

# AUDIT AND RISK MANAGEMENT COMMITTEE

Monday, 8 June 2015

<u>Present:</u>	Councillor	J Crabtree (Chair)	
	Councillors	RL Abbey A Davies P Doughty	D Elderton P Gilchrist M Patrick
<u>Deputies:</u>	Councillors	S Williams A Sykes	

## 1 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.

## 2 MINUTES

**Resolved – That the minutes of the meeting held on 18 March 2015, be approved.**

## 3 AUDIT AND RISK MANAGEMENT COMMITTEE ANNUAL REPORT - 2014/15

The Chief Internal Auditor introduced the Audit and Risk Management Committee Chair's Annual Report 2014/15.

Prepared in consultation with Internal Audit, the Chair's Annual Report for 2014/15 had been compiled in accordance with the CIPFA best practice publication 'A Toolkit for Local Authority Audit Committees'. The report informed how the Audit and Risk Management Committee had fulfilled its terms of reference during a very difficult year and noted Member's commitment to helping improve the Council's governance and control environments during what could prove to be a very challenging year ahead.

The Chair's Annual Report further informed Members of specific matters regarding the Audit and Risk Management Committee's Core Activities during the year, covering the Committee Terms of Reference, reports, activities and key outcomes for the Municipal Year 2014/15.

The Committee confirmed its plans and priorities for 2015/16 i.e. to continue in its duties as specified in the Constitution, and to respond to, and implement any requirements arising out the new Public Sector Internal Auditing Standards and the Local Audit and Accountability Act 2014; further developing its role to become the recognised champion of good governance for the Council.

Taken in conjunction with the following agenda item (Annual Self-Assessment 2014/15) the Committee commented on the quality of the report, and were content to approve the recommendation.

**Resolved - That the Annual Report of the Audit and Risk Management Committee be approved and submitted to Cabinet.**

**4     **AUDIT AND RISK MANAGEMENT COMMITTEE ANNUAL SELF-ASSESSMENT - 2014/15****

Taken in conjunction with the previous item, the Chief Internal Auditor introduced his report that informed of the Audit and Risk Management Committee's compliance with best professional practice, utilising an annual evaluation checklist completed by the Chair.

The checklist, based on the CIPFA template, set out the operational duties, and key issues for each of the following areas:

- Establishment Operation and Duties
- Internal Controls
- Financial Reporting and Regulatory Matters
- Internal Audit
- External Audit
- Administration

Members were asked to consider and approve the checklist, noting that, for each of the above areas, tasks could be prioritised and marked as actioned in response to the questions set out in the checklist.

Members questioned the Officer with reference to write-offs, noting that such decisions fell to Cabinet. The Chief Internal Auditor confirmed that with regard to this subject and other matters listed, the Committee's role was to oversee the Council's corporate governance arrangements, the work of internal audit, and the Council's response to external audit and other external inspections.

Taken in conjunction with the previous item (Audit and Risk Management Committee Annual Report - 2014/15) the Committee were content to approve the recommendation subject to additional information relating to actions and/or evidence being included in the self-assessment checklist.

The Chief Internal Auditor confirmed that the information requested by Members would be included.

**Resolved - That the Audit and Risk Management Committee Annual Self-Assessment 2014/15 be approved.**

## 5 INTERNAL AUDIT UPDATE

The Chief Internal Auditor introduced his report that identified and evaluated the performance of the Internal Audit Section and included items of note arising from the actual work undertaken during the period 1 March to 20 May 2015. The report focused upon:

- Any items of note arising from audit work conducted;
- Any issues arising that require actions to be taken by Members;
- Performance information relating to the Internal Audit Service;
- Developments being undertaken to improve the effectiveness of the Internal Audit Service.

Members' attention was drawn specifically to a number of items of note that had been identified, which included:

Attendance Management - Members were informed that a good response had been received from senior management(s) and actions had been agreed to improve the current arrangements. Members were further informed that additional audit work is scheduled, that will include detailed testing of the arrangements during the second quarter of 2015/16. Members are to be advised of the outcome of this piece of work in due course; and

Schools - a follow up of audit work completed at schools audited during 2014/15, identifying that all agreed actions to improve systems in operation had been fully implemented.

