

# AUDIT AND RISK MANAGEMENT COMMITTEE

Monday, 11 March 2019

Present: Councillor AER Jones (Chair)

Councillors	RL Abbey	JE Green
	A Davies	D Elderton
	P Doughty	P Gilchrist
	J McManus	

Deputies: Councillors K Hodson (In place of T Anderson)

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

Members of the Committee were requested to declare whether they had any disclosable pecuniary interests and/or any other relevant interest in the item on this agenda and, if so, to declare it and state the nature of such interest.

No such declarations were made.

## 60 MINUTES

The Committee was requested to approve the accuracy of the minutes of the meeting of 28 January 2019.

**Resolved – That the minutes of the meeting of 28 January 2019, be approved.**

## 61 INTERNAL AUDIT REVIEW INTO PAYMENTS MADE TO FORGE HOUSE ASSOCIATES LTD

Mark Niblock, Chief Internal Auditor, introduced his report that provided Members of the Audit and Risk Management Committee with the outcome from an Internal Audit review, following a referral made to Internal Audit, regarding concerns that the Council had paid invoices to a company for consultancy services, that was listed on “Companies House” as dissolved and the VAT registration number used by the company was invalid.

The report informed that an initial review of concerns relating to the payment of consultancy services to Forge House Associates Limited had been undertaken by Officers within the Financial Management Team in January 2019, and as a result of the review it was recommended that Internal Audit

undertake further work in relation to concerns raised. This work had been completed by Internal Audit in early February 2019.

The findings from the Internal Audit review identified that despite the Council's procedures being followed correctly in relation to the validation of the change in bank details, ensuring the supplier invoices were arithmetically correct and that the VAT registration number was quoted on the supplier invoices, the Council had paid invoices to a company in good faith that no longer legally existed and whose VAT number has been declared invalid by the tax authorities.

The report further informed that the Internal Audit review had identified additional actions to correct the current VAT position and strengthen internal controls to prevent a reoccurrence. One recommendation in particular, that had been made and implemented during the review was to commission Internal Audit to undertake detailed reviews, to provide management with assurances regarding the efficiency and effectiveness of the systems in operation in respect of (i) the verification of the validity of supplier VAT registration numbers; and (ii) the appointment and employment status of interims/contractors.

Members highlighted concerns regarding procedures, actions and decisions in respect of this matter that were under the purview of the Chief Internal Auditor, the Director of Finance and Investment (S151) and the Chief Executive.

The Chair pointed out that a Member of the Audit and Risk Management Committee (also Member of the Employment and Appointments Committee) had raised concerns regarding this appointment at an early stage in the contract / selection process.

Members expressed views on areas of concern relating to the payments, control procedures and communication between Officers undertaking the day to day processing, Senior Management and the Chief Executive. These included, specifically:

- the taking up, and checking of references;
- when, and by whom the irregularities had been identified;
- when, and by whom the irregularities had been reported;
- whether system procedures were sufficiently robust, or just not followed;
- a 'disconnect' in communications between Officers – given that the issue had been considered by senior officers on 16 January, and that the employment appointment had been actioned by the Chief Executive on 24 January;
- why all contractors were not paid via the Council's payroll and were not managed using HMRC's IR35 tax procedures.

The Director of Governance and Assurance informed that there had been a level of disconnect between the Company's VAT element and the appointment of an individual in this case. He added that although IR35 was one method of contracting employment services, IR35 only affected contractors who did not meet HMRC's definition of self-employment and that if Committee so instructed, a follow-up report would be commissioned.

The Director of Governance and Assurance further informed of other elements to be considered when employing consultants and agency workers - either via payroll or through umbrella companies – and issues surrounding IR35 and self-employment status. These included direct employee status, market rates, equal pay issues, the contracted relationship between the contractor and the Council. He informed that advice should be sought before making such decisions and/or appointments.

The Chief Internal Auditor advised that additional work undertaken since the production of his report would also be incorporated into the follow-up report, and Internal Audit would undertake detailed reviews, to provide Councillors and management with assurances regarding the efficiency and effectiveness of the systems in operation in the following areas:

- (i) Verification of the validity of supplier VAT registration numbers; and
- (ii) Appointment and employment status of Interims/Contractors.

A Member suggested that it would be appropriate that a listing of contractors also be circulated to Members of the Audit and Risk Management Committee on a regular basis.

Members questioned the Officers further on matters relating to the timeline of this case, actions and procedures e.g. checking of invoices and works undertaken, the authorisation of invoices, amendment of bank account details, and the responsibility for investigations into VAT tax fraud.

