

AUDIT AND RISK MANAGEMENT COMMITTEE

Monday, 26 September 2016

Present: Councillor AER Jones (Chair)

Councillors A Davies P Gilchrist
RL Abbey C Muspratt
D Elderton L Rowlands

Deputies: Councillors K Hodson (In place of J Hale)
M Sullivan (in place of P Doughty)

14 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.

15 MINUTES

Resolved – That the minutes of the meeting held on 22 September 2016, be approved.

16 INTERNAL AUDIT UPDATE

The Chief Internal Auditor introduced his update report that identified and evaluated the performance of the Internal Audit Service and detailed issues arising from work undertaken during the period 1 June to 31 August 2016. He informed that the report highlighted items to note, issues arising that require actions to be taken by Members, performance information and developments being undertaken to improve the effectiveness of the Internal Audit Service.

Members were informed that there were two items of note concerning audit work undertaken as highlighted in section 3.2. of the report. The Chief Internal Auditor informed Members that following an audit undertaken during 2015/16 into the procurement of infrastructure advisory services to Merseyside Pension Fund (MPF), as was reported to this Committee in Feb 2016, further assurance work was completed across all MPF contracts to ensure compliance with the Contract Procedure Rules (CPRs) and MPF as reported to this Committee in June 2016.

It was further reported that a significant amount of work had been undertaken by the Internal Audit Service to support the production of the Annual Governance Statement

The Chief Internal Auditor then reported upon outstanding audit recommendations and referred to Appendix 1 of the report (a table identifying information relating to those audits where recommended actions included in audit reports for 2015/16 and the current year to date have not yet been fully implemented.) It was explained that reports identifying outstanding actions are currently RAG rated as 'amber', and a number of these related to audits undertaken within IT Services. Members heard how these actions are currently being overseen by the Information Governance Board chaired by the Strategic Director for Transformation and Resources.

Members heard how a continuous Internal Audit Improvement and Development Plan had been formulated to incorporate new and developing areas of best practice from across the profession, ensuring that the service continues to constantly challenge how efficient and effective it is at delivering its service to all of its stakeholders and making any relevant changes and improvements as required.

In response to a question asked by a Member, the Chief Internal Auditor assured the Committee that issues surrounding Corporate Procurement is the subject of high profile monitoring.

Members were informed that achievement of the audit plan is slightly behind schedule for this time of year due to a number of vacant posts within the section that have proven difficult to fill. However, a new Member of staff is due to start this week.

In response to a question asked by a Member regarding ICT disaster recovery, it was explained that this remains to be a significant issue and is being managed by the Corporate Governance Group.

A discussion was had amongst Members about the need for an escalation process through the Audit and Risk Management Committee to refer matters of concern to the Cabinet. It was suggested that an amendment be added to the recommendation as follows:-

"A standard Agenda item be added to future meetings of the Audit and Risk Management Committee to escalate areas of concern to the Cabinet."

The motion was put and carried (9:0)

Resolved: That

- 1) the report be noted; and**

- 2) a standard Agenda item be added to future meetings of the Audit and Risk Management Committee to escalate areas of concern to the Cabinet. (see Minute 19).

17 **ARMC SELF ASSESSMENT**

The Chief Internal Auditor explained to Members that in order to comply with best professional practice, the Audit and Risk Management Committee are required to complete an annual evaluation of its role and effectiveness as part of the systems of internal audit.

Members heard how the CIPFA publication 'A Toolkit for Local Authority Audit Committees' recommends the use of self- assessment checklist to achieve this task and that the Chair had completed the checklist (Appendix 1 of the report)

A discussion was had amongst Members regarding the need for refresher training. It was agreed by Officers that this would be progressed and would also include sessions relating to the Statement of Accounts and Insurance and Risk Management.

