

# AUDIT COMMITTEE

## Minutes of the meeting held on 22 July 2014

- PRESENT:** Councillor Trefor Lloyd Hughes (Chair)  
Councillor John Griffith (Vice-Chair)
- Councillors Jeff Evans, R Llewelyn Jones
- Lay Members: Mr Richard barker & Mrs Sharon Warnes
- IN ATTENDANCE:** Chief Executive  
Interim Head of Function (Resources) & Section 151 Officer  
Internal Audit Manager (JF)  
Insurance & Risk Manager (JJ) (for item 7)  
Transformation and Governance Business Manager (ET)  
Senior Accountant (Strategic Planning) (BD ) (for items 5 & 6)  
Interim Accountant (RGJ) (for item 3)  
Committee Officer (ATH)
- APOLOGIES:** Councillor Jim Evans, Richard Owain Jones, Dafydd Rhys Thomas  
Councillor H .Eifion Jones (Portfolio Member for Finance)
- ALSO PRESENT:** Councillor Ieuan Williams (Leader of the Council), Councillor Alwyn Rowlands (Portfolio Member for Performance, Transformation, Corporate Plan & Human Resources), Mr Andy Bruce (Wales Audit Office), Mr Joe Hargreaves (PwC), Bev Symonds (Scrutiny Manager)
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The Chair welcomed all those present and thanked his predecessor as Chair, Councillor R.Llewelyn Jones for his work and leadership during his period in that office.

### 1 DECLARATION OF INTEREST

Mr Richard Micklewright, Interim Head of Function (Resources) and Section 151 Officer declared an interest in respect of item 10 on the agenda.

Mr John Fidoe, Internal Audit Manager declared an interest in respect of item 12 on the agenda and withdrew from the meeting during the consideration thereof.

### 2 MINUTES OF THE 10TH APRIL, 2014 MEETING

The minutes of the previous meetings of the Audit Committee held on the following dates were presented and confirmed as correct:

- 10th April, 2014 (extraordinary)
- 30th April, 2014 (extraordinary)
- 8th May, 2014 (election of Chair/Vice-Chair)

### 3 REVIEW OF THE STATEMENT OF ACCOUNTS 2013-14

The report of the Interim Head of Function (Resources) and Section 151 Officer incorporating an explanatory outline of the key areas of the Statement of Accounts for 2013-14 was presented for the Committee's consideration.

The Interim Head of Function (Resources) and Section 151 Officer reported that although completing the draft Statement of Accounts in line with the end of June statutory deadline had been a challenging process, the deadline was met and the draft Statement was signed by the Interim

Section 151 Officer on 30th June. The Statement of Accounts will now be subject to external audit prior to its re-submission to the September meeting of the Audit Committee along with the Auditors' opinion thereon. The Officer summarised the revenue and capital out-turn positions for the 2013-14 financial year which were reported to the Executive on 9th June.

The Interim Accountant (Closure of Accounts) said that thanks were due to the staff of the Finance Service Team for their efforts in ensuring the completion of the draft accounts within the prescribed timescale and he referred to the requirements involved in the closure process and what the Auditors will be examining in terms of the accuracy of the financial statements and the qualitative aspects of their presentation.

Mr Joe Hargreaves, PwC confirmed that the audit of the accounts had commenced and is proceeding, and that any issues arising therefrom will be reported to the Audit Committee at its September meeting.

The Chair echoed the sentiments expressed as regards the credit due to the Finance Service for meeting its obligations in closing the accounts on time and he invited the Committee to comment on the information presented.

In the discussion that ensued, Members of the Committee raised questions regarding the following matters –

- **Doubtful Debts Impairment/Allowance.** Concern was expressed in relation to Council's stated short-term debtor balance of £29.3m which it was felt was excessive especially at a time when the Authority is under increasing pressure to produce savings and to make the resources it has at its disposal go further. Members sought clarification of the situation in terms of the origins of the debts; any measures taken or planned to recover the monies owed and the length of time over which the debts have been allowed to accrue.

