

# Public Document Pack



CYNGOR SIR  
YNYS MÔN  
ISLE OF ANGLESEY  
COUNTY COUNCIL

Mr Richard Parry Jones, MA.  
Prif Weithredwr – Chief Executive  
CYNGOR SIR YNYS MÔN  
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<b>ERHYBUDD O GYFARFOD</b>	<b>NOTICE OF MEETING</b>
<b>PWYLLGOR ARCHWILIO</b>	<b>AUDIT COMMITTEE</b>
<b>DYDD LLUN, 23 CHWFROR am 2 o'r gloch y prynhawn</b>	<b>MONDAY, 23 FEBRUARY 2015 at 2.00 pm</b>
<b>YSTAFELL BWYLLGOR 1, SWYDDFEYDD Y CYNGOR, LLANGFNI</b>	<b>COMMITTEE ROOM 1, COUNCIL OFFICES, LLANGFNI</b>
<b>Swyddog Pwyllgor</b>	<b>Ann Holmes 01248 752518 Committee Officer</b>

## **AELODAU / MEMBERS**

Cynghorwyr / Councillors:-

### **Annibynnol / Independent**

Jim Evans, Dafydd Rhys Thomas and Richard Owain Jones

### **Plaid Cymru / The Party of Wales**

T Ll Hughes (Cadeirydd/Chair), John Griffith (Is-Gadeirydd/Vice-Chair) and Alun W Mummery

### **Grwp Chwyldroad/Revolutionist Group**

Sedd Wag/Vacant Seat

### **Heb Ymaelodi / Unaffiliated**

R Ll Jones

## **AELODAU LLEYG / LAY MEMBERS**

Mrs Sharon Warnes and Mr Richard Barker

## **A G E N D A**

**1**     **DECLARATION OF INTEREST**

To receive any declaration of interest by any member or officer in respect of any item of business.

**2**     **MINUTES 10TH DECEMBER, 2014 MEETING** (Pages 1 - 10)

To present the minutes of the previous meetings of the Audit Committee held on the following dates:

- 10<sup>th</sup> December, 2014
- 9<sup>th</sup> February, 2015 (extraordinary)

**3**     **GWYNEDD PENSION FUND**

To receive an update by the Portfolio Member for Finance on the Gwynedd Pension Fund.

**4**     **TREASURY MANAGEMENT QUARTER 3 2014/15** (Pages 11 - 20)

To present the Quarter 3 monitoring report.

**5**     **EXTERNAL AUDIT**

- To receive a verbal update on the Performance Work Programme.
- To receive a verbal update on the certification of grants work.

**6**     **INTERNAL AUDIT PROGRESS REPORT** (Pages 21 - 36)

To present the report of the Internal Audit Manager on the work of the Internal Audit Section from 1 April 2014 to 31 December, 2014.

**7**     **ANNUAL NEEDS ANALYSIS AND INTERNAL AUDIT OPERATIONAL PLAN 2015/16** (Pages 37 - 46)

To present the report of the Internal Audit Manager.

**8**     **EXCLUSION OF THE PRESS AND PUBLIC**

To consider adopting the following:-

“Under Section 100(A)(4) of the Local Government Act 1972, to exclude the press and public from meeting during the discussion on the following item on the grounds that it may involve the disclosure of exempt information as defined in Schedule 12A of the said Act and in the attached Public Interest Test”.

**9**     **INTERNAL AUDIT MANAGEMENT CONTRACT**

The Interim Head of Resources and Section 151 Officer to provide a verbal update.

## AUDIT COMMITTEE

### Minutes of the meeting held on 10 December, 2014

- PRESENT:** Councillor Trefor Lloyd Hughes (Chair)  
Councillor John Griffith (Vice-Chair)
- Councillors Jim Evans, Alun Mummery, R. Llewelyn Jones
- Lay Members: Mr Richard Barker, Mrs Sharon Warnes
- IN ATTENDANCE:** Deputy Chief Executive  
Interim Head of Resources & Section 151 Officer  
Internal Audit Manager (JF)  
Interim Accountancy Services Manager (BHO)  
Insurance & Risk Manager (JJ)(for item 4)  
Grants Co-Ordinator (JW)(for item 3)  
Capital & Treasury Management Accountant (GR) (for item 2)  
Committee Officer (ATH)
- APOLOGIES:** Councillors Jeff Evans, Richard Owain Jones, Dafydd Rhys Thomas  
H. Eifion Jones (Portfolio Member for Finance)
- ALSO PRESENT:** Andy Bruce (Welsh Audit Office), Lynn Pamment (PwC), Joe Hargreaves (PwC), Ian Hughes (Communities First Ltd.)

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#### 1 DECLARATION OF INTEREST

No declaration of interest was received.

#### 2 MINUTES

The minutes of the previous extraordinary meeting of the Audit Committee held on 7<sup>th</sup> November, 2014, were presented and confirmed as correct.

Arising thereon –

- The Capital & Treasury Management Accountant reported back to the Committee as requested with information in relation to average borrowing rates across authorities in Wales which he had organised in tabular form and rank order based on data sourced from the Public Works Loan Board (PWLB) website. The Officer explained that although benchmarking against other authorities can be useful, it is also important to emphasise that the timing of historic borrowing is dependent on when the capital programme has required borrowing to fund the schemes therein. For this reason, some authorities may have needed external borrowing to fund the programme at a time when interest rates were low whilst other authorities will have had to take up borrowing to fund their programmes at a time when rates were high. Also this approach can cloud the picture in as much that an authority's performance is based on interest rates from outstanding loans which can date back decades and which cannot be rescheduled due to the premiums that will be incurred in doing so, which would outweigh the savings.

The Officer said that the Average Fixed Rate for outstanding PWLB loans across local authorities in Wales is 5.58% meaning that the Isle of Anglesey County Council (IOACC) at 5.72% is slightly higher than the Welsh average. By ranking the authorities by the fixed interest rate for PWLB loans, the IOACC has the 14<sup>th</sup> lowest fixed interest rate out of the 22 local authorities in Wales. By ranking the authorities by the fixed interest rate for PWLB loans on a regional basis, the IOACC has the 3<sup>rd</sup> lowest fixed interest rate out of the six local authorities in North Wales.

The Committee noted the information.

- The Internal Audit Manager confirmed that he had contacted the Gwynedd Pension Fund to ascertain whether an official from the Fund would be able to attend this meeting of the Audit Committee to update Members on any performance issues. Whilst that had not been possible, alternative options had been offered viz. Members of the Committee could ask for feedback from the Isle of Anglesey's Elected Member representative (the Portfolio Member for Finance) on the Pension Fund Committee, or otherwise they could forward any questions directly to the Fund Management.

The Interim Head of Resources & Section 151 Officer said that it is customary every year for the pension funding and holding authority to convene a meeting with the Section 151 Officers of the Fund's constituent partners to address any issues pertaining to performance, investment and /or shortfalls etc. Whilst he had not been informed of when that meeting would be held he assumed that if the previous one had been held in March, 2014 then the next will be in March of next year. He confirmed that he would be happy to report back to the Committee on the first available date following the meeting, and for the Committee subsequently to follow up any issues that might arise with Gwynedd should that be the case.

The Committee took the view that it was important for it to be kept informed on the Pension Fund since performance issues were highlighted at the previous presentation in September 2013 and because the deficit on the Pension Fund does impact on the Authority's Balance Sheet. It was proposed and accepted that the Portfolio Member for Finance be asked to brief the Audit Committee at its next meeting with regard to the Pension Fund and any matter that may have arisen at meetings of the Pension Fund Committee.

Mrs Sharon Warnes informed the Committee that she had attended a meeting of Gwynedd Council's Audit Committee in September to observe Lay Member participation, and that the Pension Fund had been discussed at that meeting as part of the submission of the accounts, and an improvement in the Fund's performance was reported. The establishment of a committee comprised of representatives of each of the constituent partners within the Pension Fund to scrutinise the Fund had also been mooted as part of the discussions. She suggested it might be worthwhile inquiring whether that forum had indeed been set up, and its implications.

The Committee noted the update by the Internal Audit Manager and the additional information provided by Mrs Sharon Warnes.

#### **ACTIONS ARISING:**

- **Internal Audit Manager to request the Portfolio Member for Finance to brief the Committee at its next meeting on the Pension Fund and any related matters.**
- **Interim Head of Resources and Section 151 Officer to report back on any salient issues from the Pension Fund's constituent bodies' Section 151 Officers meeting when held.**

### **3 MÔN COMMUNITIES FIRST PROGRESS REPORT AND ACCOUNTS 2013-14**

A report by the Grants Co-Ordinator incorporating the Môn Communities First Ltd. accounts for 2013/14 along with a breakdown of the body's grant funding for 2013/14 and its budget for 2014/15 was presented for the Committee's consideration.

The Grants Co-ordinator reported that under the terms of the legal agreement between the Authority and Môn Communities First Ltd for the delivery of the programme, Môn Communities First Ltd is required to present its annual accounts to the Audit Committee. The accounts for 2013/14 have been audited by Williams Denton as the company's appointed auditors and they have confirmed they are sound with no issues to report on.

A Member of the Committee inquired regarding progress with the establishment of an academy which was initially put forward as an idea to address the needs of disaffected young people and whether that collaborative work had developed, and if so whether it could be extended as good practice to other areas of Anglesey. The Grants Co-Ordinator confirmed that the academy concept had evolved significantly over the past six months with Communities First Ltd having worked closely with Holyhead High School with the result that the academy is now an option for pupils at risk of exclusion. The Partnerships and Regeneration Scrutiny Committee indicated that it would

like to stage a best practice workshop with Communities First staff so that they could see the best practice that is going on with a view to rolling it out.

The Committee noted the information and considered whether it would be helpful for it to be briefed on aspects of Communities First other than the accounts. A Member confirmed that as part of a presentation to the Partnerships and Regeneration Scrutiny Committee in September an invitation to Communities First in Holyhead to see the work at first hand was extended to all Members. The Grants Co-Ordinator said that a follow up visit will also be held in the New Year at a time to be arranged.

**It was resolved to accept the report and the Communities First Ltd. accounts for 2013/14 as presented.**

#### **NO FURTHER ACTION ARISING**

#### **4 RISK MANAGEMENT**

The report of the Risk and Insurance Manager on the outcome and findings of a review of risk management policies, procedures and practice within the Authority undertaken by Caerus Consulting was presented for the Committee's consideration. The review conclusions which have been made available to the SLT, Penaethiaid and the Executive were attached in full under Appendix 1 to the report.

The Risk and Insurance Manager reported on the primary shortcomings identified within the review in relation to inconsistent application of risk management across the Council; lack of correlation between service and corporate risks; non alignment between risk management and other processes; insufficient coverage of risk within partnerships and joint working and a lack of understanding of roles and responsibilities with regard to risk. The Officer referred to the post review action that had, and is taking place in the form of clarifying scrutiny and audit committee roles in relation to risk; consulting on new risk management and guidance documents and delivering risk management training.

The Committee considered the information and the following points were made:

- It was acknowledged that the successful entrenchment of risk management practice throughout the Council is a long-standing issue for this Committee and is fundamental to the effective conduct of the Council's business in so much as every decision needs to be referenced to risk. It was suggested that the profile of risk management within the Council is not sufficiently elevated.
- It was asked at what point does Management consider it will be able to report back to the Committee that it is satisfied with the status and implementation of risk management within the Authority. In response to the Officer reply that the aim is to have a substantial corporate risk register compiled and in place by March, 2015, the Committee asked for an update for that time.
- The outcome of the discussions regarding the division of risk responsibilities between the Audit and Corporate Scrutiny Committee. The Risk and Insurance Manager said that to avoid duplication, it is intended that the Audit Committee will focus on the risk register and system whilst the Scrutiny Committee will look at individual risks.
- The need to simplify risk documentation to make it accessible so that the Audit Committee having an oversight responsibility can easily identify the key sources of risk and be assured that arrangements are in place to manage them, and Management is able to buy into the risk management process and register and take ownership of them as a useful tool.

