

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, 30th November, 2022 the following Members were

P r e s e n t:

Councillor Edna Finneran
Chairperson of the Committee
(in the Chair)

Councillor Mike Wharton, LCR Combined Authority
Councillor David Burgess-Joyce, LCR Overview and Scrutiny Committee
Councillor Pat Moloney, LCR Overview and Scrutiny Committee
Councillor Tricia O'Brien (Substitute Member), LCR Overview and Scrutiny Committee

22 APOLOGIES

Apologies for absence were received on behalf of Councillor Graham Morgan and Independent Member, Jean Gleave.

23 DECLARATIONS OF INTEREST

There were no declarations of interest submitted.

24 MINUTES OF THE LAST MEETING

The minutes of the previous meeting held on 29 September 2022 were approved as an accurate record.

25 AUDIT COMMITTEE FUNCTION

Louise Outram, Deputy Monitoring Officer and Deputy Legal Chief Officer, stated that this report advised Members of changes to the Terms of Reference for this Committee that the Combined Authority had made at one of its recent meetings.

It was proposed to incorporate Merseytravel into the scope of the Committee's Terms of Reference. Merseytravel was deemed to be an officer of the Combined Authority and it had had alternative audit committee arrangements but the Combined Authority had determined that this Committee should have oversight of Merseytravel matters.

RESOLVED – That the contents of the report and the revised terms of reference as agreed by the Combined Authority be noted.

26 INTERNAL AUDIT UPDATE

Laura Williams, Head of Internal Audit, advised that this was the regular report that the Committee received in respect of the work of the Internal Audit section as at Quarter Three of 2022/23.

As outlined in the report the work that had been completed within that period supplied the Committee with the relevant assurances. The Committee should note that there had been

five pieces of audit work completed in the period and the details of that were provided within the report. It should also be noted that the work in terms of following up on implementation of previous recommendations continued and summaries of that were also provided in the report.

RESOLVED- That the report be noted.

27 ANNUAL FRAUD UPDATE

Laura Williams, Head of Internal Audit, stated that this report updated on the annual fraud activities during the year and was a summary and culmination of the work that had been undertaken during the year in respect of prevention, detection and deterrent of fraud, bribery and corruption.

She highlighted a number of further points as follows:

- (1) The reflection within the Annual Self-Assessment around managing the risk of fraud in local government and the increase in the compliance with that document from 40% last year to around 80% this year which was mainly due to the fact that an extensive fraud awareness campaign had taken place over the last year and also the revision and update of the Fraud, Bribery and Corruption Strategy and the addition of many details which helped in terms of compliance with the guidance.
- (2) Also included within the report were various details in terms of the proactive and reactive Internal Audit work that had been undertaken during the last year and the remaining items of the Counter Fraud Protocols had also been reviewed but there were no changes made and were presented simply for information.
- (3) The only item not presented in the suite of protocols was the Anti-Money Laundering Protocol. Some audit work had been undertaken recently in that area and the opportunity was taken to do a more fundamental review which unfortunately had not as yet been concluded and therefore it would be brought to the next meeting.

Councillor David Burgess-Joyce noted that a lot of excellent work had taken place around this and fraud awareness was very useful. His concern was around whistle-blowers and the fact that procedures had been put in place to make them feel more comfortable about coming forward. He asked if further consideration could be given to making whistle-blowers feel even more comfortable so that coming forward would not jeopardise their own careers and wellbeing.

Laura Williams responded that the Fraud, Bribery and Corruption Strategy was owned by the Chief Executive and Directors and which set out that there was a zero approach to fraud and that all reasonable steps would be taken to ensure that fraud was prevented, detected and deterred. She thought that was very important in terms of setting the tone corporately and the culture around fraud. One of the main routes by which the organisation could be made aware of fraud was through whistle-blowers. It was therefore very important that through reviewing and looking at the Whistle-blowing Policy on an annual basis, making sure that staff were aware of the provisions within the policy and also by completing their Fraud Awareness training, that confidence was built up within the provisions of the policy to protect staff if they felt that they wanted to come forward with a concern. It was also about encouraging them that if they did come forward that that concern would be welcomed. She thought that there was a number of ways that could be done such as through the Fraud Awareness training and continually reminding staff of their obligations and responsibilities in that if there was a concern it was not acceptable to stay quiet and it was expected that those concerns would be brought forward. It was also about how those whistle-blowing concerns were received and making sure that within the policy there was a variety of routes whereby the concern could be made. So she felt that it was a multi-pronged approach through fraud awareness and making

sure training was in place which emphasised these points and ensuring that a strong policy and strategy in place which was focused in terms of those items.

