

AUDIT AND RISK MANAGEMENT COMMITTEE

Monday, 23 September 2019

Present:

Councillor JE Green (Chair)

Councillors	K Cannon	K Hodson
	A Gardner	AER Jones
	P Gilchrist	S Whittingham
	K Greaney	G Wood

9 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.

10 MINUTES

Resolved – That the minutes of the meeting held on 22 July 2019, be approved.

11 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Tom Anderson.

12 URGENT BUSINESS - WHISTLEBLOWING POLICY

The Chair advised of the acceptance onto the agenda of an urgent item of business relating to the Council's Whistleblowing Policy and the need for consideration of the matter by the Audit and Risk Management Committee at the earliest opportunity. With the agreement of Members, the item was considered prior to commencement of the listed agenda business.

The Chair informed that he considered that the matter was urgent by virtue of evidence that had been provided to him that oversight by the Committee in terms of policy review was required.

The Chair further informed that it would be appropriate that a report be presented to the Audit and Risk Management Committee at the earliest opportunity. The Chair requested that in respect of the Policy, information relating to the detail of the process i.e. when an investigation started, finished,

length of investigation and communication to those individuals involved also be included in the report.

Resolved –

That a report in respect of the Council's Whistleblowing Policy be presented to the next meeting of the Audit and Risk Management Committee.

13 CHAIR'S ANNOUNCEMENT - REPORTS FOR FUTURE MEETING

Prior to consideration of the next item of business, the Chair informed the Audit and Risk Management Committee of the circumstances relating to the delay in presentation of a report on the Judicial Review relating to Thornton Manor (Planning) and advised that it would be appropriate that an additional report regarding an LGA Peer Review (Planning) also be prepared and submitted to the next meeting of the Committee.

It was agreed that reports on the Judicial Review relating to Thornton Manor (Planning) and LGA Peer Review (Planning) be presented to the next meeting of the Audit and Risk Management Committee.

14 STATEMENT OF ACCOUNTS 2018/19 FOR WIRRAL COUNCIL AND MERSEYSIDE PENSION FUND

Dan Kirwan, Assistant Director Finance and Investment introduced the report of the Director of Finance and Investment (S151) that informed that the draft Statement of Accounts for 2018/19 was initially published on 31 May 2019, followed by an updated version on 31 July 2019, which included:

- Additional pension fund liabilities, following a recent court ruling on the McCloud & Sargeant case;
- Changes to the accounting treatment of the Minimum Revenue Provision (MRP); and
- Additional disclosures to reflect the impact of IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments'.

The report also provided further details changes included in the Accounts Publication Notice (Appendix 1 to the report). This document was published with the draft Statement of Accounts on 31 July 2019, to meet the Council's statutory obligation to disclose the reasons for the external Auditors - Grant Thornton LLP - being unable to complete their audit by this date.

The Assistant Director Finance and Investment apprised Members that recent statistics published by the Public Sector Audit Appointments Limited (PSAA) confirmed that 40% of Local Authority audits had not concluded by the target date of 31 July. He added that the latest Accounts of Wirral Council had now

been subject to audit and the External Auditors - Grant Thornton LLP - were in attendance to present their Audit Findings Report (AFR), together with any additional update, to the Committee.

In presenting the report the Assistant Director Finance and Investment informed that once agreed by the Audit and Risk Management Committee, Council would be in a position to comply with its statutory obligation to publish the Statement of Accounts - which includes the Annual Governance Statement, Narrative Statement and Audit Opinion – as soon as reasonably practicable after receipt of the Audit Findings Report.

Members noted that the Statement of Accounts included the Merseyside Pension Fund (MPF) Accounts (Wirral Council is the Administering Authority for MPF). As the MPF received a separate Audit Findings Report (Appendix 5 to the report), this also had to be considered by the Pensions Committee (Appendices 6 & 7 to the report) and the Audit and Risk Management Committee as part of approving the Accounts. The Council's Constitution allocates responsibility for the approval of the Statement of Accounts to the Audit & Risk Management Committee.

The External Auditor presented a verbal report informing Members on the detail of specific content, namely:

- The Audit Findings
- The requirement to report
- Key points relating to their audit opinion i.e. a challenging audit relating to changes to accounting procedures.
- Amendments arising from the 'McCloud judgement', pension scheme transitional arrangements.

There also followed discussion on how these various factors will affect the Local Authority pension scheme, with a best estimate of £16m, material consideration.

Members were apprised that there had been discussion between the Council and the External Audit regarding the Auditors recommended adjustment to the accounts over a period of 10 years, which subject to Council approval, will produce a £2.6m benefit to Council each year.

