

AUDIT AND RISK MANAGEMENT COMMITTEE

Monday, 23 July 2018

Present: Councillor AER Jones (Chair)

Councillors RL Abbey D Elderton
A Davies JE Green
P Doughty EA Grey

Deputies: Councillors C Carubia (In place of P Gilchrist)
L Rowlands (In place of T Anderson)

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.

Councillor Jeff Green, with the permission of the Chair, then expressed his thanks to Councillor Christina Muspratt for her contribution to the Committee over the past year and indeed to all retiring Members from the Committee.

The Chair echoed the sentiments expressed and commented that all the Committee would agree.

2 MINUTES

Resolved – That the minutes of the meeting held on 12 March, 2018 be approved.

3 HIGHWAYS MAINTENANCE CONTRACT

Further to minute 64, of 12 March, 2018, the Strategic Commissioner for Environment, Mark Smith, introduced his report on the re-commissioning of Highway Services from October, 2018. Bam Nuttall (BAMN) recently agreed that the current strategic contract for Highway Services, worth approximately £6M per annum, would come to an end on 30 September 2018 after a six month extension to the original four year contract that commenced in April 2014.

Following an options appraisal process, approval was given in November 2017 to bring the Highways contract back under Wirral Council's control from 1st October 2018.

At the last meeting of the Committee on 12 March 2018, the high-profile nature and progress of the Highways Re-commissioning Project was discussed and it was resolved that 'the Committee wish to be satisfied by way of a written report that the procedures are in place to ensure full preparation for transfer i.e. costings are in place for plant, equipment, materials, adequate supervision and management resources; and that the issue be subject of an additional entry in the risk register'.

The report gave details of the management of the transfer project, including:

- HR / staffing and health and safety
- Depot premises and ICT / Communications
- Commissioned work
- Plant, equipment, vehicles and stock and materials

He expanded on a number of these areas and confirmed his expectation that the transfer would all run smoothly for 1 October, 2018.

In response to Members' comments, Mark Smith's comments included:

- BAMN, along with any other company would be able to bid to undertake contracted out works, they did not have any status on any preferred list and these works would be placed on the Chest (the North West's Local Authority Procurement Portal) for bids
- He would be able to supply a copy of a staffing structure.
- The seven 'planned structural and transport' contracts listed in the report had always been delivered externally as there were only certain firms which could do some types of work; all local authorities used big firms within the Highways industry.
- Once the contract was in-house the authority would be looking at all the routine and reactive work, currently worth approximately £2m per annum, and he had already had suggestions from Members and the public as to how some of this work could be undertaken in new and innovative ways.
- He did expect a large number of the 25 BAMN employees, eligible to transfer under the TUPE regulations, to transfer. There were a mix of employees within the 25 including some senior people too.
- Once the transfer had gone through there would be an operational arm through delivery services and client and supervising teams within the Council with the need to ensure a robust contract management function was in place. Some opportunities would arise as there was a separate client team of inspectors and some supervisors working in BAMN, who would transfer across working alongside Highways Inspectors in the

Council. Further work would be undertaken over the next 6 to 12 months in transforming the service.

- He assured the Committee that he had talked to colleagues in Risk Management and service risk plans would be updated to take account of the transfer on 1 October, 2018.
- Discussions had been held with staffing agencies regarding temporary cover being provided within a week if not all staff chose to transfer at the last possible minute.
- With regard to quality of work, he confirmed that a performance management framework would be in place for all of this work and there would be a Service Level Agreement between delivery services and those in a supervisory role. Indeed, the Council would from 1 October have a greater degree of control in that sub-contractors would be reporting directly to the Council.

Resolved – That the report be noted.

4 **INTERNAL AUDIT UPDATE**

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 March to 31 May 2018. The items of note were:

- Accounts Payable
- Merseyside Pension Fund
- Wirral Growth Company
- ICT Audit

and he gave details of audit work undertaken in these areas and identified how any actions arising were being addressed by officers.

In response to a question raised at the previous meeting in March (minute 66 refers) Mark Niblock referred to HMRC IR35 regulations and of 187 active placements only 4 were outside IR35 and he had been advised by HR that engaging staff in this way was fairly rare and was certainly not a developing trend.

In response to comments from Members, Mark Niblock's comments included:

- A number of audits had been completed since the report was written so the target for the period had now been reached.
- He confirmed that a report on Council Partnerships would be brought back to a future meeting of the Committee by relevant officers identifying and mapping governance arrangements currently in place.

