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## AUDIT AND RISK MANAGEMENT COMMITTEE

Monday, 17 January 2011

Present: Councillor S Mountney (Chair)

Councillors L Rowlands J Crabtree  
RL Abbey D Dodd  
P Reisdorf A Brighthouse  
C Povall

In attendance: Councillors J Green

### 56 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.

### 57 MINUTES

**Resolved – That the minutes of the meeting held on 22 November 2010, be approved.**

### 58 INTERNAL AUDIT UPDATE

The Chief Internal Auditor reported that in order to assist in effective corporate governance and fulfil statutory requirements, the Internal Audit Section of the Finance Department reviewed management and service delivery arrangements within the Council as well as financial control systems. Areas were selected for review on the basis of risks identified in the Corporate Risk Register and as assessed by Internal Audit in consultation with Chief Officers and Managers. His update report identified and evaluated the performance of the Internal Audit Section and included details of the actual work undertaken during November 2010. Items of note during the period related to Managing Fraud, the Strategic Change Programme and a BT Data Analysis Audit. However, there were no items of significance identified during the audit process that required action by Members.

The Internal Audit Plan for 2010/2011 was approved by the Committee in March 2010 and revised in November 2010 (minute 46 refers). He indicated that the Plan identified all audits that were 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. He commented that it was essential that the Audit Plan was delivered to ensure that the 'annual assurance opinion' on the effectiveness of the Council's control environment supported the delivery of the Annual Governance Statement. He was confident of achieving the objective by year end.

Members commented upon the deliverability of the objectives of the Strategic Change Programme (SCP) and sought assurances from officers that risks associated with the achievement of savings within planned timescales had been fully assessed. The Director of Finance indicated that details of projects to be included within the SCP would be presented to the Cabinet in due course and that it would be more appropriate to evaluate the associated risks at that time.

In response to a further comment from a Member, the Chief Internal Auditor agreed to provide to Members direct, details of the recommendations agreed with regard to audits undertaken at Children's Centres in Liscard, Birkenhead and Tranmere and Bidston and St James.

**Resolved –**

- (1) That the report be noted.**
- (2) That a report be presented to the next meeting of the Committee upon timescales for the presentation of reports to the Cabinet on projects to be included within the Strategic Change Programme.**

#### 59 **CORPORATE RISK AND INSURANCE MANAGEMENT**

The Director of Finance provided information upon recent progress made against the existing objectives for Corporate Risk and Insurance Management and highlighted the anticipated developments in the coming months. In response to comments from Members with regard to significant costs to the Insurance Fund of flooding incidents as a result of burst pipes in schools, the Director referred to the particularly deep and severe frost at the end of 2010. He commented that consideration would be given to an evaluation of the costs of repairs against the significant costs of prevention measures being put in place for the future.

In response to further comments from Members in relation to the steps that were required to be taken in order for an adequate front line service to be maintained in the light of significant budgetary challenges facing the Council, the Director advised Members that all Chief Officers would be undertaking a review of key risks, which would be presented to the Cabinet and subsequently to a future meeting of this Committee.

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

#### 60 **RISK MANAGEMENT STRATEGY**

The Director of Finance presented the Risk Management Strategy, which had been approved by the Cabinet (minute 231 (25 November 2010) refers) and reported upon a number of proposed minor changes to it following a recent review to ensure that the Strategy was brought up to date to reflect current practice. He reported also upon an in-depth project being undertaken to review the overall approach to risk and uncertainty.

**Resolved – That the revised Risk Management Strategy be noted.**

## 61 PROTECTING THE PUBLIC PURSE

The Chief Internal Auditor reported that in the recent national report '*Protecting the Public Purse 2010*', the Audit Commission had commended the Council's Internal Audit Team for the impressive work undertaken in the fight against fraud. The Commission noted that, although the Council had previously identified many areas of good practice in its counter-fraud activities, it had decided to create a corporate counter-fraud team within Internal Audit. Subsequently, the Council had updated its counter-fraud policies, improved the specialist skills of team members and included fraud, for the first time, in the Council's risk register. The Director indicated that the Commission had recommended that others learn from Wirral's approach.