The Interim Head of Function and Section 151 Officer acknowledged the concern and said that a robust process has been put in place to address the issue in the coming months regarding which there is engagement with the SLT and Members, but because the matter of doubtful debts has been identified, then in the interests of accuracy, provision must be made for it in the accounts. The Officer said that the non-collection of debt can be due to a number of reasons and normally there would be a process for bringing forward doubtful debt to avert its accumulation over time. A progress report on the project for dealing with the matter will be presented to the September Executive and can also be brought to the Audit Committee if Members so wish. The immediate objective is to focus on a few high value debts which if resolved, will bring the total down considerably.

Mr Joe Hargreaves, PwC reported that a provision of £4.4m for doubtful/short-term debts was made in the 2012/13 Statement of Accounts. This has risen by approximately £1.2m in the intervening period. From an audit perspective, doubtful debt provision will be audited this year as a matter of course; although a large sum it is not considered a material increase based on the numbers. As regards the construction of the £29.3m, the accounts do contain a disclosure note which sets out the broad categories of debtors.

- **The Local Government Pension Scheme and the situation with regard to the net Pensions liability and the apparent deterioration in the pension position.** Mr Joe Hargreaves, PwC reported that the Gwynedd Pension Scheme has been formally revalued since the previous Statement of Accounts and the liability has increased. The factors involved are incorporated in the actuarial valuation. The Auditors will be auditing those assumptions and have already assessed the calculations underlying it. The Auditors will also audit the information which the Authority provides to the Gwynedd Council Pension Scheme. The Interim Accountant (Closure of Accounts) explained the factors which impact on the performance of the Pension Fund as well as the assessments and judgements on which the liability position as reflected in the accounts is based. The Audit Manager referred to the presentation on the Gwynedd Local Government Pension Fund made to the Audit Committee last year and said that it had been the intention to report back to the Audit Committee annually on the performance of the Pension Fund.
- **The adequacy of the provision made in the accounts for Job Evaluation and Equal Pay liabilities.** The Interim Head of Function (Resources) and Section 151 Officer said that the Authority

has set aside a sum to cover equal pay liabilities. It successfully sought permission from the Welsh Government to capitalise any costs so monies paid out last year were funded from the Council's capital resources meaning that there was negligible recourse to the revenue monies set aside. That money is still potentially available for any future claims.

- The rationale for maintaining an Internal Insurance Fund which seems to have flatlined over the past few years and on which very little call appears to have been made. It was asked whether the resources within this Fund could be diverted to more useful ends. The Interim Head of Function (Resources) said that the Fund provides a reserve on which the Council can draw to meet claims which would otherwise be met by an external insurance provider for which a premium would have to be paid. It is a way of managing liabilities and risks whereby the outlay is minimised. The Risk and Insurance Manager explained the purposes of the internal insurance Fund as opposed to the protection provided by the Authority's external insurance cover. The Interim Head of Function (Resources) and Section 151 Officer said that the extent of the Council's various reserves and balances and the rationale for having them will be the subject of a report to the September Executive which can also be brought to Audit Committee if Members so wish.
- It was asked whether the statement made in the report that the uncertainty about future levels of funding for local government is not judged sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision still holds true in view of an indicative reduction of 4.5 % in the grant from the Welsh Government. The Interim Head of Function (Resources) and Section 151 Officer said that the accounting process requires a judgment to be made and a view expressed on the financial viability of the Council and that the judgement expressed is that taking into account the mechanisms and processes which the Council has in place to address the financial challenges it faces, it remains a viable financial entity.
- Clarification was sought regarding the staffing situation and the apparent discrepancy between the current position whereby the Council is employing more staff than it did a year ago and service underspends which are partly accounted for in the report by unfilled vacancies. The Portfolio Member for Human Resources clarified the position and confirmed that staff are doing more with less and are working in different ways e.g. by adopting agile working practices.

**It was resolved to note the report and the key items outlined within it along with the observations made thereon.**

**ACTIONS ARISING: Interim Head of Function (Resources) and Section 151 Officer to provide the Audit Committee at its September meeting with the following –**

- **A progress report on the project tasked with addressing the Council's debtor position and balance.**
- **A report on the range and extent of the Council's reserve funds and balances and the rationale for them.**

#### **4 GOVERNANCE AND ASSURANCE UPDATE AND DRAFT ANNUAL GOVERNANCE STATEMENT 2013-14**

The report of the Deputy Chief Executive incorporating at Appendix B the draft Annual Governance Statement for 2013/14 was presented for the Committee's consideration. Attached at Appendix A to the report was the Governance and Assurance Action Plan which summarised progress to date in terms of the actions required to address the significant governance issues identified as requiring attention. The Committee was informed that the current draft of the AGS is still at consultation and challenge stage and will be updated as necessary for the results of the corporate self-assessment and any changes up to the date of the signing of the accounts. It will go on to Officers and Members for comment before being brought back to the Audit Committee for approval at its September meeting.