Member's attention was also drawn to the Internal Audit Performance Indicators and development improvements, examples of which were provided. A table appended to the report, identified information related to audits where recommended actions included in audit reports where follow-up actions had been scheduled. The Chief Internal Auditor advised that all of the recommendations were currently Amber rated as being in indicating that progress is being made to address identified issues and actions are expected to be completed within the reported timescales.

Members offered their congratulations on the work of the Internal Audit team, but expressed concerns regarding two specific areas, namely data loss prevention and I.T. recovery. Members instructed that the Chief Information Officer provide a briefing on these and other I.T. business continuity and data

matters to the September meeting of the Audit and Risk Management Committee.

The Chief Internal Auditor informed that management of these issues was overseen by the Information Governance Board, and advised that, in the interim, Committee Members would continue to receive e-mail updates on these matters as per current arrangements.

**Resolved – That**

- 1) the report be noted; and**
- 2) a briefing on Business Continuity and key areas of data loss prevention and I.T. recovery be provided by the Chief Information Officer at the September meeting of the Audit and Risk Management Committee.**

**6 CHIEF INTERNAL AUDITORS ANNUAL REPORT - 2014/15**

The Chief Internal Auditor introduced his Annual Report that set out the Internal Audit assurance opinion on key areas of the Council's activity for 2014/15.

The report informed that audits conducted during the year were principally planned to review the financial control systems in accordance with the CIPFA Code of Audit Practice and the Public Sector Internal Auditing Standards. The report summarised attention paid to key risks in the following areas:

- Performance Management;
- Counter Fraud and Corruption;
- Corporate Governance;
- Risk Management;
- ICT Systems; and
- Service Delivery.

The report further detailed the audit outcomes, and the effectiveness of internal audit and internal control framework that assists the Council's management in the effective discharge of its responsibilities and functions. Members sought assurance on the matter of the arrangements for the Contract Procurement - Commissioned Care, and requested that the Head of Service with responsibility for these matters attend the next meeting of the Audit and Risk Management Committee to provide an update.

Members noted the opinion of the Chief Internal Auditor, namely that *“assurance can be given that there is a sound system of internal control, designed to meet the Council's objectives, and that controls are generally being applied consistently”*.

Members thanked the Officer for his report.

**Resolved – That.**

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

**2) a briefing on the Contract Procurement - Commissioned Care be provided by the relevant Head of Service at the September meeting of the Audit and Risk Management Committee.**

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

The Risk and Insurance Officer introduced the report of the Acting S.151 Officer that set out the key actions to be taken in relation to corporate risk and insurance management during 2015/16. The report also included progress made since March in relation to key actions planned for 2015/16.

The Risk and Insurance Officer summarised the key actions focussing on procurement exercises and improvement activities falling under the primary areas of activity, namely:

- Provision of advice and support to Members - developing the corporate risk management framework and processes; and
- Risk financing – incorporating insurance procurement and management of the Council's Insurance Fund and claims management - where Members will have an involvement and what form it would take.

Members were also informed that the Deputy Risk and Insurance Officer, Simon Hutchinson had been nominated and subsequently shortlisted in the category 'Professional of the Year' at the 2015 Alarm Risk Awards (the national forum for risk management in the public sector).

Members congratulated the Officer on his shortlisting and wished him every success at the forthcoming Awards Ceremony.

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

## **8 CORPORATE RISK REGISTER**

The Risk and Insurance Officer presented the report of the Chief Executive, which advised 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 that the Council's Risk Management Framework was effective.

The report informed that a key output from the framework was the Corporate Risk Register and to support this Committee's work in considering the effectiveness of the framework, a report was now presented on a regular basis detailing the key risks facing the authority and how they were being managed.

Members noted the involvement and role played by Councillor Ann McLachlan in the examination of a number of the most critical corporate risks at her Portfolio Member briefings.

Members questioned the Officers on the matters of Transformational Change, and the Re-modelling Fund, particularly the use of the Fund to cover consultancy costs i.e. when the scale and pace of change could exceed organisational capacity. The Acting S151 Officer advised that the Fund had been established to meet costs associated with reducing the workforce and also as a fund for providing investment into services to assist with the delivery of improvements and efficiencies. The latter would include possible costs from temporary agency and short term contracts appointments.

