guarantee insurance contracts on 30 June 2012 will be received.

#### **Risk Management – Issues for Next Period**

- 2.22 The organisational risk module in the Council Performance Management System will be tested for functionality and any further changes needed identified and implemented.
- 2.23 The Executive Team will review of the Corporate Risk Register by 30 June 2012 as part of the corporate performance monitoring process.

2.24 Attendance at the ALARM Professional Development Forum in Manchester will provide an opportunity to update technical knowledge and gain awareness of good practice which helps to improve insurance and claims management and also informs the review of the Council's Risk Management Framework and processes.

2.24 Subject to approval by the Acting Chief Executive the proposed approach to develop the future Risk Management Framework will be progressed.

### **3.0 RELEVANT RISKS**

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

### **4.0 OTHER OPTIONS CONSIDERED**

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

### **5.0 CONSULTATION**

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

### **6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

6.1 There are none arising directly from this report.

### **7.0 RESOURCE IMPLICATIONS**

7.1 The Academy Schools initiative undertaken by the Risk & Insurance Team is continuing to generate income which offsets insurance administration costs.

7.2 Although under pressure the Team has sufficient resource to deal with its insurance responsibilities. However the additional work required as a result of the planned improvements to risk management arrangements may not be deliverable within existing staff resources.

### **8.0 LEGAL IMPLICATIONS**

8.1 There are none arising directly from this report.

### **9.0 EQUALITIES IMPLICATIONS**

9.1 There are none arising directly from this report which updates Members on progress in Corporate Risk and Insurance Management.

9.2 Equality Impact Assessment (EIA) is not required for this report.

## **10.0 CARBON REDUCTION IMPLICATIONS**

10.1 There are none arising directly from this report.

## **11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

11.1 There are none arising directly from this report.

## **12.0 RECOMMENDATION**

12.1 That the Corporate Risk and Insurance Management report be noted.

## **13.0 REASON FOR RECOMMENDATION**

13.1 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.

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## **REFERENCE MATERIAL / SUBJECT HISTORY**

<b>Council Meeting</b>	<b>Date</b>
Audit & Risk Management Committee - Corporate Risk And Insurance Management	Updates are presented to each meeting of the Committee

## WIRRAL COUNCIL

### AUDIT & RISK MANAGEMENT COMMITTEE

14 JUNE 2012

<b>SUBJECT</b>	<b>AUDIT COMMISSION PROGRESS REPORT – ACTION AREAS</b>
<b>WARD/S AFFECTED</b>	<b>ALL</b>
<b>REPORT OF</b>	<b>ACTING CHIEF FINANCE OFFICER</b>
<b>RESPONSIBLE PORTFOLIO HOLDER</b>	<b>COUNCILLOR ADRIAN JONES</b>
<b>KEY DECISION</b>	<b>NO</b>

#### 1.0 EXECUTIVE SUMMARY

1.1 The Audit Commission Progress Report presented to each meeting of this Committee makes reference to areas that this Committee may wish to consider. As requested by Committee this report provides detail on the action taken by the Council in respect of those identified in the January / March Progress Reports.

#### 2.0 BACKGROUND AND KEY ISSUES

##### AUDIT COMMISSION PROGRESS REPORT

2.1 Presented to each meeting of this Committee this includes an 'Other matters of interest' section which highlights recent publications, by the Commission and other organisations, as well as an update on any progressing legislative proposals. To assist Members the Commission have introduced a 'Key considerations' section comprising questions that the Committee may wish to consider. Committee on 1 February 2012 requested that an update on the issues and the actions taken by the Council be presented to a future meeting.

##### Auditing the 2010/11 Accounts

2.2 National report published by the Commission on 15 December 2011.

2.3 Issue : Has the Council reviewed the report on the 2010/11 Accounts and, in particular, considered the key challenges facing bodies for 2011/12?

2.4 Response : This Committee considered a Statement of Accounts 2011/12 Review of Arrangements report on 1 February 2012 which referred to the Commission report and compared the Wirral position with the national findings.

##### Lets be clear : Making local authority IFRS accounts more accessible and understandable

2.5 The Commission issued a briefing paper on 18 January 2012 which supplemented the Auditing the 2010/11 Accounts report in section 2.3.

- 2.6 Issue : Has the Council reviewed its 2010/11 Accounts and identified ways in which these could be streamlined or clarified?
- 2.7 Response : The size of the Statement of Accounts has increased considerably and the 2010/11 Statement comprised of 176 pages. This increase resulted partly from the initial disclosures required under International Financial Reporting Standards so will reduce in size in 2011/12. The opportunity is also being taken to reduce the number of supporting notes and to limit any 'clutter' in following the Commission's briefing paper. Each year actions are taken to make the Foreword to the Accounts more of an overview and potentially a 'stand-alone' streamlined document and this will be further enhanced. The Council has produced a Summary Statement of Accounts leaflet for a number of years. The profession has recognised that action is needed to increase understanding and accessibility and guidance from CIPFA is expected later this year.

### **Managing Workforce Costs**

- 2.8 The Commission and Local Government Association jointly launched 'Work in progress : Meeting local needs with lower workforce costs'. The report is supplemented by a number of resources including:-
- An agency workers expenditure tool which shows councils how much they spend on agency workers compared with other councils.
  - A workforce expenditure tool which shows councils how much they spend on staff as a proportion of their current net expenditure, and how this has changed over time.
  - Case studies providing examples of the different approaches councils are taking to reduce the costs of employing people while protecting valuable services.
  - A practical guide on how to undertake effective pay benchmarking.
- There is also a briefing for elected members with a series of questions to help assess how well their council decides the size, shape and cost of its workforce and how these decisions will affect services and communities,
- 2.9 Issue : Has the Council reviewed the report and is Audit & Risk Management Committee satisfied that appropriate use has been made of the supporting materials?
- 2.10 Issue : Has the Council circulated the briefing for elected members on the workforce report to Members? Is the Audit & Risk Management Committee satisfied that the questions within the briefing have been properly considered by the Council?
- 2.11 Response : The Department of Law, HR and Asset Management has undertaken a detailed analysis of workforce costs, including allowances, overtime and use of agency workers. Preliminary discussions with the Trade Unions have covered areas where workforce costs may be reduced and the potential implications for employees and services. This is part of the Strategic Change Programme for which proposals are to be submitted to Cabinet later this year.

2.12 The Council has in recent years reviewed its contractual arrangements in respect of the recruitment and appointment of agency workers. The progress of Job Evaluation is regularly reported to Cabinet and Stage 3, for those employees above Spinal Column Point 34, is scheduled to be concluded in 2012.