Councillor Green added that he expected the follow-up report would seek to inform the Committee by contrasting and comparing any similarities with issues involving the same contractor at York City Council and the procedures employed there.

A Member expressed his alarm that the discussion of possible exempt items of business should occur during purdah. The Director of Governance and Assurance informed that it was entirely reasonable for the commissioned report to be discussed during purdah, however the narrowing of discussion onto specific issues of the investigation under discussion was not the purpose of the follow up report, which was to focus upon operational systems.

The Director of Governance and Assurance clarified that the work he had commissioned sought to provide Councillors with assurances regarding the efficiency and effectiveness of the systems in operation i.e. verification of the validity of supplier VAT registration numbers and the procedures for appointment and employment of Interims and Contractors.

Councillor Phil Gilchrist moved, and it was duly seconded by Councillor Jeff Green that a special meeting of the Committee be arranged as soon as possible to consider the results of the further investigations and progress with any subsequent investigatory work to answer the points raised by Members.

**Resolved (6:2) – That**

- (1) the report be noted; and**
- (2) a special meeting of the Committee be arranged as soon as possible to consider the results of the further investigations and progress with any subsequent investigatory work to answer the points raised by Members.**

62 **MEDIUM TERM FINANCIAL STRATEGY**

The Director of Finance and Investment (S151) introduced her report that provided the Audit and Risk Management Committee with a position statement on the 2017/21 Medium Term Financial Strategy (MTFS) agreed in February 2017 and progress on proposals, and to provide an updated 2019/23 MTFS as presented to Council for approval on 4 March 2019.

The report informed that the Delivering Differently programme (the programme) had been established to help meet a cumulative budget gap of £132m over the four-year period. The programme included proposals totalling £40.2m developed to help meet the budget gap, and although proposals covered the four-year span 2017/21.

The Director of Finance and Investment (S151) updated Members on the programme and information on savings proposals, as at the time of writing the report, alongside progress made to date. The programme included:

- Leisure and Cultural Services;
- Access Wirral;
- Community Safety (Safer Wirral);
- Adult Social Care Integration;
- Children’s Services Managing Demand; and
- 2019/23 MTFS (included as an appendix to the report).

Members were apprised that, in some individual cases, not all details were fully formed i.e. scheduled for the year 2021 necessitating referral back to the Cabinet for approval at an appropriate time.

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

## 63 INTERNAL AUDIT UPDATE

Mark Niblock, Chief Internal Auditor, introduced his report that identified and evaluated the performance of the Internal Audit Service and included four items of note arising from the actual work undertaken during the period 1 January to 28 February 2019. The items of note were:

Annual Governance Statement - The Chief Internal Auditor's report informed that work was in progress, in conjunction with colleagues from Governance and Assurance (Legal), to support the preparation of the Annual Governance Statement for 2018/19. Outcomes from this work were to be reported to the Corporate Governance Group and SLT prior to consideration by Members and other stakeholders in May 2019.

Integrated Commissioning – The report informed that a joint audit review with Merseyside Internal Audit Agency (CCG Internal Auditors) had recently been completed culminating in the preparation of a position statement. Further joint audit work was planned for 2019/20, the outcomes of which were to be reported to Members of this Committee.

Merseyside Pension Fund (MPF) - The Chief Internal Auditor's report informed that, at the request of the Director of MPF, an audit had been conducted as part of the Internal Audit Plan for 2018/19 to ensure the risks associated with the proposed investment system and processes have been appropriately addressed. The review concluded that the development process for the Internal Factor Portfolio has been robust and the proposed control environment for the operation of the Portfolio was considered effective.

Regeneration Projects - The report informed that Internal Audit were providing input to key strategic initiatives on an ongoing basis supporting regeneration project initiatives, providing advice and guidance on a range of governance related issues to ensure that effective control environments were in operation. Projects included:

- Wirral Waters
- New Ferry Fund Workshop
- Markets

The Chief Internal Auditor further apprised the Audit and Risk Management Committee on outstanding audit recommendations, internal audit performance indicators and internal audit developments. He was pleased to report that, at

the time of reporting there were no outstanding items and no significant issues arising. The Chief Internal Auditor also provided examples of work underway to improve the overall efficiency and effectiveness of the Internal Audit Service.

Members questioned the Chief Internal Auditor if sufficient resources were in place to ensure that the service continued to deliver an efficient and effective service. Mr Niblock confirmed that this was the case.