In response to comments from Members, the Director referred to the role of the National Fraud Initiative (NFI) and highlighted the significant loss in the fight against fraud if the NFI was not maintained. He commented also that Wirral did not suffer significantly from fraud, compared to other local authorities due, no doubt in part, to work undertaken in its active prevention and prosecution.

### **Resolved –**

- (1) That the report be noted.**
- (2) That further developments in the area of counter-fraud be reported to future meetings of the Audit and Risk Management Committee.**

## 62 SELF ASSESSMENT

Further to minute 53 (22 November 2010), the Chief Internal Auditor reported upon the requirement for the Chair to complete an annual evaluation of the role and effectiveness of the Audit and Risk Management Committee as part of the systems of internal audit and in compliance with best practice. The CIPFA publication '*A Toolkit for Local Authority Audit Committees*' recommended the use of a self assessment checklist to achieve the task and the he presented for Members' consideration the draft self assessment checklist that had been completed by the Chair.

### **Resolved –**

- (1) That the thanks of the Committee be accorded to the Chair for the completion, on its behalf, of the Self Assessment Checklist.**
- (2) That any additional comments to be included in the document be forwarded to the Chair within the next seven days.**

## 63 ANNUAL REPORT

Further to minute 53 (22 November 2010), the Chief Internal Auditor presented for Members' consideration a draft Annual Report to Cabinet on the work undertaken by the Committee during 2010/2011, which would be completed by the Chair in accordance with best practice identified in the CIPFA publication '*A Toolkit for Local Authority Audit Committees*'. The Chair requested Members to review the document and to notify him of any comments or suggested amendments to it within the next seven days.

**Resolved – That, having regard to any representations received by the Chair, the Annual Report 2010/2011 be completed for presentation to the Cabinet.**

64 **ICT STRATEGY 2010-2013**

The Director of Finance presented an updated draft of the rolling three year Information and Communication Technologies (ICT) Strategy, which had been agreed by the Cabinet (minute 232 (25 November 2010) refers). The Council was a large user of ICT and as such, required a policy to manage and control investment and to ensure that it was aligned with and supported the Corporate Plan, corporate priorities, the Medium Term Financial Strategy and other corporate strategies.

He outlined the areas contained within the strategy document and highlighted the changes that had been made to it and the reasons for those changes. In response to a comment from a Member in relation to Service Level Agreements associated with the provision of ICT to Members, the Director proposed to present to the next meeting of the Committee the minutes of the Members IT Working Party, which was the support forum for Members' ICT issues, attended by senior Members and officers.

**Resolved – That the updated Information and Communication Technologies (ICT) Strategy 2010/2013, be noted.**

65 **IFRS ACCOUNTS RE-STATEMENT**

The Director of Finance submitted an update report and gave a presentation on the progress of the implementation of the International Financial Reporting Standards (IFRS), which had been implemented by Local Government in stages from 2007/2008. He set out the framework for reporting and outlined the key changes that were required by IFRS and the changes to the accounting policies that had been required to ensure compliance.

The Director reported that IFRS was to be implemented in full from 2010/2011 but the transition date was 1 April 2009. He commented that the adoption of the standards for the first time required the inclusion in the Statement of Accounts for 2010/2011 of revised financial information for 2009/2010 and the first stage was to restate the Balance Sheet as at 1 April 2009. The Director outlined the work that had been undertaken in specific areas to gather the new financial information and highlighted the main areas of change to the Balance Sheet in relation to Fixed and Surplus Assets, Investments, Creditors, Lease Liability and Reserves.

In response to comments from Members in relation to training requirements and the provision of comparative data, the Director proposed to arrange a training session that would be specific to the requirements and implications of IFRS compliance.