### **Joining up health and social care**

2.13 This second briefing on social care was published by the Commission on 1 December 2011 – ‘Joining Up Health and Social Care – Improving Value For Money Across The Interface’.

2.14 Issue : Has the Council reviewed the questions included in the briefing paper on joining up adult and social care?

2.15 Issue : Has the Council used the Commission’s tool to benchmark the performance of its NHS and Social Care Partnership?

2.16 Response :The Department of Adult Social Services is currently consulting on its Overarching Commissioning Strategy which contains the proposal to develop specific Targeted Commissioning Plans. It is proposed to address the questions raised in the Audit Commission document as part of the development of the Targeted Support Commissioning Plan. A report outlining the progress on the development of the Plan will be presented to the Health and Wellbeing Overview and Scrutiny Committee at its meeting on 10 September 2012.

2.17 As part of the development of the Targeted Support Commissioning Plan use will be made of the Audit Commission’s health and social care interface tool to benchmark the performance of local NHS and Social Care activity and agree how to best to use the funds allocated to the NHS and the Council to support joint working.

### **CIPFA Prudential Code for Capital Finance**

2.18 CIPFA published an update to the Code which reflects the introduction of International Financial Reporting Standards.

2.19 Issue ; Has the Council reviewed its performance indicators in the light of the revised Code?

2.20 Response : The updated Treasury Management Policy was reported to Cabinet on 22 February 2012 and included the updated indicators.

### **2011/12 Accounts : CIPFA Guidance Notes for Practitioners**

2.21 Each year CIPFA publish a set of guidance notes to provide support in preparing the accounts.

2.22 Issue : Has the Council reviewed CIPFA's guidance notes and made satisfactory arrangements for their implementation?

2.23 Response : These have been covered in the Audit Commission workshops attended by local authorities, including Wirral, in February 2012 and events organised by CIPFA which focus more on the technical accounting requirements which Wirral attended in March 2012.

### **3.0 RELEVANT RISKS**

3.1 The papers from the Commission and others offer advice and guidance on compliance with regulations in respect of accounting and technical issues. Those in respect of the workforce and social care present opportunities for improvement and achieving efficiencies in the delivery of services and the benefits could be foregone if the opportunities are not taken.

### **4.0 OTHER OPTIONS CONSIDERED**

4.1 There are no options considered in this report.

### **5.0 CONSULTATION**

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

### **6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

6.1 There are no direct implications arising from this report.

### **7.0 RESOURCE IMPLICATIONS**

7.1 There are no direct financial, staffing or IT implications arising directly from this report. The implementation of actions following consideration of the reports from the Commission and others will be reported to Cabinet with appropriate implications.

### **8.0 LEGAL IMPLICATIONS**

8.1 There is a legal requirement to publish the Statement of Accounts by 30 September each year.

### **9.0 EQUALITIES IMPLICATIONS**

9.1 There are none arising directly from this report.

9.2 Equality Impact Assessment (EIA) is not required for this report.

### **10.0 CARBON REDUCTION IMPLICATIONS**

10.1 There are none arising directly from this report.



## **11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

11.1 There are none arising directly from this report.

## **12.0 RECOMMENDATION**

12.1 That the responses to the issued identified in the Audit Commission Progress Report be noted.

## **13.0 REASON FOR RECOMMENDATION**

13.1 The issues were identified by the Commission and this Committee requested a report on the actions taken by the Council.

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## **SUBJECT HISTORY**

<b>Council Meeting</b>	<b>Date</b>
Audit & Risk Management Committee – Audit Committee Update – Audit Commission	Updates are presented to each meeting of the Committee.

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# Certification of claims and returns - annual report

Wirral Council

Audit 2010/11

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Agenda Item 9

 audit  
commission

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# Introduction

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**I reported the outcome of the 2010/11 grant claims programme to members on 13 March 2012. This supplementary report summarises the outcomes of my certification work for the two 2010/11 claims and returns that were still being discussed at that time.**

In my grant claims and returns annual report presented to members of the Audit and Risk Management Committee on 13 March 2012 I confirmed that the grant claims programme for 2010/11 was complete and set out the outcomes of our work. In addition to providing a certificate I also report back to the Deputy Chief Executive and Director of Finance in a letter any further issues that we have not reported to the department but need to be resolved or where arrangements need to be improved.

At the time of writing the annual report I was still discussing the issues and recommendations on two grant claims. This supplementary report now summarises those issues for members' attention, provides a further action plan and updates the position on fees for 2010/11. The final two claims now being reported are:

- Flood and coastal erosion management
- Sure start, early years and childcare grant and aiming high for disabled children grant

# Results of 2010/11 certification work

This section summarises the results of my 2010/11 certification work on the two remaining claims and highlights the significant issues arising from that work.

Table 1: Claims and returns above £500,000

There were 7 claims above £500,000 (10 claims in total in 2010/11) and this section reports on the final 2 claims

Claim or return	Value of claim or return presented for certification (£'000)	Was reliance placed on the control environment?	Value of any amendments made	Was a qualification letter issued?	Further issues raised in letter to DCE&DoF
Flood and coastal erosion management	1,387,163	No – First year of claim and contractor liquidation therefore part A & B testing required	-1	Yes	Yes - see (1) below: 17 high priority recommendations
Sure start, early years and childcare grant and aiming high for disabled children grant	15,140,605	No – The claim is complex and includes a large volume of both revenue and capital transactions	0	Yes	Yes – see (2) below: 1 high and 5 medium priority recommendations

## (1) Flood and coastal erosion management

The Environment Agency provided a grant to contribute towards the protection works of the Marine Lake wall at West Kirby and the work was managed by the Technical Services Department. The Council completed a tendering exercise to select the original Contractor for the works and that Contractor was approved by members on 11 February 2009 following the Cabinet meeting on 5 February 2009. However, the original Contractor abandoned the site during the works on 24 April 2009 and subsequently went into liquidation; the contract was completed by another contractor.