The Deputy Chief Executive confirmed that she had not been persuaded that risk management is sufficiently embedded within the Authority, hence the review and the post review actions around revision of policy, simplification of the risk matrix and the delivery of training. The Authority needs to focus on its high level risks and ensure that the register remains a live document. All senior and middle managers have received the risk management training and are to incorporate risk management within the business planning process and service performance reviews. It is important that there is consistency in assessing risk and that risks are evaluated against a common base – the revised matrix will assist with that process.

The Interim Head of Resources and Section 151 Officer said that the Audit Committee needs to receive regular reports on risk management within the Council and could request the relevant managers to give account directly to the Committee for any non-compliance identified. The Executive reporting pro forma also includes a section for reporting on risk and mitigation which is not always completed by report authors; there is an argument for questioning the acceptability of reports that are not properly constituted in terms of accounting for and documenting the consideration of risk.

**It was resolved to accept the report and the findings of the review of risk management.**

**ACTION ARISING: Risk and Insurance Manager/Deputy Chief Executive to report back to the Audit Committee in April, 2015 on the status and implementation of the revised corporate risk register/matrix and associated risk guidance documentation.**

## **5 EXTERNAL AUDIT**

5.1 The Annual Audit Letter for the Isle of Anglesey County Council for 2013/14 in confirmation of the Authority's fulfilment of its responsibilities with regard to financial reporting and use of resources and the issuing of an audit certificate on the completion of the 2013/14 accounts audit process was presented for the Committee's information and was noted.

5.2 Mr Andy Bruce, WAO updated the Committee on the status, timing and expected outputs of ongoing and planned external audit performance work on a national and local basis. The information was noted.

A Member of the Committee asked whether in light of the challenging financial outlook for the Council the performance update report might make reference to good practice with regard to efficiencies where that applies. Mr Andy Bruce confirmed that in the case of local reviews efficiency issues are highlighted and form part of the formal feedback. External audit could however seek to bring out good practice from national reports.

## **6 INTERNAL AUDIT**

The report of the Internal Audit Manager on the work of the internal Audit Section for the period from 1 April to 14 November, 2014 was presented for the Committee's consideration. The report made reference to audit reviews undertaken and reports issued along with the assurance opinion awarded; referrals to Internal Audit and action taken, together with the internal audit recommendations issued and their implementation status.

The Internal Audit Manager highlighted two specific areas which were the subject of Red review reports reflecting a number of control weaknesses in the review areas, and these were in relation to System Controls – Logical Access and Segregation of Duties, and Third Sector Grants. A follow up report on progress in implementing the recommendations made as part of these reviews will be provided to the February, 2015 meeting of the Audit Committee. The Internal Audit Manager said that he would also update the Committee in February on current Audit concerns following the submission by the Deputy Chief Executive of an action plan to the September, 2014 meeting to address those concerns.

The Committee considered the information presented and was dismayed by the shortcomings reflected by the red review reports as regards the absence of policy and procedures in the areas reviewed and where those did exist, the lack of awareness and/or non-adherence to them. The issue of accountability was raised and consequently, the feasibility of calling to account the managers concerned. The Internal Audit Manager confirmed that the SLT and Heads of Service have been provided with a copy of the reviews and that the Deputy Chief Executive and the Head of IT are looking at ways of resolving the issues raised with regard to the System Controls review.

The Interim Head of Resources and Section 151 Officer said that the issues highlighted by the internal audit report replicate some of the issues raised with regard to risk management in terms of non-compliance with proper processes, and whilst the Committee's sentiments in wanting to highlight responsibility are understood, it is Management's responsibility to respond appropriately to the internal audit review reports by implementing the recommendations therein. The follow up report to the Committee in February will confirm whether or not that has happened. The

Committee's oversight discipline might be more productively applied to scrutinising the audit recommendation implementation rates by service as set out in Appendix A, and in identifying and calling to account the managers of those services who demonstrate a repeated failure to implement internal audit recommendations satisfactorily over the course of time.

The Internal Audit Manager pointed out the absence of a corporate mechanism for ensuring and monitoring that policies, processes and recommendations are implemented and are adhered to. He said that he would bring a more detailed analysis of internal audit recommendations outstanding, the length of time they have remained unimplemented and the services/managers to which they pertain to the February meeting of the Audit Committee.

The Committee recognised that there appeared to be a disconnection between policies and processes promulgated and the active management of their implementation and conformity with what is required, and suggested that as part of its action plan for 2015/16 it should focus on areas that are not moving forwards. Mrs Lynn Pamment, PwC said that the Audit Committee's challenge function lies in following through on actions subsequent to a Red review and that it might wish to consider taking a more rigorous stance on implementation.

**It was resolved to accept the Internal Audit progress report for April to November, 2014 and to note its contents.**

**ACTIONS ARISING: Internal Audit Manager to provide the following to the Committee's February meeting:**

- **Follow up reports on the Red Reviews with regard to System Controls – Logical Access and Segregation of Duties and Third Sector Grants including recommendations implemented.**
- **A detailed analysis of internal audit recommendations outstanding, the length of time they have remained unimplemented and the services/managers to which they pertain.**

## **7 ANNUAL REPORT ON THE PREVENTION OF FRAUD AND CORRUPTION 2013/14**

The Annual Report on activity with regard to implementing the Councils policy on preventing Fraud and Corruption during 2013/14 was presented for the Committee's information.

A Member of the Committee referred to what seemed to be the primacy of the fraud dimension within the policy, and the absence of references to anti-corruption measures, for example in relation to ensuring transparency in the award of large contracts.

The Internal Audit Manager reported that KPMG has undertaken a review of the Authority's procurement framework and that the Section 151 Officer and the Procurement Officer have a contract list in place as well as additional controls. Procurement will also form part of the remit of the Counter Fraud Officer. The Interim Head of Resources and Section 151 Officer confirmed that a great deal of work has been undertaken following the KPMG review in terms of increasing capacity and instigating a wide ranging review of contractual procurement across the Council to identify efficiencies and to ensure that contracts are being let in a structured and uniform way across the Council. Compliance with proper processes will make corruption harder to occur. Mr Joe Hargreaves PwC, said that as part of external audit work, new and amended contracts and the processes by which they have been let are checked. No discrepancies have been found.

**It was resolved to accept the Annual Report on the Prevention of Fraud and Corruption 2013/14 and to note its contents.**

**NO FURTHER ACTION ARISING**

## **8 REVISED COUNTER FRAUD ARRANGEMENTS**

The report of the Internal Audit Manager outlining the revisions to counter fraud arrangements which have been put in place in response to national changes in how Housing Benefit fraud is identified, investigated and prosecuted through the establishment of a Single Fraud Investigation Service was presented for the Committee's information.

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

**NO FURTHER ACTION ARISING**

## **9 AUDIT COMMITTEE SEMINAR**

The report of the Interim Head of Resources and Section 151 Officer on the outcome of a seminar to assess the effectiveness of the Audit Committee and to identify any adjustments that are worthy of consideration in respect of the Committee's terms of reference and activities was presented for the Committee's consideration.

Mrs Sharon Warnes referred to practice within the Audit Committee in a neighbouring authority with regard to the establishment of work groups which meet in the interim between formal meetings of the Audit Committee and which focus on specific areas in greater detail and depth than a committee setting will allow. The Committee noted the information as an option in considering how the Audit Committee's effectiveness can be enhanced.

**It was resolved –**

- **To recommend to the Executive, and thereafter the Council, that the name of the Audit Committee be changed to the Audit and Governance Committee.**
- **To request that the Internal Audit Manager carry out a review of the effectiveness of the Council's arrangements for dealing with partnership working**
- **To note its past actions and to continue to carry out the annual self-assessment of its effectiveness.**

**NO FURTHER ACTION TO THE ABOVE ARISING**

**Councillor Trefor Lloyd Hughes  
Chair**



# AUDIT COMMITTEE

## Minutes of the extraordinary meeting held on 9 February, 2015

- PRESENT:** Councillor Trefor Lloyd Hughes (Chair)  
Councillor John Griffith (Vice-Chair)
- Councillors Richard Owain Jones, R. Llewelyn Jones, Alun Mummery,  
Dafydd Rhys Thomas
- Lay Members: Mr Richard Barker, Mrs Sharon Warnes
- IN ATTENDANCE:** Internal Audit Manager (JF)  
Interim Accountancy Services Manager (BHO) (for item 2)  
Senior Accountant (Strategic Planning) (BD) (for item 2)  
Capital & Treasury Management Accountant (GR) (for item 2)  
Corporate Counter Fraud Officer (HE)  
Committee Officer (ATH)
- APOLOGIES:** Councillor Jim Evans
- ALSO PRESENT:** Councillor H. Eifion Jones (Portfolio Member for Finance) (for item 2)
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### 1 DECLARATION OF INTEREST

No declaration of interest was received.

### 2 TREASURY MANAGEMENT STRATEGY STATEMENT 2015/16

The report of the Interim Head of Resources a Section 151 Officer incorporating the Treasury Management Strategy Statement for 2015/16 was presented for the Committee's consideration and scrutiny in accordance with the CIPFA Code of Practice for Treasury Management.

The Senior Accountant (Strategic Planning) drew attention to the following principal considerations:

- That it is intended in 2015/16 to address the absence within the Authority of documented Treasury Management Practices (TMPs) with the objective that a full complement of TMPs will be presented for democratic approval through the appropriate committee channels at the earliest opportunity in line with the proposed Treasury Management Scheme of Delegation.
- That only one update to the 2014/15 Statement is proposed for the 2015/16 Treasury Management Statement viz.
- The quarter one and quarter three Treasury Management reports will no longer be produced and will be reflected within the Authority's Standing Orders as set out in Appendix 9 to the report.

It is intended that the potential categories of investment to be used together with the credit rating criteria and investment limits will be subject to review during the year with any amendments subject to prior approval in accordance with the Treasury Management Scheme of Delegation.

- The planned exit of the Housing Revenue Account subsidy system on 2 April 2015 has been taken into account in the prudential indicators (detailed in Appendix 11) on the basis set out in Appendix 12.

- That the heading on the second column of indicator 19 on Appendix 11 should read 2015/16 for the upper and lower limits (and not 2014/15).

The Committee considered the information presented and sought clarification of certain points in relation to the relatively high cost of the Authority's short term borrowing arrangements and the designation of an underlying need to borrow and what that entailed. Whilst the Committee noted and accepted that the Treasury Management Strategy is based predominantly on a cautious and prudential approach to investment and borrowing, it sought assurance that the Strategy is kept under review and is responsive to market and other changes and that this element of flexibility is highlighted within the Strategy.

The Senior Accountant (Strategic Planning) confirmed that treasury management is a live process and that market and/or economic fluctuations and variations as well as guidance by the Council's treasury advisors are taken into account and do inform the investment situation and practice.

**It was resolved –**

- **To note the contents of the covering report to the Treasury Management Strategy Statement.**
- **To endorse the Treasury Management Strategy Statement for 2015/16 (including the Prudential and Treasury Management Indicators) as at Annex A to the report, and**
- **To forward the Treasury Management Statement to the Executive without further comment.**

**NO FURTHER ACTION ARISING**

**3 AUDIT COMMITTEE – REVIEW OF EFFECTIVENESS**

The report of the Internal Audit Manager on the outcome of the Audit Committee's annual review of the effectiveness workshop held on 19<sup>th</sup> January, 2015 was presented for the Committee's consideration and comment.

The Internal Audit Manager said that the report at Appendix A sets out the results of the workshop's evaluation of Audit Committee Good Practice in the form of the completed CIPFA Self-Assessment of Good Practice checklist. Overall, the Audit Committee's self-assessment of its performance against CIPFA's best practice guidelines was positive, with only 1 out of 20 of the specified best practice being considered not to be undertaken by the Committee and a further 4 out of 20 where it was deemed improvements could be made relating to purpose and governance; fulfilling the functions of the committee and membership and support. The Audit Manager also completed a copy of the CIPFA checklist to identify those areas which in his professional opinion, the Committee had strengths and areas which could be improved upon as documented in section 2.5 of the report. A proposed Action Plan outlining how, by whom and when during 2015/16 the weaknesses identified will be addressed was attached at Appendix C.