Members noted that ongoing management processes were being undertaken to mitigate risk across different areas of the Council.

Members expressed their view on the need to record evidence to ensure resilience and security of I.T. and data, re-iterating the benefit of the Chief Information Officer's attendance at the Audit and Risk Management Committee meeting in September.

**Resolved – That**

- 1) progress on the management of the Council's corporate risks be noted; and**
- 2) further reports on the Corporate Risk Register be presented to future meetings of this Committee.**

**9 INSURANCE FUND ANNUAL REPORT**

The Audit and Risk Management Committee considered the report of the Acting S151 Officer that provided a review of the Risk and Insurance activity during 2014/15 and the plans for 2015/16 and beyond. The report 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 report covered key points in relation to the following:

- The Council's approach to Risk Financing;
- Principal Areas of Insured Risk – Liability;
- Changes in the Civil Justice Regime;
- Public Liability Claims Statistics;
- Employers Liability Claims Statistics;
- Property and Business Interruption;
- Motor Insurance;
- Other Classes of Business;
- Review of Liability Reserves and Provisions;
- Insurance and Risk Management 2014/15; and
- Insurance Management 2015/16 and beyond – setting out key dates as follows:

<b>Task</b>	<b>Target Date</b>
Procurement of Civil Litigation Defence Services	1 June 2015
Negotiate annual renewal of Property, All Risks, Money, Fidelity Guarantee and Personal Accident / Business Travel policies	30 June 2015
Possible extension of the Liability insurance contract	30 September 2015
Compile the Insurance Fund Budget 2016/17	January 2016
Negotiate annual renewal of the Motor, Engineering and Foster Care policies.	March 2016
Procurement of Computer insurance policy	March 2016

Members noted the work undertaken by Officers, and that a reduction of 12% new Public Liability claims had been achieved against the previous year.

In answer to a question from a Member, the Deputy Risk and Insurance Officer informed that, in relation to highways matters this reduction was achieved with the support of the Highways Team within the Regeneration & Environment Directorate and that information on claims was mapped by locality.

The report also contained a review of other reserves and provisions – including the closedown of the Insurance Fund accounts for 2014/15 and review / amendment of the reserves and provisions held within it. Members were requested to endorse the following actions:

- i) the release of £1m from the Insured Liability Reserve to the General Fund; and

- ii) the release of the operating surplus of £238,000 to the General Fund.

**Resolved - That**

- 1) the report be noted;
- 2) members endorse the release of monies from the Insurance Fund to the General Fund as follows:
  - i) The release of £1m from the Insured Liability Reserve to the General Fund;
  - ii) The release of the operating surplus of £238,000 to the General Fund; and
- 3) the Insurance Fund Budget 2016/17 be prepared for presentation to the Audit and Risk Management Committee in January 2016.

10 **DRAFT ANNUAL GOVERNANCE STATEMENT 2014/15**

The Acting S151 presented the report of the Strategic Director Transformation & Resources, which identified and explained the planned approach for the production of the Council's Annual Governance Statement for 2014/2015. The report (in draft) provided an outline of the work required to prepare the Statement in compliance with statutory requirements set out in the Accounts and Audit Regulations 2011 and the principles identified in the CIPFA SOLACE Framework – Delivering Good Governance in Local Government. Members noted that a final version of the Annual Governance Statement will be reported to the Committee in September 2015

The report outlined the role of the Members and Senior Officers in the production of a robust and accurate Statement and highlighted indicative dates and timescales. These specifically included the areas of:

- Responsibility;
- Purpose of the Governance Framework;
- Overview of Council Progress;
- 6 Core Principles of the Governance Framework;
- Reviewing Effectiveness; and
- Significant Governance Issues.

Members were advised and noted, that four significant governance issues were being addressed, namely:- I.T. Business Continuity and Resilience Plans, Corporate Procurement arrangement, Absence management and Organisational culture.

The Head of Legal and Member Services informed of work yet to be undertaken by the Member-led Standards and Constitutional Oversight Committee on a review of the Council's procedure rules.