The Chair identified that regarding items in the accounts, the Chief Executive salary had been quoted, but not the name (this had been corrected). Recommendation in accounts as a result. Members were also apprised that in respect of a recent Coroners Court Judgement, External Auditors had been kept informed and although these were to be treated as post balance sheet events it was the Auditors view that these were 'not material', it was suggested that a post balance sheet event statement be produced.

The Chair thanked the External Auditor and reiterated that it was this Committee's role to manage compliance and provide assurance of process regarding all aspects of the accounts.

The External Auditor then provided Members with information on their opinion regarding 'Value for Money' arrangements and progress against past recommendations (improvements to Children's Services). Intention and their intention to offer an unqualified VFM conclusion.

The External Auditor also provided an update on the LOBO objection – stating that they had responded to objector and expected to offer a final decision in due course.

The External Auditor concluded his report, requesting Committee to note that audit was now complete, and asked that Members note the disclosure, conclusions, and improvements.

A short period of question and answers followed, with Members seeking clarification on a number of points, that included:

- Minimum Revenue Provision
- Debt reprofiling reserve
- Summary of amendments – arising from complexity of double entry accounting.

The Assistant Director Finance and Investment informed Members on the ongoing Enterprise Resource Planning (ERP) project and associated software that would help transform the work of the Financial Services in terms of resource planning and reporting.

Councillor Phil Gilchrist requested that the Committee also take note of specific reference to paragraph 3.6 of the report referring to the changes in the reporting that he believed did not fully highlight the changes in the reporting of the Minimum Revenue Provision (MRP) and that this section of the report and appendix one should clearly refer to substantial sums involved.

Members concurred, and the Chair instructed that an update on progress relating to the Minimum Revenue Provision (MRP), and the Enterprise Resource Planning (ERP) project be provided to the Committee at a future meeting.

Resolved – That:

- 1) The Audit Findings Report presented by the External Auditor, and the actions taken regarding the amendments to the Statement of Accounts for the Council and Mersey Pension Fund Accounts, be agreed;**

2) The Statement of Accounts for 2018/19 as presenting a true and fair view of the Council's income and expenditure for the year and its overall financial position, be approved; and

3) The Chair and Director of Finance and Investment (S151) to sign and date the Letter of Representation.

15 CLOSEDOWN PROCESS 2019/20

Dan Kirwan, Assistant Director Finance and Investment introduced the report of the Director of Finance and Investment (S151) in response to a request from the Audit & Risk Management Committee to provide assurance on planned improvements to the annual Closedown Process. The report informed that the improvements were designed to achieve submission of the Annual Statement of Accounts to the Committee - for final approval - in advance of the target publication date of 31 July.

The report informed that current Closedown Process accounted for a significant proportion of finance resource time and effort in any given year - with activity spanning an intensive period of at least six months, from February to July each year. Members noted that the intensity of this activity had heightened in 2017/18 when the deadline for finalisation of the accounts had been brought forward from 30 September to 31 July. This mandatory change had been made despite warnings issued by the Local Government Association (LGA) about curtailing the timetable, in the context of reducing funding and pressures on front-line services. The report further informed that recent statistics published by the Public Sector Audit Appointments Limited (PSAA) confirmed that 40% of Local Authority audits had not been concluded by the target date of 31 July. In response to this, the LGA had made a request for the deadline of 30 September to be restored.

With the assent of the Committee, the Chair gave encouragement to Officers to investigate the option to purchase Chartered Institute of Public Finance and Accountancy (CIPFA) Closedown Software, to enable greater automation of the Closedown Process and Statement of Accounts production and other anticipated improvements.

The Chair questioned whether the External Auditor had been consulted on the proposals. Robin Baker, External Auditor – Grant Thornton LLP advised Members that this was the case.

Resolved - That

1) the report be noted; and

2) the Director of Finance and Investment (S151) be instructed to:

- a. Investigate the option to purchase Chartered Institute of Public Finance and Accountancy (CIPFA) Closedown Software, to enable greater automation of the Closedown Process and Statement of Accounts production; and
- b. Initiate a joint workshop with Grant Thornton LLP, the Council's external auditors, on audit planning improvements for the year ending 31 March 2020.

16 **STATEMENT OF REVENUE AND CAPITAL BUDGET POSITION FOR 2019/20 (Q1)**

Dan Kirwan, Assistant Director Finance and Investment introduced the report of the Director of Finance and Investment (S151) that provided a summary of the projected year-end revenue and capital positions as at Quarter 1, 2019/20 (June 2019). The report informed that regular monitoring and reporting of the Revenue Budgets, savings achievements, medium term financial strategy (MTFS) position and the Capital Programme enabled decisions to be taken faster that may produce revenue benefits and improve financial control in Wirral Council. The content of the report was presented to the Cabinet at its meeting on 2nd September 2019. It was noted that was the responsibility of Cabinet to monitor and make decisions on budgets and that Scrutiny Committees had a responsibility to scrutinise the decisions of Cabinet.