- With regard to the Wirral Growth Company his team would continue to input to the Project Board advising on risks and controls and he would be able to provide some more information in future updates to the Committee.
- The Director for Children did attend the last meeting of the Committee and further information would be provided at the next meeting as to where Children's Services were up to in terms of training with regard to grievances.

Resolved – That the report be noted.

5 CHIEF INTERNAL AUDITORS ANNUAL REPORT 2017-18

The Chief Internal Auditor, Mark Niblock, introduced his Annual report for 2017/18 which provided an overall opinion as to the effectiveness of the Council's control environment. He directed the Committee's attention to Sections 4 and 5 of the report that set out the Audit Outcomes for 2017/18 and the Effectiveness of Internal Audit for the same period. He stated that his overall opinion was that:

“On the basis of our programme of work last year, I can provide good assurance overall that there is a generally sound system of internal control, designed to meet the Council's objectives, and controls are generally being applied consistently.

However some weaknesses in the design and inconsistent application of controls put the achievement of some key objectives at risk. The key governance, risk and internal control issues of which the Chief Internal Auditor was made aware during the year and that impact on the overall opinion are included within Sections 3 and 4 of this report.”

Responding to comments from Members, Mark Niblock stated that with regard to compliance with Council Policy on absence management and other corporate systems there had clearly been underlying issues experienced during the year and that action was now being taken by senior management to address these that included the Director of Finance and Investments (Section 151 officer) leading an officer group to identify and implement actions required to improve arrangements.

The Director of Finance and Investment, Shaer Halewood, then responded to further questions from Members and her comments included:

- The Transformation programme was discussed in the Medium Term Financial Strategy report later in the agenda and had been reset. The Transformation savings of nearly £40m, some now wouldn't be delivered in the way they were due to be delivered and a comprehensive process had been set in place to found out why this was.

- A review of spending was now in place, not a 'spending freeze', this was nothing to do with not being able to balance the budget, the first quarter report had just been presented to Cabinet, which showed a slight overspend currently of £617,000 on a £301m budget for the year.
- Plans were in place to mitigate this overspend and two spending panels were in place, one for vacancies and one for expenditure with three separate people on each, no spends had as yet been rejected but examples of best practice had been found which would lead to efficiencies across the Council.
- There was a £37.8m programme for transformation savings over 3 years within five areas: Leisure and Cultural review due to be delivered in 2021; Access Wirral due to be delivered in 2021, some savings to come out earlier than that; Adult Social Care Integration due to be delivered over three years, fully on target and all these savings would be delivered; Children's Services savings due to be delivered over three years were on target; Community Safety, the Safer Wirral Hub savings to be delivered by 2021 but hoping to deliver earlier, so the majority of these savings were on target.
- For 2018/19 there was one off funding of £10m from capital receipts which the Government had enabled the Council to use for revenue funding as long as it could be demonstrated that it was transforming a service.
- The re-basing of transformation savings was undertaken in February, 2017 at £37.8m and a report would be going to Cabinet in December, so a report could be brought back to this Committee on how the programme was being managed and the savings realised.

Resolved – That the report be noted.

6 **ARMC ANNUAL REPORT 2017-18**

The Chair, supported by the Chief Internal Auditor, introduced the Audit and Risk Management Committee Chair's Annual Report 2017/18.

Prepared in consultation with Internal Audit, the Chair's Annual Report for 2017/18 had been compiled in accordance with the CIPFA best practice publication, 'Practical Guidance for Local Authority Audit Committees.'

Councillor Jeff Green referred to the fact that he was the Conservative spokesperson on the Committee in 2017/18 and not former Councillor John Hale.

Resolved – That the draft Annual Report be approved and submitted to Cabinet, subject to the amendment to the membership list at paragraph 4.1 of the Annual Report.

7 **ANTI-MONEY LAUNDERING POLICY UPDATE**

The Chief Internal Auditor, Mark Niblock, introduced a report which sought the Committee's approval for the draft Anti-Money Laundering Policy and its accompanying guidance notes. This would ensure that the Anti-Money Laundering Policy was up to date and complied with the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017.

Responding to a Member's comment Mark Niblock informed the meeting that targeted instruction and training would be undertaken with relevant front line staff once the policy was approved.

Resolved –

That the following Policy and accompanying guidance notes be approved:

- (1) Anti-Money Laundering Policy (Appendix A);**
- (2) Briefing Note for front line Employees (Appendix 1);**
- (3) Verification of Customer Identity form (Appendix 2);**
- (4) Customer Due Diligence Procedure – Evidence document (Appendix 3);**
- (5) Offences Table (Appendix 4).**

8 **IMPROVEMENTS TO THE CORPORATE RISK MANAGEMENT FRAMEWORK**

Further to minute 72 (12 March, 2018), the Senior Risk and Insurance Officer, Mike Lane, introduced a report which summarised subsequent developments in relation to those proposals for ensuring that the corporate risk register reflected the most significant risks to delivery of the Council's objectives and enhanced arrangements for its oversight but which also set out a number of actions to support broader improvements to the Council's approach to risk. The Strategic Leadership Team had considered an initial set of proposals and then undertaken the first of a number of workshops on the subject and the report outlined the action to be taken over the coming months.