Resolved - That the self-assessment checklist be approved

18 **ARRANGEMENTS FOR THE APPOINTMENT OF EXTERNAL AUDITORS**

A report by the Strategic Director for Transformation and Resources summarised the changes to the arrangements for appointing External Auditors following the closure of the Audit Commission and the end of the transitional arrangements, at the conclusion of the 2017/18 audits. It was explained that the Council would need to consider the options available and put in place new arrangements in time to make a first appointment by 31 December 2017.

Options available to Members were set out in the report and summarised as follows:

Option 1 To make a stand – alone appointment – The Council would be required to set up an Auditor Panel. Members of the Panel must be wholly or a majority independent members as defined by the Act.

Option 2 Set up a Joint Auditor/Local Joint Procurement – The Act enables the Council to join with other authorities to establish a joint auditor Panel. This will also need to be constituted of wholly or a majority of independent appointees (Members).

Option 3 Opt –in to a sector led body – In response to the consultation on the new arrangements the LGA successfully lobbied for Councils to be able to 'opt-in' to a Sector Led Body (SLB) appointed by the Secretary of State under the Act. An SLB would have the ability to negotiate contracts with the firms, nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.

Councillors expressed support for Option 2.

Resolved - That Members note the report detailing the various options available and endorse the Council's proposed approach of supporting the Local Government Association (LGA) in setting up a national Sector Led Body for the appointment of external auditors.

19 **ANNUAL GOVERNANCE STATEMENT 2015-16**

The Strategic Director for Transformation & Resources presented the final draft of the Annual Governance Statement and an action plan for 2015-16.

The Head of Financial Services advised that the Annual Governance Statement 2015-16 covered the period from April 2015 to March 2016 and therefore the significant governance issues identified are those which relate to this period.

Members heard how the Council had improved its governance arrangements over recent years and that one significant governance issue remained. This related to compliance with certain Council processes and procedures, including performance appraisals, absence management, contract procedure rules and essential training.

An addendum to the report was then circulated to Members to outline an issue which had been identified since the publication of the report. This referred to the report from Ofsted on 20 September 2016 which rated Children's Services in Wirral as inadequate. It was reported that an Improvement Board had been established to lead the process including identification and delivery of an Improvement Plan.

A Member expressed concerns regarding corporate procurement remaining to be a high priority and sought reassurance from Officers that work is ongoing to combat this matter. Further concerns were raised by a Member with reference to Performance Appraisals which remained as part of the remaining significant governance issue.

In response to concerns, the Strategic Director for Transformation and Resources addressed the Committee to highlight that, to date 91% of Performance Appraisals for managers had been completed, whilst 57% of all

non-managerial staff had been completed. The deadline for completion had been set as 30 September 2016. Members heard how this was an improvement on figures published for the previous year.

Members expressed concerns regarding the significance of the addendum and there was dissatisfaction over the content of the Statement. Legal Advice was sought and it was explained that the Council is under an obligation to publish their Annual Governance Statement by 30 September.

Members sought an adjournment (7:35pm) so that Party Spokespersons could discuss how they wished to proceed. The meeting reconvened at 8:00pm.

The Committee then heard a statement produced by Party Spokespersons as follows:

“Subsequently, the Committee became aware of information and developments which placed the report in a context which caused Members concern and unease.

The comments in the additional paper supplied regarding the Ofsted inspection, be added and endorsed, it being regretted that this matter was not brought to light earlier.

A system of regular updates on matters of concern be introduced to satisfy the concerns of Members”.

On a motion by Councillor Davies and duly seconded it was agreed that the recommendation be voted upon under two parts, as set out in the report then the amendment as specified.

On a motion by Councillor Davies and duly seconded it was:

Resolved (6:2 (one abstention) That the final draft of the Annual Governance Statement and action plan be approved and presented to Cabinet in November 2016.

It was then moved by Councillor Davies and duly seconded and:

Resolved (9:0) That the statement produced by the Party Spokespersons be endorsed and a system of regular updates on matters of concern be introduced. This would provide Members with the opportunity to highlight other areas of concern (see minute 16).

