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## AUDIT AND RISK MANAGEMENT COMMITTEE

Monday, 23 June 2014

<u>Present:</u>	Councillor	J Crabtree (Chair)	
	Councillors	RL Abbey J Hale S Kelly P Doughty	D Elderton M Patrick A Sykes J Walsh
<u>Cabinet Members:</u>	Councillors	AER Jones and AR McLachlan	

### 67 MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST

Members were asked to consider whether they had any disclosable pecuniary interests and/or any other relevant interest 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.

### 68 MINUTES

For the Committee to approve their accuracy, the Head of Legal and Member Services presented the minutes of the meeting held on 18 March 2014.

The Liberal Democrat Spokesperson sought clarification in relation to a number of matters contained within the minutes in relation to the write-off of Highways Maintenance Debts (minute 58) and the appointment of independent members (minute 60). Further to minute 65, he also questioned the absence of an agenda item of a quarterly update upon the use of covert surveillance in accordance with the Regulation of Investigatory Powers Act 2000 (RIPA). In response to the issue of write-off of Highway Maintenance Debts, the Chief Internal Auditor indicated that follow up audit work was scheduled for mid July and feedback would be provided to Members in due course. The Head of Legal and Member Services confirmed that guidance was still awaited in relation to the appointment of independent members. He commented also that the quarterly report on the use of RIPA would be presented to the next meeting of the Committee and proposed that an interim update would be provided to Members.

**Resolved – That the minutes of the meeting held on 18 March 2014, be approved.**

### 69 ANNUAL GOVERNANCE STATEMENT 2013/2014

In order to meet the statutory requirement set out in the Accounts and Audit (England) Regulations 2011, Regulation 4(3), the Strategic Director – Transformation and Resources, on behalf of the Chief Executive, presented for the Committees consideration and debate a draft Annual Governance

Statement (AGS) and indicated that a final version would be presented to the 17 September 2014 meeting. He commented that it was necessary for the Council to have approved and adopted a Code of Corporate Governance that complied with the principles of the CIPFA/SOLACE Framework: Delivering Good Governance in Local Government and to report publicly through the AGS the extent to which the governance processes outlined in the Code were operating effectively in practice.

He outlined the approach taken in the production of the AGS and indicated that the Internal Audit team had been responsible for undertaking the relevant assurance work. He set out the sources of evidence and documentation that had been provided by Internal Audit and commented that the review of the AGS and the accompanying assurances were important roles for the Committee.

The Conservative Group Spokesperson expressed concern that an officer group, namely the Chief Executive's Strategy Group (CESG), retained ownership of the AGS and he questioned a number of comments set out within the document. In particular, he expressed his view that the Council was not 'stable, well-led, open and far more inclusive'. He believed that there was little opportunity for pre-scrutiny to be undertaken and questioned also the legitimacy of the Council's decision to join the Combined Authority, on the basis that reference to it had been to the Liverpool City Region Combined Authority, rather than to its full and proper title. He suggested that dedicated planning sessions to develop the future direction of the Council should be open to all Members of the Council. Further questions with regard to the decision making process of the Standards and Constitutional Oversight Committee were answered by the Head of Legal and Member Services. Members also expressed concern that the controlling political group should have taken the Chairs of each of the Policy and Performance Committees.

The Liberal Democrat Spokesperson commented that although there had been some improvement, as indicated in the AGS, more work was required on how best to hold the Cabinet to account. He accepted the outcome of the recent local government elections, yet believed that the public wanted assurance that there would be effective checks and balances in place. He highlighted the reputational risk to the Council of Scrutiny Chairs, being members of the ruling group, expressing a view in relation to an executive decision. He referred also to Principle 6 of the AGS and commented that the Council had failed to engage with local people and other stakeholders upon a number of issues, in particular, street lighting being turned off against the advice of the Police and funding for school crossing patrols being sought from schools without any prior consultation.