The Committee considered the report and overall was disappointed by what it deemed to be an element of negativity within the evaluation. The view was put that the Audit Committee has during the course of the year raised a number of issues around weaknesses and omissions in a number of practice and policy areas notably risk management which are not reflected in the performance evaluation as at paragraph 2.5. It was emphasised that the challenge which the Audit Committee offers is only effective if the Establishment/Management acts upon it and that it appears that the Committee is being judged because of inaction at a corporate level be that due to resource issues or otherwise.

The Internal Audit Manager said that the workshop findings will also be used to inform the Chair's annual report on the activities of the Audit Committee which is the appropriate channel for properly reflecting on the positive aspects of the Committee's work during the year. The Internal Audit Manager's performance report should be viewed as an exception report. The Audit Committee has been consistent in its efforts to bring about change but can only be regarded as being effective if that change is implemented, and hitherto the support and impetus which the Committee has been providing has not been effective in producing the desired result specifically with regard to Risk Management.

The Committee noted that a progress report with regard to Risk Management is scheduled for its April meeting and that Senior Management will be asked to account for any lack of progress at that time.

**It was resolved to accept the report, to note its contents and to endorse the development of the Action Plan at Appendix C in 2015/16 to address weaknesses identified.**

#### **NO FURTHER ACTION ARISING**

#### **4 CONSULTATION ON THE PROPOSED REVISION OF THE AUDIT COMMITTEE'S TERMS OF REFERENCE**

The report of the Internal Audit Manager incorporating revised draft terms of reference for the Audit Committee was presented for the Committee's consideration and comment. The updated terms of reference reflect changes in the regulatory framework and an increasing emphasis on developing the role of the Audit Committee in relation to all aspects of assurance and not only the Authority's financial reporting process and arrangements.

The Internal Audit Manager said that the terms of reference have been formulated having regard of CIPFA guidance and the terms of reference of audit committees within other authorities. The objective in revising the terms of reference is to extend the Committee's oversight responsibilities beyond the financial statements to cover general governance and the risk environment. The revised terms of reference will be presented for approval to the Executive in April and thereafter to the County Council in May.

The Committee considered the Terms of Reference and made the following points –

- That it was the intention from the effectiveness workshop for the Committee on their approval to scrutinise the terms of reference to establish how it is going to action them which could be passed on the Monitoring Officer as a clear indication of this Committee's intent. This could also link in with comments about Scrutiny and the need to clarify the respective roles of scrutiny and audit.
- That the Committee needs to become more involved in promoting and developing arrangements within the Authority for ensuring value for money.
- That the Committee needs to reflect on whether it has a sufficiently high profile within the Authority to be able to exert real influence and to contribute to the effectiveness of the Council as a corporate body. It was suggested that the Committee could be more proactive in setting an agenda that is relevant in a whole Council context.
- Whilst accepting the terms of reference as presented as providing a good framework within which the Audit Committee can operate in future, it was emphasised that the Committee needs to ensure that the key issues are being driven forwards. It was also emphasised that in order to fulfil its mandates as set out by the terms of reference, the Committee needs to be assured that issues to which it draws attention will be acted upon by Management. To this end, and in the interests of accountability, it was proposed and agreed that a member of the Senior Leadership Team in addition to the Section 151 Officer be requested to attend each Audit Committee meeting.
- That the Committee needs to be clear regarding its expectations of what is due to the Audit Committee in terms of support and resources.

**It was resolved to endorse the revised terms of reference as presented.**

**ACTION ARISING: Internal Audit Manager to liaise with the Senior Leadership Team in relation to attendance at Audit Committee meetings.**

#### **5 ROLE OF THE COUNTER FRAUD OFFICER**

A report by the Corporate Counter Fraud Officer setting out the responsibilities of the post was presented for the Committee's information.

The Corporate Counter Fraud Officer explained the background to the establishment of the post and what it entailed particularly as regards being more proactive in preventing fraud occurring and in promoting a better counter fraud culture within the Authority.

The Committee questioned the Corporate Fraud Officer on the details of his work and were provided with examples of activities undertaken. The Officer referred to work that was underway to ascertain what fraud risk assessments have been carried out within services and what policies have been put in place to counter any perceived risks and how these are brought to the attention of staff. Initial indications are that further work needs to be done in this respect .The Committee noted this as a further “housekeeping“ issue which required attention.

The Internal Audit Manager confirmed that the Corporate Fraud Officer is undertaking a comprehensive fraud risk assessment of the Authority in its entirety with a view to reporting to the Audit Committee in April which will provide a position statement of where the Authority is at with regard to all areas of fraud risk, what is being done to address them and the recommendations to Heads of Service for strengthening the controls within their services.

**It was resolved to accept the report and to note the information**

**NO FURTHER ACTION ARISING**

**Councillor Trefor Lloyd Hughes  
Chair**

DRAFT

<b>ISLE OF ANGLESEY COUNTY COUNCIL</b>	
<b>REPORT TO</b>	<b>AUDIT COMMITTEE</b>
<b>DATE</b>	<b>23 FEBRUARY 2015</b>
<b>SUBJECT</b>	<b>TREASURY MANAGEMENT - THIRD QUARTER 2014/15</b>
<b>LEAD OFFICER</b>	<b>RICHARD MICKLEWRIGHT</b>
<b>CONTACT OFFICER</b>	<b>GARETH ROBERTS (TEL: 2675)</b>
<b>Nature and reason for reporting</b>	
For scrutiny - consistent with professional guidance.	

1. This report is presented to ensure that the Council is implementing best practice in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management. This Code recommends that Members should be updated on treasury management activities at least twice a year.
2. The Council's Treasury Advisers (Capita Asset Services) recently provided a commentary on the economic background (Appendix 1) and also a commentary on the economic outlook (Appendix 2) together with the forecast interest rates in the table below:-

	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank rate	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	1.75%	2.00%
5yr PWLB rate	2.20%	2.20%	2.30%	2.50%	2.60%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.60%
10yr PWLB rate	2.80%	2.80%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
50yr PWLB rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%

**2.1** The above table represents the view of Capita Asset Services after undertaking a review of its interest rate forecasts on 5 January 2015, after a proliferation of fears in financial markets around the plunge in the price of oil had caused a flight from equities into bonds and from exposure to the debt and equities of emerging market oil producing countries to safe havens in western countries. These flows were compounded by further fears that Greece could be heading towards an exit from the Euro after the general election on January 25 and financial flows generated by the increasing likelihood that the ECB would soon be starting on full blown quantitative easing (QE) purchase of Eurozone government debt. In addition, there has been a sharp increase in confidence that the US will start increasing the Fed. rate by the middle of 2015 due to the stunning surge in GDP growth in quarters 2 and 3 of 2014. This indicated that the US is now headed towards making a full recovery from the financial crisis of 2008.

3. At the beginning of the year, the Council's borrowing portfolio was all from PWLB and was £19.2m below the Capital Financing Requirement (CFR) (i.e. part of the borrowing had been internalised). The CFR is projected to be £114.8m by the year end, and there is a borrowing requirement of £25.2m as a result. The Treasury Management Strategy Statement (Section 3.4.1) states that a flexible approach will need to be adopted with regards to the choice between internal and external borrowing. This has been, and will continue to be, the case, with consideration to all the factors listed in that section. The decision to continue to internalise has been driven mainly due to 2 factors: (1) to limit the Authority's exposure to credit risk (2) to limit the cost of carry. These are set against the backdrop of PWLB and investment rates continuing to remain at historically low levels, with only a steady increase forecast into the medium term. This current stance is in line with many other local authorities that have been asked in seminars and workshops attended by officers within the Resources Function. The appointed treasury advisors (Capita Asset Services) have also supported the decision to continue to internalise borrowing at this time. External borrowing at year end is, therefore, expected to be £89.6m. Any changes to the current approach will be reported as appropriate.
4. Borrowing and investments at the beginning and end of the quarter were as follows:-

	31 December 2014		30 Sept 2014	
	£m	%	£m	%
Borrowing – fixed rate	89.6	5.72	89.6	5.72
Borrowing – variable rate	Nil	n/a	Nil	n/a
Deposits – Call to 30 days	13.3	0.39	18.6	0.39
Deposits – Fixed Term < 1 year	Nil	n/a	Nil	n/a
Deposits – Fixed Term 1 year +	Nil	n/a	Nil	n/a
Total Deposits	13.3	0.39	18.6	0.39
Average Deposits in the Quarter	21.2	0.41	21.2	0.43

4.1 Details of the institutions holding the deposits can be found at Appendix 3.

4.2 There are two points worthy of note with regards to the investment climate:-

- The list of creditworthy counterparties continues to be highly restricted, with very few counterparties standing up to the approved credit criteria; and
- Investment rates available in the market have continued at historically low levels.

4.3 As referred to in Section 3, no external borrowing was taken up during the quarter. Additionally, debt rescheduling opportunities have continued to be limited in the current economic climate and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling was undertaken during the quarter.

5. During the quarter, the Council remained within its Prudential and Treasury Limits.

6. There has not been any activity since the end of the quarter to note.

7. The plans for the rest of the year are:-

- To continue to invest surplus balances in a way that ensures, in order of priority, security as well as liquidity and yield;
- To continue to internalise borrowing whilst regularly monitoring market conditions; and
- To monitor the market so that rescheduling can be undertaken at an appropriate time if opportunities are available.

## **8. LOOKING BEYOND 2014/15**

On the 2 April 2015, the Isle of Anglesey County Council is due to exit the HRA subsidy system through buying itself out and becoming self-financed. The buyout has to be financed through the PWLB, but the settlement amount and rate of interest on the borrowing are under consultation at the time of preparing this report. This has been reflected in the budget setting papers presented to Members for 2015/16 (including the 2015/16 Treasury Management Strategy Statement presented to this Committee on 9<sup>th</sup> February 2015). The outcome will be reported at the earliest appropriate opportunity.

## **9. RECOMMENDATION**

To consider the content of the report.

**Cefndir Economaidd / Economic background**

- After strong UK GDP growth in 2013 at an annual rate 2.7%, and then in 2014 0.7% in Q1, 0.9% in Q2 2014 (annual rate 3.2% in Q2), Q3 has seen growth fall back to 0.7% in the quarter and to an annual rate of 2.6%. It therefore appears that growth has eased since the surge in the first half of 2014 leading to a downward revision of forecasts for 2015 and 2016, albeit that growth will still remain strong by UK standards. For this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance. This overall strong growth has resulted in unemployment falling much faster than expected. The MPC is now focusing on how quickly slack in the economy is being used up. It is also particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back significantly above the level of inflation in order to ensure that the recovery will be sustainable. There also needs to be a major improvement in labour productivity, which has languished at dismal levels since 2008, to support increases in pay rates. Unemployment is expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in wage growth at some point during the next three years. However, just how much those future increases in pay rates will counteract the depressive effect of increases in Bank Rate on consumer confidence, the rate of growth in consumer expenditure and the buoyancy of the housing market, are areas that will need to be kept under regular review.
- Also encouraging has been the sharp fall in inflation (CPI), reaching 1.0% in November, the lowest rate since September 2002. Forward indications are that inflation is likely to remain around or under 1% for the best part of a year. The return to strong growth has helped lower forecasts for the increase in Government debt over the last year but monthly public sector deficit figures during 2014 have disappointed until November. The autumn statement, therefore, had to revise the speed with which the deficit is forecast to be eliminated.
- The U.S. Federal Reserve ended its monthly asset purchases in October 2014. GDP growth rates (annualised) for Q2 and Q3 of 4.6% and 5.0% have been stunning and hold great promise for strong growth going forward. It is therefore confidently predicted that the first increase in the Fed. rate will occur by the middle of 2015.
- The Eurozone is facing an increasing threat from deflation. In November the inflation rate fell to 0.3%. However, this is an average for all EZ countries and includes some countries with negative rates of inflation. Accordingly, the ECB did take some rather limited action in June and September to loosen monetary policy in order to promote growth and is currently expected to embark on quantitative easing early in 2015 to counter this threat of deflation and to stimulate growth.