20 CORPORATE RISK REGISTER: Q1 2016/17 UPDATE

The Risk and Insurance Manager provided Members with an update on the implementation of key additional actions to control corporate risks, emerging risk topics were also highlighted. A summary was also included regarding arrangements for the development of risk registers for Pledge Strategies, new Delivery Units and the revised Transformation Programme.

Members heard how following the adoption of the Wirral Plan, the Strategic Leadership Team conducted an exercise in late 2015/16 to identify the most relevant risks to its delivery. It was reported that this had resulted in the production of a revised Corporate Risk Register which was noted by this Committee on 14 June 2016.

The Risk and Insurance Manager then informed Members how all mitigating actions appear to be progressing as planned, with the exception of:

- The development of extra care housing (Risk 5: Integration of Health and Social Care)
- The sale of surplus assets (Risk 10: Resources and Infrastructure)

The Report informed Members about emerging risk areas and explained that since the new Corporate Risk Register was finalised on 31 May there had been some significant changes both within the Council and in the wider environment that could create uncertainty for delivery of the Council's objectives. Members heard, how, on 23 June the UK voted to leave the European Union, resulting in uncertainty and the potential to create additional challenges to delivery of the Wirral Plan in the longer term. It was identified that the following could be particularly affected: Financial Resilience (risk 1) Devolution (risk 4) and Economic Activity (risk 9). Furthermore, the report explained how in July Ofsted undertook an investigation of the Council's Children's Services. The outcome has now been published and could have implications for the following existing corporate risks: Financial Resilience (risk 1) and Safeguarding (risk 7).

The Risk and Insurance Manager advised that to ensure that the Council and the wider Wirral Partnership develops a comprehensive understanding of the risks to delivery of the Wirral Plan three further sets of Risk Registers will be developed over the coming months as follows:

- Individual Wirral Plan pledge strategies
- Plans for the new Business Services functions and Delivery Units
- Programmes within the revised Transformation Programme

Members heard how there had been consultation with the Policy, Performance & Scrutiny Team and the Change Team over arrangements for

the development of the Registers and guidance and support will be available to those responsible for producing them.

Resolved - That

(1) Members note the report on progress in managing the corporate risks: and

(2) further reports on the Corporate Risk Register be brought to future meetings of this Committee.

21 **MANAGEMENT OF INSURANCE AND CORPORATE RISK**

The Risk and Insurance Manager introduced a report to inform Members about progress made since the previous report considered in June 2016 in relation to key actions planned for 2016/17.

The Report provided Members with an update on the work around risk management and insurance which sought to support the Risk Management framework and maintain the successful management of the Insurance Fund.

It was explained to Members that risk and insurance management comprises two significant areas of activity as follows:

- The provision of advice and support to Members and Officers in developing the corporate risk management framework and processes.
- Risk financing which incorporates insurance procurement, management of the Council's Insurance Fund and claims management.

The Risk and Insurance Manager summarised progress to date under the categories of:

- Crime Insurance
- Corporate Risk Management Policy
- Corporate Risk Register
- Alignment of Risk Management and Performance Management
- Traded Service for Schools and Academies
- Policy Renewals – June 2016
- Tender for Casualty and Computer Insurance.
- Request for Quotations – Broking Service.
- Claims Handling Changes.

Members were informed of relevant risks including potential for a large number of schools converting to Academies and implications for the Insurance Fund. It was explained that, if this were to occur, this could reduce the Authority's buying power and the degree to which it could self – insure.

Members were advised that Officers continue to remain vigilant to potential conversions and will make changes to the authority's arrangements to ensure that potential negative impacts are gradual and limited wherever possible.

A Councillor praised the Risk and Insurance Manager for the content of his report.

Resolved – That the report be noted.