Members also expressed a view that the Labour Group may have felt compelled to take the Chairs of Scrutiny Committees because of a lack of engagement by opposition groups, particularly when afforded the opportunity to participate training events. Members commented that there were clear signs of improvement and hoped that this Committee would continue to benefit from its Members working together on a non-political basis and to continue to improve the Council's engagement with local people and stakeholders.

The Strategic Director thanked Members for their comments, which were a good example of the Committee's stewardship and would inform the final draft of the AGS. He emphasised the significant progress that had been made by the organisation, which had been echoed by the LGA. The CESG considered regular performance monitoring reports, which were also presented to each Policy and Performance Committee, who also had opportunity to undertake pre-scrutiny in line with their work programme. He also proposed to explore how best to improve the way that information from the Council and its partners was presented to the public.

On a motion by Councillor Abbey, seconded by Councillor Doughty, it was –

**Resolved – That subject to the comments made by Members being noted, the final Annual Governance Statement be presented to the 17 September 2014 meeting of the Committee.**

## 70 CHIEF INTERNAL AUDITORS ANNUAL REPORT 2013/2014

The Chief Internal Auditor presented his Annual Report and Opinion on the System of Internal Control 2013/2014. The Accounts and Audit Regulations required that a local authority “shall maintain an adequate and effective system of internal audit” and, in order to meet the statutory requirements the Internal Audit Section has conducted audits to review the operation of the internal audit control systems. The work had been conducted in accordance with professional standards set by the Audit Practices Board, CIPFA and Institute of Internal Auditors.

He commented that significant attention had also been paid to risks in Performance Management, Anti-Fraud and Corruption, Corporate Governance, Risk Management, ICT Systems and Service Delivery. The Internal Audit Plan for 2013/2014 had been approved by the Committee on 19 March 2013 (minute 56 refers) and had been compiled on a risk assessment basis that included consideration of the sensitivity and complexity of all risks identified.

He was pleased to report that significant steps had been taken during the year to develop and implement more effective control and governance arrangements and embed an organisational infrastructure to serve the organisation more effectively and prevent a recurrence of previously reported control and governance issues. This had been acknowledged by the LGA Improvement Board and the Chief Internal Auditor reported that his overall opinion was that *‘Assurance can be given that there is a substantially sound system of internal control, designed to meet the Council’s objectives, and that controls are generally being applied consistently’*. In response to comments from Members as to how Wirral now compared to its peer authorities, he suggested that as a general guide, Wirral would likely sit within a middle 60%. However, the audit opinion represented a significant and marked improvement from last year.

**Resolved –**

- (1) That the report be noted.**
- (2) That the thanks of the Committee be accorded to the Internal Audit team for the exceptional quality of the work undertaken and for the clarity and conciseness of the reports presented to the Committee.**

**71 AUDIT AND RISK MANAGEMENT COMMITTEE  
ANNUAL REPORT 2013/2014**

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 Cabinet on the work it had undertaken. He presented the Annual Report 2013/2014, which had been prepared by the Chair in consultation with Internal Audit and he highlighted the key information contained within it.

**Resolved – That the draft Annual Report be approved and referred to the Cabinet.**

**72 ANNUAL SELF ASSESSMENT 2013/2014**

The Chief Internal Auditor reported that to comply with best professional practice the Audit and Risk Management Committee was required to complete an annual evaluation of its role and effectiveness as part of the systems of internal audit. The CIPFA publication 'A Toolkit for Local Authority Audit Committees' recommended the use of a self assessment checklist to achieve the task, and he presented the checklist which had been completed by the Chair, together with a draft Action Plan that had been developed following the exercise, which identified recommendations to improve the existing arrangements and address any risks.

He commented specifically that an action arising from the exercise involved updating of the Committee's terms of reference, insofar as they related to the frequency of meetings, to ensure compliance with CIPFA best practice guidance.

**Resolved –**

- (1) That the self assessment checklist and draft action plan be approved.**
- (2) That subject to the approval of the Council, the terms of reference for the Audit and Risk Management Committee be revised to incorporate the following wording, to comply with CIPFA best practice guidance –**

**The Audit and Risk Management Committee should meet five times in each municipal year unless otherwise determined by Council in the calendar of meetings and at such times as determined by the Chair of the Audit and Risk Management Committee.**

The update report of the Chief Internal Auditor identified and evaluated the performance of the Internal Audit Section and included details of issues arising from actual work undertaken during the period 1 March to 31 May 2014.