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

## 64 INTERNAL AUDIT ANNUAL PLAN 2019/20

Mark Niblock, Chief Internal Auditor, introduced his report that identified the Internal Audit Plan of work for 2019/20. Work scheduled for completion had been included to reflect the findings of the extensive planning exercise recently undertaken to identify organisational risk.

The Chief Internal Auditor informed that the Internal Audit Plan (the Audit Plan), was prepared annually in accordance with the requirements of the Public Sector Internal Audit Standards, and set out details of the:

- Responsibilities and scope of internal audit
- Resourcing and delivery of the Council's internal audit service;
- Arrangements for reporting internal audit work; and
- Proposed programme of work for 2019/20 (the Audit Plan).

The Chief Internal Auditor further informed that the Audit Plan contained an explanation of how it had been prepared, a list of proposed review areas for inclusion in the forthcoming year, and how it operated on a 12 monthly cycle in line with professional best practice. He added that this aimed to ensure adequate mitigation of risk, given the dynamic nature and changeable environment the Council was currently working in, with fundamental changes in the way services were being delivered that would undoubtedly mean that the Council would face significant and different kinds of risk to those experienced in the past.

The Audit and Risk Management Committee was apprised of how assurance options were either already in place, or under development, providing direction for assessments and any actions required to implement necessary improvements. The Chief Internal Auditor highlighted the Plan's direct link to the Council's Corporate Risk Register and engagement with Senior Management's regarding the number of days allocated to each area of audit. He added that engaging closely with other organisational Heads of Audit and internal / external professionals, the audit work also closely followed the Council's corporate strategies, and policy procedures and public sector standards.

The Chief Internal Auditor re-iterated his earlier statement (re: Internal Audit Update) that the allocation of audit days, and resources available to him, were sufficient to adequately undertake the necessary audit functions and to provide his annual internal audit assurance opinion.

A Member expressed their satisfaction with the Audit Plan, endorsing the proposed actions and noted the allocation of 'contingency days' allowing flexibility in allocation of resources if required. A Member (and Chair of the Pensions Committee) highlighted his request that a separation of responsibilities be considered when dealing with audits relating to the Pension Fund. The Chief Internal Auditor informed that he would be happy to discuss the matter with the Member. Other Members of the Committee highlighted a need for continued oversight of the Council's governance arrangements and requested information on the commissioning of pieces of internal audit work. The Chief Internal Auditor informed that the Audit Plan was essentially based upon assessed risk, and input / requests from Councillors.

**Resolved – That the work proposed in the Internal Audit Plan 2019/20 be endorsed.**

## 65 INTERNAL AUDIT COUNTER FRAUD UPDATE

Mark Niblock, Chief Internal Auditor, introduced his report that provided the Audit and Risk Management Committee with an update on the activities of the Counter-Fraud Team within Internal Audit covering the Municipal Year 2018/19 to date. The report also informed that although the Counter-Fraud Team worked closely and collaboratively with the Fraud and Compliance Team within Revenues and Benefits, the report did not include the extensive specialist activities of their work which was the subject of separate report to Members.

3.1 The report highlighted that the main areas of fraud within the public sector, as highlighted by the Counter Fraud Centre, were:

- Business Rates;
- Procurement;
- Social Care and Welfare Assistance;
- Council Tax;
- Disabled Parking (Blue Badge);
- Debt;
- Insurance Claims;
- Economic and voluntary sector (grant fraud);
- Recruitment Fraud; and
- Insider Fraud – payroll / expenses/ abuse of works time or position.

3.2 The report also identified that the primary role of the Counter Fraud Team was to:

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

The report further identified the activities taken by the Counter-Fraud Team that included:

- Engagement with Fraud Groups – i.e. the Mersey Region Fraud Group (MRFG) and the North West Chief Audit Executives Counter-Fraud Sub Group.
- National Fraud Initiative - the Council is required by law to participate.
- Self-Assessment against the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption – adhering to the Code of Practice on Managing the Risk of Fraud and Corruption, which although not currently mandatory, represents best practice and compliance and enables the Council to demonstrate effective financial stewardship of public monies.
- Training, Awareness and Reporting; and
- Audits and Investigations.

