

# **AUDIT AND RISK MANAGEMENT COMMITTEE**

## **ANNUAL REPORT 2014/15**

**Councillor J Crabtree, Chair**  
**Councillor R Abbey, Vice-Chair**

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## 1. FORWARD

By the Chairman of the Audit & Risk Management Committee 2014/15

Councillor Jim Crabtree

*I am pleased to present the Audit and Risk Management Committee's Annual Report. It records our progress in providing the degree of independence, questioning, and thoroughness required across a wide range of control and corporate governance matters*

*During the year, the Committee met on seven occasions and received reports in connection with the full range of issues that fall within our remit.*

*This report indicates the breadth of the Audit and Risk Management Committee's work in ensuring that every aspect of the council's work should be compliant with standards and transparent to its stakeholders. Increasingly, the Committee is receiving report on items such as the new Public Sector Internal Audit Standards which ensure that we are being kept up to date on recent internal audit developments as well as dealing with relevant council business. I believe that this Annual Report demonstrates our value to the Council and the public in ensuring that improvements to the governance of the authority are being delivered.*

*As Chair, I believe that the Audit and Risk Management Committee has provided a valuable contribution to the development of standards and protocols across a wide range of governance areas during what has been a challenging year and has proved its worth in helping to ensure that these are implemented across the Council in an effective and compliant way.*

*Looking forward the Council is facing a period of unprecedented change and transformation regarding how services are delivered in order to continue to achieve the required budget savings and comply with new statutory requirements. The need to maintain effective controls and standards in our public services is vital and I believe that a strong Audit and Risk Management Committee is essential to ensure that the Council achieves its objectives effectively in these areas. It is my intention in the future that the Audit and Risk Management Committee will operate in a more proactive manner regarding risks to the organisation, in conjunction with officers, identifying key risks and ensuring that appropriate actions are taken in direct response to these in a timely manner.*

*Finally, I would like to acknowledge the sterling work of the Members of the Audit and Risk Management Committee and the supporting officers, during the past year.*

## **2. BACKGROUND**

### **2.1 What drives Governance Policy?**

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

Effective corporate governance is a fundamental feature of any successful public sector organisation. Corporate governance initially became a major issue after several high profile failures in the private sector, such as Enron and Worldcom. As a result there were several reviews, the Cadbury and Hempel Committees for example, directed at improving governance specifically in the private sector.

The trend for strengthening governance arrangements then spread from the private sector to the public sector and resulted in the joint Chartered Institute of Public Finance and Accountancy (CIPFA)/Society of Local Authority Chief Executives (SOLACE) document Delivering Good Governance in Local Government - a Framework. The Framework was structured around the six core principles found in the Good Governance Standard for Public Services drawn up by an independent commission established by CIPFA, the Office for Public Management (OPM) and the Joseph Rowntree Foundation.

A sound corporate governance framework involves accountability to service users, stakeholders and the wider community, within which authorities take decisions, and lead and control their functions, to achieve their objectives. It thereby provides an opportunity to demonstrate the positive elements of an authority's business and to promote public confidence.

Wirral Council has adopted the revised local Code of Corporate Governance based on the following six core principles which underpin and define the meaning of good governance:

- (i) Focussing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area;
- (ii) Members and officers working together to achieve a common purpose with clearly defined functions and roles;
- (iii) Promoting the values of the authority and demonstrating the values of good governance through behaviour;

- (iv) Taking informed and transparent decisions that are subject to effective scrutiny and managing risk;
- (v) Developing the capacity and capability of Members to be effective and ensuring that officers, including statutory officers, also have the capability and capacity to deliver effectively; and,
- (vi) Engaging with local people and other stakeholders to ensure robust local public accountability.

## 2.2 Why do we need an Audit Committee ?

While there is no statutory obligation to have such an arrangement, Audit Committees are widely recognised as a core component of effective governance and therefore reflect good practice. Wirral's Audit and Risk Management Committee is properly constituted and, as such, is given sufficient authority and resources by the Council. In effect, the Committee has the right to obtain all the information it considers necessary and to consult directly with senior managers. In line with best practice from both the public and private sectors, the Audit and Risk Management Committee can report its observations and concerns directly to the Council.