A qualification letter was raised in respect of a number of issues and I have also raised concerns with the Deputy Chief Executive and Director of Finance in respect of a number of governance issues (significant issues highlighted in bold). We made 17 high priority recommendations. My findings are set out below:

- **There was a failure to adequately communicate known concerns about the financial standing of the company awarded the original contract to members and legal officers and the contract was approved by members without this knowledge.**
- Officers obtained an external credit report on 28 January 2009 that highlighted significant financial concerns in respect of the original Contractor and that stated there was a very high likelihood of business failure. The results of the credit report were discussed by Technical Services officers, Finance (Procurement) officers and Internal Audit and it was agreed to continue to recommend the approval of the original Contractor to members. Technical Services officers have confirmed that there were no minutes taken at the meeting that decided on the selection of the original Contractor.
- The recommendation to award the construction work to the original Contractor was made in a report from Technical Services to Cabinet dated 5 February 2009. There is no mention in this Cabinet report nor any supplement issued following receipt of the credit report of the serious concerns regarding the financial status and the very high likelihood of business failure of the company. There is no evidence in the minutes of the Cabinet meeting that officers informed members of the risks at the meeting itself.
- Members were asked to agree the recommendation to award the contract to the original Contractor without being given the details that would have enabled them to make an informed decision.
- Section 3.4 of the report states *'the Corporate Procurement Unit have been consulted and are satisfied with the procurement process implemented for this scheme.'* There is no reference to any legal advice obtained and no reference in the minutes that members sought the assurance of Legal Services. The Group Solicitor was notified by Technical Services of the concerns on 3 April 2009, nearly two months after the award of the contract and nearly a month after work had started on site.

- **CPR 15.3(ix) requires that the contract provides for a Bond. Although the contract did ask for one, the Council did not obtain a Bond.**
  - Although the literal instruction in CPR 15.3(ix) was complied with, the intent of the CPR was not as a Bond was not obtained. The importance of this was not evident to Legal Services until 3 April 2009 and shortly after this the company abandoned the site and went into liquidation.
  - Following the execution of contracts and the requirement to provide a Bond within the 28 day period it is usual that suppliers are not allowed possession of the site until the Bond has been obtained. From our review it is noted that the original Contractor started on site on 9 March 2009 without a Bond and without an agreement about security. In addition, the contract documents were not returned until 12 March 2009 nor signed until 20 March 2009 and this further raises risks.
  - As noted above, the intent of CPR 15.3(ix) was not complied with and it should have triggered a review of CPRs in relation to obtaining a Bond following the circumstances around this example.
  - The latest version of CPRs (17 October 2011) now requires that the relevant Cabinet Portfolio holder must be consulted. However, the CPR does not state specifically *when* the bond should be obtained and it does not specify what constitutes 'sufficient security'. This should also relate to parent company guarantees, or other tangible insurance arrangements.
- Although officers made enquiries as to the financial standing of the bodies tendering under CPR 7.1 at the Invitation to Tender (ITT) stage, the premise that Constructionline (a select list) could be relied on for financial standing was not reliable at the time.
- The Council retained £488,424 in respect of an engineer's valuation of work done by the original Contractor prior to abandonment. The valuation certifies the costs for completing the works as £350,811. Officers plan to put a case to Cabinet to provide for £137,613 of this as the value of the work completed by the original Contractor less the additional cost of completing the works with another contractor. We are currently awaiting information from officers to confirm that the liquidator has accepted the valuation.
- A Cabinet Report on 23 July 2009 updated members on the progress of the contract and informed them formally that the original Contractor had abandoned the site on 24 April 2009. The report states that the proposed change in contractor was reported verbally to Cabinet on 23 April 2009 and approval was received to appoint another Contractor to undertake the Completion Contract at that meeting. However, there is no evidence of any supplementary paper presented to that meeting to explain the situation and the formal Minute 493 on West Kirby Marine Lake does not go into the detail of what was discussed or approved: '*The Director of Technical Services reported upon a number of matters in relation to West Kirby Marine Lake. Resolved – That the report be noted and the action proposed by the Director of Technical Services be endorsed.*' It is important that members' decisions and approvals are explained and formally noted in the minutes of meetings.



- The 23 July 2009 Cabinet report stated at paragraph 3.4: 'During the third week of April the Council received information that (the original Contractors) were in serious financial difficulty'. However, this is not consistent with underlying information that the financial difficulties were known from the 28 January 2012 credit report.
- CPR16 requires that variations to a contract in excess of 10% (or £50,000, whichever is the lower) should be reported to Cabinet. The estimated expenditure for the specialist consultants was £100,000 (outturn £192,793). Officers need to confirm that variations for the consultant's contract for this scheme were reported in line with CPR 16.2, with a written report submitted to the next meeting of the Cabinet.
- CPRs were updated in October 2011 but do not reflect the need for an appropriate review of tenderers' technical or professional ability and economic and financial standing for contracts over £50,000 and below the EU threshold.
- Technical Services Officers state that Internal Audit was aware of the adverse credit report prior to approval of the original Contractor by members. Internal audit is now involved in all financial evaluations of prospective tenderers and carries out a full ratio analysis in respect of works and service contracts. The role of Internal Audit is to provide assurance to officers and members that appropriate checks have been made and it is the role of the Chief Officer, with help from Finance to carry out and draw conclusions from the financial evaluations.

## 7.1.2(2) Sure start, early years and childcare grant (SSEYCG) and aiming high for disabled children grant (AHDCG)

A qualification letter was raised in respect of a number of issues and I have also raised concerns with the Deputy Chief Executive and Director of Finance in respect of a number of issues. We made 6 recommendations (1 high priority and 5 medium priority). My findings are set out below:

- Eligible expenditure claimed for 2 Year Old Offer Early Learning and Childcare activities exceeded the allocation by £13,436.
- During our certification work we raised concerns about the procurement process followed by the school for architectural work included as eligible expenditure as one of the governors was awarded the work. Council officers have informed us that the architect's services for the Great Meols Primary project were procured in line with procedures applying to resources under the control of the school governing body. We have been provided with a Cabinet report from May 2010 that confirms that the Preschool provider was to make a financial contribution to the project. This report also retrospectively reports that officers gave agreement to the governing body to appoint the project architect. Officers have now stated that this item should have been removed from the sample population as it was considered to have been funded from other streams. It is important that:
  - expenditure by the Council in respect of procurement by local authority schools is in line with delegated arrangements.
  - there are controls to ensure no duplicate claims for funding can be made and there is no possibility of double funding and duplication with other claims.

- eligible expenditure for specific claims and returns can be identified for accounting and audit sampling purposes separately from that funded from other sources which may be subject to different conditions.
- there was no inventory of assets that would have allowed adequate information to fulfil the conditions of grant funding i.e. monitoring the use of assets funded, or any disposals as required by Annex D, paragraph 14 of Memorandum of Grant and paragraph 46 of the SSEYCG capital guidance (July 2011).
- CYP had not agreed a comprehensive action plan following a November 2010 Internal Audit report on Children's Centres Extended Service provision that included 14 high priority risk observations. Internal Audit followed up its original report in March 2012 and concluded that 12 of the recommendations have now been implemented with the remaining 2 being partly implemented.

# Summary of recommendations

This section highlights the recommendations arising from my certification work on the two remaining claims and the actions agreed for implementation.

