

AUDIT AND RISK MANAGEMENT COMMITTEE

Monday, 22 July 2019

Present: Councillor JE Green (Chair)

Councillors T Anderson K Hodson
K Cannon AER Jones
P Gilchrist S Whittingham
K Greaney

Apologies Councillor G Wood

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 Phil Gilchrist declared a personal interest in agenda item 5, 'Chief Internal Auditor's Annual Report and Opinion 2018/19' by virtue of his membership of the Improvement Board for Children's Services which was referenced in the report.

2 APPOINTMENT OF VICE CHAIR

The Chair invited nominations for Vice-Chair.

On a motion by Councillor Adrian Jones, seconded by Councillor Stuart Whittingham, it was –

Resolved – That Councillor Karl Greaney be appointed Vice-Chair of this Committee for the current municipal year.

3 MINUTES

Resolved – That the minutes of the meeting held on 24 April, 2019, be approved.

4 ANY URGENT BUSINESS - AGENDA ITEMS MISSING

Councillor Jeff Green raised the issue of agenda setting and that he had not been consulted on the agenda.

Shaer Halewood, Director of Finance and Investment, confirmed that she was the accountable officer for this committee and that she would be consulting over the agenda in future with the Chair.

Councillor Jeff Green referred to an item discussed at a recent Planning Committee regarding a judicial review and that it had been agreed that the matter be referred to this Committee.

The Principal Committee Services Officer apologised that the referral had not appeared on the agenda and assured the Committee that it would be on the agenda for the September meeting.

Councillor Jeff Green queried why the annual accounts were not on the agenda for this meeting when they were due to be published by 31 July, 2019.

Shaer Halewood informed the Committee that the Council were legally obliged to publish the accounts by 31 July and that they would be. However, the accounts would not be able to be audited by this date mainly due to a very late recent high court decision on pensions within public sector bodies that had impacted on the preparation of the accounts, in that all pension statements had had to be re-evaluated which meant that the pensions note in the accounts had had to be amended, which had to be agreed with the auditors. This was not an issue specific to Wirral and other local authorities were in the same position. She also referred to new technical adjustments which had had to be made to the accounts relating to IFRS9 which also had to be agreed with Grant Thornton. Capacity issues within the team due to sickness and within Grant Thornton's team also had an impact.

Councillor Jeff Green also referred to the lack of quarterly financial monitoring reports as these would impact on the budget set by the Council this year.

Shaer Halewood stated that the quarterly monitoring reports were still being compiled and that this usually took between five to six weeks after the close down of accounts. She confirmed that with Cabinet having responsibility for the budget, the monitoring reports were submitted there first.

Responding to comments from Members on staffing resources within the Finance team, she referred to a restructure which the team was currently undergoing and that during this period some vacancies were being held over. The senior officer, who had responsibility for closing off the accounts, who had been off on long term sickness too had returned to work now and she assured the Committee that within the next few months the team would be back to full capacity and these capacity issues would be covered in the future.

A Member commented that at a recent Leaders' meeting it was mentioned that all political group leaders needed to be kept apprised of the latest

financial situation as and when issues with the budget might occur so that measures could be taken in an expeditious manner.

Councillor Jeff Green commented that he would speak to the Leader of the Council as he knew he wanted to work in a more open and transparent manner to see if the previous Leader's ruling that financial reports had to go to Cabinet before any other Committee still applied and if necessary he could ask Councillor Ian Lewis to raise this at the Leaders' Group. He also stated that if there were issues which needed to be discussed he would be happy to have additional meetings.

In response to Members' comments Shaer Halewood confirmed that the role of Cabinet was to manage and monitor the budget and if Cabinet wanted these reports to go to another committee before that that was within their remit. There was now a lot more pre-scrutiny prior to reports going to Cabinet. With regard to monitoring reports going to overview and scrutiny committees, because of the timescales this would now happen in the September cycle of meetings but she would be happy to discuss with the Leader for information to be shared with scrutiny Members over the summer.