## Rhagolygon Economaidd / Economic Outlook

### Change in market sentiment and outlook

- The plunge in the price of oil has been the major surprise of the last three months. This will reduce inflation and stimulate the economies of oil importing countries.
- There is a downside to the plunge in oil prices in terms of a sharp increase in the risk of emerging country debt default and emerging country oil producing corporate defaults. This could have a knock on effect on western banks who have lent to these areas and to hedge, pension and investment funds which have been wrong footed by holding debt or equities in these areas.
- Greece: the anti EU and anti austerity party Syriza is likely to be the strongest party in the January 25 general election. However, the Eurozone has put in place sufficient firewalls that a Greek exit would have little direct impact on the rest of the EZ and the Euro. The indirect effect is more problematic to quantify as such an election result would be likely to strengthen support for anti EU and anti austerity political parties in many EU countries. Italy is the greatest risk as it has the third biggest debt mountain in the world and has shown little progress so far in undertaking fundamental reforms to improve the competitiveness of the economy.
- UK GDP growth forecasts have recently been more subdued although growth will still remain strong, but not as strong as previously expected.
- The political risks around the UK general election in May 2015 have increased with the likely result now being very hard to predict.
- A combination of the above factors has caused us to put back the start of increases in Bank Rate from Q2 2015 to Q4 with knock on delays on increases in following years.
- We have also had to bring our short term PWLB forecasts down to reflect current abnormally low levels which are unsustainably low. However, how quickly or slowly they will unwind is very hard to predict.

The one area of resoundingly good news over the last three months has been that the American economy is well on track to making a full recovery from the financial crash. GDP growth rates (annualised) for Q2 and Q3 of 4.6% and 5.0% have been stunning and hold great promise for strong growth going forward and further falls in unemployment. It is therefore confidently predicted that the Fed. will start on the first increase in the Fed. rate by the middle of 2015. In contrast, the surge in UK growth during 2014 appears to have diminished (Q1 0.7%, Q2 0.9%, Q3 0.7%) and the year on year rate has subsided from 3.2% in Q2 to 2.6% in Q3. Forward indicators are also revealing some cooling of prospects going forward, though lets still keep hold of the fact that this remains strong growth by UK standards, but not as strong as previously forecast.

In consequence, it is now the US which is most likely to be putting central rates up before the UK. The prospects for the UK are somewhat mixed. The hoped for rebalancing of the economy towards greater reliance on exports is not happening and the UK faces an uphill struggle with its main trading partner, the EU now expected to resort to full blown quantitative easing (QE) early in 2015 in order to stimulate the economy to rise above near stagnation. However, UK consumer confidence is still buoyant although the housing market looks as if it is also cooling with house price rises and new mortgage approvals both subsiding. UK consumers are obviously benefiting from the fall in the oil price with overall inflation falling to 1.0% in November, the lowest rate since September 2002. It is also forecast to stay around the same level for the best part of a year.

Nevertheless, the beneficial effect of the fall in oil prices will fall out after twelve months, so inflation will rise as a result after then, although it is still expected to remain at or near 2%. What this does mean, however, is that average wage increases are likely to exceed inflation for the coming year and so increase the disposable income of consumers. This, in turn, will underpin domestic demand and support GDP growth. Looking further forward, whichever political party or coalition comes to power after the general election in May 2015 will still have to decide what balance of government spending cuts and / or tax increases will be needed to bring the public sector net borrowing deficit down. This will likely mean an erosion of overall consumer disposable income although further falls in unemployment will counteract some of this effect. The Bank of England therefore faces an incredibly delicate task of balancing the pros and cons of when to start on increasing Bank Rate, especially knowing that many consumers are still heavily indebted and very vulnerable to increases in borrowing rates.

A further factor affecting financial markets and the confidence of UK producers is the increase in political risk. The UK faces a general election where the outcome looks very hard to predict as to the knock on effects on the UK economy.

As for the MPC, their last minutes appeared to show a consolidation of support for holding off on increasing Bank Rate due to the fall in inflation caused by the fall in oil prices. They will also be focusing in 2015 on how quickly wage inflation increases and said it needed to pick up further in order to meet the 2% inflation target. This resulted in financial market investors pushing back their bets on the timing of the next interest rate hike to late 2015 / early 2016. Our view has also shifted in this forecast to a first increase in Q4 2015 rather than Q2 2015.

## **CAPITA ASSET SERVICES FORWARD VIEW**

Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data transpires over 2015. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds.

The overall longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

The interest rate forecasts in this report are based on an initial assumption that there will not be a major resurgence of the EZ debt crisis. There is an increased risk that Greece could end up leaving the Euro but if this happens, the EZ now has sufficient fire walls in place that a Greek exit would have little immediate direct impact on the rest of the EZ and the Euro. It is therefore expected that there will be an overall managed, albeit painful and tortuous, resolution of any EZ debt crisis that may occur where EZ institutions and governments eventually do what is necessary - but only when all else has been tried and failed. Under this assumed scenario, growth within the EZ will be weak at best for the next couple of years with some EZ countries experiencing low or negative growth, which will, over that time period, see an increase in total government debt to GDP ratios. There is a significant danger that these ratios could rise to the point where markets lose confidence in the financial viability of one, or more, countries, especially if growth disappoints and / or efforts to reduce government deficits fail to deliver the necessary reductions. However, it is impossible to forecast whether any individual country will lose such confidence, or when, and so precipitate a sharp resurgence of the EZ debt crisis. While the ECB has adequate resources to manage a debt crisis in a small EZ country, if one, or more, of the larger countries were to experience a major crisis of market confidence, this would present a serious challenge to the ECB and to EZ politicians.

Downside risks currently include:-

- The situation over Ukraine poses a major threat to EZ and world growth if it was to deteriorate into economic warfare between the West and Russia where Russia resorted to using its control over gas supplies to Europe;
- Fears generated by the potential impact of Ebola around the world;
- UK strong economic growth is currently mainly dependent on consumer spending and the potentially unsustainable boom in the housing market. The boost from these sources is likely to fade after the strong surge in growth in the first half of 2014;
- A weak rebalancing of UK growth to exporting and business investment causing a weakening of overall economic growth beyond 2014;
- Weak growth or recession in the UK's main trading partner - the EU, inhibiting economic recovery in the UK;
- A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations;
- A resurgence of the Eurozone sovereign debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the potential size of the crisis;
- Recapitalisation of European banks requiring more government financial support;
- Lack of support by populaces in Eurozone countries for austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face major challenges in engineering economic growth to correct their budget deficits on a sustainable basis;
- Italy: the political situation has improved but it remains to be seen whether the new government is able to deliver the austerity programme required and a programme of overdue reforms. Italy has the third highest government debt mountain in the world;
- France: after being elected on an anti austerity platform, President Hollande has embraced a €50bn programme of public sector cuts over the next three years. However, there could be major obstacles in implementing this programme. Major overdue reforms of employment practices and an increase in competitiveness are also urgently required to lift the economy out of stagnation;
- Monetary policy action failing to stimulate sustainable growth and to combat the threat of deflation in western economies, especially the Eurozone and Japan;
- Heightened political risks in the Middle East and East Asia could trigger safe haven flows into bonds;
- There are also increasing concerns at the reluctance of western central banks to raise interest rates significantly for some years, plus the huge QE measures which remain in place (and likely to be added to by the ECB in the near future). This has created potentially unstable flows of liquidity searching for yield and, therefore, heightened the potential for an increase in risks in order to get higher returns. This is a return to a similar environment to the one which led to the 2008 financial crisis.

The potential for upside risks to UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- An adverse reaction by financial markets to the result of the UK general election in May 2015 and the economic and debt management policies adopted by the new government;
- ECB either failing to carry through on recent statements that it will soon start quantitative easing (purchase of government debt) or severely disappointing financial markets with embarking on only a token programme of minimal purchases which are unlikely to have much impact, if any, on stimulating growth in the EZ. (It should be noted that the Bundesbank and most German politicians have been very opposed to the concept of QE).
- A sudden reversal of Russian policy on military intervention in eastern Ukraine caused by the likelihood of, or actual, severe damage done to the Russian economy by a prolonged depression in oil prices and by sanctions.
- A sudden reversal of Iranian policy on developing militarised nuclear capability caused by the likelihood of, or actual, severe damage done to the Iranian economy by a prolonged depression in oil prices and by sanctions.
- The commencement by the US Fed. of increases in the central rate in 2015 causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities, leading to a sudden flight from bonds to equities
- A surge in investor confidence that a return to robust world economic growth is imminent, causing a flow of funds out of bonds into equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

**Graddfeydd Credyd Gwrthbartion buddsoddi a'r adneuron a ddelir gyda phob un ar 31 Rhagfyr 2014 \***  
**Credit ratings of investment counterparties and deposits held with each as at 31 December 2014\***

Grŵp Bancio/ Banking Group	Sefydliad/ Institution	Adneuron / Deposit £'000	Hyd (Galw tymor sefydlog) / Duration (Call / Fixed Term**)	Cyfnod (O/I)/ Period (From - To)	Graddfa Dychweliad/ Rate of Return %	Graddfa Tymor Hir Fitch Long Term Rating	Graddfa Tymor Byr Fitch Short Term Rating	Graddfa Tymor Hir Moody's Long Term Rating	Graddfa Tymor Byr Moody's Short Term Rating	Graddfa Tymor Hir Standard & Poor's (S&P) Long Term Rating	Graddfa Tymor Byr Standard & Poor's (S&P) Short Term Rating	Lliw Sector/Hyd Awgrymiedig/ Sector Colour / Suggested Duration
Lloyds Banking Group plc	Bank of Scotland plc	5,277	Galw/ Call	n/a	0.40	A	F1	A1	P-1	A	A-1	Glas - 12 mis/ Blue - 12 months
HSBC Holdings plc	HSBC Bank plc	501	Galw/ Call	n/a	0.25	AA-	F1+	Aa3	P-1	AA-	A-1+	Oren - 12 mis / Orange - 12months
Santander Group plc***	Santander UK plc	7,499	Galw/ Call	n/a	0.40	A	F1	A2	P-1	A	A-1	Coch - 6 mis/ Red - 6 months
The Royal Bank of Scotland Group plc	The Royal Bank of Scotland plc	0	Galw/ Call	n/a	0.25	A	F1	Baa1	P-2	A-	A-2	Glas - 12 mis / Blue - 12 months

\* Ceir y Rhestr Benthycy Cymeradwyedig yn Atodiad 6 o'r Datganiad Strategaeth Rheoli Trysorlys 2014/15/Strategaeth Buddsoddi Blynyddol/ The Approved Lending List can be found at Appendix 6 of the 2014/15 Treasury Management Strategy Statement / Annual Investment Strategy

\*\* Sef tymor ar pwynt y buddsoddi/Being term at the point of investment.

- Yn Atodiad 4 ceir y graddfeydd credyd cyfatebol ar gyfer y 3 asiantaeth graddio y cyfeirir atynt uchod./The equivalent credit ratings for the 3 rating agencies referred to above can be found at Appendix 4.

**Graddfeydd Credyd Cyfatebol/  
Equivalent Credit Ratings (Fitch, Moodys, S&P)**

<b>Tymor Hir Fitch Long Term</b>	<b>Tymor Hir Moodys Long Term</b>	<b>Tymor Hir S&amp;P Long Term</b>
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-
A+	A1	A+
A	A2	A
A-	A3	A-
BBB+	Baa1	BBB+
BBB	Baa2	BBB
BBB-	Baa3	BBB-
<b>Tymor Byr Fitch Short Term</b>	<b>Tymor Byr Moodys Short Term</b>	<b>Tymor Byr S&amp;P Short Term</b>
F1+	d/b / n/a	A-1+
F1	P-1	A-1
F2	P-2	A-2
F3	P-3	A-3

<b>ISLE OF ANGLESEY COUNTY COUNCIL</b>	
<b>COMMITTEE:</b>	<b>AUDIT COMMITTEE</b>
<b>DATE:</b>	<b>23 FEBRUARY 2015</b>
<b>TITLE OF REPORT:</b>	<b>PROGRESS REPORT ON INTERNAL AUDIT 01 APRIL 2014 – 31 DECEMBER 2014</b>
<b>PURPOSE OF REPORT:</b>	<b>FOR INFORMATION</b>
<b>REPORT BY:</b>	<b>AUDIT MANAGER</b>
<b>ACTION:</b>	<b>N/A</b>

**1. INTRODUCTION**

- 1.1 The Operational Plan for 2014-15 was presented to and accepted by the Audit Committee at its meeting held on 10 April 2014. The Plan was produced in consultation with the External Auditor, the Section 151 Officer and various meetings and communications with Heads of Service.
- 1.2 The following report summarises the work of the Internal Audit Section up to the 31 December 2014 and gives a summary for each of the final reports issued since the last Audit Committee.
- 1.3 Final reports which result in a 'Red Assurance' opinion will be subject to a Follow Up review which will include an audit opinion on the progress of management in implementing the recommendations categorised as High and Medium within the original final report. The results of the Follow Up review will be presented to the next Audit Committee.
- 1.4 There were no reviews in the previous period which resulted in a 'Red Assurance' opinion. The results of the Follow Ups of two previously reported Red opinion reports are included within this report.
- 1.5 The Internal Audit Service uses a Risk Based approach wherever possible but may use System Based, Key Controls, Establishment or Advisory reviews if these approaches are more appropriate.
- 1.6 The individual final reports are available to members of this Committee, in confidence, on request to the Audit Manager.