A local authority has a duty to ensure that it is fulfilling its responsibility for adequate and effective internal control, risk management, and governance, as well as the economy, efficiency and effectiveness of its activities. The Audit and Risk Management Committee has a key role in overseeing and assessing the internal control, risk management, and corporate governance arrangements and advising the Council on the adequacy and effectiveness of these arrangements.

Good corporate governance requires independent, effective assurance about the adequacy of financial management and of management arrangements for achieving the organisation's objectives. These responsibilities require an independent and challenging approach. Through these mechanisms, Committee Members are able to use their skills and experiences to influence the council's governance, internal control processes, and risk management arrangements.

An effective committee can bring many benefits to the Council including:

- increasing public confidence in the objectivity and fairness of financial and other reporting;
- providing additional assurance through a process of independent and objective scrutiny;
- raising awareness of the need for internal control and the

implementation of audit recommendations; and,

- reinforcing the importance and independence of internal audit

### 2.3 **What does an Audit Committee do ?**

The Audit and Risk Management Committee's main responsibilities are 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.

This purpose is reflected in the committee's terms of reference which are reviewed and adopted each year (Attached at Appendix 1).

The committee advises the Council on all matters relating to its corporate governance. In doing so, the committee receives scheduled reports on the following matters:

- reviewing the operation and compliance with the Council's Code of Corporate Governance and making recommendations on its content;
- keeping the Council's Anti-Fraud and Corruption Policy under review and making recommendations to the Council on the content and operation of that Policy;
- reviewing and approving the Annual Governance Statement and ensuring that;
  - they properly reflect the risk environment;
  - there is reliable evidence to support the disclosures made; and,
  - that any necessary improvement actions are being taken;
- approving the annual Statement of Accounts;
- receiving and reviewing the External Auditor's opinion on the Statement of Accounts, and monitoring management's responses to the issues raised by external audit;
- overseeing internal audit's operations, in particular:
  - receiving any internal audit strategies, codes of practice, audit plans, and considering progress against such plans as necessary;
  - receiving the Annual Report on Counter-fraud and Internal Audit Activities;
  - reviewing the progress and adequacy of management's response to internal audit's recommendations, and matters arising from the
  - internal audit reports; and,

- receiving the External Auditor's Annual Audit Letter, Audit Plans, and any other reports and significant matters deemed necessary by the External Auditor;
- reviewing the progress and adequacy of management's response to external audit recommendations;
- reviewing the progress and adequacy of management's response to matters arising from external inspection reports;
- receiving reports on the monitoring and review of risk management, in order to consider the effectiveness of arrangements;
- monitoring the council's use of its powers under the Regulation of Investigatory Powers Act 2000.

#### **2.4. How do Officers Support the Committee?**

The Audit and Risk Management Committee is supported by:

- The Strategic Director for Transformation and Resources who has overall responsibility for the arrangements in this area;
- The Monitoring Officer who is required by law to ensure that the Council acts within its legal powers at all times; and,
- The Director of Resources, as Section 151 Officer who is responsible under the law for ensuring the proper administration of the council's financial affairs.
- The Chief Internal Auditor who has a key role to play in supporting the Committee because of the importance of the Internal Audit service to governance.
- Any other officer of the Council as required.

### 3. 2014/15 FINANCIAL YEAR

This Annual Report for 2014/15 produced by the Audit and Risk Management Committee has been prepared in accordance with the CIPFA best practice publication 'A Toolkit for Local Authority Audit Committees'. The report demonstrates how the Audit and Risk Management Committee has fulfilled its terms of reference during a very difficult year and how it is fully committed to helping to improve the Council's governance and control environments during what should prove to be a very challenging year ahead.

The committee's activities during 2014/15 were designed to make a positive contribution to the continual improvement of governance arrangements across the Council, as well as performing the statutory roles as identified in the Constitution.