Councillor Jeff Green then raised the issue of re-assurance and assurance in that Members were often re-assured that everything was alright through performance indicators and such like but actual assurance was lacking. He referred to the 2017 Ofsted inspection and a more recent session around the planning function in which the Local Government Association had found serious issues. It appeared that the Council was in the position of always having to respond to judgements of poor performance and then react.

Councillor Jeff Green suggested that the Committee should have a table of legal requirements which set out how the Council were complying with these and the Council's performance and this received agreement from the Committee.

Shaer Halewood confirmed that this was indeed within the Committee's remit and then sought clarification on whether or not a special meeting of the Committee was to be arranged to look at the accounts. She confirmed that the only formal requirement of the Committee was to sign off the final audited accounts. The accounts had to be published by 31 July, 2019, and they would be subject to audit. There was no legal requirement to publish audited accounts as long as the Council provided a statement to say why they had not been audited.

Shaer Halewood also explained why last year they had been able to come to this Committee in July, and, for all the reasons already explained, why this had not been possible this year. For those reasons also a 'letter of representation' had not been able to be produced which would state that all the relevant policies and procedures had been complied with. This would be

produced at the September meeting along with the audited accounts unless the Committee requested a special meeting in advance of this.

A Member suggested that provided all legal requirements are complied with the accounts should come back to a meeting in September as traditionally Members and officers took their holidays during the month of August.

Responding to comments on staffing shortages with the Finance Team, Shaer Halewood confirmed that two members of staff had been off sick, one of whom was a very experienced member of staff, very involved in the preparation of the accounts. Two vacancies were also being carried by the team, so 4 out of a team of 40 staff were missing and this combined with the additional volume of transactions and very technical accounting changes had led to the lateness in producing the accounts. She did acknowledge that even with a full complement of staff, because of these issues and the late high court judgement, it was probably unlikely that the accounts would have been signed off. With regard to other authorities she confirmed that some colleagues from other local authorities had informed her that they would not have their accounts available for sign off by 31 July too. With a restructure taking place across the finance teams, more capacity would be in place for more generic working and if members of staff were off sick in future years other officers would be able to pick this work up.

Councillor Jeff Green suggested that when the reports did come to the Committee in September, there should be a report setting out what had been undertaken by the Finance department to ensure that this did not happen again.

In response to a Member's comment, the representative of the Director of Governance and Assurance informed the Committee that it was at the Chair's discretion to agree any items of urgent business and that the Committee had felt that these issues were urgent.

Following a lengthy discussion, Shaer Halewood confirmed to the Committee a number of actions which had been agreed, as follows:

- A referral from the Planning Committee on a judicial report to come to the September meeting.
- The Statement of Accounts to come to the September meeting.
- A table to show the legal requirements of the Council and from a governance perspective for the Committee to know whether or not these were being complied with.
- A report to Committee to provide assurance on how the closure of accounts process would be more effective in the future to ensure that the accounts would come to Committee within the timescales next year.

5 INTERNAL AUDIT UPDATE

The Chief Internal Auditor, Mark Niblock, introduced his report which identified and evaluated the performance of the Internal Audit Section and included four items of note arising from the actual work undertaken during the period 1 April to 30 June, 2019. The items of note were:

- Monthly verification assessments of Troubled Families claims
- Increasing the utilisation of Procurement Cards within Children's Services
- Wirral Growth Company
- ICT Audit

and he gave details of audit work undertaken in these areas and identified how any actions arising were being addressed by officers.

In response to Members' questions Mark Niblock commented that the percentage delivery of internal audit plans, 10 from a target of 90, was a target for the year and he would look at how this was presented for future reports. With regard to savings within Children's Services following an audit of petty cash holdings which had led to an increase in the use of P (Purchasing) cards he would need to find this information from Children's Services.

The Director of Finance and Investment, Shaer Halewood, confirmed that within the 2019/20 budget there were savings for Children's Services which would come out of a restructure and these innovative changes to processes would contribute to the savings.

Resolved – That the report be noted.