**Resolved –**

**(1) That the restated Balance Sheet at 1 April 2009 and the proposed changes to the accounting policies be noted.**

- (2) That a training session for Members and deputies of the Committee be arranged at the earliest opportunity.**

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

Further to minute 25 (28 September 2010), the Interim Director of Adult Social Services presented an update on the progress of reimbursement to certain residents and former residents of Bermuda Road, Curlew Way and Edgehill Road, following the agreement of the Cabinet (minute 256 (14 January 2010) refers) to the recommendations of this Committee in relation to the PIDA report into the Adult Social Services Charging Policy. Of the 16 individuals affected, four were now deceased and their relatives had received reimbursement. Each of the remaining 12 individuals had been provided with an advocate and, subsequently, in July 2010, reimbursement was paid to one of the twelve who had capacity. Reimbursement had subsequently been paid to another three individuals, who did not have capacity and for whom the Interim Director of Adult Social Services had been appointed deputy by the Court of Protection, in the absence of anyone else being able or willing to do so.

The Interim Director reported that, where issues of capacity had arisen, liaison had taken place with the Compliance and Regulation Unit of the Office of the Public Guardian (OPG) to agree the actions to be taken on those cases. The OPG had advised that capacity assessments should be completed on all individuals and the Interim Director set out the results of the assessments that had been undertaken, all of which were at various stages. He outlined the contact that had been made with individuals and their relatives and indicated that the department had agreed to become deputy for ten of the twelve individuals. For two relatives who wished to become deputy, support and assistance had been made available to them within the department. In response to a comment from a Member, the Interim Director referred to the significant responsibility of taking on the role of deputy. All families had been given the option, but most had indicated that they were unable to do so.

He reported upon the continuing work being undertaken by the advocates and commented that once all of the individuals had been reimbursed, the project would be closed. He expected that, with the exception of one case that was likely to be subject to a short delay, all payments would be made by 31 March 2011, contingent on the Orders being made by the Court of Protection. He commented that of the total cost of reimbursement of £243,460, some £130,990 had been paid to date.

With the agreement of the Committee, Sandra Gilbert of Wirral Mind, who had provided advocacy services for ten individuals, outlined the role of the advocate. She referred to the use of assistive technology to establish clear communication and discussed the use of non-instructive advocacy, to intervene on behalf of individuals with capacity issues. She commented also that advocates would continue to be involved after repayments were made to ensure that reimbursement monies paid would be used in the best interests of the individuals.

The Interim Director commented also, in response to further questions, that significant work had been undertaken with the Department for Work and Pensions (DWP) in relation to minimising the impact on benefit eligibility of reimbursement payments. However, in some cases, the amount of money was so substantial that benefits entitlement would be affected.

**Resolved –**

- (1) That the report be noted.**
- (2) That a further update report be presented to the Committee when the final reimbursement payment is made.**
- (3) That the thanks of the Committee be accorded to Wirral Mind and the other advocates for their work with Council officers in supporting the individuals affected.**

67 **UPDATE REPORT - CARE QUALITY COMMISSION (CQC) REPORT ON SAFEGUARDING AND ADULTS WITH A LEARNING DISABILITY**

Further to minute 24 (28 September 2010), the Interim Director of Adult Social Services reported and gave a detailed presentation in relation to progress in addressing the service issues that were raised by the Care Quality Commission (CQC) Inspection of Adult Social Services in May 2010. He commented upon the judgements that had been made with regard to performance, which indicated that, although the Department had performed well for the majority of outcomes, it had been assessed as poor in relation to Choice (Personalisation) and Dignity (Safeguarding). He commented upon the need to ensure that the pace of improvement was sufficient for Wirral to meet its milestones rapidly and he expressed his belief that improvement targets would be achieved by 31 March 2011. However, he commented that the CQC had since changed its remit and would not now return to Wirral to assess progress against the improvement plan. Instead, the North West Joint Improvement Partnership would provide a monitoring function but it had not yet advised how its assessment would be conducted. He reaffirmed the significant improvements being made within the Department but stressed the need for external validation to confirm to officers and Members the extent of progress made.

