

LCR AUDIT & GOVERNANCE COMMITTEE

At a meeting of the LCR Audit & Governance Committee held in the Authority Chamber - No.1 Mann Island, Liverpool, L3 1BP on Wednesday, 27th July, 2022 the following Members were

P r e s e n t:

Councillors David Burgess-Joyce, Edna Finneran, Graham Morgan, Pat Moloney and Mike Wharton.

Independent Member: Jean Gleave

1. APPOINTMENT OF CHAIR

The Chief Legal and Monitoring Officer, Jill Coule, opened the meeting and invited nominations for the appointment of Chair of the Audit and Governance Committee for the ensuing year 2022/23.

Councillor Graham Morgan, seconded by Councillor Mike Wharton nominated Councillor Edna Finneran as the Chair of the Audit and Governance Committee for 2022/23.

RESOLVED - That Councillor Edna Finneran be appointed the Chair of the Audit and Governance Committee for 2022/23.

Councillor Edna Finneran
Chair of the Audit and Governance Committee
(in the Chair)

2. APPOINTMENT OF VICE-CHAIR

Councillor Graham Morgan, seconded by Councillor Mike Wharton nominated Councillor James Hansen for the position of Vice-Chair of the Committee.

Jill Coule advised that Councillor Hansen was not in attendance today and therefore the Committee would need to confirm that appointment.

RESOLVED – That in his absence, Councillor James Hansen be appointed Vice-Chair of the Audit and Governance Committee for 2022/23.

3. APOLOGY FOR ABSENCE

An apology for absence was received from Councillor James Hansen.

4. DECLARATIONS OF INTEREST

A declaration of interest was received from Councillor Pat Maloney in respect of him serving as a member on the Merseyside Pension Fund Local Pension Board.

5. MINUTES OF THE LAST MEETING

The minutes of the previous meeting held on 30 March 2022 were approved as an accurate record.

6. LIVERPOOL CITY REGION AUDIT AND GOVERNANCE COMMITTEE ANNUAL REVIEW 2021-22

The Committee considered the report of the Monitoring Officer which provided the Audit and Governance Committee with details of the Annual Review for 2021-22 including Audit and Governance activity and key achievements during the year. The report also proposed a work programme of wide activity for 2022-23 which was set out in Appendix 2, demonstrating how the Committee would discharge its functions for consideration and comment.

Some of the key achievements included:

- the updating of the Merseyside Model Code of Conduct following collaboration with local authorities;
- The review of the process dealing with Member complaints under the Code of Conduct;
- A fundamental review of the Corporate Risk Register alongside alignment with the LCRCA Corporate Plan 2021-24; and
- All the meetings of the Committee held in that year had been quorate.

A series of pre-meeting briefings would also be facilitated this year in order to provide Members with information on relevant topics and to assist in the consideration of business on the agenda.

Jean Gleave referred to the provisional work programme 2022-23 on page 31 of the report and noted that there had been no reports from External Audit included on the work programme. Lisa Backstrom confirmed that she had not been notified of any items for inclusion from the External Auditors, but she would share the proposed work programme with them so that they could notify her of any particular items they wanted to submit for consideration by the Committee during the year and these could then be added in consultation with the Chair and Vice-Chair, the Head of Internal Audit and the Monitoring Officer.

RESOLVED That:-

- (i) the Annual Review Report for 2021-22 at Appendix 1 and delegated authority be granted for any amendments/insertions to

be made in consultation with the Chair, Vice-Chair, the Head of Internal Audit and the Monitoring Officer; and

- (ii) the proposed work programme for the Audit and Governance Committee for 2022-23 at Appendix 2 be approved and delegated authority be granted for any amendments/insertions to be made in consultation with the Chair, Vice-Chair, the Head of Internal Audit and the Monitoring Officer.

7. GOVERNMENT RESPONSE - LOCAL GOVERNMENT ETHICAL STANDARDS

The Committee considered the report of the Monitoring Officer which detailed the Government's response to the Committee on Standards in Public Life ("CSPL") review into Local Government Ethical Standards.