Table 2: Summary of supplementary recommendations arising from 2010/11 certification work

Recommendation	Priority	Agreed action	Date for implementation	Responsible officer
(1) Flood and coastal erosion management	17 high			
<i>Reporting to members, recording and risk management</i>				
R1. Ensure members have complete information, and in particular are made aware of any significant risks and how they have been mitigated in order to make robust and safe decisions.	High	Instructions on content of reports (including risks) to be reviewed, revised and re-issued. Report authors (Chief Officers) to ensure compliance with instructions.	June 2012  June 2012	Bill Norman Director LHRAM  Chief Officers
R2. Ensure that members' decisions and approvals are explained and formally noted in the minutes of meetings (in this case regarding the verbal update to Cabinet in April 2009)	High	All meetings are formally recorded and will continue to be so whilst having regard to 'exempt information'.	On-going	Surjit Tour Legal & Member Services

Recommendation	Priority	Agreed action	Date for implementation	Responsible officer
R3. Ensure that reports contain information that is consistent with underlying evidence to help members understand any risks to aid decision-making and their assessment of the control environment.	High	As with R1. Instructions on content of reports (including risks) to be reviewed, revised and re-issued. Report authors (Chief Officers) to ensure compliance with instructions.	June 2012	Bill Norman Director LHRAM  Chief Officers
R4. Ensure that the advice of Legal Services is sought and reported to members before decisions are made.	High	As R1 and R3. Instructions on content of reports, and need to involve legal services, to be reviewed, revised and re-issued. Report authors (Chief Officers) to ensure compliance with instructions.	June 2012	Bill Norman Director LHRAM  Chief Officers
R5. Ensure that key judgements, by officers are adequately recorded - such as the decision to award the tender to the original Contractor despite the risks identified	High	Links to R1. Instructions on content of reports (including officer judgements) to be reviewed, revised and re-issued. Report authors (Chief Officers) to ensure compliance with instructions.	June 2012	Bill Norman Director LHRAM  Chief Officers
<b>Fit for purpose CPRs</b>				
R6. Ensure CPRs are updated and revised to include a final check of financial standing and technical ability immediately prior to the award of a contract.	High	Contract Procedure Rules to be enhanced – report to Cabinet on Constitution changes.	October 2012	Surjit Tour Legal & Member Services (with Ray Williams)

Recommendation	Priority	Agreed action	Date for implementation	Responsible officer
R7. Ensure that CPRs: (i) are clear about when the Bond should be obtained (ii) are clear about and record what constitutes 'sufficient security' when the standard Bond is not obtained.	High	As with R6. Contract Procedure Rules to be enhanced – report to Cabinet on Constitution changes.	October 2012	Surjit Tour Legal & Member Services (with Ray Williams Procurement)
R8. Ensure the CPRs approved in October 2011 are updated to reflect the need for an appropriate review of tenderers' technical or professional ability and economic and financial standing for contracts over £50k and below the EU threshold.	High	As with R6. Contract Procedure Rules to be enhanced – report to Cabinet on Constitution changes.	October 2012	Surjit Tour Legal & Member Services (with Ray Williams Procurement)
R9. Ensure all CPRs are fit for purpose and non-compliance is promptly, clearly and unambiguously reported to members.	High	As with R6. Contract Procedure Rules to be reviewed and include guidance – report to Cabinet on Constitution changes.	October 2012	Surjit Tour Legal & Member Services (with Ray Williams Procurement)
<b>Compliance with procedures</b>				
R10. Ensure 'appropriate' enquiries are made on financial standing under CPR 7.1 by reviewing detailed information and considering the overall assessment before issuing invitations to tender. Ensure this is clearly documented and	High	Links to R6. CPRules to be issued to all employees involved in the procurement process along with the Procurement Toolkit.	Commencing from June 2012	Chief Officers (with Ray Williams Procurement)

Recommendation	Priority	Agreed action	Date for implementation	Responsible officer
evidence retained for review. Update the assessment of financial standing immediately before approving the award of the contract.				
R11. Confirm that the significant variation to the consultant's contract was in line with CPR 16.2, with a written report submitted to the next meeting of the Cabinet.	High	Report to Cabinet.	July 2012	Mark Smith Deputy Director Of Technical Services
R12. Obtain the confirmation of the Director of Finance when officers waive a Bond and ensure it is reported to members in line with CPR 15.3(ix).	High	Links to R7. CPRules to be issued to all employees involved in the procurement process along with the Procurement Toolkit.	Commencing from June 2012	Chief Officers (with Director Of Finance)
R13. Do not allow suppliers possession of the site until an appropriate Bond is obtained, any Parent Company Guarantee is obtained and the contract is signed and executed. Where this is not practical, ensure there are proper processes in place to mitigate any risks, judgements are recorded and decisions appropriately approved and reported.	High	Links to R7 CPRules to be issued to all employees involved in the procurement process along with the Procurement Toolkit.	Commencing from June 2012	Chief Officers (with Directors Of Finance & LHRAM)
R14. Ensure all relevant staff and members are properly trained to deal appropriately with CPRs.	High	CPRules to be issued to all employees involved in the procurement process along with the Procurement Toolkit.	Commencing from June 2012	Chief Officers (with Ray Williams Procurement)

Recommendation	Priority	Agreed action	Date for implementation	Responsible officer
		Training on CPR's to be incorporated within the Member's programme.		Surjit Tour Legal and Member Services
R15. Clarify the role of Internal Audit in the events around this contract.	High	Report to Cabinet.	July 2012	David Taylor-Smith Deputy Director Of Finance
R16. Ensure Chief Officers take responsibility for carrying out appropriate checks in line with CPRs and Internal Audit provides assurance that these checks have been made.	High	CPRules to be issued to all employees involved in the procurement process along with the Procurement Toolkit.	Commencing from June 2012	Chief Officers (with Internal Audit)
R17. Ensure members and the Environment Agency are notified of the progress of discussions with the administrators of the original Contractor over the contract value due (the Council has currently included eligible expenditure of £137,613 in the claim).	High	Environment Agency to be kept informed.	On-going	Mark Smith Deputy Director Of Technical Services
<b>(2) Sure start, early years and childcare grant and aiming high for disabled children grant</b>	<b>1 high 5 medium</b>			

