

AUDIT AND RISK MANAGEMENT COMMITTEE

Monday, 13 June 2016

<u>Present:</u>	Councillor	AER Jones (Chair)	
	Councillors	A Davies RL Abbey P Doughty	D Elderton P Gilchrist L Rowlands
<u>Deputies:</u>	Councillors	P Brightmore (In place of C Muspratt) G Watt (In place of J Hale)	
<u>Visiting Member:</u>	Councillor	I Lewis	

1 MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST

Members were asked to consider whether they had any disclosable pecuniary interests and/or any other relevant interest in connection with any item(s) on this agenda and, if so, to declare them and state what they were.

No such declarations were made.

2 MINUTES

Resolved – That the minutes of the meeting held on 15 March 2016, be approved.

3 INTERNAL AUDIT UPDATE

The Chief Internal Auditor introduced his report that identified and evaluated the performance of the Internal Audit Section and included items of note arising from the actual work undertaken during the period 1 March to 31 May 2016. The report focused upon:

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

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

Risk Management – the report informed that this audit had resulted in an overall organisational risk opinion of ‘moderate’ with a number of recommendations to improve systems across the following themes:

- Management and maintenance of Risk Registers;
- Compliance with Risk Management Policy;
- Consistency of approach across the Council;
- Risk Appetite.

Organisational Culture – Members were informed that a follow up audit had been undertaken to verify implementation of recommendations included in the 2015 report.

Members noted that whilst none of the recommendations had been fully implemented, progress continues and further audit work is planned for later in the year to confirm continued implementation, broadening the focus of the work into other areas of organisational culture.

Annual Governance Statement – The Chief Internal Auditor informed that the Annual Governance Statement 2015/16 (draft) was listed as a separate item on the Committee Agenda.

In terms of this update report, Internal Audit had undertaken work to review adequacy and effectiveness of the Council’s governance arrangements and had concluded that the arrangements were adequate.

Safeguarding – the report informed that findings and actions arising from a review of governance arrangements as contained within the ‘Safeguarding Children in Wirral Scrutiny Review’ would be reported to the relevant Strategic Director and the Audit and Risk Management Committee upon completion.

Merseyside Pension Fund: Contract Procedures – The Chief Internal Auditor reported that following an audit into the Merseyside Pension Fund (MPF) 2015/16 it was concluded that the contract processes within MPF are effective, although a number of improvements to the current control environment had been agreed as a result of the audit.

Members discussed the content of the report, items of note, outstanding audit recommendations, performance indicators and audit developments. A Member pointed out that a number of items rated as ‘major risk’ contained within the report continued to appear in the action summary, and questioned why, after continued monitoring these issues remained. Another Member questioned whether, if areas showed no apparent significant improvement, why detailed reports should not be submitted to the Audit and Risk Management Committee and Officers questioned.

A Member pointed out that Internal Audit had been proactive in its actions to identify and bring matters of note before the Audit and Risk Management Committee, and it was correct that Members should be calling officers to account if they were not seemingly considering the advice of Internal Audit or the Committee.

The Chief Internal Auditor stated that the 'major risk' reference was from the initial audit work that had been undertaken. The subsequent follow-up work identified those actions which had been implemented and led to the revised RAG (red, amber, green) rating. In his report he highlighted his areas of concern for the Members of the Committee. His report informed in summary format that although some items had been listed for a period of time, recommendations continued to be monitored and assessed, and where necessary further steps would be followed to ensure full implementation. The Chief Internal Auditor additionally reported that recommendations for action, and exception reporting, would continue to form the basis of the Internal Audit Work Programme. He further informed that the residual RAG (Red, Amber, Green) rating for all outstanding Audit Recommendations were identified as 'Amber'.

Resolved - That the report be noted.

4 CHIEF INTERNAL AUDITORS REPORT

The Chief Internal Auditor introduced his Annual Report that set out the Internal Audit assurance opinion on key areas of the Council's activity for 2015/16.

The report informed that audits conducted during the year were principally planned to review the financial control systems in accordance with the professional standards set out by the Audit Practices Board, CIPFA and the Chartered Institute of Internal Auditors. The report summarised attention paid to key risks in the following areas:

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

The report further detailed the audit outcomes, and the effectiveness of internal audit and internal control framework that assists the Council's management in the effective discharge of its responsibilities and functions to provide Members with assurance of compliance to statutory requirements.