Jill Coule, Chief Legal Officer and Monitoring Officer, stated the CSPL review into Local Government Ethical Standards report was printed in December 2018 and had been brought to the Committee in March 2019. As indicated in the work programme, some work had been undertaken in this area around the Code of Conduct for Members and the procedures in place to support the administration of that Code of Conduct. Work had been undertaken with Local Authorities to prepare the Code of Conduct and a Merseyside version had been adopted by the Combined Authority as recommended by this Committee in June 2022.

The CSPL had also produced a number of recommendations which were set out in the table in the report. The Combined Authority had gone through each of those recommendations and said where it was in relation to each of those actions. The Combined Authority had done all the actions it could in respect of those that were in its control. There were a number of actions outstanding but they required either the Government to respond in a different way than they had responded or to introduce legislation which clearly they were not minded to do at this juncture.

RESOLVED - That the contents of the report be noted.

8. HEAD OF INTERNAL AUDIT ANNUAL REPORT AND OPINION 2021-22

The Committee considered the report of the Head of Internal Audit which provided the Annual Report and Opinion for the financial year 2021-22. The report summarised the work undertaken by Internal Audit during the year, the key conclusions that could be drawn from this, and the overall opinion on the organisation's governance, risk and internal control environment.

Laura Williams, Head of Internal Audit, advised that this was one of the most important reports of the year. It summarised all the work undertaken during the year, drew the key conclusions from that work and provided an

overall opinion of the organisation's governance, risk and internal control environment.

There had been 50 pieces of work completed by Internal Audit during the year, and these had been used to inform the annual opinion. There were additional pieces of work that had been completed which were more around advice and guidance and those had also been taken on board as part of the opinion.

The report summarised those reports and outcomes and gave information as to how the opinions and recommendations broke down. All of those pieces of work had been reported to the Committee during the year. The only ones which would not have been seen were those which had been completed late last year or early this year, and these were included in the Internal Audit Update report on the agenda for this meeting.

The single report covered the Combined Authority and Merseytravel and it recognised that there was a blended system of internal control, governance and risk management across the two organisations. However, in terms of the overall opinion for the year on each organisation, these had been delivered separately and it was noted that they were the same across both the Combined Authority and Merseytravel – i.e. that there was an adequate overall opinion for both organisations and a good capacity for improvement rating again for both organisations. An opinion of “adequate” is the highest rating that can be given, and this arises from due professional scepticism and also that Internal Audit cannot review every single control or be aware of every single risk or piece of governance or procedure.

The report set out the key elements that arose from the annual review of governance and synergies would be seen between those findings and the Annual Governance Statement (AGS) as the work is one of the feeder pieces of work upon which the AGS was based.

Laura Williams concluded that it was a positive report and it did reflect the considerable progress that had been made across the organisation. She drew attention to section 7 of the report (pages 84 and 85) which set out the opinions, the work that was still to be done and the areas which still needed to be developed. It would also be necessary to continue to develop the organisation's risk management arrangements..

Councillor David Burgess-Joyce referred to a question that he had asked previously as to whether there was any work ongoing in respect of paperwork taken home by staff during the pandemic which would then be in the public domain and could cause embarrassment. Laura Williams responded that this report was in respect of financial year 2021/22 and the culmination of that work. There was a piece of work around information governance in the current year's Internal Audit Plan, but that the Monitoring Officer might wish to comment in respect of work her team was doing in that area. Jill Coule stated that there were two things that had been done in this regard. It had been an issue which had been raised in the Information Management Group and in

September it was proposed that an Information Management report would be brought to the Committee which would contain more detail. The Information Management Group oversaw the information handling practices and activities of the organisation and the profile of this issue had been raised and that sensitivity had been distributed across the organisation to make sure colleagues were aware. Secondly, the Information Management training was being refreshed and it would be picked up in that new training package as the current training package pre-dated the pandemic.

Councillor David Burgess-Joyce asked whether there had been any opportunities for amnesty. Jill Coule confirmed that information risk was an important responsibility within the organisation. It was felt that there was not a need to do an amnesty as there had not been a large number of data protection breaches within the organisation. It was important to treat that type of information appropriately but the Combined Authority did not have the same volume of information or staff dealing with that information so the propensity of a breach was a little less than it would be for a Council. However, it was still a risk of concern and therefore it was necessary to ensure that the authority's practices and activities were as sharp as they could be.