### 4. SOME KEY INFORMATION

#### 4.1. Audit and Risk Management Committee Membership

The Audit and Risk Management Committee has 9 Members:

Councillor Jim Crabtree - Chair  
Councillor Ron Abbey - Vice-Chair  
Councillor John Hale - Spokesperson  
Councillor Stuart Kelly - Spokesperson  
Councillor David M Elderton  
Councillor Paul Doughty  
Councillor Joe Walsh  
Councillor Mathew Patrick  
Councillor Adam Sykes

#### 4.2. Key Features of the Audit Committee and its Operation

The Committee meets CIPFA's definition of best practice as illustrated below:

Best Practice	Expectation	Met	Comment
Independence	Independent from the executive and scrutiny	√	The Committee reports to the Council
Number of Members	3 to 5 members	√	The Committee has 9 Members
Number of meetings	Aligned to business needs	√	The frequency of meetings, 5 times a year complies with best practice.
Co-option	To be considered relative to skills	√	Training is currently provided to increase Members' skills, an evaluation of the adequacy and effectiveness of this is currently being conducted and



			appropriate actions will be taken to address any shortcomings in due course.
Terms of Reference	Accord with suggested best practice	√	The Committee has adopted the CIPFA recommended model.
Skills and training	Members have sufficient skills for the job	√	General and specific training is provided to increase Members' skills, an evaluation of the adequacy and effectiveness of this is conducted annually and actions to address any shortcomings.

### 4.3. Meetings and Attendance

The Audit Committee normally meets 5 times per year in January, March, June, September and November.

Attendance by Members and approved deputies was over 90%.

## 5. CORE ACTIVITY 2014/15

### 5.1. Terms of Reference

The Audit and Risk Management Committee's Terms of Reference are comprehensive, cover all main areas and are attached at Appendix 1 to this annual report. The Committee's work and outcomes in each of its areas of responsibility are summarised in the following subsections.

#### *Internal Audit*

The Audit and Risk Management Committee:

- Approved the Chief Internal Auditor's Strategic Audit Plan,
- Considered regular reports produced by the Chief Internal Auditor, highlighting internal audit work completed, internal audit performance against key indicators and any significant issues arising during the period,
- Approved amendments to the reporting arrangements to Members including development of the summary reports from Internal Audit,
- Considered the Chief Internal Auditor's Annual Report and assurance opinion on the Council's control environment,
- Considered reviews of the effectiveness of the systems of internal audit,
- Ensured internal and external audit plans were complementary and provided optimum use of the total audit resource,
- Received updates on the Internal Audit Counter Fraud Teams' remit and activities undertaken,
- Received regular detailed updates on progress towards delivering Internal

Audit's Improvement Plan, which is designed to increase overall efficiency and effectiveness of systems of Internal Audit across the Council,

- Received and considered implications of the introduction of the first UK Public Sector Internal Audit Standards,
- Considered reports on audit investigations conducted,
- Considered and approved revisions to Chief Internal Auditors Audit Plan,

We continue to provide support to the Internal Audit service to ensure management is responsive to recommendations made and agreed.

### *External Audit*

The Audit and Risk Management Committee:

- Considered the external auditor's Audit Plan,
- Considered progress against the plan presented by the external auditor
- Received and considered all external audit findings and inspection reports issued in the year and considered management's response to them, ensuring robust and thorough responses,
- Reviewed the external audit Committee Update reports and took appropriate actions in response to issues presented,
- Reviewed the Council's progress on all external audit and inspection recommendations on a regular basis and asked managers to explain progress where appropriate, thereby holding them to account,
- Received and considered all of the external auditors reports on the Merseyside Pension Fund,
- Considered the external auditor's Annual Audit Letter,

We continue to provide support to external audit to ensure management is responsive to recommendations made and agreed.

### *Risk Management*

The Audit and Risk Management Committee:

- Considered regular reports on the Departmental and Corporate Risk Registers,
- Promoted risk management across the Council,
- Considered reports on Corporate Risk and Insurance Management,
- Considered a report on the revised Corporate Risk Management Policy and the management of risk and endorsed the policy.

We continue to provide support to promote effective Risk Management policy and procedures across the Council and ensure best practice is achieved.

### *Internal Control and Governance*

The Audit and Risk Management Committee:

- Agreed the Council's Annual Governance Statement and action plans

- to improve identified weaknesses,
- Supported the development of a Mersey region Counter Fraud Group,
- Engaged with and supported the Counter Fraud Awareness Week initiative,
- Supported work undertaken as part of the Audit Commission's National Fraud Initiative,
- Considered and supported amendments to the Council's counter fraud arrangements,
- Considered a report on HR Policies Update,
- Considered a report on Officers Decision Notices permitted under the Councils Contract Procedure Rules,
- Agreed to undertake skills assessments for Members and introduce an appropriate training programme for Committee Members and deputies,
- Approved the updated Audit and Risk Management Committee self assessment checklist.