He referred to the considerable work that was being undertaken in relation to policies, practices and safeguarding; integrated working and localism; personalised support; and early intervention and prevention; all of which were underpinned by the Medium Term Financial Strategy, Communication and Engagement Strategy and the Workforce Strategy.

The Interim Director referred also to the financial challenge faced by the Department and, in particular, the need to reduce the projected overspend in the current financial year. In view of the expected budget reduction from £85m to £74m in 2011/2012, the Interim Director set out a number of measures that he considered to be necessary to reduce costs. These included stopping being a provider of certain services to becoming an intelligent commissioner and to make greater use of the voluntary and independent sector. In response to comments from Members, the Interim Director indicated that tendering was being undertaken for a variety of services, including respite care. He anticipated that a range of offers would result in an increased range of choice for service users and commented that quality would be monitored both by the Department and by the CQC.

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

68 **CIPFA AUDIT COMMITTEE UPDATE**

The Director of Finance reported upon recent developments outlined in the *CIPFA Better Governance Forum Audit Committee Update Issue 3*, dated October 2010. The developments referred to within the update were in relation to Housing Fraud, the Role of the Head of Internal Audit, Audit Commission Update, Protecting the Public Purse, the Importance of Good Governance and Leadership and Pensions Governance.

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

69 **INSURANCE AND RISK MANAGEMENT - INSURANCE SERVICES**

The Director of Finance reported that, each year, the Council received several hundred claims for compensation from members of the public and, in the majority of cases, the person who had been injured or had suffered damage or loss, appointed a solicitor to act on their behalf. He commented that under existing Civil Procedure Rules, if legal liability was established against the Council, then the Council was responsible for paying not only the damages for injury but also the claimant legal costs which could exceed the figure paid in damages.

He reported upon a contract recently entered into with a company (itsmyclaim.com), on a trial basis, which would enable members of the public to pursue claims against the Council via Citizens Advice Bureaux without engaging solicitors. The Director set out the rationale for his decision and outlined the possible benefits and risks. In response to concerns expressed by Members at not having had the opportunity to review the documentation, the Director confirmed that officers had made enquiries, which ascertained that at present no other organisation offered such a service. The relationship with Citizens Advice Bureaux also removed 'claims farmers' from the process, thereby providing a more ethical route to compensation. The total cost of the one year trial of the service was £7500, which had been met from the Insurance Fund budget, and he reported that whilst there were potential savings, they could not at this stage be quantified. However, during the trial period, officers would monitor claims generated through the mechanism and evaluate whether it resulted in overall savings or any other benefits.

**Resolved –**

- (1) That the decision of the Director of Finance to enter into a one year trial with itsmyclaim be noted.**
- (2) That a further report be presented to the Committee in twelve months upon the outcome of the evaluation exercise.**

70 **AUDIT COMMISSION - PROGRESS REPORT 2010/2011**

The District Auditor presented a progress report upon ongoing work at the Council during 2010/2011. Key messages within the report were in relation to rebated and reduced fees, the statement of accounts, value for money and work associated with the Public Interest Disclosure Act (DASS and HESPE). Reference was made also to

grant claims and returns work, the Annual Audit Letter, key audit contacts and Members' Resources.

**Resolved – That the Audit Commission Progress Report 2010/2011 be noted.**

71 **AUDIT COMMISSION - ANNUAL AUDIT LETTER 2009/2010**

The District Auditor presented the Annual Audit Letter, which summarised his findings from the 2009/2010 audit. The first element of the audit was in relation to his unqualified opinion by the statutory deadline on both the Council's and the Merseyside Pension Fund (MPF) 2009/2010 financial statements. He had also given an unqualified opinion on the Whole of Government Accounts consolidation pack on 1 October 2010. The second element of the audit was in relation to an assessment of the Council's arrangements to achieve value for money and the District Auditor confirmed that he had given an unqualified value for money conclusion confirming that the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

He commented upon the audit fees and referred also to current and future challenges associated with fast moving and far reaching cuts in public finances that had been set in motion by the coalition Government. The District Auditor set out a number of corporate and service pressures that would make the achievement of savings challenging for the Council and he commented that the coming months would be a defining period as the Council strived to maintain continuity of services and implement massive cost reductions, whilst ensuring that vulnerable groups were not subject to disadvantage or multiple impacts.

