

# AUDIT AND RISK MANAGEMENT COMMITTEE

Monday, 24 September 2018

Present:

Councillor	AER Jones (Chair)	
Councillors	RL Abbey	P Gilchrist
	A Davies	JE Green
	P Doughty	EA Grey
	D Elderton	

## 20 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.

Councillor Angela Davies declared a personal and prejudicial interest in agenda item 5, 'Procurement – Use of Procedure Rules Approval Document permitted under the Council Contract Procedure Rules' reference to 'all-age disability services' by virtue of her employment at Cheshire and Wirral NHS Partnership Trust, referred to in the report. Councillor Davies left the meeting whilst the item was considered.

Councillor Phil Gilchrist declared a personal interest by virtue of his role as a Council appointed Governor to the Cheshire and Wirral NHS Partnership Trust.

Councillor Jeff Green also declared a personal and prejudicial interest in agenda item 5, 'Procurement – Use of Procedure Rules Approval Document permitted under the Council Contract Procedure Rules' reference to 'Wirral Ark Redevelopment grant' by virtue of his position as a Non-Exec Director Magenta Living, referred to in the report. Councillor Green left the meeting whilst the item was considered.

## 21 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Tom Anderson.

## 22 MINUTES

Subject to a correction to Councillor Elizabeth Grey's record of attendance listing, it was:

**Resolved – That the minutes of the meeting held on 23 July, 2018 be approved.**

## 23 INTERNAL AUDIT UPDATE

Mark Niblock, Chief Internal Auditor, introduced his report that identified and evaluated the performance of the Internal Audit Service and included three items of note arising from the actual work undertaken during the period 1 July to 31 August 2018. The items of note were:

- Wirral Growth Company - continuous ongoing involvement of the audit team in the development of the Wirral Growth Company i.e. finance work stream, risks and implementation of mitigating controls, governance and operational controls over planned operational systems, access to all related documentation including minutes of meetings and associated reports including those of a confidential nature, and the provision of opinion and insight into ongoing related governance arrangements.
- Data Centre Security – audit work had been completed to evaluate and test the effectiveness of the physical security arrangements in operation at the Council's new Data Centre located at Merseytravel's Georges Dock site to provide assurance that robust controls were in place to prevent unauthorised access and protection from environmental risks.
- Referrals - a number of referrals of a fairly complex nature had required resources to be utilised from elsewhere within the service. Work to date had been accommodated from within the contingency element of the Audit Plan. Continued monitoring and reporting would inform Members of any issues as they materialise, to ensure appropriate actions will be taken.

The Chief Internal Auditor further apprised the Audit and Risk Management Committee on the following key areas:

- Outstanding audit recommendations – only two items, both BRAG rated as Amber;
- Internal audit performance indicators – no significant issues arising; and
- Internal audit developments – a continuous Internal Audit Improvement and Development Plan had been formulated that incorporated new and developing areas of best practice from across the profession, ensuring that the service continued to constantly challenge how efficient and effective it was at delivering its service.

Members sought clarification on the state of play regarding the Floral Pavilion procedure documentation. Mr Niblock informed that follow-up audit work was

planned for the current week, with indications that progress had been made in this area and the BRAG status was expected to upgrade to 'Green'.

Members also sought clarification on the specific nature of the referral items. Mr Niblock advised that the more detail would be provided to Members in his bi-monthly report, but generally referral topics tended to relate to the audit of record keeping and/or financial controls.

A Member requested that assurances regarding transparency of all matters relating to the Wirral Growth Company be given, particularly with regard to risk assessment, and were given that assurance.

The Chief Auditor's report informed that when contracts had been completed and work was scheduled, the activity of the Wirral Growth Company would be reviewed and reported in the customary manner with outcomes being presented to this Committee for note or action as appropriate.

Following a show of hands it was agreed that the Audit and Risk Management Committee endorse its request for transparency and openness in arrangements for the Wirral Growth Company and access arrangements for Internal Audit.

#### **Resolved – That**

**(1) the report be noted; and**

**(2) the Audit and Risk Management Committee support transparency and openness in respect of the Wirral Growth Company and future arrangements for Internal Audit access and reporting.**

#### **24 PROCUREMENT - USE OF PROCEDURE RULES APPROVAL DOCUMENT PERMITTED UNDER THE COUNCIL CONTRACT PROCEDURE RULES**

*Having provided declarations in respect of this item, Councillors Angela Davies and Jeff Green left the room whilst the matter was discussed and voted upon.*

Mark Niblock, Chief Internal Auditor, introduced a report of the Head of Procurement that informed the Audit and Risk Management Committee of the range and number of contracts awarded which had been subject to Contracts Procedure Rules ("CPRs") Rule 12 Extension/Variation; Rule 11 Waiving the Rules, as required under the CPRs.