The Annual Governance Statement is a key document which summarises the Council's governance arrangements and the effectiveness of the arrangements during the year.

### *Accounts*

The Audit and Risk Management Committee:

- Agreed the Council's accounting policies,
- Agreed the Annual Statement of Accounts,
- Received and considered the external auditor's report on the accounts, and ensured that the Council responded to the auditor's comments,
- Agreed the annual Merseyside Pension Funds accounts,
- Agreed the Merseyside Pension Fund's Annual Governance Statement and action plans to improve identified weaknesses,
- Received and reviewed reports on the Insurance Fund Budget and Annual Report.
- Considered a report on the Grant Claims and Returns Certification

The Audit and Risk Management Committee received regular reports on the Council's Treasury Management arrangements in the context of the economic downturn.

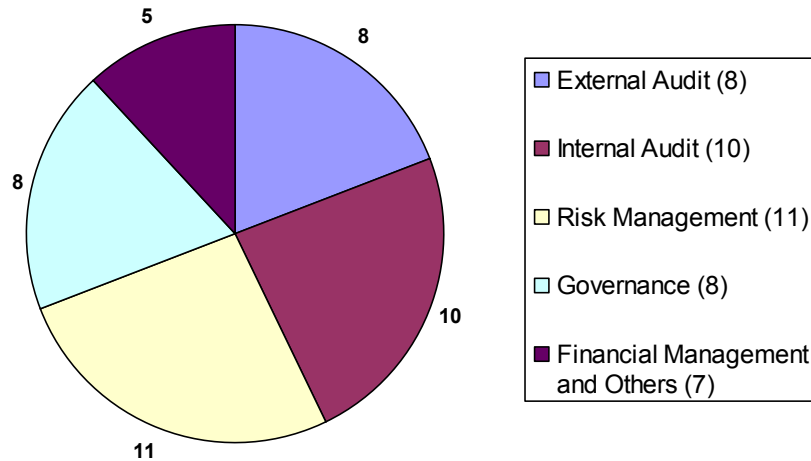
### *Specific Issues*

The Audit and Risk Management Committee also considered reports and presentations on the following specific issues which arose in the period:

- Regulation of Investigatory Powers Act 2000,
- Insurance arrangements and performance,
- Contract Extension reports (x2)
- Business Investment Grant and Intensive Start Up Scheme Investigation.

To give a flavour of our business during the year, the following shows the types and numbers of reports considered between April 2014 and March 2015:

## 5.2. Numbers & Types of Reports Considered by the Audit Committee



## 6. OTHER ACTIVITIES

During the year, the Committee demonstrated its commitment to good governance by:

- i) Authorising amendments to the draft Annual Governance Statement.
- ii) Arranging special meetings and devoting significant resource to addressing governance issues arising.
- iii) Referring several matters to Cabinet for attention.
- iv) Asking Chief Officers to attend as appropriate and present reports on issues identified which affected governance.

## 7. OUTCOMES

The Audit and Risk Management Committee aims to focus on adding value through its activity. By concentrating on outcomes the Committee can identify the benefits of its work. In particular this year the Committee:

- Oversaw work on the Statement of Accounts,
- Encouraged and presided over a strengthening of the control environment, specifically by overseeing various targeted reviews and the production of the Annual Governance Statement,

- Presided over significant changes in the structure of the organisation including officers with statutory responsibilities to ensure the proper administration of financial affairs and systems of internal control,
- Encouraged and presided over significant developments and improvements to strengthen the delivery of the Internal Audit service, including the implementation of a detailed improvement plan for the delivery of the internal audit service,
- Received reports which showed how improvements had been planned, and delivered, to the Statement Of Accounts,
- Encouraged and presided over a strengthening of the Council's information governance specifically by overseeing various targeted reviews and ensuing improvements. and delivered, to the Statement Of Accounts,
- Encouraged a strengthening of the Council' control environment, specifically by overseeing various targeted reviews and the production of and challenge to the Annual Governance Statement,

In addition, individual Members and the Audit Committee collectively continued to develop and learn about our roles, and deliver these roles effectively.