A Member questioned the Chief Internal Auditor (CIA) on the types of risk associated with selected audits listed in the report under 'minor organisational risk'. The Chief Internal Auditor informed that in the examples highlighted the risks identified had primarily been those associated with financial and/or banking procedures.

The Member further questioned the CIA on the matters listed in the report as 'moderate', specifically the separate items relating to contract tenders, procurement and elections. The CIA informed of follow up work in progress with regard to contract procedures and further assurances across affected areas, he also informed that the specific allegation raised in respect of elections related to interpretation of government advice, as opposed to accuracy of the electoral process. He advised that the guidance had lacked clarity and a number of councils had been similarly affected.

The CIA advised the Committee of four key audits that contained 'major organisational risk opinions' out of the total of 97 produced during the year, namely:

- Organisational Culture
- MPF – contract procedures
- Direct Payments
- Sport and Recreation Income

Members noted that continued monitoring and improvement had ensured that the listed outcomes were in a significantly better position than had been in the past.

Resolved – That the Chief Internal Auditor's Annual Report and Opinion on the System of Internal Control 2015/16 be noted.

5 **ARMC ANNUAL REPORT**

The Chair, supported by the Chief Internal Auditor, introduced the Audit and Risk Management Committee Chair's Annual Report 2015/16.

Prepared in consultation with Internal Audit, the Chair's Annual Report for 2015/16 had been compiled in accordance with the CIPFA best practice publication 'A Toolkit for Local Authority Audit Committees'.

The report informed how the Audit and Risk Management Committee had fulfilled its terms of reference during a challenging year and noted Member's commitment to helping the development of standards and protocols across a wide range of governance areas, further assisting with improvements across the Council's governance and control environments in a timely manner.

The Chair's Annual Report further informed Members of specific matters regarding the Audit and Risk Management Committee's Core Activities during the year, covering the Committee Terms of Reference, reports, activities and key outcomes for the Municipal Year 2015/16.

Resolved - That the Annual Report 2015/16 of the Audit and Risk Management Committee be approved and submitted to Cabinet.

6 DRAFT ANNUAL GOVERNANCE STATEMENT

The Head of Financial Services and Acting S151 Officer presented the report of the Strategic Director Transformation & Resources, which identified and explained the planned approach for the production of the Council's Annual Governance Statement for 2015/16. The report (in draft) provided an outline of the work required to prepare the Statement in compliance with statutory requirements set out in the Accounts and Audit Regulations 2011 and the principles identified in the CIPFA SOLACE Framework – Delivering Good Governance in Local Government. Members were invited to comment on the draft report with a final version of the Annual Governance Statement to be reported to the Committee in September 2016.

The Head of Financial Services informed that the report outlined the approach and evidential basis used in the production of a robust and accurate Statement. The report explained how, using the six principles of good governance as listed in the document, that the Annual Governance Statement was not owned by the Audit Function, but remained a Council statement on the effectiveness of its governance processes.

The report set out, in a prescribed format, information on the following key areas:

- Scope of Responsibility;
- Purpose of the Governance Framework;
- Overview of Council Progress;
- The Governance Framework (6 principles);
- Reviewing Effectiveness; and
- Significant Governance Issues.

Members were advised and noted, that the number of significant governance issues had reduced further in 2015/16. One issue remained, and that further action was required to address organisational and managerial compliance with certain Council processes and procedures, including performance appraisals, absence management, contract procedure rules and mandatory training. Members noted that a Corporate Governance Group will lead the development of a robust action plan to address this particular issue).

Members commented on the subject of absence management, concerns regarding the descriptors used in the resident's survey and various exchanges relating to these subjects in the past. A Member questioned whether matters had been understated or if procedures had not been followed or if organisational 'culture' was at the heart of the matter. The Head of Financial Services advised that the compliance issue, which could be viewed as covering 'culture', remained as the outstanding significant governance issue. Members noted that the draft Statement would be signed by the Leader and the Chief Executive. The final version of the Annual Governance Statement 2015/16 would be presented to the next meeting of the Audit and Risk Management Committee.

A Member expressed his wish to challenge the report and requested that a vote be taken on the item.