The Report Appendix detailed the contracts subject to the Extension/Variation or Waiver rules for the period 1 October 2017 to 31 March 2018 which under Contracts Procedure Rule 16 required that all contracts which met the following criteria were reported to Audit and Risk Management Committee, with updates provided to Committee on a six monthly basis, i.e.

- a) A contract awarded where the total value of which exceeds £500,000.
- b) A variation or extension to a contract approved by the Director of Finance and Investment (S151 Officer) and by others as per the Appendix.
- c) A waiver or breach of the Contract Procedure Rules in relation to a contract which exceeds £50,000 in value.

Members questioned the Chief Internal Auditor on a number items listed within the report appendix. A Member expressed concern that the I.T. contract spend of £2.6m (annual spend over two years of £1.3m) for Surface Pro bundles was excessive. The Chief Internal Auditor informed that this particular project also included upgrades to the Council I.T. Servers from windows 8 to 12 and the re-positioning of laptop equipment. The actual spend on Surface Pros amounted to £300k, and agreed that the report appendix narrative for this project could have been clearer.

Members questioned the inclusion of completed project items prior to March 2018, and whether efficiencies could be found by negotiating bigger contracts over longer periods e.g. Housing Associations and other bodies, currently tendering in batches for redesign and restructure.

Members also requested information on the use of temporary Council Tax and Housing Benefit processing agents employed through another agency than that usually employed for the purpose.

Shaer Halewood, Director of Finance and Investment (S151) informed that the retrospective report covered a rolling 6 month period Oct 2017 to Mar 2018 and included both ongoing and closed projects for completeness. In respect of the use of a second agency, the director informed that when the Council's primary agency (a group of agencies, rather than a single company) could not provide sufficiently qualified staff, other agencies would be used. No fees would be paid unless successful appointments were made.

Members expressed a view that the Audit and Risk Management Committee would benefit from oversight of the Council's Transformation Services actions in respect of the current required £40m budget savings, and sought assurance that all project risk assessments should include: what was spent, what cost benefits would be achieved, and lessons learnt.

The Director of Finance and Investment (S151) and the Senior Risk and Insurance Officer were in agreement that this reporting approach would be helpful to Members.

#### **Resolved – That**

- (1) the report be noted; and**

**(2) information regarding the Council's Transformation Programme be provided to Members of the Audit and Risk Management Committee.**

25 **LEADER DECISION REFERRAL - CODE OF PRACTICE FOR GOVERNANCE OF COUNCIL INTERESTS IN COMPANIES**

Philip McCourt, Director: Governance and Assurance introduced notice of a Cabinet Member Decision in respect of the Draft Council Code of Practice for the Governance of Council Interests in Companies. The decision had also included a recommendation that the Draft Code be referred to the Business Overview and Scrutiny Committee and the Audit and Risk Management Committee to note the role of the Code of Practice, and the principles within it, in relation to the Council's own Code of Corporate Governance.

The Director: Governance and Assurance informed that the matter had recently been considered by the Overview and Scrutiny Committee and it had been recommended that an 'All Member' briefing on Local Authority Companies be provided. He further informed that the documentation attached to the Member Decision set out the blueprint for the Principles of Governance i.e. Controls and Freedoms, Relationship, Integrity and Accountability and Understanding of the Role. Members were apprised that the Draft Code had been modelled on the LLG Guidance Note for England and Wales, February 2018.

Mr McCourt highlighted that the governance arrangements would seek to ensure that:

- the executive can make investment decisions based upon complete and accurate consideration of business cases and business plans;
- the executive can evaluate social and financial benefits and returns on investment; and
- the Council's overview and scrutiny committees were able to exercise their powers in relation to the executive's decision making

in a manner that ensured the companies would provide full and frank financial and business reporting against their business plans and be open to an appropriate level of scrutiny without fear of commercial confidentiality being breached.