Recommendation	Priority	Agreed action	Date for implementation	Responsible officer
R18. Ensure that eligible expenditure claimed does not exceed ring-fenced funding allocations.	Medium	In respect of these areas the procedures were followed but could have been better evidenced.	On-going	Andrew Roberts Children & Young People
R19. Provide information or introduce controls to ensure no duplicate claims for funding can be made and there is no possibility of double funding and duplication with other claims.	High	The procedures exist but the different funding sources make this complex. No duplicate claim has been made. Information provided will be more specific for future claims.	On-going	Andrew Roberts Children & Young People
R20. Ensure eligible expenditure for specific claims and returns can be identified for accounting and audit sampling purposes separately from that funded from other sources which may be subject to different conditions.	Medium	The procedures exist but the different funding sources make this complex. Information provided will be more specific for future claims.	On-going	Andrew Roberts Children & Young People
R21. Ensure there are adequate asset records to allow monitoring of all assets funded under the scheme as required by Annex D, paragraph 14 of Memorandum of Grant and paragraph 46 of the SSEYCG capital guidance.	Medium	Assets are being identified to ensure compliance with the guidance.	September 2012	Andrew Roberts Children & Young People
R22. Ensure prompt responses to Internal Audit reports and recommendations.	Medium	Across the Council Chief Officers to ensure action taken (Internal Audit report to Audit & Risk Management Committee on outstanding actions).	July 2012	Chief Officers
R23. Consider whether the procurement of the architect's fees was in line with	Medium	Review undertaken by Internal Audit identified the School had followed	May 2012	David Garry Chief Internal



Recommendation	Priority	Agreed action	Date for implementation	Responsible officer
delegated arrangements at Great Meols School.		their delegated arrangements.		Auditor

# Summary of certification fees

This section updates the fees arising from my 2010/11 certification work and highlights the reasons for any significant changes in the level of fees from 2009/10.

Table 3: Summary of certification fees

Claim or return	2010/11 fee @ April 2012 (£)	2009/10 fee (£)	Reasons for changes in fee greater than +/- 10 per cent
Housing and council tax benefit scheme	57,632.25	68,387.75	Improved 40+ testing and officer response to queries
National non-domestic rates return	6,405.75	2,665.00	Part A completed 2009/10; Part A and B completed 2010/11
Teachers' pensions return	3,060.00	2937.50	N/A
Sure start, early years and childcare grant and aiming high for disabled children grant	9,681.50	8,072.50	More complex issues found during our work
Disabled facilities	1,716.00	0	No grant 2009/10
Housing subsidies and grants	0	1662.50	No grant 2010/11
Flood and coastal erosion management	16,154.00	0	No grant 2009/10
Single programme – 4 projects	10,720.15	13,287.50	More complex issues found during our work and increase in claims requiring amendment

Claim or return	2010/11 fee @ April 2012 (£)	2009/10 fee (£)	Reasons for changes in fee greater than +/- 10 per cent
Grant planning, liaison and reporting	11,270.00	24,821.50	
Estimate – still to be charged	3,360.35		
<b>Total</b>	<b>120,000.00</b>	<b>121,834.25</b>	

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The Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body.



## WIRRAL COUNCIL

### AUDIT AND RISK MANAGEMENT COMMITTEE

14 JUNE 2012

<b>SUBJECT:</b>	<b>AC REPORTS REVIEW</b>
<b>WARD/S AFFECTED:</b>	<b>ALL</b>
<b>REPORT OF:</b>	<b>CHIEF INTERNAL AUDITOR</b>
<b>RESPONSIBLE PORTFOLIO HOLDER:</b>	<b><i>COUNCILLOR ADRIAN JONES</i></b>
<b>KEY DECISION?</b>	<b>NO</b>

#### 1.0 EXECUTIVE SUMMARY

- 1.1 In order to assist in effective corporate governance and fulfil statutory requirements, the Internal Audit Section of the Finance Department reviews management and service delivery arrangements within the Council as well as financial control systems. Work areas are selected for review on the basis of risks identified on the Corporate Risk Register and as assessed by Internal Audit in consultation with Chief Officers and Managers.
- 1.2. This report summarises reviews undertaken by the Audit Commission for the period of April 2011 to February 2012, and details the action that Wirral Council, including Merseyside Pension Fund has subsequently taken to implement the recommendations within the associated reports.

#### 2.0 BACKGROUND AND KEY ISSUES

- 2.1 On 29 June 2005, the Finance and Corporate Management Select Committee resolved that it should receive an annual report detailing the results of the reviews undertaken by Internal Audit as to how the Council has responded to the Audit Commission Reports.
- 2.2 A request was made by this Committee on 30 June 2010 that in-depth verification of a sample of recommendations be undertaken so as to provide assurance that appropriate action has been taken.
- 2.3 The Financial Regulations (4.3.15) state that it is incumbent on Chief Officers to ensure that the receipt and action taken in response to recommendations within external audit reports, relating to services for which they are responsible, are reported promptly to the appropriate committee.
- 2.4 This report summarises the Audit Commission Reports completed during the period of 1<sup>st</sup> April 2011 to 1st February 2012. The specific areas that were covered as part of this review are identified in Appendix 1.
- 2.5 A break down of Audit Commission Reports is annotated in Appendix 2. On review of the Committee reports it was identified that:

- Eleven Audit Commission reports had been reported to the relevant committees during the review period.
- Three Audit Commission reports had been reported to more than one Committee. The Table below identifies these reports; more detail on this can be found at Appendix 2.

Number	Audit Report	Committee	Committee	Committee
1	MPF Annual Governance Report September 2011/12	Corporate Governance	Audit and Risk Management	Pensions
2	Annual Governance Report September 2011/12	Corporate Governance	Audit and Risk Management	N/A
3	Progress Report March 2011 Financial Statements.	Corporate Governance	Audit and Risk Management	N/A

- After deducting these it was determined that eight Audit Commission Reports had been reported to the relevant Committees from the period of 1<sup>st</sup> April 2011 to 1<sup>st</sup> February 2012. This total was also confirmed with the Audit Commission at the time of the review.
  - Eleven high priority recommendations were identified within the eight Audit Commission reports. Out of the eleven high priority recommendations two of the recommendations were the same and these related to the two Progress reports annotated in Appendix 2 (numbers 1 and 4 resulting in 9 high level priority recommendations) with the aim that the Council addresses these risks and improve systems in operation across the Council.
- 2.6 Internal Audit selected the Annual Governance Report September 2011/12 for review because this contained five high level recommendations, the most number of all of the reports.
- 2.7 Audit did not select the two Progress Reports audits (Appendix 2, reference number 1 and 4 ) because the two high level recommendations in both reports are currently being reviewed as part of the IFRS restatement exercise. Internal Audit therefore did not want to duplicate the work carried out by the Audit Commission.
- 2.8 The Merseyside Pension Fund Annual Governance Report (Please refer to Appendix 2 reference number 2) annotated two high level recommendations

to be implemented in June and September 2012. Audit therefore decided not to review this report because the implementation dates annotated on the action plan are outside the time frame of the Internal Audit review period. However, Internal Audit will review the progress made on these high level recommendations at a later date.

