

AUDIT AND RISK MANAGEMENT COMMITTEE

Monday, 28 January 2019

Present: Councillor AER Jones (Chair)

Councillors A Davies T Anderson
P Doughty D Elderton
J McManus P Gilchrist
JE Green

Deputies: Councillors G Wood (In place of RL Abbey)

47 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 declarations were made.

48 APOLOGIES FOR ABSENCE

No apologies for absence were received.

49 MINUTES

Councillor Phil Gilchrist requested an update on progress relating to risk share arrangements and monitoring of the Integrated Commissioning Hub (ICH) project (minute 35 refers). The Chief Internal Auditor re-affirmed that the working arrangements for this project continued to be refined and that the Audit and Risk Management Committee would receive report on the project and work being undertaken in due course.

Resolved – That the minutes of the meeting held on 19 November 2018, be approved.

50 FINANCIAL RESILIENCE PLAN: PROGRESS UPDATE

Director of Finance and Investment (S151) introduced her report that set out progress on the financial resilience plan that, part of the Council's Medium Term Financial Strategy (MTFS) 2019/20 to 2022/23, that had been agreed at Cabinet on the 16 July 2018. The plan set out the approach to improving and managing financial sustainability.

The Director of Finance and Investment informed that the financial position for local councils continued to be challenging and that since 2010 all councils had faced reductions in central government funding and ongoing financial pressures in a number of core services such as social care. She further informed that additional pressures had fallen upon the Council as a result of the impact of business rates retention that included the responsibility for payment of appeals and areas previously under central government control such as Council Tax Benefit.

The Director of Finance and Investment reported that building financial resilience was a key part of the Medium Term Financial Strategy, i.e. planning for the Council's finances. A review had been undertaken in early 2018 by the Chartered Institute of Public Finance and Accountancy (CIPFA) and an assessment of financial management arrangements had identified a number of areas of strength that included:

- The outcomes based focus of the Wirral Plan demonstrated a willingness by Members and the Senior Leadership Team to be open to new ideas on how services might be delivered in future.
- The determination and commitment of the Senior Leadership Team and the Cabinet to instil a culture of financial discipline throughout the organisation.
- A budgeting process for 2018/19 and 2019/20 - 2022/23 was becoming more grounded and rigorous.
- There were pockets of good practice in the Council.
- The Director of Finance had begun to raise the influence and profile of the Finance team on strategic issues.

The review also identified some areas for development, namely:

- There was a pressing need to agree a Medium Term Financial Strategy and associated transformation plan to address the projected spending gap.
- The future delivery of the Medium Term Financial Strategy and transformation plans were dependent on changing the existing culture within the Council.
- Members and senior officials needed to more explicitly set a tone that financial discipline was important.
- Refocus and reprioritise the finance and audit functions.
- Putting in place the enablers that provided effective financial management.

Members noted that developmental areas had already started to be addressed through mandatory training and a restructure of the finance team.

Members questioned the Director of Finance and Investment on a number of points within her report that included actions taken to deal with 'unpredictable events' and extending 'good practice' to all areas of the Council. The Director informed that much of the resilience planning involved how the Council managed risk across the organisation, and how it was vital to build contingency planning into its procedures. She added that an example of an unpredictable event could include issues such as Business Rates Appeals.

A Member questioned the Director on budget overspending, the Council's Senior Management Structure, the matter of the independence of the Internal Auditor function and how the Internal Audit function kept pace with the massive changes currently faced by the Council.

The Chief Internal Auditor responded, and provided reassurance to the Committee on his personal role, reporting lines (which included a direct link to the Chief Executive) and how the Internal Audit function provided unencumbered reporting. He added that the Internal Audit function retained full independence and reacted well to change, addressing risk in conjunction with the full engagement of the Audit and Risk Management Committee. The Committee was also apprised that the Internal Audit function and independence was well established within the Council and was not affected at all by its location in the management structure.

Resolved – That

- (1) That progress to date on Financial Resilience Plan Programme 2018/19 be noted; and**
- (2) Further update reports be presented to the Committee on a regular basis.**

51 INTERNAL AUDIT UPDATE

Mark Niblock, Chief Internal Auditor, introduced his report that identified and evaluated the performance of the Internal Audit Service and included three items of note arising from the actual work undertaken during the period 1 November to 31 December 2018. The items of note were:

Commercialism - The Chief Internal Auditor informed that an audit had recently been completed to examine and evaluate the developing processes around Commercialism across the Council, specifically the development, appraisal, acceptance and monitoring of ideas to develop income generation.

Risk Management - Members noted that audit work continued in this area providing best practice guidance and support for officers involved with the implementation of the new arrangements. The outcome of this work is the

production of an updated Risk Assurance Map which, upon completion, will be reported to the Audit and Risk Management Committee.