In response to comments from Members, Mike Lane agreed that it would be a very sensible idea for Members to have a workshop to give their input into an improved framework. He assured the Committee that officer discussions and improvements to the risk register would be discussed with the Committee and not presented as a fait accompli.

A Member suggested and it was agreed that, 'This Committee should engage in the process of defining and identifying the Council's risk management strategy and the key corporate risks. That this Committee is involved in that

process and looks for greater clarity in terms of the responsibilities for the Council, this Committee (under its terms of reference) and the Cabinet, with an understanding of where the baseline for risk starts.'

Resolved -

(1) That Progress reports on improvement actions are brought to future meetings of the committee.

(2) That this Committee should engage in the process of defining and identifying the Council's risk management strategy and the key corporate risks. That this Committee is involved in that process and looks for greater clarity in terms of the responsibilities for the Council, this Committee (under its terms of reference) and the Cabinet with an understanding of where the baseline for risk starts.

9 MANAGEMENT OF INSURANCE AND CORPORATE RISK

The Senior Risk and Insurance Officer, Mike Lane, introduced the report of the Director of Finance and Investment which provided a regular update on the work undertaken in relation to Insurance and Risk Management activities and the key actions planned for 2018/19. Progress since the last report in respect of the following key actions was summarised in the report:

- Corporate Risk Register
- Improvements to the Risk Management Framework
- Traded Services for Schools and Academies
- Procurement of Property / Business Interruption, Museums, Crime, Terrorism and Personal Accident / Business Travel Insurance
- Annual Renewal of Liability, Motor, Engineering and Computer Insurance Policies
- Liability Claims Handling
- Insurance Fund Annual Report

In response to comments from Members, Mike Lane stated that the increase in the number of Academy Schools was something his team was very much alive to as the pool of contributors to the Insurance Fund shrank. Although they could offer support to Academies through the procurement process, for which they did receive a fee, they could not provide the insurance as the Academies were separate legal entities. The list of schools outsourcing their insurance arrangements was a concern as in 2010/11 there were 120 schools contributing and currently this was down to 90. He acknowledged that a point could be reached where some arrangements became unsustainable.

The Committee thanked Mike Lane and all his team for all their work.

Resolved – That the report be noted.

10 INSURANCE FUND ANNUAL REPORT

The Senior Risk and Insurance Officer, Mike Lane, introduced the report of the Director of Finance and Investment which provided a review of Risk and Insurance activity during 2017/18 and the plans for 2018/19 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 2017/18 were also confirmed.

Responding to Members' comments, Mike Lane commented that although the Council didn't have any of its own housing stock, it did have many buildings in which a large number of people gathered, such as schools and leisure centres and that was the reason why it would be looking at increasing the limit of indemnity on its liability insurance from the current £50m to at least £100m following the tragic fire at Grenfell Tower in June 2017.

The Committee thanked Mike Lane for his report.

Resolved –

(1) That the Committee endorses the release of monies from the Insurance Fund to the General Fund indicated as follows:

- (i). The release of £675,000 from the provision and reserve for Liability claims to the General Fund.**
- (ii). The release of £1,325,000 from the reserve for Business Continuity and Resilience to the General Fund.**

(2) That the Insurance Fund Budget 2019/20 be prepared for presentation to this committee in January 2019.

11 PENSION COMMITTEE MINUTES

The Audit and Risk Management Committee considered minute 4 of the Pensions Committee (16 July 2018) in respect of the Audit Findings, Statement of Accounts MPF 2017/18 and Letter of Representation.

Resolved – That the minute of the meeting held on 16 July 2018, be received.

12 COUNCIL ACCOUNTS 2017/18

At the suggestion of the Director of Finance and Investment, Shaer Halewood, the Chair then agreed that the External Audit Findings for both the Merseyside Pension Fund and the Council be considered concurrently.

Mr Robin Baker of Grant Thornton UK LLP, presented the reports and thanked both the Grant Thornton team and the Council's Finance Department for all their work in preparing the accounts two months earlier than would normally be the case. They had concluded that there were no material errors or uncertainties and would be issuing an unqualified audit opinion in respect of both sets of accounts, subject to the Committee approving the accounts.