The Assistant Director Finance and Investment informed that the report had been produced to provide assurance to the Audit and Risk Management Committee that officers were monitoring and forecasting regularly and that any risk of an adverse forecast was being mitigated.

The Assistant Director Finance and Investment further informed that the year-end revenue forecast recorded as part of June's financial monitoring activity represented an adverse variance from budget of £4.327m. He added that plans were, in some cases, in place to mitigate the overspend whereas in other areas these were still undergoing development. Due to the Council's financial position, an adverse budget variance was not viable and Corporate Directors would be supported to ensure that a balanced budget will be achieved by the year-end.

Members were also apprised of progress in respect of the Capital Programme for 2019/20 as at the end of June 2019. The 2019/20 Capital Programme of £88.3 million was inclusive of re-profiling, additional funding requirements and grant variations identified since February 2019. Expenditure to date was £2.9 million.

The Assistant Director Finance and Investment informed the Audit and Risk Management Committee of the year-end adverse forecast position, as at

Quarter 1, of £4.327 million above budget, savings proposed for 2019/20, revisions to the Medium-Term Financial Strategy 2020-2025 and details of the Capital expenditure position as at Quarter 1 of £2.9 million.

The Assistant Director Finance and Investment informed that more recent forecasts had shown improvements, but there was still further work to be done. In response to a question from the Chair regarding the Audit and Risk Management Committees role to receive assurance and to oversee actions to be taken, he informed that significant finance challenges had been passed to individual directorates and would be reported back to the Committee.

Resolved –

That in respect of the Quarter One Revenue and Capital Budget Position for 2019/20

Revenue

- 1) the year-end adverse forecast position, as at Quarter 1, of £4.327 million above budget, be noted;**
- 2) the savings proposed for 2019/20, be noted;**
- 3) revisions to the Medium-Term Financial Strategy 2020-2025, be noted; and**

Capital

- 4) the expenditure position as at Quarter 1 of £2.9 million, be noted.**

17 INTERNAL AUDIT UPDATE REPORT

The Chief Internal Auditor, Mark Niblock, introduced his report which identified and evaluated the performance of the Internal Audit Section and included four items of note arising from the actual work undertaken during the period 1 July to 31 August 2019. The items of note were:

- Client Finance Support Unit
- Mersey Pension Fund (MPF) – Civica Pensions5 Data Migration
- Financial Regulations
- ICT audit work to evaluate the effectiveness of controls in operation covering 3 key areas, namely:
 - GDPR compliance in schools
 - Business Continuity Planning – Crisis Communications;
 - Cyber Security Awareness

Details of audit work undertaken in these areas and actions arising were provided to the committee.

In response to Members' questions Mark Niblock commented that a comprehensive forward plan had been prepared, which included lessons learned and this information would be picked up and reported to the Audit and Risk Management Committee in the course of his regular reporting. He added that this ongoing work involved clear action plans, stage points and timescales.

The Director of Finance and Investment, Shaer Halewood, confirmed that within the 2019/20 budget there were savings for Children's Services which would come out of a restructure and these innovative changes to processes would contribute to the savings.

The Chief Internal Auditor concluded his report referring to a comprehensive list of internal audit activity over the reporting period attached at Appendix 1 to his report that detailed the audits completed, identifying opinions provided and a current BRAG rating indicating the current status of the report and progress being made by officers to address identified issues.

Resolved – That the report be noted.

18 **CORPORATE RISK MANAGEMENT UPDATE**

The Chief Internal Auditor, Mark Niblock, introduced the report of the Director of Finance and Investment (S151) that provided information on arrangements to manage risk and improved focus on those most critical risks. The report provided an update in relation to the arrangements underpinning the corporate risk register. A copy of the current version of the register was appended to the report.

The Chief Internal Auditor informed that SLT had agreed that no changes to risk descriptions were required at this stage and the only changes to risk scores that were needed, since the register had been reported to the 22 July 2019 ARMC. These were:

- Risk 2 - Demand Management - the likelihood of the risk arising has been reduced from 4 (Likely – will most probably occur within the period covered by the plan) to 2 (Unlikely – not expected to occur within the period covered by the plan), taking into account the updated mitigations in place as detailed in the updated register. This results in an overall risk score reduced from 16 to 8.
- Risk 4 – Failure to Implement Cultural Change necessary... - the likelihood of the risk arising has been reduced from 4 (Likely – will most probably occur within the period covered by the plan) to 3 (Possible –

may possibly occur at some point within the period covered by the plan), taking into account the updated mitigations in place. This results in an overall risk score reduced from 16 to 12.