**Resolved – That the report be noted, and the work of the Counter Fraud Team be supported.**

## 66 DEVELOPMENT OF THE REVISED CORPORATE RISK REGISTER

Shaer Halewood, Director of Finance and Investment (S151) introduced her report that informed of the improved focus on the Council's most critical risks and enhancements to arrangements for managing risk. The report further informed that the leadership had a clear shared and current understanding of those risks and was fundamental to this aim. The Director of Finance and Investment reminded Members of earlier reports dated 24 September and 19 November 2018 and informed that work had been undertaken with the Strategic Leadership Team to draw out their view of the Council's most significant risks. The Director's report provided a further progress update in relation to that work.

The Audit and Risk Management Committee was apprised of plans to improve the Council's understanding of the actions taken in respect of mitigation of risk.



The Director of Finance and Investment (S151)'s report identified that the Internal Audit Plan for 2019/20 had been directly informed by the revised corporate risk register, and that how the forthcoming financial year's audits were planned to shed light on the effectiveness of existing mitigations and identify areas for improvement.

The Audit and Risk Management Committee was apprised that this work will also support the mapping of the key controls for each risk onto a 'three lines of defence' assurance model, to help aid the identification of any gaps in the control environment. The output from the exercise was to be shared with SLT and the Audit and Risk Management Committee to form part of future quarterly performance monitoring. SLT will consider each risk and decide whether it warranted addition to the Corporate Risk Register or should continue to be managed within the directorate or programme.

Director of Finance and Investment (S151) proposed that at each future meeting of the Audit and Risk Management Committee, Members consider one of the corporate risks in detail and invite the relevant officer / 'risk owner' to the meeting to explain actions taken to mitigate that risk.

Members welcomed the Director of Finance and Investment's proposal that an exercise will also be undertaken to draw out the appetite of political and executive leaders for each of the revised corporate risks.

Following discussion on the report, a Councillor Phil Gilchrist moved, and it was duly seconded that a third recommendation be added to those listed in the report, i.e. That "in the interest of continuity, arrangements be made to ensure that developments covered in Governance (*Corporate Risk Register - Risk Reference 7*) are shared across group leaderships". Following a show of hands, it was:

**Resolved – That**

- (1) the report be noted;**
- (2) Members examine one of the revised corporate risks in detail at each future meeting of the committee; and**
- (3) in the interest of continuity, arrangements be made to ensure that developments covered in Governance (*Corporate Risk Register - Risk Reference 7*) are shared across group leaderships.**

67 **MANAGEMENT OF INSURANCE AND CORPORATE RISK**

Shaer Halewood, Director of Finance and Investment (S151) introduced her report that informed of progress made in relation to key actions planned for

2018/19 - as had been reported to the Audit and Risk Management Committee at its 19 November 2018 meeting (minute 39 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 specific items of report were as follows:

- Corporate Risk Register (a matter of separate report on the meeting agenda);
- Improvements to the Risk Management Framework;
- Traded Services for Schools and Academies;
- Procurement of Replacement Claims Management Information System;
- Procurement of Motor Insurance and Engineering Inspection and Insurance Contracts;
- Renewal of Liability and Computer Insurance Contracts; and
- Renewal of Property, Crime, Museums All Risks and Personal Accident/Business Travel Insurance Contracts.

Members noted the report, and expressed their thanks to Mr Mike Lane, Senior Risk and Insurance Officer for his work in compiling the Risk Register.

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

## 68 RIPA

Colin Hughes, Group Solicitor introduced his report that informed the Audit and Risk Management Committee of the outcome of an inspection on 17 December 2018 by the Investigatory Powers Commissioner. The report also invited the Members to agree to additions to the Policy and Procedure Guidance on the Council's use of covert surveillance in the light of the revised Home Office Codes of Practice and the Inspector's report.

The Group Solicitor informed the Committee on the results of an inspection held on the 17 December 2018 on the Council's use of covert surveillance by Inspector Graham White, appointed by the Investigatory Powers Commissioner (IPC). Suspected criminal offences are regulated by the Regulation of Investigatory Powers Act 2000 and subsequent legislation, known locally as 'RIPA'. Mr Hughes added that surveillance covered by RIPA had to be approved by a Magistrate after being authorised by a Senior Officer of the Council. Members were apprised that the Council was also subject to 3 yearly inspections by the IPC, which was the reason for Mr White's visit in December.

The Group Solicitor informed that Mr White's inspection had identified that authorisations for covert surveillance were of a high standard, and technical

errors identified in an earlier inspection in 2015 had been corrected. Other points highlighted by the Inspector identified that:

- Annual training provided comprehensive relevant and gave accurate and useful advice to attendees.
- Training was supplemented by regular quarterly meetings of coordinators in various departments, with legal advice provided on areas of concern.
- The central register of authorisations had been kept under regular review, and reports on the use of covert surveillance were reported to the Audit and Risk Management Committee.