22 **CORPORATE RISK MANAGEMENT POLICY**

The Risk and Insurance Manager outlined a report to confirm to Members the process behind the development of a revised Corporate Risk Management Policy. The report set out the factors that had influenced its development, described the main proposed changes from the current document and confirmed a series of actions needed for its implementation.

Members heard how the Council has to deliver its objectives in the face of a complex and increasingly dynamic environment and that the uncertainty created by that environment presents it with both opportunities and threats. It was explained to Members that the purpose of a Risk Management Policy is to set out an organisation's overall attitude to risk and uncertainty to confirm its commitment to managing risk to provide a high level view of the risk management process itself and to set out corporate requirements around how risk is to be handled.

The Risk and Insurance Manager informed the Committee that under the governance structure for risk management any update to the Policy is considered by the Strategic Leadership Team (SLT) then by this Committee, before being put to the Cabinet for formal adoption. Members were advised that several significant developments with implications for the Council's approach to managing risk had taken place in the past year, including: the adoption of the Wirral Plan, a new Operating Model, a revised Transformation Programme with improved governance arrangements and a move towards integrated reporting.

Proposed changes to the Risk Management Policy were set out in the appendix to the report and summarised within the report. Next steps and relevant risks were explained to Members.

Resolved – That

- 1) the draft Risk Management Policy be approved and referred to Cabinet for formal adoption on behalf of the Council; and**
- 2) regular reports on progress towards implementation of the risk management action plan be brought to this Committee.**

23 EXTERNAL AUDIT FINDINGS

Prior to the consideration of this item the Head of Financial Services informed Committee that the next four items related to the Annual Accounts for 2015/16. He presented an overview of the process and the related documents in place for signing-off the accounts. He introduced the External Audit Findings, as prepared by Grant Thornton.

Robin Baker, Engagement Lead at Grant Thornton explained that the purpose of the report was to highlight key issues affecting Wirral Council and the preparation of the Council's financial statements for the year ended 31 March 2016. It was explained that Grant Thornton are required to carry out sufficient work to satisfy on whether the Council had made proper arrangements to secure the economy, efficiency and effectiveness in its use of resources.

Members were informed that electors are given the opportunity to raise questions about the Accounts. It was reported that there is one outstanding objection. The Objector had suggested that Grant Thornton prepare a public interest report and apply to the courts for a declaration that Wirral Council's Lender Option, Borrower Option loan borrowing as referenced in the 2015–16 accounts is unlawful. It was explained that this issue affects a number of local authorities and it was necessary to seek further advice and guidance on this issue. Therefore the Audit cannot be formally closed for this year at this stage.

Robin Baker responded to questions and explained that investigation into the nature of the objection was ongoing.

Members were then advised that when concluding on value for money main considerations were:

- The Council continues to face significant financial challenges going forward. The 2016/17 quarter 1 (June 2016) revenue monitoring report set out a forecast overspend of £1.1m. The 2016/17 revenue budget included a budget contingency of £12m to mitigate the financial risks associated with demand pressures and the delivery of previously agreed savings. Continuing budgetary pressures relating to Adult Social Services, Children's Services and Transformation and Resources have led to £11.1m of that contingency being allocated early in the financial year.
- In July 2015, the Council approved a new Wirral Council Plan: A 2020 Vision. The plan sets out key priority areas and desired outcomes for both people and place and underpinning the priorities are twenty outcomes to be delivered by 2020. The Council acknowledges that, given the challenging financial position, difficult decisions remain to be made to ensure both the successful delivery of the Wirral Plan and achievement of statutory responsibilities.

- The Council has a track record of delivering required savings to date although the challenges faced going forward are arguably getting tougher. Appropriate arrangements are in place to plan finances effectively alongside reliable financial reporting to support the delivery of the Council's strategic priorities. Overall, the Council has responded positively to the challenging financial environment during the year and has set out in the MTFS a clear view of what needs to be done in 2016/17 and beyond.
- The Council remains committed to actively exploring alternative means to deliver services alongside supporting local redevelopment and regeneration through a range of planned actions. The Council is actively involved in supporting the Devolution Plans of the Liverpool City Region Combined Authority.