The Draft Annual Governance Statement (AGS) was not included with the accounts but was prepared by 8 June and he recommended that in future the AGS be included on time.

Mr Baker referred to the fact that although progress had been made with Children's Services following the Ofsted inspection because they were still assessed as 'inadequate' a 'qualified except for' Value for Money conclusion would be issued.

In response to Members' comments, Mr Baker confirmed that they had had good co-operation in terms of completing the audit and the outstanding work had now been completed satisfactorily. He clarified that as he understood it only a further full Ofsted inspection could alter the current 'inadequate' assessment. He elaborated on the outstanding objection with regard to Lender Option Borrower Option and he would hope to determine this in the near future, he was aware of similar objections at other Councils.

Shaer Halewood responded to a Member's comment that there were no plans for the use of one-offs, reserves and asset sales for future budgets from 2019/20 and that she would only allow these if there was a longer term sustainable plan to pay these back in future years. She would also be reviewing the two types of reserves, general fund balances and earmarked reserves.

Shaer Halewood then confirmed the items which the Committee were being asked to approve which were:

- the Merseyside Pension Fund Accounts
- the Council's Statement of Accounts including the Annual Governance Statement
- the Audit findings in respect of the MPF and the Council

Shaer Halewood thanked all the team in Finance who had worked on getting the accounts ready in time led by Jenny Spick, Senior Manager Financial Planning and Policy, who then introduced the report on the accounts.

Shaer Halewood then responded to further comments regarding the Annual Governance Statement and confirmed that 98 per cent of officers (excluding those in Children's Services) had received performance appraisals in 2017/18 and that she would be happy to amend the wording in the AGS to this effect.

A Member expressed concerns regarding some of parts of the AGS, including the sentence, 'Utilising the Wirral View publication and associated website to communicate and share information with stakeholders.' He also referred to the sentence, 'Effective use of transformational expertise and capacity', when the Transformation programme had been pushed back to 2021 having started in 2016 for three years. He was content to support the financial statement but could not support the Annual Governance Statement and suggested that the vote be separated out on approving the AGS.

With regard to the matter of Equality Impact Assessments, the Director of Governance and Assurance, Philip McCourt, confirmed that this was built into the Cabinet reports processes. He then clarified what the Committee were being asked to approve.

On a motion by Councillor Ron Abbey, seconded by Councillor Angela Davies, it was –

Resolved (5:4 on the Chair's casting vote) – That the voting be taken en bloc on the matters before the Committee.

On a further motion by Councillor Ron Abbey, seconded by Councillor Angela Davies, it was –

Resolved (5:4) – That:

- (1) Having considered the amendments to the accounts, the Audit Findings Report and the Letter of Representation the audited Statement of Accounts for the Merseyside Pension Fund for 2017/18 be approved and signed accordingly;**
- (2) the Audit Findings Report presented by Grant Thornton be noted, agreeing the actions taken over the amendments to the Statement of Accounts as detailed in section 3 of the report now submitted;**
- (3) the Council's 2017/18 Statement of Accounts, incorporating the Annual Governance Statement (amended to take account of the comments on performance appraisals), be approved as presenting a true and fair view of the Council's income and expenditure for the year and its overall financial position;**
- (4) the Chair of the Audit and Risk Management Committee and Director of Finance and Investment (S151) be authorised to sign off the Letter of Representation.**

MEDIUM TERM FINANCIAL STRATEGY 2019/20 - 2022/23

The Director of Finance and Investment, Shaer Halewood, introduced a report on the Medium Term Financial Strategy (MTFS) 2019/20 to 2022/23, as shown in Appendix 1 to the report which was agreed at Cabinet on the 16 July 2018. The MTFS represented the financial plan required to deliver the pledges and outcomes as set out in the Wirral Plan. It was also a key element in the improvement of the Council's financial sustainability.

Responding to comments from Members, the Director of Governance and Assurance, Philip McCourt, stated that it was Cabinet's job to formulate the budget over the year and for the budget to then be put before Council in March for approval. If there was an adjustment to the budget during the year which resulted in a decision contrary to the budget set in March then that decision would need to go before Council. He clarified that the budget approved by Council in March set out various funds which the Executive had to spend on various services and set a ceiling (subject to virement) but it didn't require that money to be spent.

In response to a Member's comment, Shaer Halewood stated that the temporary investment into Children's Services was being paid back and that £5.2m had already been paid back in 2018/19 with proposals in place for a further £3.7m to be paid back in 2019/20.

Resolved – That the Council's Medium Term Financial Strategy 2019/20 to 2022/23, be noted.