ICT - The Chief Internal Auditor informed that over the reporting period audit work had focussed on the following areas with ongoing work to evaluate and test the effectiveness of controls in operation for:

- Email Security
- Data Security Standards – Payment Cards
- Software Licensing
- Cyber Security Risk Management - Follow Up

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.

Resolved – That the report be noted.

52 **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 how 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 the workshop that had taken place prior to the meeting on 19 November 2018 which had considered 10 of the existing 14 risks. Each had been reviewed in detail with particular reference to how it was defined, the risk owner, and relevance of the stated mitigation (and mitigation that was not currently recognised within the register). All comments made within the workshop were recorded and incorporated into an updated version of the register.

On 15 January 2019 the updated register was presented to the Strategic Leadership Team (SLT). Members were informed that the SLT had accepted Members' comments in relation to the existing risks.

Members expressed the view that the workshop events had been most helpful and time well spent, providing an opportunity for additional discussion on the subject outside of the formal meeting cycle, and requested that the Committee's thanks to Mike Lane, Senior Risk and Insurance Officer be recorded.

Resolved – That the report be noted.

53 **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 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 items of note were:

- Corporate Risk Register – subject of a separate report to the Committee, Minute No. 52 (ante) refers;
- 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;
- Liability Claims Handling;
- Insurance Fund Budget - subject of a separate report to the Committee, Minute No. 54 (post) refers; and
- Renewal of Liability and Computer and Insurance Contracts.

A Member questioned the Director of Finance and Investment on key points relating to the Motor Insurance and Engineering Inspection and Insurance Contracts, namely whether responses had been received and within budget. The Director confirmed that this was so, and the outcome of the procurement would be reported to the next meeting of the Audit and Risk Management Committee.

Resolved – That the report be noted.

54 **INSURANCE FUND BUDGET 2019/20**

Shaer Halewood, Director of Finance and Investment (S151) introduced her report that set out information on the elements which make up the Insurance Fund, the cost of running the Risk & Insurance Section and the Budget for 2019/20.

The Audit and Risk Management Committee was apprised that the 2019/20 Insurance Fund Budget of £2,945,000 was an increase of £10,000 (0.3%) on the Budget for 2018/19. Members also noted that the cost to General Fund and covered from the Insurance Reserve Budget was £194,000, i.e. 10% higher than for 2018/19, being the result of a greater percentage of liability claims from schools compared to recent years, and due to additional property insurance premiums generated by the acquisition of major assets.

The Director of Finance and Investment informed the Committee of the principal risks that the Council currently self-insures, together with the probable maximum sum. She also informed of the premiums (under insurance contract) that had been charged in recent years in respect of the three principal risks covered by the Insurance Fund i.e. Casualty (liability), Material Damage and Business Interruption, and Comprehensive Motor Insurance.

Members noted that by self-insuring the Council avoided paying insurers' administration profit and Insurance Premium Tax on predicted levels of claims.

A Member sought clarification from the Director of Finance and Investment about additional cost to the budget of £194,000 (earmarked for the insurance element of the Council's Highways Contract) and whether this was a one-off occurrence or covered by internal recharge. The Director of Finance and Investment advised that internal accounting recharges would be adjusted and the General Fund would be replenished as a result.

Resolved – That the Insurance Fund Budget 2019/20 be agreed.

55 **EXTERNAL AUDIT - COMMITTEE PROGRESS REPORT**

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.

The report contained information about the External Auditor's progress on the Financial Statements Audit 2018/19 detailing the planned dates and status of each stage of the process in relation to the external audit of the Council's budgetary process, value for money risk assessment and delivery of their findings.

Mr Basnett informed Members of other matters covered in the External Audit progress report on the funding of Social Care and work underway to help bring together influencers, academics and investors who were helping to

shape the future of Adult Social Care and the latest trends in local authority trading companies.

A Member questioned reference to the status of an objection contained within the report. Mr Basnett responded, explaining that this was a long standing matter re a complaint lodged by a member of the public in relation to Lender Option Borrower Option (LOBO) Loans. The Director of Finance and investment informed that this matter was hoped to be nearing a conclusion and the issue of LOBO Loans had been the subject of nationwide challenge to Local Authorities. *Note: While the types of debt products that are available to councils have been changed over time, the principles within both professional code and legislation have remained, which is that councils can only ever borrow in the medium to long term for capital investment purposes. Councils are duty bound to constantly monitor their debt portfolios to ensure it meets their requirement to fund capital expenditure.*

A Member sought reassurance on the associated work with the Council's Pension Fund and requested that this be looked at and reported back to the Committee. It was noted that the Merseyside Pension Fund (MPF) was 100% funded at this time.

Another Member highlighted the matter looked-after children and questioned actions taken by the External Auditor on the monitoring of OFSTED reports. Mr Basnett informed that reports were reviewed and actions recorded, with measures put in place to address any points that had been raised.

Resolved – That the report be noted.