- 2.9 Since the audit review commenced two further Audit Commission reports have been published during March 2012 that bring the total for the year to ten audit reports; these will be followed up by Internal Audit at a later date
- 2.10 Results identified that management have implemented or have been making progress on implementing the recommendations arising from all of these inspection reports and aim to fully implement all of the recommendations within a satisfactory timescale. Should unforeseen issues arise during the course of implementation, assurances have been given to Internal Audit that the relevant Officers would notify the Audit Commission with immediate effect.

### **3.0 RELEVANT RISKS**

- 3.1 Appropriate actions are not taken by officers and Members in response to the identification of risks to the achievement of the Council's objectives.
- 3.2 Potential failure of the Audit and Risk Management Committee to comply with best professional practice and thereby not function in an efficient and effective manner.

### **4.0 OTHER OPTIONS CONSIDERED**

- 4.1 No other options considered

### **5.0 CONSULTATION**

- 5.1 Members of this Committee are consulted throughout the process of delivering the Internal Audit Plan and the content of this regular routine report.

### **6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

- 6.1 There are none arising from this report.

### **7.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS**

- 7.1 There are none arising from this report.

### **8.0 LEGAL IMPLICATIONS**

- 8.1 There are none arising from this report.

### **9.0 EQUALITIES IMPLICATIONS**

- 9.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

No because there is no relevance to equality.

## **10.0 CARBON REDUCTION IMPLICATIONS**

10.1 There are none arising from this report.

## **11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

11.1 There are none arising from this report.

## **12.0 RECOMMENDATION/S**

12.1 That the report be noted and appropriate action be taken by the Members as deemed necessary.

## **13.0 REASON/S FOR RECOMMENDATION/S**

13.1 To provide assurance to committees and members that responsible Officers are taking appropriate action for External Inspectorate Reports.

13.2 To ensure that risks to the Council are managed effectively.

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## **APPENDICES:**

Departments/External Organisations Consulted  
Audit Commission Reports Reported to Committee

## **REFERENCE MATERIAL**

Committee Reports April 2011 to January 2012

## **SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>
Audit and Risk Management Committee	Routine report presented annually to this Committee.



## Appendix 1

The Table below shows the Departments and external organisations that were contacted during the audit review.

<b>Department/External Organisation</b>	<b>Results from Consultation with the relevant Departments and Organisations</b>
1. Audit Commission	A link was provided to the Wirral Intranet Site. The Audit Commission was notified of the Follow up Review that was currently being undertaken by the Finance Department.
2. Department for Adult Social Services	Two reports were identified after consultation but did not relate to the Audit Commission. These will be followed up as part of the AGS work later in the year.
3. Children and Young People Services	Four reports provided which related to Ofsted. Two of which related to Action Plans in relation to recent Ofsted Inspections undertaken within Fostering and Adoption Services. These reports have been reviewed accordingly and the findings included in the AGS exercise.
4. Regeneration Housing and Planning	None reported during that period.
5. Finance	One review which was referred to as part of the AC testing.
6. Law, HR and AM	Confirmation that there had been no external inspections during the period specified (April 11 to January 2012).
7. Technical Services	Two external reports had been identified (and currently being worked on) but have not yet been reported to the relevant Committees at the time of the review (but do not relate to the Audit Commission).

## Appendix 2

The table below shows a break down of Audit Commission Reports that have been reported to the relevant Committees between 1st April 2011 and 1<sup>st</sup> February 2012.

No	Committee	Title of Report <i>(Click into columns for direct links to the reports)</i>	Date of Report	Date Reported to Committee	Total number of recommendations	No. of High Recommendations
1.	Audit and Risk Management Committee	Audit Commission Progress Report Audit 2010/2011	Mar-11	<a href="#">14 Apr 2011 6.15 pm</a>	6 - IFRS	2
2.	Audit and Risk Management Committee	Audit Commission - Merseyside Pension Fund Annual Governance Report	Sep-11	<a href="#">28 Sep 2011 6.15 pm</a>	2	2
3.	Audit and Risk Management Committee	Audit Commission - Annual Governance Report Sept 2011	Sep-11	<a href="#">28 Sep 2011 6.15 pm</a>	11	5
4.	Audit and Risk Management Committee	Audit Commission - Progress Report September 2011	Sep-11	<a href="#">28 Sep 2011 6.15 pm</a>	6-IFRS	2

5.	Audit and Risk Management Committee	Audit Commission - Progress Report November 2011	Nov-11	<a href="#">29 Nov 2011 6.15 pm</a>	Nil	Nil
6.	Audit and Risk Management Committee	Audit Commission - Progress Report - Audit and Risk Management Committee Update 24/01/2012	Jan-12	<a href="#">1 Feb 2012 6.15 pm</a>	Nil	Nil
7.	Audit and Risk Management Committee	Audit Commission - Audit Plan 2011/12 - Wirral Council	Jan-12	<a href="#">1 Feb 2012 6.15 pm</a>	Nil	Nil
8.	Audit and Risk Management Committee	Audit Commission - Merseyside Pension Fund Audit Plan 2011/12	Dec-11	<a href="#">1 Feb 2012 6.15 pm</a>	Nil	Nil

9.	Cabinet - Corporate Governance Monitoring Group	PDF 351 KB - audit Commission Progress report March 2011- Financial Statements	Mar-11	Repeat Report. Please refer to point 6	Repeat Report. Please refer to point 6	Repeat Report. Please refer to point 6.
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10.	Cabinet - Corporate Governance Monitoring Group	Audit Commission - MPF Annual Governance Report	Sep-11	Repeat Report. Please refer to point 7.	Repeat Report. Please refer to point 7.	Repeat Report. Please refer to point 7.
11.	Cabinet - Corporate Governance Monitoring Group	Audit Commission - Annual Governance Report	Sep-11	Repeat Report. Please refer to point 8.	Repeat Report. Please refer to point 8.	Repeat Report. Please refer to point 8.
12.	Pensions Committee - repeated	Audit Commission Annual Governance Report 2010/11	Sep-11	Repeat report. Please refer to point 7.	Repeat report. Please refer to point 7.	Repeat report. Please refer to point 7.