The Transformation and Governance Business Manager provided the Committee with a visual presentation on the outcome of the self-assessment workshop held on 17th July and the emerging themes and messages from that event. She referred to the action plan at Appendix A and said that the green coded areas attest to the significant progress made hitherto although further improvement needs to be made in respect of those areas coded red and amber. A revised and updated Action Plan will be presented to the Committee in September.

Members considered the information presented and highlighted the following as points of note:

- The departmental self-assessment scores from the self-assessment workshop and what they signified.
- The need for the revised Action Plan to be more detailed in terms of expected outputs, the impact of those outputs and the timescale for achievement. Members suggested that the current Action Plan format does not enable them to obtain a feeling for what the changes in terms of the step-up from red to amber and amber to green is meant to achieve and the tangible difference that will make. They sought assurance that those aspects are being considered and monitored. The Transformation and Governance Business Manager confirmed that the action plan model for next year will cover those elements.
- That senior management should take ownership of the Action Plan in terms of ensuring that the message as regards the work that is still to be done is cascaded down to middle managers and their staff.
- Questions regarding the outcome of the staff and customer satisfaction surveys were asked as regards what might be done to improve these areas still further.

**It was resolved –**

- **To note the update on governance as reflected by the Action Plan and the need for the Plan to be more specific on outputs and timescales.**
- **To note the draft Annual Governance Statement for 2013-14 as presented.**

**NO FURTHER ACTION ARISING**

## **5 ANNUAL TREASURY MANAGEMENT REVIEW 2013-14**

The report of the Interim Head of Function (Resources) and Section 151 Officer incorporating the annual treasury management review of activities and actual prudential and treasury indicators for 2013/14 in accordance with the requirements of the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities was presented for the Committee's consideration.

The Senior Accountant (Strategic Planning) confirmed that the Authority had complied with the Treasury Management Strategy for 2013/14 as adopted by the Council in March 2013; the out-turn position is broadly in line with the prudential treasury indicators approved at the commencement of the year and that there were no significant variances from the updates provided during the course of the year.

**It was resolved –**

- **To note the actual 2013/14 prudential and treasury indicators as documented in the report.**
- **To accept the Annual Treasury Management review for 2013/14 and to forward it to the Executive without further comment.**

**NO FURTHER ACTION ARISING**

## **6 TREASURY MANAGEMENT QUARTER 1 2014/15**

The report of the Interim Head of Function (Resources) and Section 151 Officer incorporating the annual treasury management review of activities and actual prudential and treasury indicators for 2013/14 in accordance with the requirements of the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities was presented for the Committee's consideration.

The Senior Accountant (Strategic Planning) confirmed that the Authority had complied with the Treasury Management Strategy for 2013/14 as adopted by the Council in March 2013; the out-turn position is broadly in line with the prudential treasury indicators approved at the commencement of the year and that there were no significant variances from the updates provided during the course of the year.

**It was resolved –**

- **To note the actual 2013/14 prudential and treasury indicators as documented in the report.**
- **To accept the Annual Treasury Management review for 2013/14 and to forward it to the Executive without further comment.**

**NO FURTHER ACTION ARISING**

## **7 RISK MANAGEMENT**

An update report by the Risk and Insurance Manager on the risk management position was presented for the Committee's consideration.

The Risk and Insurance Manager informed Members that due to the difficulties in embedding risk management practice throughout the Council, a review of current risk management arrangements will be undertaken by an external company who will examine those aspects outlined at section 2.2 of the report. The Corporate Risk Register was reviewed by the Heads of Service and the SLT in June, 2014 and the risks listed in section 3.1 of the report were identified as high risk. Following work to mitigate risks, the risks listed in section 3.5 of the report have been de-escalated to medium risk status.