Following a show of hands, the vote was taken and carried (7:1)

Resolved – That

- 1) the approach outlined with regard to the production of the Annual Governance Statement 2015/16, be endorsed and supported; and**
- 2) a final version of the Annual Governance Statement 2015/16 be presented to the Audit and Risk Management Committee in September 2016.**

7 CORPORATE RISK REGISTER

The Head of Financial Services and Acting S151 Officer presented the report of the Chief Executive, which advised that under the terms of the Council's Constitution, one of the functions of the Audit and Risk Management Committee was to provide independent assurance that the Council's Risk Management Framework was effective.

The report informed that the Corporate Risk Register formed a key component to the framework and that to ensure that the Council continued to focus on the most critical risks to the delivery of its objectives the Strategic Leadership Team had produced a revised set of corporate risks aligned to the Wirral Plan.

The Head of Financial Services informed the Audit and Risk Management Committee that in the past year the Council and its partners had adopted the Wirral Plan: A 2020 Vision. This set out a refreshed set of priorities and a different approach to the delivery of outcomes and recognised that given such major changes the most significant threats to the delivery of the Plan could differ substantially from those which the Council has faced previously.

The report informed that, as a result, the Strategic Leadership Team and Risk and Insurance Manager had collated and considered information about how various risks might impact on the Council and its partners. Having considered the information and with reference to the Council's risk scoring matrix and in accordance with its Risk Management Policy scores had been allocated, key officers tasked and actions / controls identified.

The report provided a one page summary for each of the following identified corporate risks, as follows:

- 1) Financial Resilience
- 2) Organisation Development and Pace of Transformational Change
- 3) Partnerships
- 4) Devolution
- 5) Integration of Health and Social Care
- 6) Effect of demographic changes on demand for services
- 7) Safeguarding
- 8) Governance (including information governance)
- 9) Economic Activity
- 10) Resources and Infrastructure

Members considered the content and new format summary, and commented favourably on the clear layout and easy to understand format.

A Member requested that in future reports abbreviations and acronyms be kept to a minimum and another questioned the source of some of the planned additional controls. The Head of Financial Services confirmed that Member suggestions would be actioned and that the planned controls had been sourced from management, service officers and previously identified best practice (ARM, Minute No. 55, 15 March 2016 also refers).

Resolved – That

- 1) the refreshed set of corporate risks be noted; and**
- 2) future updates on the Corporate Risk Register be presented to this Committee.**

8 MANAGEMENT OF INSURANCE AND CORPORATE RISK

The Head of Financial Services and Acting S151 Officer introduced his report that set out progress made since his previous report to the Audit and Risk Management Committee in March 2016 (Minute No. 56 refers) and key actions planned for 2016/17.

The Head of Financial Services provided an update to Members of the Audit and Risk Management Committee (ARMC) that the increased crime insurance premium as reported in paragraph 3.2.1 also included enhanced cover, which had since been confirmed.

The Committee received a summary update on Policy renewals for the period April to June 2016 that included information on premiums and work undertaken to ensure prior agreement on renewal terms to ensure continuity of cover on various policies – Property, Terrorism, Business Interruption, Computer, Museums and Personal Accident.

A Member queried the impact of academy schools on the Council's insurance cover. It was noted that such schools could not be covered by the Council insurance, but Officers had been aiding/advising academy schools on the procurement of replacement insurance cover.

Resolved – That the report be noted.

9 **INSURANCE FUND ANNUAL REPORT**

The Audit and Risk Management Committee considered the report of the Head of Financial Services and Acting S151 Officer that provided a review of the Risk and Insurance activity during 2015/16 and the plans for 2016/17 and beyond. The report detailed the underwriting arrangements and recent loss histories for the principal areas of insured risk and described the impact of measures taken to improve their management. The provisions and reserves within the Insurance Fund at the end of 2015/16 were also confirmed.

The Head of Financial Services informed the Audit and Risk Management Committee that the rate of receipt of new Public Liability claims had continued to fall, with overall costs reducing accordingly - the exception to this had been in 2012/13 which was the result of two large claims.

The Committee noted that annual reassessment of the Insurance Fund (sums held in respect of uninsured liability risks and to pay for risk improvement measures) had been broadly in line with the estimate and that the credit balance in this Reserve at the end of March 2016 was therefore not required and had been returned to the General Fund balances for 2015/16. Members also noted that the Risk and Insurance Services had also achieved an operating surplus and this too had been returned to the General Fund balances for 2015/16. Members were asked to endorse the release of the budget surplus and operating surplus as detailed in the report (paragraph 3.45).