## WIRRAL COUNCIL

### AUDIT AND RISK MANAGEMENT COMMITTEE

14 JUNE 2012

<b>SUBJECT:</b>	<b>ARMC SELF ASSESSMENT PROGRESS</b>
<b>WARD/S AFFECTED:</b>	<b>ALL</b>
<b>REPORT OF:</b>	<b>CHIEF INTERNAL AUDITOR</b>
<b>RESPONSIBLE PORTFOLIO HOLDER:</b>	<b>COUNCILLOR ADRIAN JONES</b>
<b>KEY DECISION ?</b>	<b>NO</b>

#### 1.0 EXECUTIVE SUMMARY

- 1.1 To comply with best professional practice the Audit and Risk Management Committee is required to complete an annual evaluation of its role and effectiveness as part of the systems of internal audit.
- 1.2 The CIPFA publication 'A Toolkit for Local Authority Audit Committees' recommends the use of a self assessment checklist to achieve this task. The Chair completed the checklist and presented a report to this Committee on the findings and recommended actions in March 2012.
- 1.3 Attached at Appendix 1 is the Action Plan developed following the exercise and identifying recommendations to improve the existing arrangements and address any risks. This has been updated to identify the progress made to implement the identified recommendations.

#### 2.0 BACKGROUND AND KEY ISSUES

- 2.1 The Department for Communities and Local Government (DCLG) issued amended regulations in 2006, to the 2003 Accounts and Audit Regulations – 'The Accounts and Audit (Amendment) (England) Regulations 2006.
- 2.2 One of the amended regulations impacts on the process for preparing the Statement of Internal Control (SIC) which is subsumed within the Annual Governance Statement (AGS) and relates specifically to the the systems of internal audit in operation. This is:-
  - Regulations require bodies to regularly review their systems of internal audit, and for the findings to be considered by a committee of the body, or by the body as a whole.
- 2.3 Advice from CIPFA includes the assertion that the "systems of internal audit" can be considered to include the role and effectiveness of the Audit Committee.

- 2.4 To assist Councils in this evaluation exercise CIPFA has provided a self assessment checklist and recommends that this be completed annually.
- 2.5 The Chair completed the self assessment exercise in conjunction with Internal Audit and presented a report and action plan to this Committee in March 2012 identifying the findings of the exercise and required actions.
- 2.6. Attached at Appendix 1 is the Self Assessment Action Plan annotated to indicate the progress that has been made to date to implement the recommended actions.

### **3.0 RELEVANT RISKS**

- 3.1 Possible failure of the Audit and Risk Management Committee to comply with best professional practice and thereby not function in an efficient and effective manner.

### **4.0 OTHER OPTIONS CONSIDERED**

- 4.1 No other options considered.

### **5.0 CONSULTATION**

- 5.1 Members of this Committee were consulted throughout the annual assessment and their views reflected in the report and action plan attached at Appendix 1.

### **6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

- 6.1 There are none arising from this report.

### **7.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS**

- 7.1 There are none arising from this report.

### **8.0 LEGAL IMPLICATIONS**

- 8.1 There are none arising from this report.

### **9.0 EQUALITIES IMPLICATIONS**

- 9.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(a) No because there is no relevance to equality.

### **10.0 CARBON REDUCTION IMPLICATIONS**

- 10.1 There are none arising from this report.

### **11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

- 11.1 There are none arising from this report.

## **12.0 RECOMMENDATION**

12.1. That the self assessment checklist be considered and approved.

## **13.0 REASON FOR RECOMMENDATION**

13.1 To comply with best practice identified in the CIPFA publication 'A Toolkit for Local Authority Audit Committees'.

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## **APPENDICES**

Self Assessment Action Plan

## **REFERENCE MATERIAL**

CIPFA Publication 'A Toolkit for Local Authority Audit Committees'

## **SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>
Audit and Risk Management Committee	November 2010
	January 2011
	March 2011
	March 2012

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**ACTION PLAN**

**Appendix 1.**

**AUDIT AND RISK MANAGEMENT COMMITTEE – SELF ASSESSMENT**

Ref	Recommendations	Priority	Suggested Officer responsible	Agreed	Planned action date	Client comments
R.1	<p>Training should be provided to Members of the Audit and Risk Management Committee (ARMC) to enable them to operate effectively and ensure continued compliance with the Terms of Reference for the Committee. The training should include:</p> <p>ARMC Terms of Reference</p> <p>Finance</p> <p>Risk Management (including risk registers)</p> <p>Accounting Standards and Policies</p> <p>Accounting Estimates</p> <p>Annual Accounts</p> <p>Code of Practice for Internal Audit</p> <p>Regulatory Regime (legal regime/ legislative requirements)</p> <p>Annual Governance Statement/Statement of Internal Control</p> <p>Internal Audit Planning</p>	High				<p>Specialist training to be provided to supplement AK training covering all areas identified.</p> <p>Delivery to be confirmed:</p> <p>BN to arrange</p> <p>TS to deliver</p> <p>Mike Lane to deliver</p> <p>TS to deliver</p> <p>TS to deliver</p> <p>TS to deliver</p> <p>Draft prepared</p> <p>BN to arrange delivery</p> <p>Draft prepared</p> <p>Draft prepared</p>
			Bill Norman	Y	06/12	BN to arrange
			Tom Sault	Y	07/12	TS to deliver
			Mike Lane	Y	TBC	Mike Lane to deliver
			Tom Sault	Y	07/12	TS to deliver
			Tom Sault	Y	07/12	TS to deliver
			Tom Sault	Y	07/12	TS to deliver
			Mark Niblock	Y	TBC	Draft prepared
			Bill Norman	Y	TBC	BN to arrange delivery
			David Taylor-Smith	Y	TBC	Draft prepared
			Mark Niblock	Y	TBC	Draft prepared



## DRAFT ACTION PLAN

### AUDIT AND RISK MANAGEMENT COMMITTEE – SELF ASSESSMENT

Ref	Recommendations	Priority	Suggested Officer responsible	Agreed	Planned action date	Client comments
R.5	A mechanism should be in place to ensure that all new Members of the Audit and Risk Management Committee are provided with an appropriate induction that is specific to this Committee.	High	Ian Coleman	Y	30 June 2012	16/4/12 – discussed with Bill Norman.  AK Induction training scheduled for June 2012.
R.6	A system should be in operation to assess the skills and experience mix of all new Members of the Audit and Risk Management Committee during their induction and any identified gaps addressed through the provision of relevant training.	High	Ian Coleman	Y	30 Sept 2012	
R.7	An evaluation of the adequacy of the current schedule of Audit and Risk Management Committee meetings should be undertaken to assess its continued fitness for purpose. This should include consideration of the Council’s business, governance and financial needs.	Medium	Bill Norman	Yes	30 June 2012	16/4/12 – schedule being presented to Cabinet 16/4. Members can query. Will present to ARMC for comment.
R.8	Agenda papers for the Audit and Risk Management Committee meetings should be circulated in advance of meetings to allow adequate preparation by the Members.	Medium	Bill Norman Cllr Jim Crabtree	Yes	30 June 2012	16/4/12 – agreed, will action.