In response to a comment from a Member with regard to compliance with the International Financial Reporting Standards (IFRS), the District Auditor confirmed that the direction of travel from Red to Amber was continuing.

**Resolved – That the Annual Audit Letter 2009/2010 be noted.**

72 **AUDIT COMMISSION - CERTIFICATION OF GRANT CLAIMS AND RETURNS ANNUAL REPORT 2009/2010**

The District Auditor presented his Certification of Claims and Returns Annual Report 2009/2010. The grants claim programme was successfully completed in 2009/2010 and all claims were submitted and certified on time. Funding from government grant-paying departments was an important income stream for the Council and Wirral received around £185m funding from various grant paying departments. However, the funding could be at risk if the Council was not able to evidence that it had met conditions attached to the grants. He highlighted the significant findings from the audit and reported that relevant Council officers had already agreed to the recommendations contained within the action plan.

In response to a comment from the Chair in relation to certification fees, the District Auditor indicated that although they had been reduced from an anticipated £168,035 to £120,000, there remained scope for further reduction through improvements to the control environment, working papers and quality assurance.

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

**CERTIFICATION OF GRANT CLAIMS AND RETURNS**

The Director of Finance reported upon how issues had been addressed that had been raised in the Audit Commission report *Certification of Claims and Returns*, relating to the 2009/2010 financial year (see minute 72 ante). In 2009/2010 the Authority received nine grants which required claim forms to be submitted and audited and he set out the Audit Commission findings on a claim by claim basis. The report referred to continuing improvements in grant claim preparation and co-ordination and included a number of recommendations. The Director indicated those issues of greater significance and reported that, in addition to the steps contained within the agreed action plan, the Authority was continuing to take a pro-active approach to encourage good grant claim practice.

Although the actions taken should reduce the need for amendments in the future, he commented that the Housing Benefit claim was large and complex and always likely to be subject to some form of amendment. In terms of the qualification letters that were produced when the auditor wished to raise an issue with the paying body, the Director commented that they did not necessarily imply that there was an error with any claim. Four were issued in 2009/2010 and the issues raised had no impact on grant entitlement as, in each case, the grant paying body was satisfied with the action taken by the Council and paid out all money claimed.

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

**AUDIT COMMISSION - AUDIT PLAN 2010/11 - WIRRAL COUNCIL**

The District Auditor presented the Audit Plan 2010/2011, which set out the audit work proposed to be undertaken for the audit of financial statements and the value for money conclusion 2010/2011. The plan was based on a risk-based approach to audit planning and reflected audit work specified by the Audit Commission for 2010/2011, current national risks relevant to local circumstances and local risks. The fee for the audit was £392,000, which was 8% above the scale fee and within the normal level of variation specified by the Commission. He highlighted various assumptions that had informed the fee level and set out specific actions the Council could take to reduce its audit fees.

The District Auditor had considered additional specific and significant risks that were appropriate to the current opinion audit and he commented that the most significant was related to International Financial Reporting Standards (IFRS) transition (see minute 65 ante). He set out the key milestones and deadlines and commented also that the Council was required to prepare and approve the financial statements by 30 June 2011 and he was required to complete the audit and issue the opinion and value for money conclusion by 30 September 2011. In response to comments from Members, the District Auditor agreed to make every effort to ensure Members received the documentation as early as possible.