He reported that one item of note was brought to Members' attention, in relation to Golf Course Income and commented that it had been a very positive step by the Strategic Director for Regeneration and Environment and the Head of Sport and Recreation, who had requested an audit review of income maximisation from the operation of golf courses, including an assessment of the terms and conditions of the individuals providing the service. He outlined the audit work undertaken and commented that areas for improvement and actions to strengthen the control environment were discussed and agreed with managers. Immediate action had been taken regarding five of the nine recommendations made, with significant work ongoing in the other areas. A follow up audit would be undertaken in August 2014 and an update would be provided to Members in due course.

He presented also details of those audits where recommended actions had not yet been implemented. The period covered was for the 2014/2015 year and he had also included for completeness, outstanding recommendations made in the fourth quarter of 2013/2014. He indicated that where items were addressed, those entries would be removed from the report on a rolling basis and he advised that all of the outstanding actions identified were RAG rated as 'amber', which indicated that progress was being made to address identified issues.

He set out also performance of Internal Audit against a number of performance indicators in key areas and commented that of the 18 actions identified to deliver the Internal Audit Improvement Plan, 16 had been fully implemented with good progress being made in respect of the remaining actions, within agreed timescales.

Members noted that the issue of golf course income had been raised by the Committee over several years and it was suggested that a more in depth analysis may be required in relation to maximising income and addressing the issue of people playing without paying. The Chief Internal Auditor indicated that an update would be presented to the September meeting of the Committee and he hoped to be able to include feedback from enquiries made of other local authorities as to how best to address the issue. In response to further comments made in relation to Asset Management, he indicated that a full review of the Asset Management System was to be undertaken in the second half of 2014/2015, which would be reported upon in due course.

**Resolved –**

- (1) That the report be noted**
- (2) That the item of note in relation to golf course income be referred to the Families and Wellbeing Policy and Performance Committee.**

74 **INTERNAL AUDIT COUNTER FRAUD UPDATE**

The Chief Internal Auditor presented an update upon the activities of the Counter Fraud Team within Internal Audit, during 2013/2014 and to date, although his report did not include the extensive, specialist activities of the Benefits Fraud Team, which were reported separately. He outlined the remit of the Counter Fraud Team and indicated that, during the monitoring period, the development and recognition of the team had continued with significant progress being made, resulting in 16 referrals made to it – an increase of some 30% of the cases referred from the previous year. He commented that key activities of the team were to –

- Prepare relevant best practice policies and procedures;
- Change the culture of the organisation by raising awareness amongst the workforce to fraud and corruption and through targeted training;
- Proactively manage the risk of fraud to the Council through targeted audits in high risk areas;
- Provide both a proactive and a reactive response to tackling fraud across the authority.

Members highlighted the need to fully support the Fraud Awareness Week that was planned during 2014/2015 at which officers and public would be made aware of the impact of fraud, not only on the Council but on the wider community, and also to encourage the use of reporting mechanisms. Members noted also that, whilst much had been made in the media about the level of benefit fraud, the Audit Commission report 'Protecting the Public Purse 2013' stated that this only represented 15% of the total fraud and abuse targeted at local authorities. Consequently, the remaining 85% of fraud suffered by the local authority was not benefit related.

In response to questions from Members, the Chief Internal Auditor proposed to provide a breakdown of 'fraud' and 'error' in his next update report. He also proposed to circulate to Members details of the activities to be undertaken during Fraud Awareness Week.