Councillor Graham Morgan referred to the fraud, bribery and corruption section of the report. It was good to see that in 2021/22 there had been no notifications of suspected fraud, bribery or corruption. He noted that there was a recommendation in the report to make staff more aware and to give them more confidence to report fraud. The report noted that the Head of Internal Audit had discussed it with ELT and SLT and he asked for an update on that. Laura Williams responded that there was a question around if concerns were not coming forward was that because they did not exist or was there a reluctance to report them. A number of things had been done which included a learning package which had been pushed out to all staff with a 72% completion rate. Conversations had also taken place with colleagues around the responsibility of managers. Further work is ongoing in ensuring there is adequate fraud awareness across the organisation. There would also be a clear focus on whistle blowing as these were high priority issues and it was important to raise the profile.

Jean Gleave noted that on page 8 of the report there was a list of items that had had to be removed from the plan for various reasons. She referred to the one on Business Continuity Management and queried whether work would carry on that in follow up because obviously following on from the pandemic it was probably a key area or was it something that would be put back into the audit plan at the right time. Laura Williams confirmed that she had been involved in the discussions around this and when undertaking the follow up work it was clear that there were a number of actions to be taken forward but it had not been an opportune time to do that work. From a broader perspective work had been undertaken with that team to develop a view on what those recommendations would look like in implementation. From an audit perspective there would be a clear continuation of that piece of work, and it was not something that would be lost. There were two elements to that

– one was picking up on the thread of the recommendations which had been made previously but also some of those recommendations had arisen from a particular point in time and were pandemic related. There were probably some new elements that would come into play as the business continuity arrangements were tested and looking at the different threats that might be more relevant at the moment. It was certainly the intention to follow up on the piece of work that had been planned but also looking at those new risks and threats as well and the authority's robustness to deal with those. She had been assured that progress had been really positive and in the Corporate Risk Register there were a number of actions that had actually been completed in respect of this area. She stated she would report back when this piece of work had been completed.

Jean Gleave referred to the work around Seacombe Landing Stage and queried whether that would be follow up work and also the impact on that for other capital projects. Was that something that assurance was being sought on from across the organisation as it was a significant area and the only one with a major reputational risk. Laura Williams agreed that it was the only major report during last year and obviously that had been taken seriously as an organisation but also from an audit perspective. It was important that the weaknesses that came up through that audit were not being replicated in other parts of the business and therefore a very detailed response had been provided to those recommendations from the department. The Seacombe issues would be followed up specifically but the Authority was about to embark on other similar projects and it would be necessary for the organisation to put in place a strong level of control to ensure that they were managed effectively so the same situation would not arise again.

Jean Gleave referred to page 81 of the agenda and in particular paragraph 5.5 which talked about development in governance and there was a list there against the principles. Having looked at the Annual Governance Statement she queried whether these were areas for development that had been drawn out of the Annual Governance Statement or whether these were separate. Laura Williams responded that this was one of the feeder documents to the Annual Governance Statement so all of the findings from the governance review had gone forward for consideration and each of the core principles had been broken down in the statement. Not all of them would be there as they might be worded differently but all of the points had been picked up as part of that process. There was a clear synergy between the work that Internal Audit did and what ended up in the statement.

Jean Gleave noted that completion of the plan had been reported this year and there was a list of areas which had been taken out of the plan. Also attached to the report was the work that CIPFA had done. She asked whether Laura Williams was comfortable with the level of resource and expertise within the team over the last year and going forward. Laura Williams responded that generally she was comfortable with the level of resource in the team. One of the points that came out of the Public Sector Internal Audit Assessment was the need to move away from the grants processing function and someone was being trained to take over that work and in the next couple of weeks that

person would be handed over to a different team which would be a great step forward in freeing up some resource and taking back independence in that area. There were other changes in the team which meant there was an opportunity to look at the structure. New funding streams were also coming along but that also placed some strain on the service in being able to provide the audit and assurance functions that were required for our own purposes as well as from the perspective of Government. Thought was being given about what to do with the structure in terms of making best use of that vacant post to make sure that the resources available were used to the best effect. Additional resources would always be welcomed but the report was based on an adequate level of resource.