## **8. PLANS FOR 2015/16**

During 2014/15 the Audit and Risk Management Committee has consolidated the progress that has been made in previous years, and going forward will look to develop further and become the recognised champion of good governance for the Council, helping to address any identified issues in what promises to be a very challenging and difficult environment. Our priorities for 2015/16 are to continue to meet our duties as specified in the Constitution by developing and building on our current status as well as responding to and implementing any requirements arising out the new Public Sector Internal Auditing Standards and the Local Audit and Accountability Act 2014. For 2015/16 we will:

- Continue to develop the Wirral Council Audit and Risk Management Committee to review all governance issues identified,
- Develop the proactive nature of the Committee to facilitate actions by officers to ensure that risks are identified earlier in the process and remedial actions taken in a more timely fashion in response,
- Oversee the restructuring required of the Audit and Risk Management Committee to comply fully with the requirements of the Local Audit and Accountability Act 2014,
- Continue to drive up standards and meet the demanding requirements of the external inspection and assessment regime,
- Continue to review all governance arrangements to ensure the Council adopts the very latest best practice,
- Continue to support the work of Internal and External Audit and ensure appropriate responses are given to their recommendations,

- Ensure we maintain and further improve our standards in relation to the production of accounts,
- Oversee the implementation of the Public Sector Internal Auditing Standards,
- Continue to help the Council to manage the risk of fraud and corruption,
- Continue to develop the Wirral Council Audit and Risk Management Committee to review risk and partnerships' issues and safeguard public sector interests,
- Oversee the development of audit plans to evaluate and test controls in operation over integrated systems such as Public Health,
- Equip existing and any new Members to fulfil our responsibilities by providing more detailed and effective training on all key areas of responsibility including financial arrangements and risk management, governance and audit planning.

**Councillor Jim Crabtree (Chair)**  
**Wirral Council Audit and Risk Management Committee**  
**May 2015**

## **9. APPENDIX 1**

### **AUDIT AND RISK MANAGEMENT COMMITTEE**

#### **TERMS OF REFERENCE**

1. To provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment, and to oversee the financial reporting process.
2. The Committee has the following duties, powers and authorities:
  - 2.1. approval of the Council's statement of accounts;
  - 2.2. the responsibilities of the Council under section 151 of the Local Government Act 1972 to make proper provision for its financial affairs;
  - 2.3. to consider and make recommendations to Council or Cabinet as appropriate on;
    - 2.3.1. the annual Audit Report and the Management Letter of the external auditor;
    - 2.3.2. any other statutory report of the external auditor;
    - 2.3.3. any internal audit report that may be referred to the committee by the Chief Executive, the Director of Resources, the Chief Internal Auditor or the Head of Legal and Member Services (as Monitoring Officer);
    - 2.3.4. summaries of specific internal audit reports as requested;
    - 2.3.5. the effectiveness and adequacy of the response by the Council, the Cabinet, any committee or sub-committee of the Council or of any officer to any internal or external audit report or management letter;
    - 2.3.6. the systems of control and the arrangements for the prevention of fraud and corruption within the Council;
    - 2.3.7. any other matter relevant to the audit of the Council's accounts and financial records or its systems for the control and safeguarding of all the Council's assets;
    - 2.3.8. a report from Internal Audit on agreed recommendations not implemented within a reasonable timescale; and

- 2.3.9. the Head of Internal Audit's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements;
- 2.4. to approve (but not direct) the strategy, plan and performance of the Council's internal audit service;
- 2.5. to oversee the production of the Authority's Annual Governance Statement and subsumed Statement on Internal Control and recommend its adoption;
- 2.6. to maintain an overview of the Council's Constitution in respect of contract procedure rules, financial regulations and codes of conduct and to make recommendations to Council or Cabinet, as appropriate;
- 2.7. to monitor the Council's policies on "Raising Concerns at Work", to the anti-fraud and corruption strategy and the complaints procedure;
- 2.8. to liaise with the Audit Commission over the appointment of the Council's external auditors.
3. The Chair of the Audit and Risk Management Committee shall act as the Council's Risk Management Champion.
4. Executive Members will not normally be members of the Audit and Risk Management Committee.