R.9	All Members of the Audit and Risk Management Committee should be reminded to ensure that they attend all meetings and briefings of the Committee, and when they are unavailable, an appropriate deputy is nominated.	Medium	Bill Norman	Yes	30 June 2012	16/4/12 – agreed will action
R.10	Consideration should be given to reviewing the system that Members of the Audit and Risk Management Committee utilise to request the attendance of appropriate officers at meetings.	High	Bill Norman	Yes	30 June 2012	16/4/12 – Officers will be requested to attend as appropriate, not just the Chief Officers.
R.11	Members of the Audit and Risk Management Committee should consider how the Council identifies and evaluates its risks and the role of the Committee in this process. This might include requesting Chief Officers to personally present their departmental risk registers to Audit and Risk Management Committee periodically for consideration.	High	Ian Coleman	Yes	31 Dec 2012	16/4/12 – discussed with Bill Norman. Sits better in Finance as risk function reports through Finance.  Mike Lane to be consulted regarding implementation of system and training.
R.12	A mechanism should be put in place to ensure that the Audit and Risk Management Committee Members are aware of topical legal and regulatory issues, for example by receiving relevant circulars.	Medium	Bill Norman	Yes	30 Sept 2012	16/4/12 – will require input & support from relevant departments given breadth of subject matter.

R.13	The Audit and Risk Management Committee should regularly review the performance of the External Auditors. Consideration should be given to the introduction of performance measures to facilitate this.	High	Ian Coleman	Yes	30 Sept 2012	16/4/12 – discussed with Bill Norman. Should sit with Ian Coleman who was asked by CEO to set these up with the external auditors.
R.14	The Chair (and spokespersons) of the Audit and Risk Management Committee should be involved in the preparation and planning of agendas for the Committee.	Medium	Bill Norman	Yes	30 Sept 2012	16/4/12 – need to also consult the spokesperson in each political party. Could be done via email.  Will explore.

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## WIRRAL COUNCIL

### AUDIT AND RISK MANAGEMENT COMMITTEE

14 JUNE 2012

<b>SUBJECT:</b>	<b>REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA)</b>
<b>WARD/S AFFECTED:</b>	<b>ALL</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF LAW, HR AND ASSET MANAGEMENT</b>
<b>KEY DECISION?</b>	NO

#### 1.0 EXECUTIVE SUMMARY

- 1.1 This report summarises the use of covert surveillance by the Council between 17 January 2012 and 1 June 2012.
- 1.2 This report was requested in the work plan for the Committee.

#### 2.0 BACKGROUND AND KEY ISSUES

- 2.1 The Regulation of Investigatory Powers Act 2000 (RIPA) governs how public bodies use surveillance methods: The Council may use covert surveillance for the purpose of preventing or detecting crime or preventing disorder.
- 2.2 The origin of RIPA lies in the Human Rights Act 1998 which places restrictions on the extent to which public bodies may interfere with a person's right to respect for his or her home and private life and correspondence during the course of an investigation into suspected criminal activities. The provisions of RIPA ensure (in summary) that any such interferences are in accordance with the law and are necessary and proportionate (i.e. the seriousness of the suspected crime or disorder must outweigh any possible interferences with the personal privacy of the persons being investigated and of persons who associate with them).
- 2.3 The Council's Constitution authorises Directors to designate Heads of Service and Service Managers to authorise the use of covert surveillance in accordance with the procedures prescribed by RIPA.
- 2.4 The Office of Surveillance Commissioners (OSC) is responsible for overseeing the operation of RIPA. The OSC inspected the Council on 1 July 2009. The outcome of that inspection was reported to the Committee on 23 September 2009. The Committee approved amendments to the Council's Policy and Guidance Document made in response to the Report.
- 2.5 New Codes of Practice on covert surveillance have been published by the Home Office. As from 1 April 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 1 February 2012.

### **3.0 THE USE OF RIPA BY THE COUNCIL**

- 3.1 Between 17 January 2012 and 1 June 2012 the Council granted 4 authorisations for directed covert surveillance.
- 3.2 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.
- 3.3 Two authorisations were granted to obtain evidence of alleged anti-social behaviour. In the first case this was due to alleged harassment; to date the surveillance has recorded incidents that corroborate witness evidence. In the second case, the surveillance was authorised to obtain evidence of breach of an Anti-Social Behaviour Order. Evidence has been secured of multiple breaches which will shortly lead to the arrest of the offender.

### **4.0 CHANGES IN LEGISLATION**

- 4.1 The Protection of Freedoms Act 2012 has now been enacted. When it comes into force the following changes in the law will affect local authorities.
  - Magistrate's approval will be required for local authority use of RIPA and will 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 will be confined to cases where the offence under investigation carries a maximum custodial sentence of six months or more except in relation to underage sales of alcohol and tobacco, where the threshold will not apply.

### **5.0 TRAINING**

- 5.1 Ibrahim Hasan will be providing on 4 September 2012 a full days training to officers on the new legislation in Wallasey Town Hall. He is one of the leading authorities on RIPA.

### **6. INSPECTION BY THE OFFICE OF SURVEILLANCE COMMISSIONER (OSC)**

- 6.1 OSC has announced that Sir David Clarke, Assistant Surveillance Commissioner, will visit the Council on 8 June 2012 in order to conduct an inspection of the Council's use of covert surveillance.

### **7.0 RELEVANT RISKS**

- 7.1 Less effective prosecution of instances of anti social behaviour when the use of covert surveillance by local authorities is curtailed by the new legislation.

### **8.0 OTHER OPTIONS CONSIDERED**

- 8.1 None.



## **9.0 CONSULTATION**

9.1 None.

## **10.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

10.1 None.

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

11.1 None at present.

## **12.0 LEGAL IMPLICATIONS**

12.1 The Protection of Freedoms Act 2012 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 Pending the implementation of the new legislation the Council's current policy on the use of RIPA still applies.

## **13.0 EQUALITIES IMPLICATIONS**

13.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

No because there is no relevance to equality.

## **14.0 CARBON REDUCTION IMPLICATIONS**

14.1 None.

## **15.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

15.1 See paragraph 4.

## **16.0 RECOMMENDATION/S**

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

## **17.0 REASON/S FOR RECOMMENDATION/S**

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

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## **APPENDICES**

None.

## REFERENCE MATERIAL

Authorisations for directed surveillance - exempt from publication because they relate to individuals and are the subject of continuing investigations into alleged criminal behaviour.

### SUBJECT HISTORY (last 3 years)

<b>Council Meeting</b>	<b>Date</b>
<b>Reports to the Audit &amp; Risk Management Committee</b>	23 September 2009 30 June 2010 28 September 2010 22 November 2010 28 March 2011 30 June 2011 28 September 2011 1 February 2012
<b>Report to the Cabinet</b>	26 November 2010