The findings of the recent Ofsted Report, referred to in Minute 19, were such that the Value for Money conclusion would be revised to being a qualified Conclusion for 2015/16.

Robin Baker referred to the Audit Opinion being issued before 30 September 2016 and the Audit Findings being updated to incorporate both the Audit Opinion and the update regarding Value for Money.

Resolved – That the report be noted.

24 **EXTERNAL AUDIT FINDINGS - PENSION FUND**

Heather Green, Senior Manager at Grant Thornton UK LLP addressed the Committee to outline Audit Findings for Merseyside Pension Fund for the year ending 31 March 2016. It was explained that the report had been very well received by Members of the Pensions Committee at their meeting held 19 September 2016.

Members were advised that summary findings were very positive and there were no significant concerns to report.

In response to a question by a Member it was explained that Grant Thornton UK LLP, on the Council's behalf requested management representation to confirm ownership of the Fort, a shopping centre based in Birmingham.

Resolved – That the report be noted.

25 **PENSION FUND STATEMENT OF ACCOUNTS**

The Head of Financial Services addressed the Committee to present Members with the audited Accounts of Merseyside Pension Fund for 2015/16. Members were advised that the purpose of the Accounts is to present the overall position of the Pension Fund as of 31 March 2016 in accordance with

prescribed guidance. Members received the Minute from Pensions Committee which had accepted the Accounts and referred them to this Committee.

Members were informed that there was one mis-classification of £24.8 million, which was categorised as a pooled investment vehicle with the underlying asset class as a corporate bond instead of a pooled investment vehicle with the underlying asset class as equities. This has had no effect on the assets of the Fund as at 31 March 2016 and all suggested disclosure changes have been amended.

Resolved – That the report be noted.

26 **STATEMENT OF ACCOUNTS**

The Head of Financial Services requested that Members consider the Audit Findings of Grant Thornton UK LLP, agree a letter of representation, agree any actions for 2015/16 and then approve the arrangements for the finalisation of the Statement of Accounts for 2015/16, so they may be published in advance of the statutory deadline (30 September 2016).

Members were advised that the purpose of the Statement of Accounts is to present the overall financial position of the Council at 31 March 2016 and that this is updated annually and specifies the accounting principles and practices required to prepare a Statement of Accounts which present a true and fair view of the financial position.

Members then heard how the Accounts published on 30 June 2016 by the Head of Financial Services as Section 151 Officer had been subject to audit. Under National Audit Commission audit arrangements for Local Government, Grant Thornton, as the Council's appointed external auditor, reports on the financial statements. Based upon the comments from the external auditor the Accounts had been amended and must be considered and approved by resolution of Members prior to publication. The Accounts must also be signed and dated by the Chair of this Committee.

The Head of Financial Services informed the Committee that amendments to the financial statements requested by Grant Thornton were detailed in the Audit Findings Reports and Members are asked to consider whether or not they agree to the amendments which had been agreed by Officers.

He advised that the Accounts would incorporate the amendment agreed to the Annual Governance Statement (Minute 19 refers) and the Audit Opinion to be issued by the external auditor. The Accounts would be published on 30 September 2016 and an update would be provided to the next meeting of this Committee.

Resolved –

- (1) the Audit Findings Report presented by Grant Thornton be noted, noting the actions taken over the amendments to the Statement of Accounts as detailed in section 3 of the report now submitted.**
 - (2) That the Head of Financial Services, as Acting Section 151 Officer, be authorised to sign off the Councils' 2015/16 Statement of Accounts in consultation with the Chair of the Committee.**
 - (3) That the Chair of the Audit and Risk Management Committee be authorised to sign off the Letter of Representation.**
 - (4) That the Statement of Accounts for 2015/2016 and the arrangements for further amendments be approved.**
-