Councillor David Burgess-Joyce asked how many people, in the four years that she had been in post, had actually blown the whistle? Laura Williams confirmed that she was not aware of any within that period.

RESOLVED - That:

- (i) the report be noted;
- (ii) the revised and updated Fraud, Bribery and Corruption Strategy be approved; and
- (iii) it be noted that the following counter-fraud protocols had been reviewed but no significant changes requiring the approval of the Committee had been made:
 - Anti-Bribery Protocol
 - Confidential Reporting (Whistleblowing) Protocol
 - Surveillance Protocol
 - Investigation Protocol

28 RISK MANAGEMENT UPDATE

Laura Williams, Head of Internal Audit, presented a report which provided 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 third quarter of 2022-23.

In the period the team had facilitated the Executive Leadership Team to review the Corporate Risk Register the details of which had been presented in the report. It was noted that there had not been any significant changes made but a number of actions had been closed and it was now about looking at the next phase of actions particularly around the resilience risk and what that might look like moving forward. The aim was to continually sharpen up those actions in respect of how the organisation responded to the identified risks and to make sure that those risks were being dealt with appropriately.

It was also noted that within the report there was an update in terms of the other activities that had been and were being undertaken in continuing to embed that system of risk management. Key to this was facilitating those review sessions with the Executive Leadership Team but also in the development of a Risk Management Skills training package the first one of which had taken place in October and had been well received.

The other area that had been notable was that within the organisation a very successful risk group had been developed which had identified a couple of the key or common risks across the organisation. The group had been used as an opportunity to identify those risks and to think about what the organisational response to those risks should be and to convene some short- life task and finish groups to develop some approaches to them. A couple of examples had been included in the report particularly around the supply chain issues the organisation was facing.

Councillor Mike Wharton referred to the risk around resilience where the residual risk was high at 20 but there was a RAG rating in green which he did not understand given that this was a really important risk for the organisation. The control measures were listed but they did not appear to be having a great impact on the residual risk and he asked if he could have an explanation on that.

Laura Williams replied that in terms of the RAG rating it related to the progress in terms of the actions. Some good progress had been made in respect of the actions and a number had been closed or were in the process of being completed. As previously mentioned there was a need to take a fresh look as although a number of actions had been completed there would still be new actions that would need to be identified to address this risk. It was difficult to explain the impact of controls until they had been tested and obviously there had been some live examples over the years which had tested our resilience as an organisation. She felt that there was a continuing concern which justified the 20 residual score as should a significant unforeseen event happen there would still be a concern that that would jeopardise the organisation's resilience for a period. However, she was confident that steps were being taken to address that and provide further confidence. The focus on this risk should be that once the right actions had been developed and implemented the authority should be in a position where this risk could be brought right down so that it was not included as a corporate risk. The key element moving forward with this risk would be reflecting on how far the organisation had come and the impact of the actions that were being completed but also thinking about what the next phase of actions would be and she hoped to be able to bring that to the next meeting. It would provide a clear view of how realistic that was and what the timeframe would be in bringing the organisation closer to the target score of 8.

Councillor Pat Maloney noted that it had been a tumultuous year in terms of inflation similar to the 1970's where the impact of that had been phenomenal. The country was experiencing fuel cost rises which directly affected transport, the cost of living crisis and the effect that would have on employees and customers and some of that was inter-linked with Russia's invasion of Ukraine. He wondered what impact those factors would have in terms of the elements on the Risk Register.

Laura Williams responded that a long discussion had taken place with the Executive Leadership Team about this issue and it had also been discussed previously at this Committee. One of the things that had been focused on was the financial sustainability risk and the ability as an organisation to be financially sustainable and to mitigate the negative impact of whatever financial pressures came along. The conclusion reached was that the score of 20 was felt to be appropriate but again the focus had got to be on the actions. It was about having that dynamic medium term financial plan which was being developed. It was about building those resilience concerns around how the world looked now and how it might look in the future into the Action Plan to provide the ability to flex and to develop the plan so that it accommodated those pressures in order to enable the authority to make the best of the situation. Reference had also been made in the actions around delivery of budgeting efficiencies and income opportunities and again it was about how it approached these challenges moving forward. It was appreciated that it would be necessary to make some efficiencies in our own organisation and within our own operations but again as part of the budget setting process that was being considered. She thought that it was about progressing with those actions and implicit within those actions was accounting for the financial pressures that had been outlined as they would certainly have an impact. That was the area which needed to be focused on and there would undoubtedly be some significant challenges.