Members considered the report and made the following comments on the information presented:

- Concern and disappointment were expressed that no demonstrable progress has been made since previous updates in terms of progressing risk management practice across the authority and questions were asked as to what are the expectations as regards entrenching risk management within the Council.
- Clarification was sought of the reasons for the de-escalation of budgetary risks YMO8 and YM33. It was suggested that these remain high level risks given they are dependent on the realisation of the savings programme.
- There was concern that risk YM31 in relation to Data Protection continues to be categorised as a high risk despite being highlighted by this Committee as an area requiring immediate remedial action. It was suggested that responsibility for ensuring that this matter is addressed and resolved is assumed at corporate level.
- It was pointed out that addressing risk YM49 in relation to effective income collection should offset risk YM47 in relation to not having sufficient budget to cover existing commitments.

The Leader of the Council said that progress has been made in terms of a Corporate Risk Register having been established and that that is now considered monthly by the Executive informally in consultation with the SLT. With reference to Data Protection, an Information Governance Project has been established and is working to address the issues around risk YM31 and a great deal of progress has been made in this respect. The Leader said he wished also to assure the Audit Committee that new capital bidding procedures have been introduced and when capital resources are required, as well as the usual processes, the Corporate Risk Register will be used to evaluate priorities.

**It was resolved –**

- **To note the update and the position it reflects.**
- **To request the Deputy Chief Executive to attend the next meeting of the Audit Committee to report on the position with regard to addressing Data Protection and Information Governance issues with the expectation that significant progress will have been made with regard to this matter.**

**ACTION ARISING: Deputy Chief Executive to provide the Audit Committee at its next meeting with a report on progress on the Information Governance Project.**

## **8 EXTERNAL AUDIT - PERFORMANCE WORK PROGRAMME UPDATE**

- Mr Andy Bruce, WAO updated the Committee on the status of the Performance Work programme and he drew Members' attention to the re-designation of the audit output in relation to the improvement plan audit and the assessment of performance audit. The Officer also updated Members on the status of a piece of work not covered by the report in relation to whistleblowing arrangements across local authorities in Wales on which there will be local feedback.

A Member of the Committee sought clarification of whether the local review of financial management resources would cover the arrangements for setting base budgets and in areas where historically there have been underspends and overspends, whether those base budgets are appropriate. Mr Andy Bruce said that the review would focus on financial management in terms of planning and the information on which it is based, and the rationale for decisions. The Interim Head of Function (Resources) confirmed that the fieldwork for the review as relating to Anglesey had commenced. As regards the budget, the processes relating to setting the budget need to be reviewed. The 2015/16 budget setting process has already started. The draft budget when presented in the autumn will cover the matter of underutilised budgets. The Accountancy section is reviewing all the detailed budgets for every cost centre and service to identify patterns of underspending, and also reviewing expenditure for certain headings across the board.

**It was resolved to note the information.**

### **NO FURTHER ACTION ARISING**

- The 2014/15 Improvement Plan Certificate of Compliance was presented and noted.
- The Annual Improvement Report incorporating the External Audit evaluation of how well the Isle of Anglesey County Council delivered on its plans for improvement during 2012/13 was presented for the Committee's consideration. Mr Andy Bruce confirmed that overall the report was positive in its conclusions and bore testament to the Authority's continuing progress in most of its priority areas with the caveat regarding the challenges to be met in relation to ensuring capacity and stability in the corporate finance service and addressing weaknesses in the management of the financial ledger system.

The Committee highlighted the upward trend in the looked-after population and increased rates of children on the child protection register set against the Council's plans to spend less each year on children's services as a subject area in need of close monitoring.

**It was resolved to accept the report and to note its contents.**

### **NO FURTHER ACTION ARISING**

## **9 INTERNAL AUDIT**

The report of the Internal Audit Manager setting out the work of the Internal Audit for the period from 1 April, 2014 to 30 June, 2014 was presented for the Committee's consideration. The report provided information in relation to the outcome of IA review reports issued since the previous progress report and the areas covered along with current audit concerns and data with regard to internal audit recommendation implementation rates.