Mr McCourt directed Members' attention to two diagrams which explained the varying conflicts Members may have in being appointed to differing roles, including the relationship between the Council's and the Council Company's audit committees, and the pivotal role of the Shareholder Board as chaired by the relevant Cabinet Member as decision maker and Overview and Scrutiny observer.

Members questioned the Director: Governance and Assurance on a number of areas that included the need for legal involvement and assurances, what stage the process had reached and the role of Elected Members in terms of scrutiny, and how (if any) conflicts of interest would be addressed.

Mr McCourt responded, informing the Committee that the Code addressed the matter of conflict of interests, stating that once appointed, and acting on behalf of the company, Member's duty was to that company. He added that the guidance and subsequent briefings would ensure that the legal duties and associated arrangements in terms of stewardship of assets, etc. were appropriately understood by Members of the Council in their role, by officers of the Council associated with those duties, and by directors of the company, or companies.

Following further questioning on the role of scrutiny and a request from a Member regarding the practicalities of access to the shareholder board and company minutes, Mr McCourt informed that the shareholder board non-decision making and company minutes would remain private, but Members could always request information; however, the requests would need to be assessed and cater for a balance of 'need to know' and 'relevance'. He added that any key decisions, for example relating to Capital Investment of Council monies, or the disposal of Council Assets e.g. Land, would still be the subject of the public decision making process (i.e. Member Decision) and would still be subject to call-in.

Prior to the vote on the report recommendation, an amendment was moved by Councillor Phil Gilchrist and seconded by Councillor Jeff Green that:

*'Officers are asked to draw up, and report back on, the establishment of a mechanism, under which the minutes of the shareholder board may be made available for inspection'.*

A vote was taken, and the amendment was lost (3:4).

A vote was then taken on the report recommendation, and it was:

**Resolved (4:3) - That the Code of Practice, and principles within it, in relation to the Council's own Code of Corporate Governance be noted.**

## 26 **IMPROVEMENTS TO THE CORPORATE RISK MANAGEMENT FRAMEWORK**

Mike Lane, Senior Risk and Insurance Officer introduced a report of the Chief Executive that informed on how the Council was working to improve its arrangements for managing risk as part of a broader programme of enhancements to corporate governance. The report provided a progress update in relation to those actions and indicated others to be taken in the coming months. An earlier report to the Audit and Risk Management (ARM)

Committee on 23 July 2018 (minute 8 refers) set out a number of early actions aimed at supporting improvements.

The Senior Risk and Insurance Officer updated Members on a series of internal discussions that had been held with the Strategic Leadership Team facilitated by Zurich (Insurers) and the establishment of a Task and Finish Group to oversee and drive improvements to the Risk Management Framework. Planned actions included:

- A training session for members of Overview and Scrutiny Committees on risk management principles and practices was scheduled to take place on 2 October 2018.
- Arrangements in progress for a workshop for a sub-group of the ARM Committee to provide Members with an opportunity to contribute directly to improvements to the Council's standards and procedures for managing risk.
- The risk management component of the Leadership Training Programme for senior officers was being developed with the support of the Organisational Development team.
- An initial discussion had taken place in connection with a risk management element of a wider training programme for managers in 2019.

**Resolved – That**

**(1) the report be noted; and**

**(2) regular progress reports on improvement actions be presented to future meetings of the committee.**

**27 DEVELOPMENT OF THE REVISED CORPORATE RISK REGISTER**

Mike Lane, Senior Risk and Insurance Officer introduced a report of the Director of Finance and Investment that informed of the focus on enhancements to arrangements for managing risk which the Council is working to introduce. The report informed that ensuring that the leadership had a clear shared and current understanding of those risks was fundamental to that aim.

The Senior Risk and Insurance Officer informed that a facilitated discussion with SLT had taken place on 14 August 2018. The session had sought to draw out the Team's views on the current most critical risks facing the Council, and a perspective on key risk areas had been prepared by the Director of Finance and Investment in order to initiate discussion. Members were apprised that a follow up meeting of SLT had taken place the week prior

to this Audit and Risk Management Committee meeting and outputs were being refined and would be brought back to this committee.

A Member questioned why the summary table within the report appeared as a 'list of' as opposed to a 'summary of risk' and would be more effective had it included the cause, effect and mitigation for each risk as identified.

The Senior Risk and Insurance Officer confirmed that best practice was to summarise cause, event and effect, and that these key controls for each risk, and the responsibilities for these, will be determined and documented with support from Internal Audit.