**Resolved – That the Audit Plan 2010/2011 be noted.**

75 **AUDIT PLAN**

The Director of Finance reported that the Audit Plan set out the work that the Audit Commission was proposing to perform in relation to the audit of the Council financial statements and the value for money assessment for 2010/2011 (see minute 74 ante). He commented that whilst the approach being undertaken and the underlying issues were primarily for officers involved in the process, there were five key topics for Members' consideration, which would be reported to the Committee during the course of the year. Those were the Annual Governance Statement, Statement of Accounts, Value for Money Conclusion, Annual Governance Report and the Auditor's Report (Audit Opinion). He advised Members that the complexity of the Accounts was such that the statutory deadlines of 30 June and 30 September often meant that the formal reports could not be presented to the Committee in accordance with normal reporting deadlines. Whilst every attempt would be made to meet those deadlines, it was more likely that the reports would be available in the week preceding the June and September meetings. In both instances the reports would be accompanied by a presentation.

**Resolved –**

- (1) That having regard to the key role of the Committee in the Audit Plan process, officers be requested to make presentations to accompany the written reports on the key topics identified for Members consideration.**
- (2) That, in recognition of the complexity of the Statement of Accounts, the Committee notes that the reports to be presented to the June and September 2011 meetings of the Committee are not likely to be presented to Members until the week preceding the meetings.**

76 **INSURANCE FUND BUDGET 2011/2012**

The Director of Finance reported upon the various elements which made up the Insurance Fund, the cost of running the Risk and Insurance Section and the Budget for 2011/2012. The headline from the Budget agreed by the Cabinet (minute 230 (25 November 2010) refers) was a reduction in estimated insurance costs for 2011/2012 of almost £0.9m (22%), which was due partly to the better terms that arose from a major procurement exercise and continuing improvements in the claims experience.

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

77 **BUDGET PROJECTION 2011/2012**

The Director of Finance presented an update on the projected budgets for 2011/2012 and 2012/2013, taking into account the Spending Review and the provisional Local Government Finance Settlement, presented to the Cabinet on 13 January 2011 (minute 276 refers). He reported upon the various assumptions which underpinned the projections and commented upon negotiations that had taken place on a number of specific grants. He set out also the latest position in relation to balances and savings agreed by the Cabinet and reported a projected surplus of £3.3m for 2011/2012 and a projected shortfall of £26.5m for 2012/2013.

In response to comments from Members with regard to price inflation currently at 3.7%, the Director reported that at its meeting on 9 December 2010, the Cabinet (minute 248 refers) agreed that no provision would be built in for price inflation in 2011/2012, with income to continue to increase by 3% per annum. In addition, pay awards would be limited to £250 for those employees earning less than £21,000 per annum for 2011/2013.

**Resolved – That the budget projections be kept under review and an update report be presented to the next meeting of the Committee.**

78 **ROLE OF THE HEAD OF INTERNAL AUDIT**

The Director of Finance reported that in December 2010, the Chartered Institute of Public Finance and Accountancy (CIPFA) issued a '*Statement on the role of the Head of Internal Audit [HIA] in public service organisations*'. Subsequently, because of the statutory responsibility of specific postholders in relation to internal audit and governance, CIPFA issued a further draft Statement describing '*The Role of the Head of Internal Audit in Local Government*'. Both Statements had the status of best practice.

The Director outlined the draft statement, which set out five principles that defined core activities and behaviours that belonged to the HIA and the organisational arrangements needed to support them. He presented a suggested response to the draft CIPFA statement for Members' consideration and, in response to comments, outlined the mechanism by which the HIA worked well with statutory postholders.

**Resolved – That the suggested response to CIPFA be endorsed as the Committee's formal response to the consultation process.**

79 **AUDIT COMMISSION - AUDIT PLAN 2010/11 - MERSEYSIDE PENSION FUND**

The District Auditor presented the Merseyside Pension Fund (MPF) Audit Plan, which set out the work that he proposed to undertake for the audit of the financial statements of the MPF in 2010/2011. He reported that the Plan had been considered and endorsed by the Pensions Committee (minute 63 (11 January 2011) refers). However, as the Pension Fund accounts remained part of the financial statements of Wirral Council as a whole, the Audit and Risk Management Committee retained ultimate responsibility for receiving, considering and agreeing the audit plans, as well as receiving and considering any reports arising from the audit.

**Resolved – That the Audit Plan 2010/2011 for the Merseyside Pension Fund be approved.**

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