The Chief Internal Auditor's report further informed Members on actions planned for the future that included:

- Continued audits to shed light on the effectiveness of existing mitigation and areas for improvement, in support of mapping the key controls for each risk.
- Target scores for the corporate risks will be completed following an exercise planned for later in 2019/20 to draw out the risk appetite of political and executive leaders.
- Directorate and Programme Management Office risk registers will continue to be subject to review.
- Examination of one of the revised corporate risks in detail at each future meeting of the committee - The Director for (Adult) Care and Health will be invited to the next meeting of the ARMC to respond to Member questions.
- Following the appointment of the Risk, Continuity and Compliance Manager a programme of training for Member and officers (including Risk Management Support Leads) is to be developed.

The Chair thanked the Chief Internal Auditor for his report.

Resolved – that the report be noted.

19 **INTERNAL AUDIT QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME**

The Chief Internal Auditor, Mark Niblock, introduced his report that provided an update on the continued utilisation by the Internal Audit Service of a comprehensive quality assurance and improvement programme. The programme had been developed to comply with the requirements of the Public Sector Internal Auditing Standards (PSIAS) and to inform the Audit and Risk Management Committee of the outcome of the annual self-assessment exercise undertaken by the service.

The Chief Internal Auditor informed the Committee that the PSIAS require that the Head of Internal Audit developed and maintained a Quality Assurance and Improvement Programme (QAIP) to covers all aspects of the internal audit activity. He further informed that QAIP outlined measures which were applied to ensure that Internal Audit continued to operate effectively and efficiently

and identified and responded to opportunities for improvement. These measures include:

- An internal quality control checklist;
- Customer Questionnaires and Annual Performance Evaluation Feedback Forms designed to obtain client feedback, the outcome of which facilitates effective monitoring of the internal audit activity and enables opportunities for improvement to be identified;
- An Auditor Skills Appraisal Assessment system developed and implemented during 2015/16 that incorporates elaborate post audit assessments to identify improvement areas and any training/development needs; and
- Internal performance targets that are monitored and regularly reported to the Audit and Risk Management Committee.

The Chief Internal Auditor referred Members to Appendix 2 of his report that set out information in respect of compliance and evidence of the Council's Internal Audit Service against the QAIP Review 2019/20.

The Chair thanked the Chief Internal Auditor for his report and asked if Wirral Council Officers were in contact with other public sector auditors / services. The Chief Internal Auditor informed that a significant amount of time was spent on this, with regular contact with other auditors across the North West, comparing delivery of services. He added that this will continue in the future.

Resolved – That the report be noted.

20 PROCUREMENT - USE OF CONTRACT PROCEDURE RULES

Keith Patterson, Head of Commercial Procurement introduced his report that set out a summary of the range and number of contracts awarded that had been subject to Contracts Procedure Rules (CPRs) Rule 12 – Waiving the Rules and Rule 13 – Extension/Variation. The report Appendix further detailed the contracts subject to the Extension/Variation or Waiver Rules for the period 1 October 2018 to 31 March 2019, which under Contracts Procedure Rule 17 required that all contracts that met the following criteria were reported to the Audit and Risk Management Committee on a six monthly basis:

- a) Contract is awarded, the total value of which exceeds £500k.
- b) Variation or extension to a contract approved by the Director of Finance and Investment.
- c) Waiver of Contract Procedure Rules in relation to a contract which exceeds £50k in value.

Head of Commercial Procurement provided a summary of the four distinct Procedure Rule Approval Documents (PRADs) of approval that formed the basis of all reports to the Audit and Risk Management Committee, namely:

- PRAD 1 – Exceptions
- PRAD 2 – Extensions
- PRAD 3 – Variations
- PRAD 4 - Awards

A question and answer session followed with the Chair and Members of the Committee questioning the Head of Commercial Procurement on a range of matters that included:

- Methods used to drive compliance with the Contract Procedure Rules.
- How assurance could be provided.
- Improvement measures – including involvement of SLT where appropriate.
- Earlier engagement with staff and focus on contract extensions.
- Staff training – scheduled for November and December 2019.
- ‘No PO no Pay’ rule (PO – Purchase Order).
- Number of exceptions.
- Single Tender occurrences and procedures.

The Head of Commercial Procurement responded accordingly, and provided information on specific areas of concern to Members. He further apprised Members of information on the contracts register – which held much of the information and provided assurance that his department continued to work with commissioners to co-ordinate information.

In response to further questions the Head of Commercial Procurement also detailed examples where contractual obligations were covered in tender specifications, and instances where contracts tended to be renewed - rather than reviewed and renewed – which was a primary target for improvement.

The Chair thanked the Head of Commercial Procurement for his report and expressed his concerns on the subject of ‘single tender’ occurrences requesting that this be the subject of a future report to the Committee. Concern was also expressed regarding retrospective approval and production of Purchase Orders, with Members requesting inclusion of an Action Plan update on compliance as part of future reports.

Resolved – That the report be noted.