

# AUDIT AND RISK MANAGEMENT COMMITTEE

Monday, 5 July 2021

Present:

Councillor	K Hodson (Chair)	
Councillors	S Whittingham	J Johnson
	K Cannon	S Mountney
	AER Jones	T Smith
	I Lewis	D Brennan
	S Kelly	Jason Walsh

## 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.

Councillor David Brennan declared a personal interest in relation to item 8 by virtue of his pension with Merseyside Pension Fund.

## 2 MINUTES

**Resolved – That the minutes of the meeting held on 9 March 2021, be approved.**

## 3 PUBLIC AND MEMBER QUESTIONS

No questions, statements or petitions were submitted.

## 4 INTERNAL AUDIT UPDATE

Mark Niblock, Chief Internal Auditor, introduced the report that summarised the work of the Internal Audit Service for the period 1 March to 31 May 2021. The report identified the significant impact of the Covid-19 pandemic on scheduled audit work and included an analysis of planned work for the remainder of 2020/21.

The report identified to Members some of the impacts of the pandemic on the normal work of the team including the increased demands outside of the norm to address additional risks presented and the impact of this on routine planned work. The report focused on the following:

- The ongoing impact of Covid-19 on the Internal Audit Plan;
- The Internal Audit Activity for the March to May reporting period;

- The planned Internal Audit work for the remainder of the year.

The report provided further detail on some of the workstreams including work on evaluating the effectiveness of the Council's arrangements to combat enhanced cyber threats during the pandemic as well as evaluating the effectiveness of the physical and environmental controls in the Treasury Building Data Centre. The Committee was also advised that work was ongoing to evaluate the action points from the Liverpool City Council Best Value Inspection Report, with the learning to be presented to SLT and then back to the Audit and Risk Management Committee.

Members sought further clarification on both the hardware and software controls in place, and it was suggested that colleagues responsible for Cyber Security be invited to a future meeting. Further assurances were also sought on the risks associated with the Audit Plan not being fully compliant with the Public Sector Internal Auditing Standards, where the Committee was advised that there was an acceptance nationally that Councils would not be able to operate to normal standards whilst responding to Covid-19, but work was underway at Wirral to return to business as usual as soon as possible.

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

## **5 CHIEF INTERNAL AUDITORS ANNUAL REPORT AND OPINION 2020-21**

Mark Niblock, Chief Internal Auditor introduced the report which provided a summary of the work undertaken by the Audit service throughout 2020/21 as well as an overall opinion from the Chief Internal Auditor as to the effectiveness of the Council's control environment.

The report was produced to comply with the requirements of the Public Sector Internal Audit Standards, and the opinion identified within the report reflected the work undertaken during the 2020/21 year and due to Covid-19, the overall opinion had relied upon a variety of supporting information and evidence that would not usually be the case, including an assessment and evaluation of the Council's response to the pandemic and various governance and control operations implemented as a result.

It was noted that there was a planned upgrade to the financial systems as well as data cleansing, and assurances were sought that associated risks would be mitigated and that external auditors would still have access to all the necessary data.

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

## **6 CORPORATE RISK MANAGEMENT UPDATE**

Mark Niblock, Chief Internal Auditor introduced the report of the Director of Resources that provided an update on the Council's risk management arrangements and areas of risk management focus over the upcoming year.

The report detailed the work of Zurich Municipal to look at the risk appetite across Wirral Council in line with the Government's Orange Book – Management of Risk, Principles and Concepts, the findings of which would be presented to the Committee. It also detailed the work of a Member Sub-Group to provide more time to review the Corporate Risk Register and associated risk mitigation, as well as further detail on the work to develop and refresh directorate risk registers to align with the draft Wirral Plan 2021-2026.

It was queried whether Policy and Services Committees should include mitigation of risks associated with their area on their work programmes, where it was confirmed that there was already close working relationships between the Chief Internal Auditor and Policy and Services Committees Chair and Spokes to identify risks, but that these arrangements could be developed further. Further clarity was sought on the risks associated with the capitalisation directive, and members were advised this was still being considered by the Director of Resources and an updated Risk Register would be circulated to members in due course.

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

## 7 **EXTERNAL AUDIT PLAN WIRRAL COUNCIL 2020-21**

Naomi Povey, Grant Thornton UK LLP introduced the report of the Director of Resources, which provided the Committee with the External Audit Plan, undertaken by Grant Thornton UK LLP as the Council's appointed independent external auditors and as part of the statutory audit of Wirral Council.

The report detailed the key matters for the external audit report, where it was acknowledged that the Council was facing significant financial challenges, therefore the focus of the Value for Money work was on the financial sustainability of the Council. A further area of focus was the group of companies that the Council had established, where the deficit position of Edsential was noted. The report also listed the significant risks that required special audit consideration and procedures, the main risk being the recognition of the additional Covid-19 grant income and expenditure. Members' attention was also brought to the progress made against prior year audit recommendations, and the external auditors' assessment of these.

Members discussed the costs associated with undertaking the external audit and it was confirmed that the cost had increased due to the increased work required to gain assurance as part of the financial pressures the Council was facing including the capitalisation directive.

**Resolved – That**

- 1) it be agreed that the arrangements set out within the Audit Plan meet the Committee’s expectations in providing independent scrutiny.**
- 2) the report be noted.**

**8 EXTERNAL AUDIT PLAN MERSEYSIDE PENSION FUND 2020-21**

Stuart Basnett, Grant Thornton UK LLC introduced the report of the Director of Resources which outlined Grant Thornton’s external audit plan for Merseyside Pension Fund for 2020-21 which had been undertaken as part of their statutory audit and presented to the Pensions Committee in June 2021.