**2. REPORTS ISSUED SINCE LAST UPDATE REPORT**

Listed below are the Final Internal Audit Reports issued since the last progress report to Committee along with a summary of the results of each review.

- 2.1.1 **Logical Access Controls & Segregation of Duties - Follow Up** - A review of the Council's arrangements for Logical Access Controls and Segregation of Duties within applications was undertaken in Quarter 2 2014-15 and resulted in

a Red Assurance Internal Audit opinion. The review was the first overall review of this area which was undertaken in response to weaknesses in controls identified by Internal Audit through its review of individual application reviews. The original final report was issued in September 2014 and included seven recommendations categorised as 'High'; six as 'Medium' and two as 'Low' category.

We consulted with the relevant stated responsible officers for implementation within the report and assessed the progress of implementation for each recommendation.

Taking account of the issues identified in the report and in line with our methodology for providing assurance on the progress of implementation, in our opinion management has demonstrated '**little progress**' in implementing actions agreed to address the audit recommendations within the original agreed timescales.

We found that there were five High category and six Medium category recommendations assessed as yet to be implemented at the time of the review; however we were informed that the implementation of four High category and three Medium category recommendations was 'ongoing', or that there were plans to implement the recommendations as part of a restructure within the Finance Service.

We have reiterated recommendations where these have not yet been implemented. In addition, we have made new recommendations where appropriate.

**Opinion:** Management has made 'little progress' in implementing the recommendations in the original report and our opinion of the control arrangements in place in this area therefore remains as 'Red Assurance'.

**2.1.2 Third Sector Scheme – Follow Up** - We were informed by the Corporate Director Community that following a presentation of a Report on the Code of Practice for the Third Sector by herself, and the receipt of the Internal Audit Report on compliance with the scheme, the Senior Leadership Team mandated the 151 Finance Officer and Corporate Director to commission actions to strengthen practice.

A terms of reference for this work was endorsed by the Penaethiaid (November 2014) and additional capacity has been identified to work with the Finance Service and Heads of Service to progress agreed actions.

The Corporate Director Community reported that an outline draft report was presented at the Third Sector Liaison Committee on the 16 January 2015 and that a final draft report to the Penaethiaid and SLT is scheduled for February 2015. The time frame has been amended taking account of the need to commission external capacity to complete the task. This final report will include:

- Information re investment in the Third Sector;
- An analysis, based on sampling, of compliance with the Code with reference to commissioning & procurement;
- Recommendations about systems and responsibilities to be adopted by the Council. It is anticipated that this will include the identification of a named officer within finance to oversee financial arrangements with the Third Sector and, revision of the policy relating to grants / SLAs
- Recommendation of an operational framework to be formally adopted by the IACC and Third Sector (Medrwn Mon) noting acceptance and monitoring compliance with the Code.



The Corporate Director Community anticipates that this work will be completed by end of March 2015.

**Opinion:** From the information provided to Internal Audit we have assessed that 'good progress' is being made in addressing the issues raised in the original Internal Audit Report.

**2.1.3 Talnet – Partnership Agreement** - TalNet is jointly funded by Anglesey County Council, Gwynedd Council and Conwy County Council providing services to the Counties' libraries including provision and maintenance of computerised systems, ordering, cataloguing and distribution service, provision of performance information and arrangements for inter-library loans. Anglesey County Council provides financial services to TalNet and TalNet staff are employed by Anglesey County Council.

The key findings from this review were:

Design of control framework

- The CIVICA purchasing module is currently not used by TalNet for ordering services; a bespoke electronic ordering system is used by all three authorities.
- Reconciliation of orders, invoices and credit card payments are being conducted by TalNet as well as by the IOACC Finance Service.
- TalNet cannot fully utilise the modules within the CIVICA financial system due to lack of policies and procedures.

Application of and compliance with control framework

- Credit card expenditure has not been charged to the other local authorities due to general delays in coding credit card expenditure.

**Opinion:** An overall GREEN/AMBER audit opinion resulted from the review with five Low category recommendations being agreed with management.

**2.1.4 Maritime Diesel** – A review of the arrangements in place for the sale, billing and payment of maritime diesel was undertaken. The Council provides facilities for the purchase of maritime diesel as a service to commercial fishermen and small to medium sized commercial craft. The diesel is bought in 18000 litre vehicles and is stored within storage tanks at Holyhead Fish Dock and Amlwch harbour. Holyhead Fish Dock has three tanks of 56,000 litres capacity, but only one in is currently in use. Amlwch Harbour has one tank of 25,000 litres capacity.

The key findings from this review were:

- The current supplier of maritime diesel to the Council we understand to have been used by Maritime for a number of years without going out to the market or complying with Contract Procurement Rules by procuring fuel through a recognised framework agreement.
- There is no procedure for the dipping of fuel tanks, or other measurement of tank levels, before and after deliveries to verify the amounts being delivered. The external fuel gauges at both the Holyhead and Amlwch sites were inoperable at the time of Audit field visits and Audit was informed that that had been so for some time.
- There was no procedure for the regular checking of fuel levels by dipping, or any other means, and no use of the cumulative pump record of issues to reconcile to the spreadsheet record of fuel issued. Without prompt and

regular reconciliation there is an increased risk that errors and inaccuracies go undetected.

- There is 18000 litres of fuel contained in a tank at Holyhead after being wrongly placed in this tank. Arrangements need to be made to transfer this fuel to the tank currently in use.
- The documents produced by the SAGE system and issued to customers purport to be official 'invoices' which under Financial Procedure Rules they are not. The documents are also not compliant with the Council's Financial Procedure Rule 4.8.5.2.1 which requires segregation of duties between the calculating, checking and recording of debts and the collection of such debts.
- There are clear differences between the record of fuel issue and the income recorded as received for these issues. The differences show additional income over and above the forecast return on expenditure.
- There is no procedure for the regular reconciliation of fuel issue records to income records to ensure that all amounts have been invoiced or collected. Audit identified 11/77 issues from Amlwch for which a debtor invoice or payment could not be matched to the income record.

**Opinion:** This was an advisory review which resulted in the identification of a number of control weaknesses which have been communicated to management for action.

**2.1.5 Homelessness** - An audit of Homelessness was undertaken as part of the approved internal audit periodic plan for 2013/14. The Council, in accordance with the requirements of the Homelessness Act 2002, has developed a homelessness strategy that recognises the recent transition towards homelessness prevention and reflects the aims of the Welsh Government at the time the strategy was adopted.

Homelessness services now focus on prevention through early identification and intervention, helping people address the causes of threatened homelessness at the earliest possible opportunity and ensuring that a housing options and assessment framework is in place that takes account of all aspects affecting someone's accommodation, beyond, and in addition to, housing needs, so that appropriate services can be accessed to develop sustainable solutions. The key findings from this review were:

#### Design of control framework

- Key aspects of Homelessness procedures need enhancing to reflect the increase in focus on homelessness prevention and administrative changes including the new combined assessment form, the use of the Orchard, and introduction of the new CIVICA electronic payment system.
- Lack of evidence to support monitoring of length of stay in Bed and Breakfast accommodation and checks to validate Bed and Breakfast payments; no systematic check of Housing Benefits payments made to the Council's holding account to ensure full recovery of rent payments where appropriate and validity of all benefit payments received.

#### Application of and compliance with control framework

- The Homelessness strategy has not been formally reviewed since 2007 and therefore pre-dates the Welsh Government's 'Ten Year Plan 2009-2019'. There is a requirement to review the strategy every 5 years.
- Elements of key duties of the vacant posts of Accommodation Officer and Housing Options Manager were not reassigned in the period under review to

ensure that the service is able to fully maintain the expected internal controls in the areas covered by these staff.

- Some instances of lack of evidence on the Homelessness application file to support the application decision, enquires and actions undertaken and some inconsistency in application of procedures.

**Opinion:** An overall RED/AMBER audit opinion resulted from the review with seven Medium and seven Low category recommendations being agreed with management.

**2.1.6 Sports Development** - The Council receives grants relating to sports development from a number of different agencies. This review considered only those grants funded by the Sport Wales. In 2013/14 the value of these grants was approximately £310,558.

The Sports Development Section has drawn up a plan entitled 'Local Authority Partnership Agreement 2013/17' between Sport Wales and Ynys Mon which details the planned activities to be funded through Sports development grants.

The review found that there were robust arrangements in place to deal with Sports Development grants and no significant recommendations were made.

**Opinion:** An overall GREEN audit opinion resulted from the review with one Medium and one Low category recommendation being agreed with management.

**2.1.7 Teacher's Payroll** - An audit of Teachers' Payroll was undertaken as part of the approved internal audit periodic plan for 2014/15.

The Teachers' payroll is maintained on Payroll 100. Payroll 100 comprised of 2592 live paid records as at 5 August 2014, these included teachers as well as non-teachers. In June 2013 supply teachers previously maintained on Payroll 600 were transferred to Payroll 100. Over £29m was paid through Payroll 100 in the financial year 2013/14. Between April 2013 and July 2014 there were 147 new starters processed on Payroll 100 and 154 leavers. The key findings from this review were:

The Auditor identified control weaknesses which were also reported in previous annual key controls Payroll Review from 2012/13 and 2013/14. The two main weaknesses found from previous reports where relevant to this review were:

- There is currently no procedure for the regular verification of establishment to Payroll by Budget Holders confirming on at least an annual basis that a review of the current staff structure and pay grades has been undertaken to verify the accuracy and completeness of the information held on the integrated HR and Payroll system.
- There are no reports detailing permanent amendments to Payroll standing data produced and reviewed on a regular basis to ensure that only valid changes are actioned and give assurances that all changes are correctly applied.

#### **Design of control framework**

- There is no procedure for verification of establishment to Payroll on a regular basis.
- There is no 'duplicates' report run systematically for NI and bank account details on the Payroll - Testing of duplicate National Insurance numbers on the Payroll identified instances of duplicate live records and an employee paid on two pay references on Payroll 100 in the same month.

- Amendment reports are not run and reviewed by an independent officer on a periodic basis.