6 CHIEF INTERNAL AUDITORS ANNUAL REPORT AND OPINION 2018/19

The Chief Internal Auditor, Mark Niblock, introduced his Annual report for 2018/19 which provided an overall opinion as to the effectiveness of the Council's control environment. He directed the Committee's attention to Sections 4 and 5 of the report that set out the Audit Outcomes for 2018/19 and the Effectiveness of Internal Audit for the same period. He stated that his overall opinion was that:

"On the basis of our programme of work for the year, I can provide good assurance overall that there is a generally sound system of internal control, designed to meet the Council's objectives, and controls are generally being applied consistently.

However, some weaknesses in the design and inconsistent application of controls may put the achievement of some objectives at risk. The key governance, risk and internal control issues of which the Chief Internal Auditor

was made aware during the year and that impact the overall opinion are included within sections 3 and 4 of this report.”

Responding to comments from Members, Mark Niblock stated that everything in his report had been brought to the attention of individual chief officers. Actions arising from the report had been, or were in the process of being addressed. This committee had also had oversight of all the actions required from individual reports throughout the year. There were some issues which were carried over from 2018/19 into 2019/20, such as work on the Local Plan and financial resilience, nothing as such remained outstanding as work to address these issues was being undertaken within timescales. The Committee was kept informed through reports and also bi-monthly reports sent out to all committee members. He also met with the Chief Executive on a regular bi-monthly basis and discussions were held with the senior leadership team.

Councillor Jeff Green stated that he was still not clear what the Chief Executive had said when the report was presented to him but he would find a way to ascertain his views on this.

In response to further comments, Mark Niblock, provided clarity on the opinions expressed in his report and the negligible, minor, moderate and major risks referred to. The 2018/19 risks referred to in the ‘pie chart’ would be different to those in 2017/18. He responded to comments in respect of one of the Council’s core financial systems, the Client Finance Support Unit, which was the only one to be rated as a major risk.

The Director of Finance and Investment, Shaer Halewood, further remarked that this related to personal client finances and court appointeeships made to look after the finances of vulnerable people. She assured the Committee that there was no suggestion of financial mismanagement but rather about the processes that were being applied to manage the client finances. She also commented that she had been in regular contact with the Office of the Public Guardian and they were due to make an inspection to Wirral.

Councillor Jeff Green agreed with a Member the need for a more detailed report in respect of the personal client finances and what had been found and what was the action plan in place as the information needed to be sufficient for the Committee to have assurance.

In response to more comments, Mark Niblock stated that all risks identified in his report as being of moderate risk, such as ‘Friends of Royden Park’, ‘Mosslands School’ or ‘Payments to Forge House Associates Ltd’ were there for a reason such as the potential for financial issues to arise or reputational damage to occur to the organisation. There were a number of factors that were considered when determining what was of moderate risk, he acknowledged that this was a very subjective opinion but taken by

experienced auditors. He also assured the Committee of his and his team's independence operating with 100% freedom from the Director of Finance and Investment and the Chief Executive. They operated under a code of ethics as laid down by the Chartered Institute of Internal Auditors. Additionally, in 2018/19 the team had been externally assessed against the public sector internal audit standards and found to have been fully compliant in all areas.

He further stated that there would be a number of items which would move up and down between the categories and the bi-monthly report to Committee members did show the direction of travel.

Councillor Jeff Green suggested and it was agreed that a briefing for the Chair, Vice-Chair and Spokespersons could be held every two months or so to discuss the Chief Internal Auditor's findings and opinions on key areas of the Council's activity.

Mark Niblock also agreed to arrange a training session for all the Committee members. He could train Members on their role on the Committee as well as anything else which Members might specifically request.

Resolved – That the report be noted.

At this point the Chair introduced Iain Miles who had joined Mark Niblock's team as Audit Manager.

7 **UPDATE OF THE CORPORATE RISK REGISTER**

The Director of Finance and Investment, Shaer Halewood, introduced the quarterly report which updated the Committee on the Corporate Risk Register. An improved focus on its most critical risks was a key component of the enhancements to arrangements for managing risk which the Council was working to embed. Ensuring that the leadership had a clear shared and current understanding of those risks was fundamental to that aim. The report provided an update in relation to the arrangements that underpinned the corporate risk register and a copy of the current version of the register was appended to the report.