RESOLVED- That the report be noted.

29 LCRCA EXTERNAL AUDIT 21/22

Sarah Johnston, Assistant Director of Finance, presented a report which built on a previous audit update given to the Committee in September 2022 which demonstrated the progress which was being made against the annual external audit. The report outlined the timescales for the production and audit of the accounts and at paragraphs 3.3 and 3.4 it noted that whilst the audit had progressed well and was substantially complete there were a couple of areas outstanding. There was a national issue around infrastructure assets which meant that the

audit could not be completed until there was a practical solution to this issue which was likely to be in the New Year. The other issue to note was that the Value for Money assessment had been decoupled from the main audit opinion so again that would be delivered later in the year. This meant that the accounts would come back to the Committee at a later point when all of those issues had been resolved.

Mark Dalton, Director – Public Services, Mazars, confirmed that the report would be taken as read but he took the opportunity to highlight a number of key points. He referred to page 297 of the agenda where the Committee would be pleased to note that subject to the limited outstanding work it was anticipated that a clean unqualified opinion would be issued on the financial statements. The accounts that had been presented for audit were of a good quality and only a few minor amendments had been identified through the audit process. The misstatements included one that remained unadjusted, and the Committee would be asked through the Letter of Representation to confirm that they were content with Management's position not to adjust the accounts. He confirmed that the External Auditors were content with Management's position, but it was up to the Committee to confirm that that was the case.

As had been highlighted in the covering report there were two main areas of work that remained outstanding which did prevent signing off the accounts at this time. There was a sector-wide technical issue in relation to accounting for infrastructure assets which was not expected to be resolved until the end of December and also the late receipt of assurance from the Pension Fund auditors which had only been received on Friday. Both of those issues were outside of Management and External Audit control and other than those two main factors the Financial Statements Audit was substantially complete for the Combined Authority and Merseytravel. It had been highlighted that the Value for Money work was not being reported at this time consistent with the discretion from the NAO and that would be reported within the next couple of months or early in the New Year. He thanked the Finance Team for a good set of accounts and also for the assistance provided throughout the audit.

Dawn Watson, Mazars, took the Committee through some of the detail in the audit completion report.

Councillor David Burgess-Joyce referred to page 299 of the pack where he noted that there was only one 'amber'. His question was that some of the 'greens' did not appear to have been finalised and some appeared to be work in progress. He wondered whether any blockages had been found and also when would the Committee know that that they had been completed. He thought that the 'green' rating might refer to the risk, but he was interested to know how that would be brought back to the table. He also noted that a lot of discussion had taken place around fraud and whistle-blowers and he would be interested to know from an industry-wide perspective what could possibly be done differently.

Mark Dalton responded that in relation to page 299 an Audit Completion Report follow up letter would be brought back to this Committee which would provide an update against all of the areas highlighted as outstanding. In terms of the RAG rating all it was seeking to communicate to Committee Members was the risk of a material misstatement that might arise from the work that was outstanding. Councillor Burgess-Joyce had been right to highlight that, however, most of them were 'green' which highlighted that they were unlikely to give rise to a material misstatement. The 'amber' one related to infrastructure assets because of the highly material nature of those figures within the accounts. In relation to the second question through the Value for Money work the audit would look at the authority's arrangements which included counter fraud arrangements. It would be helpful if Councillor Burgess-Joyce could wait until the New Year when the Value for Money commentary would be received in relation to the authority's arrangements which did include fraud and corruption.

RESOLVED - That:

- (i) the substantial progress made on the completion of the external audit for the Combined Authority be noted;
- (ii) the draft Audit Completion Report be noted;
- (iii) an update would be provided to the Committee once the audit process had been completed; and
- (iv) the accounts as drafted be recommended to the Combined Authority.

The meeting closed at 2.31 pm

Minutes 22 to 29 be received as a correct record on the 25th day of January 2023.

Chairperson of the Committee