**Resolved –**

- (1) That the report be noted and the work of the Counter Fraud Team continue to be supported.**
- (2) That details of Fraud Awareness Week be presented to the Cabinet with a request that the activities planned be fully supported.**

## 75 **STATEMENT OF ACCOUNTS 2013/2014**

The Director of Resources reported upon the process for completion of the Statement of Accounts 2013/2014 and advised that the Council's Constitution allocated responsibility for the approval of the Statement of Accounts to the Audit and Risk Management Committee. The Statement for 2013/2014 was required to be issued by 30 June 2014 and would be subject to audit by the appointed auditors, Grant Thornton, who would present their findings to the 17 September 2014 meeting of the Committee. The Accounts would be made available for public inspection from 21 July to 15 August 2014 and, from 18 August until the conclusion of the audit process, any local government elector for the area of the Council may ask the Auditor questions about the Accounts and/or object to the Council's Accounts.

The Director advised Members that a briefing session would take place on the Accounts and whilst, specifically for Members of the Audit and Risk Management Committee, the session would be open to all Members of the Council. Following the Committee's consideration, on 17 September 2014, of Grant Thornton's Audit Findings Report, approval of any amendments to the Statement of Accounts, agreement of the Letter of Representation and the approval of the Statement of Accounts for 2013/2014, Grant Thornton would, before the statutory deadline of 30 September 2014, issue the Audit Opinion and state whether the Accounts were a true and fair view of the financial position of the Council at 31 March 2014.

### **Resolved –**

- (1) That the process for the completion of the Statement of Accounts 2013/2014 be agreed.**
- (2) That the briefing session for Members on 'Understanding the Council's Statement of Accounts' be held on 10 September 2014 and that all Members of the Council be invited to attend.**

## 76 **MANAGEMENT OF INSURANCE AND CORPORATE RISK**

The Director of Resources reported that Risk and Insurance Management comprised two significant areas of activity, one being the provision of advice and support to Members and officers in developing the corporate risk management framework and processes; the other being risk financing, which incorporated insurance procurement management of the Council's Insurance Fund and claims management. The Director set out the key actions to be taken during 2014/2015 and highlighted key decisions that would need to be made. Progress made since March 2014 in relation to key actions planned for 2014/2015 was also included.

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

## 77 **INSURANCE FUND ANNUAL REPORT 2013/2014**

The Director of Resources provided a detailed review of the Risk and Insurance activity during 2013/2014 and the plans for 2014/2015 and beyond.

It detailed the underwriting arrangements and recent loss histories for the principal areas of insured risk and described the impact of measures taken to improve their management. The provisions and reserves within the Insurance Fund at the end of 2013/2014 were also confirmed.

The Director referred to her report on the Liability Claims Funding Study presented to this Committee on 28 January 2014 (minute 49 refers), which estimated that there could be a surplus in the Insurance Fund as at 31 March 2014. The actual year end position of the Fund was a surplus of £83,000 with the following largely responsible for the change –

- (i) £178,000 to increase the amount invested in the Liability Section of the Insurance Fund to the level proposed in the actuarial report;
- (ii) £250,000 to increase the provision for uninsured liabilities for environmental impairment. This facilitated the release of £2.5m from the Community Fund back to the Council and to Magenta Living;
- (iii) the profile of liability claims payments in the final quarter of 2013/2014 were significantly higher than the first three quarters. This meant that whole year costs for 2013/2014 were ultimately £263,000 greater than the forecast at December 2013.

The Director requested that the Committee endorse the actions outlined in (i) and (ii) above.

She commented also that the Council continued to play a national role in relation to insurance issues and the ongoing reforms to civil litigation funding and costs. Furthermore, Wirral had established a reputation within the market as a leading authority on liability claims matters and an officer within the Risk and Insurance Team was a Director of Alarm, the Public Risk Management Association. Within this role, he had established a special interest group in respect of insurance and liability claim matters. This provided a source of best practice, sought to improve standards and formally represented the interests of the public sector in relation to insurance matters, both within the industry and with Central Government. The officer was regularly published within the industry journal and was a speaker at national claims events, his expenses in relation to this work being met by Alarm.