Mr Hughes brought Members attention to the Council's Policy and guidance documentation attached at appendix 3 to the report had been identified as of good quality, but had required updating to take into account recently published statutory guidance from the Home Office, particularly in relation to the monitoring of Social Media, and specifically in relation to detection and prevention of criminal offences i.e. safeguarding. Mr Hughes informed Members that the updates had been actioned and Social Workers had been invited to attend annual training, delivered on 2 October 2018 and subsequently to the quarterly meetings about RIPA.

Members congratulated Mr Hughes on the work he had undertaken over the years in respect of RIPA and thanked him for his efforts in this regard.

The Director of Governance and Assurance echoed Members comments informing that such inspections, carried out by Senior Police Officers and Military Intelligence Officers, were handled most effectively.

#### **Resolved – That**

- (1) the contents of the report of the Inspector appointed by the Investigatory Powers Commissioner on the use of covert surveillance by the Council be noted and its recommendations be adopted; and**
- (2) the amendments and additions to the Policy and Procedure Document contained in Appendix 3 on the use of powers under the Regulation of Investigatory Powers Act 2000 (RIPA) be approved.**

#### **69 EXTERNAL AUDIT - WIRRAL COUNCIL AUDIT PLAN 2018/19**

Mr Stuart Basnett, Assistant Manager Grant Thornton UK LLP presented the Audit Progress Report and Sector Update that summarised key findings arising from the work that the External Auditor had carried out in the delivery

of its responsibilities as Wirral Council's external auditors, as at 15 January 2019.

Mr Basnett informed that the Audit Plan 2018/19 contained all the key elements as reported to the January meeting of the Audit and Risk Management Committee when the draft update had been presented (Minute 55 refers). Had added that there had been no change in the approach to the audit and significant risks.

Members were apprised of various aspects of the External Auditor's work, that covered the following areas of report

Significant Risks - i.e. risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error. Identified as:

- Management Override of controls;
- Valuation of property, plant and equipment; and
- Valuation of Pension net liability.

The report informed that any significant findings in these areas, or any other significant matters arising from the audit would be reported to Members in the Audit Findings (ISA 260) Report.

Materiality – The External Auditor reported that it had been determined that planning materiality was £12.986 million for the Authority, that equated to 1.8% of the Council's prior year gross expenditure. The Auditor was obliged to report uncorrected omissions or misstatements other than those which were 'clearly trivial' to those charged with governance. This figure had been set at £649 thousand.

Value for Money (VFM) Arrangements – The External Auditor's risk assessment identified the following VFM significant risks:

- Financial planning and sustainability; and
- Ofsted inspection of Children's Services.

Audit Logistics – The External Auditor reported that their interim visit had been scheduled to take place in March, with final visit to take place in June-July. Key deliverables being the Audit Plan and Audit Findings Report. The fee for the audit was £123,095 (a reduction of £36,768 on the previous year).

Independence – The External Auditor stated compliance with the Financial Reporting Council's Ethical Standard – in expressing an objective opinion on the financial statements.

Members questioned the External Auditor and the Director of Finance and Investment (S151) on the sustainability of the Council's accounts and expressed concern that the Council appeared to be relying on the sale of assets and use of 'one-offs' over the past 2 years. A Member questioned whether there had been any progress in terms of assessment of savings assumptions.

The Director of Finance and Investment (S151) informed that Council Officers were in ongoing communication and held regular meetings with the External Auditors

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

70 **EXTERNAL AUDIT - WIRRAL COUNCIL CERTIFICATION LETTER 2017/18**

Mr Stuart Basnett, Assistant Manager Grant Thornton UK LLP presented the External Auditor's Annual Letter – Grant Certification 2017/18.

Members noted that the External Auditor had certified the Housing Benefit subsidy claim return under Public Sector Audit Appointments (PSAA) arrangements for the financial year 2017/18 relating to the expenditure of £122.08 million.

The External Auditor informed that conclusions were similar to previous years in so far as they were satisfied with the arrangements the Council had in place for this most high value and complex claim.

It was noted that the qualification compared favourably with other local authorities and had continued to record improvement compared to previous years.

The Annual Letter included 2 appendices, detailing the total value of claims and returns certified for 2017/18 and fees for certification work (£23,850).

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