RESOLVED - That the report be noted.

9. INTERNAL AUDIT UPDATE

The Committee considered the report of the Head of Internal Audit which provided the Combined Authority Audit and Governance Committee with an overview of the internal audit work completed in the fourth quarter of 2021-22 and first quarter of 2022-23, in accordance with the Internal Audit Plans 2021-22 and 2022-23.

Laura Williams, Head of Internal Audit, advised that there was an element of duplication as some of this work had been included in the Annual Report due to the fact that it related to last year. The report summarised the 15 new audits which had been completed and also included the outcomes from the governance work which again could be seen in the Annual Report and it also cut across to the Annual Governance Statement. Members might have noticed that the format of the report had changed a little and that was cognisant of the changes to the way that the Audit Plan had been set out. The report had been split into core work and responsive work and some detail had been provided around the responsive piece of the work as to what was in progress and why those particular pieces of work had been chosen and how these linked into the Corporate Risk Register. It was important to show that when selecting pieces of work it was not done on an arbitrary basis but that it was something that linked into our Corporate Risk Register and would likely be significant issues affecting the organisation.

The other element which had been included within the report was the CIPFA report on the state of Internal Audit. She confirmed that she had provided a summary of the key findings in the report and how those would impact on the Combined Authority and what was required to move those forward. The majority of the actions were things that had already been recognised and were being worked on. There were a couple of areas which had been teased out in the report where there was more work to do particularly around capacity and resources and work was ongoing as to how the team was resourced and how new entrants might be attracted to the Internal Audit profession.

Councillor Graham Morgan referred to section 3 on page 103 of the report which set out 13 high priority recommendations of which two were still outstanding in respect of the assurance framework and health, safety and wellbeing in operational transport. He asked when it was expected that those responses would be received and were there any concerns in terms of the delay. Laura Williams advised that those pieces of work had only been issued very recently so were not causing concern at the moment. She advised that more attention was paid to recommendations now and the team worked with Executive Directors to inform them about where there might be delays in their directorate. If there had been any concerns, then they would have been drawn out in the report.

Jean Gleave referred to section 4 on page 110 in respect of Responsive Audit which noted that this part of the plan related to work to be conducted in response to identified areas of significant risk to the organisation. She felt that it would be useful to cross-reference to say where those risks were within the organisation so that the links could be seen and also how would that balance be carried on working through the year if it had an impact on the core plan. Laura Williams confirmed that it was possible to tie these pieces of work to items in the Corporate Risk Register and she could easily provide that. She advised that an Audit Plan was always a balancing act and it all came down to risk at the end of the day as to what was the most pressing risk. There was always an element of work that had been identified at the start of the year that it was proposed to complete but clearly if something on the Corporate Risk Register or a new risk came forward then there was the flexibility to reprioritise the plan to make sure that resources were being focused effectively. In last year's plan it could be seen that a number of audit areas had been sacrificed because there were more pressing priorities that had come along or that some of those pieces of work had not been timely. It was always a balancing act. The plan did highlight what were thought to be the core areas of work and it was quite specific about what the responsive areas of work were but that was not to say that that might not change as the year progressed and there was that transparency to the Committee if changes needed to be made.

Councillor David Burgess-Joyce referred to the capacity and capability issues in respect of them being a bit thin. He asked whether there was an opportunity for a lot of the pre-work to be taken on as a responsibility of Department Heads as it seemed that Internal Audit was small tight knit team. He queried whether that was viable and if not why. Laura Williams was not sure that she had said that resources were stretched. The team was very much optimised in terms of its productivity. She stated that Internal Audit was classed as being the third line of defence. Management was the first line and they were responsible for implementing the controls for managing their systems, services and processes and they carried that responsibility. There were certain other review functions that formed the second line and then Internal Audit was the third line. She felt that it was not possible to have a dilution of distinction between those lines of defence and therefore the audit function should not be delegated to managers. It was necessary for Internal Audit to maintain its independence so that it was able to go into those

services, review them, look at how they operated, the quality of controls in place and to rely to a certain extent on the assurances that were provided obviously doing that on a risk basis but also with the use of evidence. It had been made clear that responsibility for the maintenance of risk management, internal control and governance processes sat with the first line which was management and Internal Audit would independently assess the quality of those processes as part of their work. It was necessary to maintain a clear line between those two elements but Internal Audit did work very closely with the managers within that area to make sure that it had the information, support and evidence required to undertake the audit effectively and therefore management were engaged as much as possible.