Members noted that the draft Statement would be signed by the Leader and the Chief Executive. The final version of the Annual Governance Statement 2014/15 would be presented to the next meeting of the Audit and Risk Management Committee.

**Resolved – That**

- 1) the approach outlined in the report now submitted with regard to the production of the Annual Governance Statement 2014/2015, be endorsed and supported; and**
- 2) a final version of the Annual Governance Statement 2014/15 be presented to the Audit and Risk Management Committee in September 2015.**

**11 AUDIT COMMITTEE UPDATE**

Mr Chris Whittingham of Grant Thornton UK LLP, the Council's external auditors, presented a verbal report to Members on work being undertaken with regard to the operation of the Council.

Members were informed that the Council's Statement of Accounts 2014/15, has to be prepared by 30 June. The Statement is then subject to review by the auditors who will present for consideration by the Committee their findings in September 2015.

The Auditor provided a brief update on a number of subjects which form part of the review, that included:

- Completion of the interim test of management processes;
- Draft report of I.T. work – jointly undertaken with Council Officers;
- Financial review; and
- Value for Money work.

**Resolved – That the verbal update be noted.**

**12 AUDIT FEE LETTER 2015/16**

Mr Chris Whittingham of Grant Thornton UK LLP, the Council's external auditors, presented a summary of the scope and scale of audit fees for the 2015/16 audit – 'Audit Fee Letter' 2015/16.

The external auditor's letter set timings for the audit planning and interim audit procedures in November 2015 to March 2016, setting out timings for the audit plan and schedule for when findings and details of the audit approach would be issued. The letter also informed that the final accounts audit and work on the Value for Money conclusion would be presented in September 2016.

The report informed that the Council's scale fee for 2015/16 had been set by the Audit Commission at £159,863, which compared to the audit fee of £213,150 for 2014/15, and that the reduction in fees had been enabled by the procurement exercises run by the Commission across both the Local Government and Health sectors.

The Council's indicative grant certification fee had been set by the Audit Commission at £24,920, and the scale fee for the audit of the pension fund at £36,882.

No questions were asked.

Members thanked the Auditor for the clarity of the report and explanation of process.

**Resolved – That the External Auditor's Scale of Fees 2015/16 be received.**

### 13 **USE OF OFFICER DECISION NOTICES PERMITTED UNDER THE COUNCIL CONTRACT PROCEDURE RULES**

The Acting S151 Officer presented the report of the Head of Procurement that set out the range and number of contracts awarded which have been subject to Contracts Procedure Rules E111 – Extension / Variation or Waiver and Rules E117 to E123 – Waiving the Rules. Contracts Procedure Rule E123 requires that all contracts which meet the criteria are reported to Audit and Risk Management Committee.

At the meeting of the Audit and Risk Management Committee held on 18 March 2015 (minute no. 56 refers), Members had requested further detail relating to the reason for the variations.

Members considered the report appendix that detailed cases subject to the Extension/Variation or Waiver rules for the period 1 December 2013 to 31 March 2015.

Members questioned the Acting S151 Officer on a number of points relating to contract extension and value for money (VFM). The Officer informed that extensions were only permissible if the ability to extend was specified within the contract and the agreement to the extension was subject to review to ensure VFM was achieved. He further informed that if the ability to extend

was not stated or that the permitted extension had been applied a re-tendering exercise would be required.

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

14 **REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA)**

The Head of Legal and Member Services presented a summary of the use of covert surveillance by the Council, to detect evidence of criminal behaviour, between 27 January and 26 May 2015.

The report informed that during this period, the Council had used covert surveillance with the intention of detecting evidence of criminal behaviour, and that on 13 April 2015 a magistrate had approved an authorisation to use covert surveillance to detect suspected flytipping on a site in the Wirral.

Members were further informed that a similar offence had been detected by means of prior covert surveillance, and that on 3 March 2015 a member of the public had pleaded guilty to an offence committed on 25 July 2014 of unlawful flytipping in Brimstage Lane, and had been sentenced and fined accordingly.

Members questioned the Head of Legal and Member Services with regard to the cost of 'clean up' in these cases. Members were advised that it was the aim of the Council to maximise the recovery of all costs wherever possible.

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