Members were apprised that a workshop was to be arranged for Members so that their views on the most significant risks facing the Council were taken into account in developing the revised baseline Corporate Risk Register. Arrangements for the workshop were currently being finalised.

**Resolved – That**

**(1) the proposed actions be approved; and**

**(2) details of future corporate risk register workshops be circulated to Members in due course.**

**28 MANAGEMENT OF INSURANCE AND CORPORATE RISK**

Mike Lane, Senior Risk and Insurance Officer introduced a report of the Director of Finance and Investment that informed of progress made in relation to key actions planned for 2018/19 as reported to the Audit and Risk Management Committee at its 23 July 2018 meeting (minute 9 refers).

The report provided a regular update on the work around risk management and insurance in support of the Council's Risk Management Framework.

The Senior Risk and Insurance Officer highlighted a key area of work in respect of Procurement of Motor Insurance and Engineering Inspection and Insurance Contracts. He informed that this was a major piece of work, and that the existing Long Term Agreements for these contracts end on 31 March 2019 requiring a competitive procurement exercise to be undertaken. The report informed that the Council's insurance brokers would be providing support to ensure the maximum competition from the insurance market. The Corporate Procurement team had also been engaged and planning for the exercise had begun.

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

29 **RIPA**

The Director: Governance and Assurance introduced a report that informed that no covert surveillance had been authorised or undertaken by the Council during the period 1 January 2018 and 31 August 2018.

The report informed that annual training for Applying and Authorising Officers was to be delivered on 19 October 2018 by “Act Now” a well-recognised provider of training on RIPA and that each officer must attend suitable training on RIPA at intervals of not less than two years.

The report further informed of a prosecution arising from authorised covert surveillance whereby on 25 July 2018 a local man had pleaded guilty to the illegal dumping of waste on 23 October 2017 in the turning head area of Naylor Road, Birkenhead. Wirral Magistrates Court imposed a 12 month community service order including 50 hours of unpaid work, ordered the offender to pay the Council £500 as a contribution to its costs, together with a victim surcharge of £85, paid to the Court.

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

30 **EXTERNAL AUDIT - ANNUAL AUDIT LETTER 2017/18**

Further to Minute 12 (23 July 2018), Mr Robin Baker of External Auditor, Grant Thornton UK LLP presented the Annual Audit Letter report (the letter) to the Audit and Risk Management (ARM) Committee that summarised key findings arising from the work that the External Auditor had carried out at Wirral Council for the year ended 31 March 2018.

As a public document, Mr Baker explained that the letter provided a commentary on the results of the External Auditor’s examinations to the Council and external stakeholders, and highlighted issues for the attention of the public.

The External Auditor informed that an unqualified opinion had been given on the Council’s financial statements on 31 July 2018 which was in line with new earlier reporting deadline. He added that an unqualified opinion had also been given on the pension fund accounts of the Merseyside Pension Fund on 31 July 2018.

Similarly, work had been completed on the ‘Whole of Government Accounts’ had been completed on the Council’s consolidation return, following guidance issued by the National Audit Office (NAO).

Mr Baker reported that, in terms of value for money arrangements, the External Auditor had been satisfied that the Council had put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March, except for deficiencies in

Children's services identified by Ofsted. As a result a qualified 'except for' value for money conclusion had been reached in their audit report dated 31 July. He added that along with other local authorities, Wirral Council continued to face a challenging financial position, and whilst progress had been made in establishing a new Growth Company, a significant proportion of the £62m budget gap in 2018/19 was being met through one-off use of reserves and expected asset values.

Members thanked the External Auditor, Officers of the Council and Merseyside Pension Fund for completion of the work ahead of schedule, noting the difficult financial circumstances faced by the Council.

Members discussed the role of the ARM Committee and timings for the monitoring of the Council's Annual Governance Statement, Medium Term Financial Strategy and assurance of process, including ensuring that identified actions were followed up. Mr Baker confirmed that the External Auditor also considered, and reported on sustainability of process and would highlight any areas where delivery was not being achieved.

Members gave a vote of thanks to the External Auditor, and welcomed the actions taken to date. A Member expressed his support, further welcoming the ARM Committee's involvement in monitoring actions highlighted by the Auditor and the Council's 4 year Medium Term Financial Strategy, as highlighted in the recommendations contained in the report at Appendix B.

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

31 **ANY OTHER URGENT BUSINESS APPROVED BY THE CHAIR**

There was no urgent business.