Members considered the information presented and sought clarification in relation to certain areas with regard to implementing the recommended Payroll arrangements and the need for consideration to be given to the inclusion of school governors within any whistleblowing arrangements. Particular attention was drawn by the Committee to the section documenting current audit concerns around risk management, information management, governance and the corporate procurement framework (section 6 of the report) as signifying a fundamental senior management weakness across several service categories to appreciate and apply policies, controls, processes and protocols as necessary or as prompted by current and/or previous audit recommendations and to disseminate that appreciation more widely to departmental staff. It was suggested that this shortcoming be brought to the attention of Senior Leadership/Management and that the Audit Committee be

provided with an update on all those areas under section 6 of the report documenting ongoing audit concerns and unimplemented audit recommendations, the timescale for resolving the issues highlighted and the manager/officer accountable. It was also suggested that the Committee be furnished with information about senior managerial responsibilities to enable it to clarify who is responsible for what so that it can be assured that the matters highlighted will be taken forwards.

**It was resolved:**

- **To accept the report and to note its contents.**
- **To request the Deputy Chief Executive to attend the next meeting of the Audit Committee to report on the position with regard to those areas denoted as areas of ongoing audit concern, the actions planned to address them, the timescales involved and the responsible manager/officer.**

**ACTION ARISING: Deputy Chief Executive to provide the Audit Committee at its next meeting with a report in line with the resolution above along with information about senior managerial responsibilities.**

## **10 AGENCY WORKERS - REVIEW OF ARRANGEMENTS**

The report of the Internal Audit Manager in respect of the current arrangements for procuring and deploying agency/consultancy staff across the Council and the expenditure involved was presented for the Committee's consideration. The report documented the conclusions of the audit review undertaken with regard to policy awareness in engaging agency/consultancy staff and the adequacy of and compliance with internal controls around their deployment.

Members of the Committee considered the information presented and highlighted the following points:

- The difficulty in reconciling the extent of the expenditure on agency/consultancy staff and the laxity of the arrangements around their deployment with the hard budget cuts the Council is having to make.
- That whilst the deployment of agency staff does meet a need at certain times, the Authority should seek to reduce its reliance on agency staff in key areas and try to identify patterns where there are skills gaps and,
- The Authority should consider re-introducing a graduate trainee scheme to foster and develop local/in-house expertise in areas where skills gaps have been identified.

The Internal Audit Manager informed the Committee that the review was forwarded to the SLT on 7th July and that subsequently the SLT has discussed the matter with Y Penaethiaid and has agreed that the Internal Audit Manager will meet with Heads of Service to explain the review and issues of policy compliance arising therefrom. The SLT has also determined that the recruitment of agency staff is to be recentralised under the Human Resources Department and that HR will decide whether agency staff are taken on or not after reference to the policy. The Leader of the Council said that a strategy for dealing with the deployment of agency staff has been incorporated into the Efficiency/Savings Strategy for next year.

**It was resolved to note the report and the action being taken to address the issues highlighted by the internal audit review.**

**ACTION ARISING: Internal Audit Manager to provide the Committee with a further analysis of contractors and self-employed staff engaged by the Council.**

*As the meeting had now been in progress for three hours, in accordance with the requirements of para. 4.1.10 of the Constitution the Chair asked the Members present whether they wished the meeting to continue. Those Members present voted for the meeting to continue.*

**11 EXCLUSION OF THE PRESS AND PUBLIC**

It was resolved under Section 100(A) of the Local Government Act 1972 to exclude the press and public from the meeting during the discussion of the following item on the grounds that it involved the disclosure of exempt information as defined in Schedule 12A of the said Act and in the Public Interest Test presented.

**12 INTERNAL AUDIT SERVICE MANAGEMENT CONTRACT**

*The Internal Audit Manager was not present when this matter was considered.*

The Interim Head of Function (Resources) and Section 151 Officer reported verbally to the Committee that the current contract for the management of the Authority's internal audit service expired in June, 2014. Having considered the matter, and the considerations that apply, it has been agreed with the Deputy Chief Executive that the current contract with Baker Tilly be extended to the end of March, 2015.

**It was resolved to endorse the decision taken to extend the internal audit service management contract with Baker Tilly to the end of March, 2015.**

**Councillor Trefor Lloyd Hughes  
Chair**