#### **Application of and compliance with control framework**

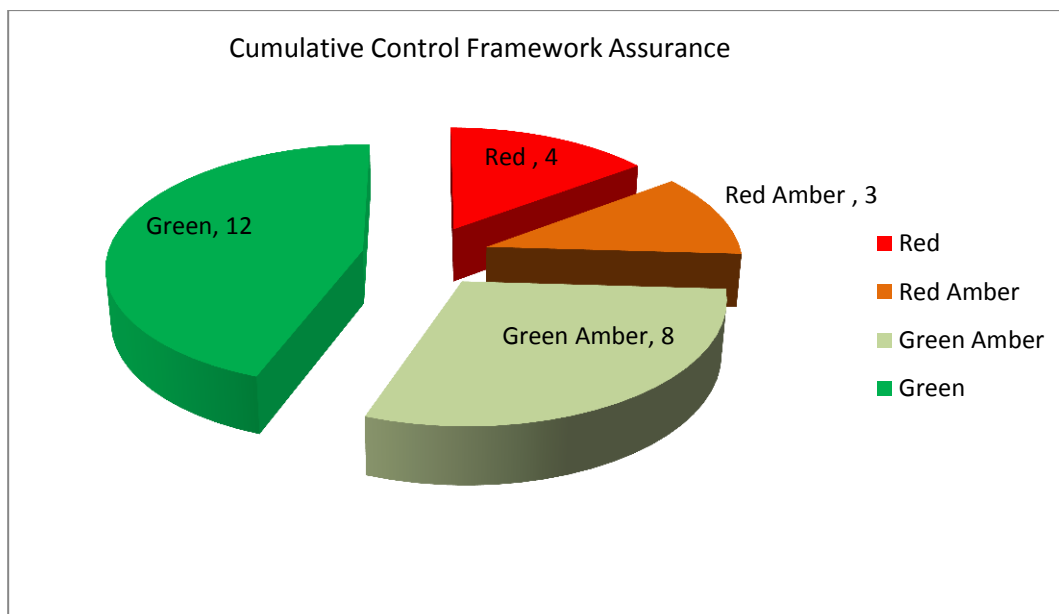
- Supporting documents including timesheets, amendments, starters and leavers forms could not be located within Payroll in all instances of audit testing. Payroll has been notified of the instances where no supporting documents could be found at the time of the audit review.
- Pension deductions for seven employees were incorrectly applied due to manual amendments to the system affecting the full time equivalent salary recorded; the error had been identified in relation to one of the employees and the contributions corrected as appropriate.
- Previous pension re-banding reports were only generated when pension bands were amended. Reports are now said to be checked on a monthly basis from September 2014 onwards.
- The audit found no significant errors in the sample testing undertaken in relation to timesheets/claims submitted which are processed by HR Education and uploaded for automatic interface to the Payroll system on a monthly basis.
- Exception reports had been produced for timesheets and variance reports were seen to be checked for fixed pay elements of Payroll 100.
- There were no errors identified in relation to the set-up of new starters, actioning amendments to the Payroll records and terminating leavers on the Payroll, however it was seen that notional amendments to the system occurring in a particular month and relating to a specific adjustment to pay had affected the notional full time equivalent pay for the months following. This in turn affected the parameters for instance - pensions and / or possible other deductions where it should not. As a result incorrect banding of pensions has been applied to those affected by this change and /or incorrect deductions have been taken.

**Opinion:** An overall RED/AMBER audit opinion resulted from the review with one High; two Medium and three Low category recommendations being agreed with management.

**2.1.8 Schools Key Controls Audit - Finance and Governance -** Two Final report from audit work at the Council's primary schools were completed in the period. The review resulted in GREEN/AMBER and GREEN audit opinions respectively. Recommendations to strengthen internal control weaknesses identified have been made with the Headteachers concerned.

**2.2 Summary of Outcomes of Reports Issued to Date** – since the 01 April 2014 we have issued seven final reports from the Internal Audit Operational Plan 2013-14; and twenty eight from the 2014-15 plan. To date therefore a total of thirty five final reports has been issued in 2014-15.

A summary of the grades given for the 27 final reports issued from the 2014-15 Plan with RAG opinions is shown in the pie chart below:



This pie chart will be updated cumulatively in each subsequent Internal Audit Progress Report and will therefore provide an indicator of the audit opinion of the overall control framework which will be reported in the Annual Report of the Chief Audit Executive.

To date of the 27 Final reports issued from the 2014/15 Internal Operational Plan 74% have resulted in a positive assurance opinion (Green or Green Amber) and 26% in a negative opinion (Red or Red/Amber).

### **3 INTERNAL AUDIT FORWARD WORK PROGRAMME**

Scheduled Review Title	Service Area	Current Status
Logical Access Controls – Follow Up	Corporate	FINAL
Third Sector Scheme – Follow Up	Corporate	FINAL
TalNet	Partnership	FINAL
Maritime Fuel	Community	FINAL
Homelessness	Housing	FINAL
Sports Development	Community	FINAL
Teachers' Payroll	Education	FINAL
Ysgol Penraeth	Education	FINAL
Ysgol Llangoed	Education	FINAL
Creditors	Finance	Work in Progress
Debtors	Finance	Work in Progress
Main Accounting System	Finance	Work in Progress
Cashiers	Finance	Work in Progress

National Non Domestic Rates	Finance	Work in Progress
Council Tax	Finance	Work in Progress
Information and Decision Flows Mapping	Finance	Work in Progress
Highways Rechargeable Works	Highways	Work in Progress
Housing Rents	Housing	Work in Progress

#### 4. REFERRALS

- 4.1** During the course of the year the Internal Audit Section is required to carry out work on matters which come to light during the programmed audit work, or matters which are brought to its attention by other Departments, or work which other Departments request the Internal Audit Section to carry out. Work may also be requested by the External Auditor to provide information or to assist in the provision of information. Some of these referrals result in the issue of formal audit reports whilst others will be recorded in File Notes (e.g. where the allegation / information is found to be incorrect and therefore there is nothing to report, or the amount of work is not sufficient to warrant a full audit report or the matter is covered by an External Auditor's report).
- 4.2** A number of File Notes have been produced in the period to date in 2014/15. None of the work resulting in a File Note has identified any evidence of fraud or irregularity.
- 4.3** As previously reported to the Audit Committee one referral from 2012/13 is being investigated by the Police. The Internal Audit Team received a draft statement from the Police which was completed and returned in August 2014. The Committee will be informed of the outcome of this case in due course.
- 4.4** The Committee has previously been made aware of an attempted Creditor related fraud against the Council and others. On 25 January 2015 the Internal Audit Service received a response by email from the Police concerning this referral. The response is provided below for Members information:

*Your particular report has undergone a proportionate investigation in line with West Midlands Police Fraud allocation and investigation policy and it has been decided that no further investigation will take place at this time. The policy does not have a financial threshold but focuses our resources on vulnerable victims and those offenders posing most risk, harm, and threat to the public. We also take into account any viable leads, likelihood of conviction to the criminal standard, and resources available.*

#### 5. RECOMMENDATION TRACKING

- 5.1** For reporting to this Committee only recommendations made since 01-04-2012 have been included in the recommendation tracking analysis.
- 5.2** The percentage implementation rate at 14 January 2015 was 61% of 'High' and 'Medium' recommendations having been recorded as implemented. The performance in relation to recommendations other than those in Education is 79% (Figures as at 14-01-15).

Internal Audit is liaising on an ongoing basis with the Education Service on improvements to the process for the reporting of implementation rates within schools.

- 5.3 A graph showing the breakdown of recommendation implementation by Service is provided at Appendix A.
- 5.4 The Audit Committee has requested a more detailed breakdown of outstanding High category Internal Audit recommendations and a table of all such recommendations including the responsible officer for each is provided at Appendix B.

## 6. ONGOING AUDIT CONCERNS

- 6.1 A report on progress made on the previously reported areas of Internal Audit concern was presented to the Committee by the Deputy Chief Executive at its September 2014 meeting. The areas will continue to be a concern for Internal Audit until all significant recommendations have been implemented and assurance can be provided that the frameworks and systems are in place; have been embedded; are robust and are effective. The current position on these areas is provided below.
- **Business Continuity** – Recommended actions to strengthen controls in this area have been collated from a number of assurance provider reports, including those of Internal Audit and have been included in a Corporate Information Management Action Plan. Progress on arrangements is now being made on a North Wales basis.
  - **Risk Management** – The Council is in the process of developing its Risk Management Framework and embedding risk management in the organisation. The Corporate Risk Register is still in development and a regular reporting regime is to be implemented.
  - **Information Management** – The Information Commissioner's Office has undertaken a review in this area and identified similar issues and control weaknesses to those identified by the WAO, PWC and Internal Audit in previous reports. A draft follow up report from the Information Commissioner's Office is being considered.
  - **Governance** - Issues relating to non-compliance with key corporate policy and procedure have again been identified in 2014-15, for example in relation to corporate procurement; ICT Security; Third Sector Scheme; etc. The Council has stopped the use of its electronic policy compliance and sign off of policies system which recorded users as having read, understood and agreed to abide by policies. Without such record of sign off it is more difficult to show that the policies have been adequately disseminated to relevant staff. A report concerning these issues was issued in 2011-12, and again in the Logical Access report in October 2014; however a number of key recommendations remained unimplemented.
  - **Corporate Procurement Framework** – Management has restructured and strengthened the Procurement Team. New Contract Procedures Rules are to be introduced and implemented. A review of Procurement arrangements has been included in the Internal Audit operational Plan for 2015/16 to provide assurance that the changes made have led to increased compliance with procurement regulation, policy and procedure.

- **Partnerships Framework** - The Council does not have a formal Partnership Framework in place to provide assurance that all partnerships have adequate governance, management and performance arrangements in place to meet their stated objectives and that they provide value for money in relation to the Council's financial and other resources invested in them.

A follow up of the Internal Audit review of Partnership Arrangements issued in June 2013 is take place in quarter 4 of 2014/15.

- **Schools Recommendation Implementation** – There is a continuing issue with regards to schools implementing internal audit recommendations. These recommendations relate to financial and governance issues within schools which should be of concern to Head Teachers and to the Education Department.

**AUDIT MANAGER**  
**23 FEBRUARY 2015**

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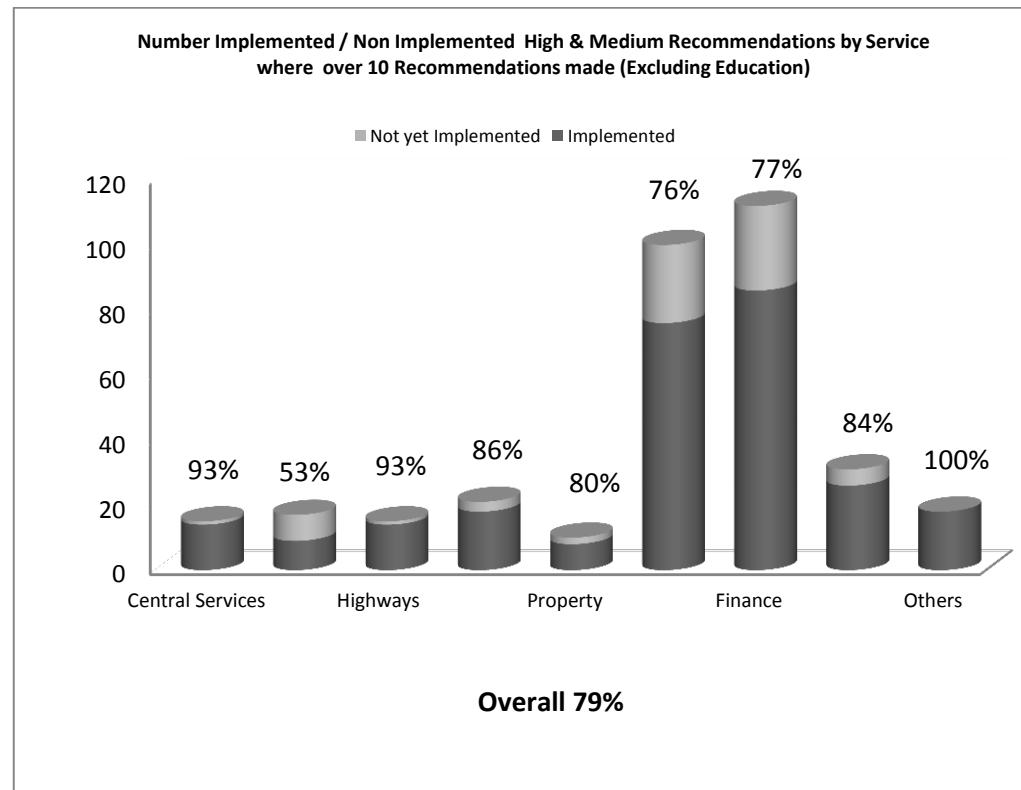


**APPENDIX A**

**Recommendation Tracking Table –Non Education High & Medium Recommendations Created Since 01-04-2012 Progress Table:** % implemented / non implemented of high and medium category recommendations by service where over 10 recommendations made But excluding Education; which total at the end of the period was **79%** of all such recommendations.

In our opinion therefore based on the self assessed data in the Progress Table above the Council has made ‘**good progress**’ in the period in implementing High and Medium categorised Internal Audit recommendations.