It was reported that the process for undertaking the audit for the Pension Fund was comparable to that of the Council, therefore the significant risks relating to the Pension Fund were outlined including fraud in revenue and expenditure recognition, valuation of level 3 investments and valuation of directly held property. It was further reported that additional work had been undertaken to mitigate the risk of the valuation of directly held property including liaising with the Fund’s property valuator as well as engaging an independent valuator to gain assurance on the appropriateness of the valuations. The audit site visits had taken place earlier in the year remotely, and the final accounts were due to be completed later in the week with the findings to be reported back to the September committee.

**Resolved – That**

- 1) the report be noted.**
- 2) it be agreed that the proposed Audit Plan and the arrangements set out meet the Committee’s expectations with regard to providing independent scrutiny.**

**9 ANNUAL GOVERNANCE STATEMENT**

Iain Miles, Internal Audit Manager introduced the report of the Director of Resources which presented the Annual Governance Statement to Committee for consideration, detailing the outcome of the annual review of the effectiveness of the Council’s governance framework including the system of internal control. The Annual Governance Statement reflected the key governance issues up to the date of the approval of the annual statement of accounts, and therefore a final version would be reported to the Committee in November 2021 for approval alongside the final version of the financial statement.

The Committee was advised that the statement covered the period from 1 April 2020 to 31 March 2021 and therefore any significant governance issues identified occurred during that period. The statement reports the outcome of the annual review of the governance framework, the key elements of which included:

- The completion of Governance Assurance Statements by each of the Council's Senior Leadership Team.
- Individual discussions with each member of SLT to gauge their views on progress and areas for improvement in respect of each of the seven principles in the CIPFA/SOLACE Framework for good governance.
- Review of Internal Audit work completed in the year.
- Consideration of any significant internal or external reviews of governance, including reviews by external audit and other review agencies and inspectorates as applicable.

As a result, the main content of the statement included a summary of the significant action taken during 2020/21 in respect of the four significant governance issues identified in last year's statement, alongside a summary of the actions planned 2021/22 to address the three significant governance issues identified from the current year's annual governance review.

Members acknowledged the key role the Audit and Risk Management Committee would play in managing financial risks in 2021-22 and reiterated the additional measures that could be put in place for committees to manage their risks.

#### **Resolved – That**

- 1) the draft Annual Governance Statement, including the actions planned in 2021/22 to address the three significant issues identified from this year's annual governance review be approved.**
- 2) the signing of the draft statement prior to publication by 31 July 2021 be delegated to the Chief Executive and Leader of the Council.**

#### 10 **PROCUREMENT UPDATE**

Keith Patterson, Head of Commercial Procurement introduced the report of the Director of Resources, which informed the Committee of the range and number of contracts awarded which have been subject to the Contracts Procedure Rules Rule 17, Waiving the Rules (Rule 12) and Extension/Variation (Rule 13). The Head of Commercial Procurement read out a statement on behalf of the Director of Resources, which outlined the progress and commitment to reducing the number of exception requests and

retrospective Purchase Orders, and updated the committee on the steps taken including all stats being shared with Directors on a monthly basis who are asked to ensure compliance within the directorate, alongside the data being reported and challenged at several senior officer meetings and the appointment of a new member of staff responsible for ensuring compliance across the Council.

The report detailed two main themes which were contracts information and the 'NO PO NO PAY' policy progress, and members were advised that during the period 1 October 2020 to 21 March 2021 there had been 22 extensions, 37 variations and 30 exceptions awarded. In terms of the NO PO NO PAY policy, it was reported that the value of retrospective Purchase Orders had reduced from 33% to 26% and additional measures in place to reduce that further were taking effect. Freestanding invoices had reduced in value by 65% since the last report, with only 825 invoices remaining out of 9,000 reported in November 2019 and work underway to action those still outstanding.

Members queried the number of contracts for Civica and Capita, where it was confirmed officers were mindful and already in discussions around how many contracts the Council were currently in with large organisations. Members raised concerns around the number of contract extensions and variations and sought further information on the narrative behind these. Assurances were given around the robustness of the process for approving contract extensions or variations, but the Committee were advised that further detail would be included in future reports. Members discussed the potential need for these issues to be escalated to the Audit and Risk Management Committee, where it was proposed that the Committee could be used as an escalation point for any issues arising from meetings between the Chief Executive and Directors regarding budgetary compliance.

**Resolved – That**

- 1) the report be noted.**
- 2) the Director of Resources be requested to present further information relating to contract overspends to the Audit and Risk Management Committee Chair and Group Spokespersons.**

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

Colin Hughes, Solicitor introduced the report of the Director of Law and Governance which provided the outcome of an inspection on 21 May 2021 by the Investigatory Powers Commissioner and detailed the recommendations of the inspection relating to data retention and security, which Committee approval was being sought to include within the Policy and Procedure Guidance on the Council's use of covert surveillance.

The Committee was advised that the inspection was considering the Council's use of powers granted by the Regulation of Investigatory Powers Act 2000 to use covert surveillance to report criminals. The inspectors were reportedly satisfied with the training that was provided to officers which took place annually. It was reported that since December 2018, there had been three authorisations for covert surveillance granted by the Council and approved by the Magistrates Courts, including 2 instances for sale of tobacco to underaged people and 1 instance of fly tipping. The inspector was satisfied that the proper guidance had been given.

**Resolved – That**

- 1) the contents of the report of the e Inspector appointed by the Investigatory Powers Commissioner on the use of covert surveillance by the Council be noted and the recommendations be adopted.**
- 2) the Policy and Procedure Document contained in Appendix 3 on the use of powers under the Regulation of Investigatory Powers Act 2000 (RIPA) as amended by the additional Section 12 on Data Security and Retention be approved.**