Councillor David Burgess-Joyce asked if something went seriously wrong where did the responsibility lie. He was aware of the responsibility being held at the first line but it just felt a bit woolly. Laura Williams confirmed that responsibility would lie with management without dispute. She had a professional responsibility to undertake her work in a diligent way which was to identify any deficiencies in those controls but she could not be held responsible for management failures she could only bring them to the attention of managers through her work. Councillor Burgess-Joyce asked what sanctions there were for a Department Head if they failed to do what was asked of them. He felt that there was no accountability in the public sector and he queried whether there was something that could be done to improve that situation to help Internal Audit. Laura Williams replied that as Head of Internal Audit all she could do was to make it very clear to the organisation where deficiencies might lie and what action management needed to take. If she found she was not getting the answers she needed then she would continue to raise and escalate that further.

Councillor Graham Morgan did not agree with the comments made by Councillor Burgess-Joyce as he felt that there were clear examples of accountability in the public sector when things went wrong.

John Fogarty, Executive Director Corporate Services, stated that this Audit Committee was one of the ways in which Internal Audit discharged that function of holding managers accountable for their actions. The Executive Leadership Team took Internal Audit matters extremely seriously and managers were held to a very high standard for their actions or inactions. Internal Audit was used to inform where there were issues of non-compliance and he assured Members that the line of accountability was very strong.

RESOLVED - That the report be noted.

10. RISK MANAGEMENT UPDATE

The Committee considered the report of the Head of Internal Audit which provided the Combined Authority Audit and Governance Committee with an update in respect of the system of corporate risk management and the activity that had been undertaken in continuing to embed this system during the first quarter of 2022-23.

Laura Williams, Head of Internal Audit, reported that as had been noted previously the Committee had undertaken a lot of work on the Corporate Risk Register and that was one of the key elements of this report in terms of bringing out the progress that had been made by the Executive Leadership Team and her service to move that position forward. During the period since the last meeting a review had been concluded and a new risk had been added to the Corporate Risk Register around financial sustainability. There had been significant discussions at previous Committee meetings which had talked about some of the pressures that the public sector and the population in general found themselves in and some of the potential issues that that might cause and the need to focus on financial sustainability into the future.

Laura Williams noted that another review session had taken place with the Executive Directors. These were regular sessions as a group and meetings also took place with them individually to go through their progress and to update their actions.

Laura Williams reported that two Risk Management training packages had been developed. There was a face to face training offer for senior managers and an e-learning package that had been rolled out to all staff to develop that basic understanding of what risk management was about.

A Risk Group had been developed that met quarterly and some spin off groups had started to develop from that. Significant risks which had been identified across the organisation such as supply chain and “knowing the customer” in terms of the organisations who we were trading with or investing with. It was really positive to see that those risks were being considered together with the approaches that could be developed.

Laura Williams noted that an Internal Audit of the Authority’s risk management arrangements had taken place and she had preserved her independence in terms of stepping out of her internal audit role. There had been some recommendations that had emerged from that report on which progress would be reported to the Committee.

Laura Williams concluded that generally positive progress had been made and it was necessary to keep the profile of risk management activity high so that the benefits of good risk management could be harnessed across the organisation.

RESOLVED - That the report be noted.

11. COMBINED AUTHORITY AUDIT STRATEGY MEMORANDUM

The Committee considered the report of the Head of Internal Audit which provided the Combined Authority Audit Strategy Memorandum (ASM) from Mazars which detailed their proposed approach to the audit of the Combined Authority’s financial statements for the financial year 2021/22 for consideration and comment.