Each project had its own risk register as well as each directorate for which there was a directorate risk support group, this group then provided a report to the Corporate Governance Group and update to the Senior Leadership Team (SLT). There had been two changes, these were in respect of the risk scores that were required, since the register was reported to the 11 March, 2019 Committee as follows:

Risk 7 - Governance – in recognition of the existing mitigations that now included improved overall internal governance procedures, incorporating a revised Code of Corporate Governance and Annual Governance Statement

and involving improved reporting and monitoring, it was acknowledged that the likelihood of the risk arising had actually reduced from 3 to 2, resulting in an overall risk score reduction from 16 to 12;

Risk 14 – Health & Safety – after further consideration of the potential significance of the threat posed by this risk, it was felt that the unmanaged score should have been 16 rather than 12. Given the actual mitigations currently in place there was no actual change to the current risk score of 12.

Councillor Jeff Green referred to the risk register which had been compiled by a sub group of the Committee. He suggested that a sub group of the committee itself should look at the risks and see if it needed to be refreshed with any new risks being added.

Councillor Jeff Green also referred to the terms of reference for the Committee and whether or not they were fully aligned with the risk management approach, having recently seen Kent County Council's which were heavily stacked around risk. He also suggested that the Committee could take advantage of the Zurich Insurance Group funds available for training.

Members also referred to the need to see more detail and the direction of travel for risks within the report. With regard to the Local Plan risk item, planned additional mitigation could include the work on brownfield sites and their potential for housing developments.

Responding to comments from Members, Shaer Halewood assured the Committee that all the SLT members as well as risk owners had had training. The risks were discussed on a monthly basis and refreshed by the risk support group. She also referred to a number of risks that would be green or at the lower end of amber but the report before the committee only showed the most significant ones which were important for the committee to discuss. All the risks, including those rated green, could be discussed at the sub group meeting.

Resolved – That the report be noted.

8 **CORPORATE RISK - DEEP DIVE**

Shaer Halewood, Director of Finance and Investment, introduced a report which took an in-depth look at Financial Resilience, one of the risks on the risk register, which had been selected to reflect the current uncertain state of public sector finances.

The committee had agreed to take a deep dive look into one of the risks at each committee to test whether the risk was relevant and valid and whether the mitigations provided the Committee with the assurance that the risk was

being managed. The deep dive would look at each risk sequentially, however, committee were encouraged to select the risk to be the subject of a deep dive at each committee depending on the current landscape. She gave details of the existing controls in place and the planned additional controls in respect of this risk.

In response to comments from Members, Shaer Halewood, stated that the Finance and Income Portfolio Board was not a decision making body but rather a challenge session. The Board called in other portfolio holders to ascertain whether or not their individual budgets were on track, that they were not overspending and they were providing value for money and holding their corporate directors to account. With regard to business rates, these were referred to in the Medium Term Financial Strategy (MTFS) and how the Council intended to generate income from an increase in business rates. This would also be seen in the work of the Wirral Growth Company. She stated that there were probably up to a hundred different things that were in place to mitigate the financial resilience risk. This year there was a specific focus on income generation from growth and business rates within the MTFS.

Councillor Jeff Green stressed the need to do more for economic regeneration and increasing business activity to achieve increased business rates and that it should appear as separate mitigation for this particular risk.

Responding to further comments, Shaer Halewood stated that with regard to community wealth building a mapping exercise was being undertaken as to Wirral's economic activity, the supply chain and how much Wirral spent out of the area. An action plan for financial resilience was in place 18 months ago and all the different strands covering this had now been combined into one document in the MTFS which was regularly updated. She also confirmed that for future 'deep dive' reports, the particular risk owner would be present to answer questions as she had been for this particular risk. The selection of risks for future reports could be delegated to the risk subgroup.

Members suggested that for future reports there should also be more detail and a clearer indication of how mitigating controls were working.

Resolved – That the report be noted.