***NB it should be noted that the increased implementation rate is the result of data cleansing of recommendations by Internal Audit and the amendment of a number of target dates for implementation due to recommendations ‘being partly implemented’ with some work ongoing or where the assigned ‘responsible officer’ for implementation has changed.***



## APPENDIX B

**High Category Internal Audit recommendations Outstanding as at 14 January 2015 FOR AUDIT COMMITTEE REPORT**

Ref	IA Report	Recommendation Summary	Creation Date	Implem'n Target date	Responsible Officer	Current Status	Comments	RAG
1	Business Continuity 1812.12/13	To ensure that the recommendations made in the Business Continuity Report 1812 12/13 are actioned.	07/10/2014	31/12/2014	Transformation	Being Implemented	Since 1st July 2014, the Emergency Planning function for the Council has been undertaken via the North Wales Emergency Planning Service. Awaiting update on position with Business Continuity Plan.	Green /Amber
2	System Controls - Logical Access and Segregations of Duties 1961.14/15	Once the revised ICT Security policy and compliance software is in place a grace period of two weeks is given to new starters to approve the policies before their access is revoked.	07/10/2014	31/03/2015	Technical Services Manager	Within target date		Green
3	System Controls - Logical Access and Segregations of Duties 1961.14/15	New starter forms authorising requests for starters to be granted access to the Council's network should be stored appropriately in a consistent manner such that they can be located upon request	07/10/2014	31/12/2014	Technical Services Manager	Not Implemented – changed the date for implementation to 28/02/2015	Included in follow up review January 2015	Red
4	System Controls - Logical Access and Segregations of Duties 1961.14/15	The Payroll and Human Resources system groups and access rights should be reviewed to ensure that an appropriate segregation of duties is maintained so that those processing payroll cannot create and amend establishment records and create users on the system and vice versa for Human Resources employees	07/10/2014	31/12/2014	Human Resources Services Manager / Head of Resources	Not Implemented - requested that the date be changed to 31/03/2015	This is currently being reviewed by the Interim Accountancy Manager - Included in follow up review January 2015	Red
5	System Controls - Logical Access and Segregations of Duties 1961.14/15	ICT should receive assurance that ICT assets sent for destruction have been destroyed, by what means and when. ICT should maintain a disposal register and reconcile	07/10/2014	31/12/2014	Technical Services Manager	Implemented	Included in follow up review January 2015	Green

		this to the records of destruction received from the relevant contractor.						
6	System Controls - Logical Access and Segregations of Duties 1961.14/15	In line with best practice and the Council's Financial Procedure Rules the following segregation of duties should be applied in the following Council financial systems: including; Asset Register ; Debtors; ledger; cash receipting; and Payroll.	07/10/2014	31/12/2014	Head of Resources	Not Implemented – requested a date change to 28/02/2015 & 31/03/2015	Included in follow up review January 2015	<b>Red</b>
7	System Controls - Logical Access and Segregations of Duties 1961.14/15	All users access should be set to automatically disable after there has been no access to the network after three months or a lesser period determined by ICT.	07/10/2014	31/03/2015	Technical Services Manager	Within target date		Green
8	Third Party Assurance 1736 11/12	Review and implement recommendations in the Third Party Assurance Report 1736.11/12	07/10/2014	31/12/2014	Head of Service - Policy	Head of Service – Policy -	HofS informed us that he is to discuss with the Programme and Business Planning Manager	<b>Green / Amber</b>
9	Risk Management Report 1766.11/12	Review, co-ordinate/ implement the Risk management Report 1766.11/12	07/10/2014	31/12/2014	Insurance and Risk Manager	Superseded by present consultation		N/A
10	Partnership Framework 1874.13/14	Assign responsible officers to implement recommendations reported in the Partnership framework report 1874.13/14 with deadline dates	07/10/2014	31/12/2014	Chief Executive	New implementation date 28 November 2015	A Project Mandate has been produced entitled – Partnership Reviews. Project to start April 2015 and scheduled to last for seven months.	<b>Green/ Amber</b>
11	Corporate Policies Report 1761.11/12	Review and implement the Corporate Policies Report 1761 11/12	07/10/2014	31/12/2014	Monitoring Officer	Implementation date amended to 30 June 2015.	Work on policies is ongoing with responsibility now with the Monitoring Officer.	<b>Green/ Amber</b>
12	System Controls - Logical Access and Segregations of Duties 1961.14/15	The Council should ensure that it maintains a record for all users that evidences that they have received access to, read, understood and agreed to abide by all key ICT policies including the ICT Security (once approved) and Acceptable Usage Policies	07/10/2014	31/03/2015	Business Planning and Programme Manager	Within target date		Green
13	Corporate	To ensure that all	07/10/2014	31/12/2014	Procurement Officer	Being	The Procurement team has	Green/

	Procurement 1825 12/13	recommendations in the Corporate Procurement Report 1825.12/13 are actioned				implemented	been restructured and new staff taken on. Update on current position for next Audit Committee.	Amber
14	System Controls - logical access and segregations of duties 1961.14/15	Formal documented procedures covering the notification, authorisation and setting up and removal of users from the network should be produced and implemented. Such procedures should cover temporary staff including contractors, agency and self-employed staff. The role of ICT, Human Resources, Payroll and Services in this process should be clearly stated.	07/10/2014	31/12/2014	Technical Services Manager	Implemented	Included in follow up review January 2015	Green
15	Diesel Stocks - Gaerwen Depot 2014/15	The control framework in place for the monitoring of fuel stocks at the Gaerwen Depot should be reviewed in light of the amount of additional fuel required to be written off over and above that directly related to the three incidents reported to the Police	11/12/2014	31/01/2015	Fleet & Driver Manager	Response from Fleet & Driver Manager - implemented		Green
16	Third Sector Scheme 1953 14/15	Review the Third Sector Scheme Recommendations for implementation	07/10/2014	24/12/2014	Communities Director	Communities Director	See update in this report -	Green
17	Creditors Follow up 1941.13/14	Formal written instructions detailing all the processes and procedures involved with creditor payments should be produced and issued. Procedure should cover the roles and responsibilities of central creditors and services for each stage of processing	13/05/2014	31/03/2015	Performance & Management Support	Within target date		Green
18	Main Accounting 1892.13/14	ICT Services should continue to proceed towards SAN to SAN backup of the Finance server to a suitable off site location as per previous recommendations. Finance Services should take ownership of their systems and	13/05/2014	31/12/2014	Business Continuity Manager	Date revised to 29/08/2015	Response from Business Continuity Manager – this has gone to tender and still ongoing to select a supplier after scoring – going to question them.	Green/ Amber

		data and should ensure that their financial systems are being appropriately backed up and that regularly restores of system and data are conducted						
19	Teachers Payroll 1969.2014/15	A comprehensive check of the pension re-banding report should be completed by Payroll to ensure that all pension bands are correctly applied. Incorrect pension bands applied should be amended, and contributions re-calculated and back dated as appropriate.	11/12/2014	31/01/2015	Interim Accountancy Manager	Implementation date updated to 30 June 2015.	To be followed up as part of Payroll review 2014-15 currently WIP.	<b>Green / Amber</b>

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<b>ISLE OF ANGLESEY COUNTY COUNCIL</b>	
<b>COMMITTEE:</b>	<b>AUDIT COMMITTEE</b>
<b>DATE:</b>	<b>23 FEBRUARY 2015</b>
<b>TITLE OF REPORT:</b>	<b>ANNUAL NEEDS ANALYSIS &amp; INTERNAL AUDIT OPERATIONAL PLAN 2015-16</b>
<b>PURPOSE OF REPORT:</b>	<b>FOR INFORMATION</b>
<b>REPORT BY:</b>	<b>AUDIT MANAGER</b>
<b>ACTION:</b>	<b>N/A</b>

## 1 Introduction

Internal Audit Plans are living documents and need to be constantly updated as new systems are developed, significant changes to existing systems occur, legislation changes, objectives change and new risks are identified.

Resource issues also affect the audit needs analysis on an ongoing basis. Fewer resources than planned will result in the need to prioritise further and reduce the number of reviews, or the coverage of each individual audit. Increased resources will allow more areas to be reviewed or individual planned reviews to be increased in depth.

At the time of production of the draft Internal Audit Operational Plan 2015/16 a review of the provision of the Internal Audit Service of the Council was in progress. This has meant that it is not possible for the Chief Audit Executive to be able, to provide assurance over the adequacy of the internal audit resources available to the Internal Audit Service in 2015 / 2016.

## 2 The Audit Needs Assessment Process

The Council adopted the Public Sector Internal Audit Standards in 2013 and the Standards are adhered to by the Internal Audit Service. Standard 2010 relates to audit planning and states that: *‘the chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals.’*

In order to identify the areas that require internal audit coverage, we need to understand the risks facing the organisation. We have undertaken an audit needs assessment for 2015/16 using the following processes:

- We confirmed the core objectives of the organisation and the specific key risks associated with the achievement of those objectives through review of the Corporate Business Plan 2012/15 and through liaison with the management of the Council;

- We reviewed the Council's Corporate Risk Register and individual Service level Risk Registers with specific regard to risks categorised as High risk to the Council;
- We used cumulative knowledge of the organisation from previous internal audit work to identify areas that would benefit from internal audit coverage. This included the opinion on the Council's governance, risk management and internal control arrangements to be included in the Chief Audit Executives Annual Report 2014-15;
- The Audit Needs Assessment also identified areas of coverage that do not appear as high priority risks but where internal audit coverage can provide a tangible input to assurance, for example:
  - Requirements of Public Sector Internal Audit Standards and the CIPFA Code of Practice for Internal Audit;
  - Work required in order for external audit to place reliance on internal audit work on core financial systems in accordance with the managed audit concept;
  - Areas of concern flagged by management or by the Audit Committee;
  - Emerging issues; and the
  - Need for on-going assurance in relation to key aspects of risk management, governance and internal control.

Other documents consulted in developing the Plan included, but were not limited to: Annual Governance Statement 2013/14; the PWC Audit of Accounting Statements; Annual Delivery Plan – Improvement Plan 2014/2015; and liaison with External Audit (WAO), PWC and Scrutiny on their work plans for 2015/16.

Our preferred risk based approach is to use the Council's Corporate Risk Register to drive the Internal Audit Strategic and Operational Plans and to use our limited resources to provide assurance over the greatest risks to the Council where possible and where appropriate. Assurance would then be reported against risks familiar to the management and Members of the Council through their knowledge of corporate risk.

At the time of this Audit Needs Assessment, as in the past, the Council's risk management framework was not considered developed enough to enable the preferred option to be adopted. Although some use was made of the Register, this could only be limited to the identification of potential high risk areas. Therefore additional use was made of meetings with senior management and review of corporate documentation to assess risk and audit needs. The analysis also included an element of cumulative audit knowledge and experience of the Council's operations, objectives and risks.

A review of the Risk Management framework and of the effectiveness of actions to mitigate the Council's highest risks has been included in the 2015/16 Internal Audit Operational Plan.

### **3 Annual Operational Internal Audit Plan**

The annual Operational Plan is produced to provide Internal Audit with its work programme for the year. The Audit Needs Assessment is reviewed and the input of Directors, Heads of Function and Heads of Service is sought to identify any risks not currently covered. The revised Audit Needs Assessment is used to direct Internal Audit



resources to those aspects of the organisation that are assessed as generating the greatest risk to the achievement of its objectives.

As part of the process of developing the 2015/16 Internal Audit Operational Plan, we have consulted with the Deputy Chief Executive, the Section 151 Officer and liaised with the other Directors, Head of Function and with Heads of Service to discuss their requirements. The External Auditor (WAO), PWC and the Scrutiny Manager have also been consulted on the proposed Operational Plan for 2015/16.

The proposed Internal Audit Operational Plan at Appendix A reflects the results of this year's review of the Audit Needs Analysis for 2015/16.

#### **4 Resources**

As stated above a review of the provision of the Internal Audit Service of the Council was in progress at the time of reporting. It is envisaged that a separate report concerning how and by whom the Internal Audit Service will be provided from 01 April 2015 will be presented to the Audit Committee by the Section 151 Officer for consideration and approval.

The number of auditor days allocated for the completion of the 2015/16 Operational Plan has been set to provide a challenging target for the Service and represents a resource allowing a prioritised plan with coverage across all Functions, Departments and Services of the Council.