#### **Resolved –**

- (1) That the report be noted.**
- (2) That the actions set out in sections 2.30 (i) and (ii) of the report now submitted, be agreed.**
- (3) That the Insurance Fund Budget 2015/2016 be prepared for presentation to the November 2014 meeting of the Committee.**
- (4) That the congratulations of the Committee be accorded to Simon Hutchinson for the role he continues to play, promoting Wirral at a national level and increasing the profile of public sector liability claims matters.**



The Chief Executive reported that under the terms of the Council's Constitution, one of the functions of the Audit and Risk Management Committee was to provide independent assurance of the effectiveness of the Council's risk management framework. The Corporate Risk Register was a key output from the risk management framework and to support the Committee, a report was now presented on a regular basis, detailing the key risks facing the authority and how they were being managed. The Corporate Risk Register summarised those areas of uncertainty which had the greatest potential to prevent or frustrate delivery of the Corporate Plan and confirmed how the authority was seeking to tackle them. At a strategic level the risks helped to inform future priorities and interventions and the actions required to mitigate the risks also influenced the content of Directorate Service Plans and the allocation of resources. In that way, they were a key component of the corporate planning process and so success in managing those risks was a key factor in overall corporate performance.

Governance arrangements for the register required that it be formally reviewed each quarter. The review was undertaken by the Chief Executive's Strategy Group (CESG), informed by a report from the Risk and Insurance Officer, which summarised potential new risks for consideration and significant movements in Directorate and Programme risk registers.

The Liberal Democrat Spokesperson referred to the controls for the corporate safeguarding risk (CU1) (minute 61 (18 March 2014) refers) not having reflected actions taken to address adult safeguarding. He noted that the issue had now been addressed but questioned whether or not it may be more appropriate to have separate risk categories, one for children and one for vulnerable adults. In response, the Strategic Director – Transformation and Resources commented that he would be pleased to take this comment back for further consideration by the CESG.

In response to a further question from a Member regarding the need to replace the Council's IT hardware and software, the Head of Financial Services indicated that much of the equipment had been delivered to IT Services and the roll-out was due to commence imminently and to be completed by the end of the calendar year.

**Resolved –**

- (1) That the report be noted.**
- (2) That further reports on the Corporate Risk Register be presented to future meetings of the Committee.**

The Director – Assurance (Grant Thornton UK LLP) presented the Audit Plan for Wirral Council for the year ended 31 March 2014, which outlined the audit strategy and plan to deliver the audit. He outlined the Auditor's understanding of the challenges and opportunities the Council was facing and referred to the

impact of key developments and other requirements that were relevant to the Council and the audit. In addition to two presumed significant risks which were applicable to all audits under International Standards on Auditing (ISAs) he set out other risks of material misstatement that had been identified and he highlighted work that had been completed during the interim visit and further work that was planned.

The Code of Audit Practice and associated guidance also required a conclusion to be issued on whether the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of its resources. This was known as the Value for Money (VfM) conclusion, which would be based upon criteria issued by the Audit Commission. Work would be undertaken to address risks that had been identified by a risk assessment and he indicated that the results of the VfM audit work and key messages arising would be reported in the Audit Findings report and in the Annual Audit Letter. He reported also the details of fees charged and set out the communication plan, to ensure that any adverse or unexpected findings affecting the audit would be communicated on a timely basis to the Council.

**Resolved – That the Audit Plan be noted.**

80 **CONTRACT EXTENSION FOR THE SUPPLY OF THE WORKING WIRRAL PROGRAMME**

The Strategic Director – Transformation and Resources presented the report of the Strategic Director for Regeneration and Environment, which notified the Committee of the delegated decision to extend the contract for the supply of the Working Wirral programme for a period of 10 months from 1 April 2014 to 30 January 2015, at a cost of £700,000. He provided an overview of the Working Wirral programme (operating name of ReachOut Partnership), which was delivered by a consortium of voluntary sector partners led by Involve Northwest and supported the Council to address worklessness issues in Wirral. He provided a review of performance for the programme for the period 1 September 2013 to 31 March 2014, which demonstrated that the supplier had exceeded contracted outcomes, and he set out headline targets for the duration of the new contract.

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

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