The Head of Financial Services brought the Committee's attention to the key tasks and targets for Insurance Management 2016/17 and beyond, and

informed that regular reports on the progress would continue to be presented to the Audit and Risk Management Committee as part of its regular work programme.

Resolved - That

- 1) the report be noted;**
- 2) members endorse the release of monies from the Insurance Fund to the General Fund as follows:**
 - i) The release of the budget surplus of £82,993 to the General Fund;**
 - ii) The release of the operating surplus of £268,947 to the General Fund; and**
- 3) the Insurance Fund Budget 2017/18 be prepared for presentation to the Audit and Risk Management Committee in January 2017.**

10 ORDER OF BUSINESS

Order of Business - The Chair suggested and it was agreed that, with regard to the two External Auditor reports, the order of business be varied and that item 11 on the agenda (External Audit Plan) be considered first.

11 EXTERNAL AUDIT PLAN

Mr Chris Whittingham of Grant Thornton UK LLP, the Council's external auditors, presented a report to Members on work undertaken with regard to the Audit Plan for Wirral Council, Year ending 31 March 2016.

The Auditor provided a brief update on a number of key areas contained within his report that included:

- Understanding the challenges and opportunities that faced the Council;
- Developments and requirements relevant to the audit – taking account of national audit requirements as set out in the Code of Audit Practice;
- The concept of 'Materiality' – and that for the purposes of planning the audit the external auditors had determined a figure of £13,713k (being 1.9% of gross revenue expenditure – compared to a figure of £14,876k the previous year); and

- Significant Risks as set out under ISA 240 – The external auditor identified two such presumed risks, and set out substantive audit procedures (completed and planned) in each case. Two additional significant risks were listed but fell outside ISA 240, again in each case, Members were apprised of planned work.

The external auditor concluded his report detailing his Value for Money assessment and fees summary.

Resolved – That the report be noted.

12 **EXTERNAL AUDITOR - AUDIT COMMITTEE UPDATE**

Following on from his earlier report, Mr Chris Whittingham of Grant Thornton UK LLP, the Council's external auditors, presented his progress report and update for the year ended 31 March 2016.

The Auditor provided a brief update on a number of subjects which formed part of his report on progress in delivering the external audit responsibilities that included:

- Fee Letter – the requirement to issue a 'Planned fee letter for 2015/16 by the end of April 2015 – completed in line with the published timetable.
- Accounts Audit Plan – the requirement to issue a detailed accounts audit plan to the Council that set out the external auditor's proposed approach in order to provide an opinion on the Council's 2015/16 financial statements – agreed with management and presented to the Audit and Risk Management Committee under the previous agenda item.
- Interim Accounts Audit – partially complete – interim audit work had been completed by the end of March, in line with the planned timetable. This included early audit testing that had not identified any issues requiring the attention of the Audit and Risk Management Committee.
- Final Accounts Audit – this element of the external auditor's work is scheduled for completion by the 31 August 2016 as part of the transition to the earlier closedown from 2018.

A Member commented on the report stating that it had been very useful in summarising the work of the external auditor.

The Chair thanked Mr Whittingham for his reports.

Resolved – That the update be noted.

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

The Group Solicitor introduced the report of the Head of Legal and Member Services that presented a summary of the use of covert surveillance by the Council, to detect evidence of criminal behaviour, between 1 February and 31 May 2016.

The report informed that during this period, the Council had used covert surveillance with the intention of detecting evidence of criminal behaviour, and that on 8 February and 1 March 2016 magistrates had approved authorisations to use covert surveillance to detect suspected flytipping on a site in the Wirral.

The report further informed that on 31 March 2016 a magistrate had approved the authorisation of covert surveillance by Trading Standards Section into suspected illegal trading.

Members were further informed that a flytipping offence had been detected by means of prior covert surveillance, and that on 18 April 2016 a member of the public had pleaded guilty to an offence committed on 20 April 2015 of unlawful flytipping in Riverbank Road, Bromborough and had been sentenced and fined accordingly.

Resolved – That the report be noted.