**Resource Targeting** - The targeting of limited Internal Audit resources is paramount to ensure that resources are utilised where they are most needed. In this respect, Internal Audit uses a number of methods to assist management including: consultancy; compliance; assurance; risk management; governance; internal control and value for money. In order to truly add additional value Internal Audit looks at the key risks, work streams and priorities of the Council and concentrates effort into these areas.

However, this is only possible where an organisation has sound risk management, governance and control frameworks in place and operating effectively. Our work in these areas in the past few years has recorded ongoing development in these areas but has also identified and reported significant areas of weakness in these processes which are still being addressed. Therefore, the limited Internal Audit resources available will need to continue to be used in strengthening these frameworks in terms of design of controls, compliance and assurance.

Appendix B includes details of the required internal audit resource to complete the Operational Plan 2015/16.

#### **5 Considerations required of the Audit Committee**

- Does the detailed Internal Audit Operational Plan 2015/16 reflect the areas that the Audit Committee believe should be covered as priority?
- Is the level of auditor day resource accepted by the Committee and agreed as appropriate, given the level of assurance required?

**Audit Manager**

**February 2015**

ISLE OF ANGLESEY COUNTY COUNCIL

**INTERNAL AUDIT OPERATIONAL PLAN - 2015-16**

Ref	Service	Title	Source	Planned Auditor Days
<b>DEPUTY CHIEF EXECUTIVE</b>				<b>850</b>
<b>CORPORATE</b>				
1	Corporate	Counter Fraud Arrangements - Service Level Arrangements	Audit Committee AP	15
2	Corporate	Risk Management Framework and Top 5 Risks – Risk Strategy and Risk Registers	Corporate Risk	10
3	Corporate	Review of Compliance with Information Governance Policies; - Standard DPA Contracts; Fair Privacy Notices; Data Marking / Classification; Handling of Official Sensitive Documents etc.	Hof Function (Legal) YM31	15
4	Corporate	Value for Money - Service Level Arrangements	IA Assessed Risk	15
5	Corporate	Assets and Capital – Including Agile Working Project	DEC / MO Request	15
6	Corporate	Safeguarding Framework - Compliance	Corporate Risk YM16 / SLT Request	15
7	Corporate	Whistle Blowing Procedure and Corporate Overview	MO Request	10
8	Corporate	Partnerships - Governance and Performance	Audit Committee	15
9	Corporate	Agency Staff Arrangements and Utilisation - Follow Up	IA Assessed Risk	10
10	Corporate	Equal Pay	EA Request	10
11	Corporate	Job Evaluation - implications	EA Request	10
12	Corporate	Business Continuity -Including ICT DR	Cyclical IA	15
13	Corporate	PIR Processes - Corporate	DEC Request	10
14	Corporate	Customer Relationship Management System (CRM) - Development	Annual Delivery Document 14-15	10
<b>HUMAN RESOURCES</b>				

15	HR	Sickness Reporting Arrangements	HofS Consultation	10
16	HR	HR -New System Implementation - Qtr 3-4	HofS Consultation	10
17	HR	Travel and Subsistence - Policy and Compliance	HofS Consultation	10

RESOURCES				
18	Finance	Teachers Payroll - Follow Up	Follow Up	10
19	Finance	Cash Collection	External Assurance	10
20	Finance	Sundry Debtors including current performance on aged debt - including Telecare	External Assurance	10
21	Finance	PCID DSS Self Assessment - Oriol - LCs - Cash Offices etc.	Revs & Bens Man Request	10
22	Finance	Creditor Payments	External Assurance	15
23	Finance	Financial Ledger & Bank Reconciliation	External Assurance	10
24	Finance	Housing Benefits	External Assurance	20
25	Finance	Treasury Management	External Assurance	10
26	Finance	Council Tax	External Assurance	15
27	Finance	NNDR	External Assurance	15
28	Finance	Payroll - including the payment of non employees	External Assurance	15
29	Finance	Corporate Procurement Framework Including E-Tendering - Q4 of 15/16	Corporate Risk YM40	15
30	Finance	Monitoring of changes made to employee standing data	EA Request	6
31	Finance	Pensions: sharing of census data with the Gwynedd Pension Scheme and reconciliation of data sets	EA Request	6
32	Finance	Budget Setting and Monitoring for 2016-17 - Qtr 3	Corporate Risk YM33	10
33	Finance	Accounts Closure Timetable - Process Review	IA Assessed Risk	10
34	Finance	Efficiency Savings Processes and Robustness - 2016-17 Budget and Efficiency Strategy	Corporate Risk YM8	10
35	Finance	CIVICA - Data Analytics Exercise - Creditors and Debtors - Q4 of 15/16 or Q1 16/17	IA Assessed Risk	10
INFORMATION & COMMUNICATION TECHNOLOGY				
36	ICT	Network - Access and Security- Including remote access effectiveness and security	IA Assessed Risk	10
37	ICT	Disaster Recovery Arrangements	Corporate Risk YM??	10
38	ICT	Remote Access to Corporate systems - Effectiveness and Security	Annual Delivery Document 14-15	10

39	ICT	Automated Services and Self-Service Options	Annual Delivery Document 14-15	10
<b>LIFELONG LEARNING</b>				
<b>LEARNING</b>				
40	Education	Primary school 1	Cyclical IA	6
41	Education	Primary school 2	Cyclical IA	6
42	Education	Primary school 3	Cyclical IA	6
43	Education	Primary school 4	Cyclical IA	6
44	Education	Primary school 5	Cyclical IA	6
45	Education	Primary school 6	Cyclical IA	6
46	Education	Secondary school 1	Cyclical IA	10
47	Education	Schools – Follow Up Red and Red/Amber	Follow Up	10
48	Education	School Thematic Review	Cyclical IA	6
49	Education	Free School Meals	External Assurance	5
50	Education	Oriel Establishment Review	HofS Request	10
51	Leisure	Library and Cultural Heritage Management	Corporate Plan 2013-17	10
52	Libraries	Administration of Education Grants - (Family Grant and Flying Start)	HofS Request	10
53	Education	School Financial Management Arrangements	IA Assessed Risk	10
54	Education	Reading Age Data - School usage and LEA Challenge	Annual Delivery Document 14-15	10

<b>COMMUNITY</b>				
<b>HOUSING SERVICES</b>				
55	Housing	Housing Rents	External Assurance	20
56	Housing	BMU – Stock Check Report	Annual	6
57	Housing	HRAS Project implementation - including planning and forecasting arrangements	IA assessed risk	15
58	Housing	Housing – Rechargeable Works	HofS Request	10
59	Housing	Affordable Housing outcomes	Corporate Business Plan	10
<b>CHILDREN SERVICES</b>				
60	SS	Advice , Information and Assitance	Director Request	15

61	SS	Single Point of Access and Accountability - with Betsi Cadwaladr UHB	Director Request	15
62	CS	Case Management and Assessment processes for Children - including health checks.	Corporate Business Plan / Improvement Plan 2013-14	10
63	CS	Fostering Service - Range and availability of foster carers	Annual Director's Report 13-15	15
64	CS	Corporate Parenting function - compliance / robustness - Qtr 4	Director Request	10
65	SS	Payment Collection - Telecare	Director Request	15
<b>ADULT SERVICES</b>				
66	Adult	Extra Care Housing Scheme - Qtr 3	MO Request	15
67	Adult	Third Sector Partnership Arrangements and Outcomes	Annual Director's Report 13-15	10
68	Adult	Deprivation of Liberty Safeguards Authorisation Arrangements	Annual Director's Report 13-15	10
69	Adult	Domiciliary Care Provision	Annual Director's Report 13-15	15
70	Adult	'Community Hub' - support and services from local communities enhanced and "joined up"	Annual Delivery Document 14-15	10
71	Adult	Commissioning Strategy - Qtr 2	Corporate Risk	10
72	Adult	Performance Indicators for Adult Services - (Quality Framework)	HofS Request	10
<b>SUSTAINABLE DEVELOPMENT</b>				
<b>ECONOMIC &amp; COMMUNITY REGENERATION</b>				
73	Economic	Enterprise Island - Detination Management Planning	Corporate Business Plan	10
74	Economic	Holyhead Vibrant & Viable Places (VVP) - Governance & Grants to Third Parties	Annual Delivery Document 14-15	15
75	Leisure	Leisure Activity Booking and Payment System	Annual Delivery Document 14-16	10
<b>ENVIRONMENT &amp; TECHNICAL</b>				
76	Transport	Penalty Charge Notices - Finance Officer Assurance	External Assurance	5
77	Highways	Procurement and Payment of Utilities (including BT)	IA Assessed	10
<b>PLANNING &amp; PUBLIC PROTECTION</b>				
78	Trading St	Market Administration and income	Cyclical IA	10
		<b>= To be undertaken if possible within resources</b>		

**NB – This plan is based on 850 Auditor Days**

**APPENDIX B****Resources****1 Assessing Resource Level Requirements**

Our professional judgement has been applied in assessing the number of auditor days resource required for the reviews identified in the Operational Plan. The level of resource applied is a product of:

- The complexity of the system in place;
- Factors such as number of locations, number of transactions or frequency of transactions;
- The assurance which can be brought forward from previous year's audits;
- The type of audit undertaken;
- The likely skills base of the audit resource available.

**2 Required Resources**

The Operational Plan is based on **850** auditor days (excluding any sick leave, training, administration Audit Committee work etc.) including a proportionate element of Chief Audit Executive time. The resource will need to include diverse skill sets to be able to complete a varied and challenging Operational Plan for 2015/16.

As the method of providing the Internal Audit Service was under review at the time of producing this audit needs analysis it has not been possible to state how these days will be provided in 2015/16 or by whom.

**3 Resource Coverage**

The Plan has been designed to ensure an adequate resource allocation of the audit days available across the Council's activities. The allocation reflects the current corporate high risk areas identified from the Audit Needs Analysis including those corporate risk areas detailed in the Internal Audit Annual Report 2014-15. Therefore the highest percentage of days in 2015/16 is scheduled to be spent on reviews in the areas of the corporate centre, Finance and ICT. This reflects the results of previous reviews of these areas and the ongoing corporate weaknesses in the governance and risk frameworks.

**4 Collaboration**

A North and Mid Wales Audit Partnership consisting of the six North Wales local authorities and four other public sector organisations exists to allow the partner organisations to work more closely together with the aim of increasing efficiency. The intention of the Partnership is to work collaboratively on new and emerging areas of audit interest and to share the results of this work.

The Chief Audit Executive also participates in meetings of the Welsh Chief Auditors Group in order to discuss relevant pan Wales issues.

# PRAWF BUDD Y CYHOEDD PUBLIC INTEREST TEST

(Teitl yr Adroddiad/Teitle of Report)

## Contract Rheoli Archwilio Mewnol / Internal Audit Management Contract

Paragraff(au)	14	Atodlen 12A Deddf Llywodraeth Leol 1972
Paragraph(s)	14	Schedule 12A Local Government Act 1972 [un neu fwy o/one or more of 12,13,14,15,16,17,18,18A,18B,18C]
<b>Y PRAWF – THE TEST</b>		
<p>Mae yna fudd i'r cyhoedd wrth ddatgelu oherwydd / There is a public interest in disclosure as:-</p> <p>Mae'r mater yn ymwneud â gwariant cyhoeddus. The matter concerns public expenditure.</p>	<p>Y budd i'r cyhoedd with beidio datgelu yw / The public interest in not disclosing is:-</p> <p>Mae'r mater yn ymwneud â thelerau dyfarnu contract a allai fod yn niweidiol i fuddiannau masnachol yr awdurdod neu gontractwr arfaethedig petai'r telerau'n dod yn hysbys i gwmnïau a fedrai gystadlu.</p> <p>The matter covers the terms on which a contract may be awarded and may harm the commercial interests of the authority or a proposed contractor if the terms were to be made known to potential competitors.</p>	
<p><b>Argymhelliad</b> - Mae budd i'r cyhoedd wrth gadw'r eithriad o bwys mwy na/llai na* budd y cyhoedd wrth ddatgelu'r wybodaeth. [* - dilëwch y geiriau amherthnasol]</p> <p><b>Recommendation</b> - The public interest in maintaining the exemption outweighs/does not outweigh* the public interest in disclosing the information. [* - delete as appropriate]</p>		

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