Mark Dalton, Engagement Lead for Mazars, stated that this report had been discussed and agreed with management prior to its presentation to this Committee. The ASM set out the responsibilities as external auditors in auditing the financial statements and informing a view on the authority's arrangements in securing value for money in the use of resources. It described the audit approach, the timeline and it highlighted the proposed testing strategy to address the risks that had been identified both in relation to their own financial statements and value for money work.

Mark Dalton highlighted the following key points:

- Section 5 of the report on page 246 of the pack highlighted the approach to its value for money work. The Committee should note that at this stage the external auditors had not identified any risks or significant weakness in the local authority arrangements which was a positive. It should also be noted that the National Audit Office had extended the deadline for reporting the value for money work and that was three months from the date on which an opinion had been provided on the financial statements. As a result it would likely be early 2023 before the outcome of our value for money work for 2021/22 was reported;
- Section 6 of the report on page 249 of the pack highlighted the planned fees for the audit. This section highlighted the recurring additional fees associated with the additional work required to be undertaken by our regulators on the pensions liability, property, plant and equipment, and also the additional fees associated with changes in auditing and accounting standards and the new code of audit practice and the new value for money approach that had come into effect in 2021. The planned fee was very much in line with that which had been charged for the prior year. The Committee could be further assured that the Government had confirmed that the additional £15m of funding that was announced last year to help meet these increased external audit costs had been extended for a further two years with the CA's share of this £15m being £18,730. So comfortably covering the additional fees that was being proposed for the CA; and
- In Section 7 of the report it was confirmed that the audit team was appropriately independent and objective.

Dawn Watson, Engagement Manager for Mazars, highlighted the following key points:

- Section 4 on pages 239-243 of the pack detailed the significant risks and the audit procedures proposed in relation to those risks. They were fairly consistent with the prior year. The first of those was the management override of controls and there were no concerns in respect of the Combined Authority but the external

auditors were required to look at this area. The second two were in respect of the defined benefit liability valuation for the pension and the property and equipment valuation. These were the largest estimates within the accounts and were both inherently complex areas which did rely on experts to inform these values;

- Page 244 of the pack also detailed an enhanced risk which was on the group consolidation process. Again along with the planned response at this stage there was nothing of concern to bring to the authority's attention. A report would be brought back to the Committee on these risks via the audit completion report in September following the financial statements audit that was due to commence next week; and
- Section 8 page 254 of the pack contained details of the initial materiality thresholds which were consistent with prior years. They were based on 2% of gross expenditure as this Combined Authority was considered low risk so the higher end of the range had been applied when calculating materiality.

RESOLVED That:-

- (i) the external audit plan as detailed in the Audit Strategy Memorandum appended to this report be noted;
- (ii) the approach detailed be noted; and
- (iii) the approval of the Audit Strategy Memorandum be approved.

12. COMBINED AUTHORITY DRAFT STATEMENT OF ACCOUNTS

The Committee considered the report of the Executive Director Corporate Services which provided the Combined Authority Audit and Governance Committee with the Combined Authority's draft statement of accounts for 2021/22 for consideration. The Members of the Committee were requested to review the statements and provide comments thereon.

Sarah Johnston, Assistant Director Finance, stated that the report brought the draft accounts to the Combined Authority to the Committee Members for consideration. Members would be aware that the Authority was required to publish its accounts in line with the Accounts and Audit Regulations. For the last couple of years there had been amendments to the deadlines which had seen the deadlines for the publication of accounts pushed back to the end of July and subsequent audit for the period up to the end of September. The Combined Authority accounts had been published on 8 July 2022 and as referenced by the external auditors, these would be subject to audit starting from the following week. The accounts were a very complicated document reflecting the accounts based on accounting standard.

RESOLVED That:-

- (i) the content of the report be noted; and
- (ii) any comments on the accounts to be provided as necessary.

13. ANY OTHER URGENT BUSINESS

There were no further items of business for consideration.

Minutes 1 to 13 received as a correct record on the 29 day of September 2022.

Chair of the Audit and Governance Committee

(The meeting closed at 3.05 pm)