

AUDIT AND GOVERNANCE COMMITTEE

Minutes of the meeting held on 23 September 2015

- PRESENT:** Councillor Robert Llewelyn Jones (Chair)
Councillor John Griffith (Vice-Chair)
- Councillors Jim Evans, Dafydd Rhys Thomas, Alun W Mummery and P S Rogers,
Dafydd Rhys Thomas
- IN ATTENDANCE:** Chief Executive
Interim Head of Resources & Section 151 Officer
Accountancy Services Manager (BHO)
Head of Internal Audit (MH)
Audit Manager (SP)
Interim Accountant (AK) (for item 3)
Committee Officer (ATH)
- APOLOGIES:** Councillor Mrs Sharon Warnes, Mr Richard Barker and Richard Owain Jones,
Mr Richard Barker,
Mrs Sharon Warnes (Lay Members)
- ALSO PRESENT:** Mr Andy Bruce (Wales Audit Office), Mr Martin George
(Engagement Manager – PwC)
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1 DECLARATION OF INTEREST

Councillor Peter Rogers declared a personal interest as a farmer and landowner with regard to item 3 on the agenda in relation to any part of the discussion that may involve the smallholdings estate.

2 MINUTES 27 JULY, 2015 MEETING

The minutes of the previous meeting of the Audit and Governance Committee held on 27 July, 2015 were presented and confirmed as correct.

Arising thereon –

- With reference to correspondence with North Wales Police regarding the investigation of the attempted fraud against the Council as part of a wider deception perpetrated against local authorities both in Wales and England, the Interim Head of Resources and Section 151 Officer said that the detailed response from the Police which he had reported was awaited at the Committee's July meeting had not as yet been received and he suggested it was now timely given the two months' time lapse to write again to the Chief Constable to obtain assurance that the investigation is being progressed. The Committee endorsed the suggestion and proposed that the correspondence be directed to the North Wales Police and Crime Commissioner and a copy provided to the Chief Constable of North Wales Police.

ACTION ARISING: Interim Head of Resources and Section 151 Officer to write to North Wales Police and Crime Commissioner on the lines agreed.

- With reference to enhancing Lay Member involvement in the appointment of the Audit and Governance's Chair and Vice-Chair, the Interim Head of Resources and Section 151 Officer confirmed that the Chief Executive had discussed the matter with the Political Group Leaders and

that it had been agreed that when the election of Committee Chairs and Vice-Chairs is next held, this Committee's Lay Members will be invited to a pre-meeting with the Group Leaders when the discussion relates to the election of the Chair and Vice-Chair of the Audit and Governance Committee.

3 STATEMENT OF ACCOUNTS 2014/15 AND ISA 260 REPORT

3.1 The report of the Interim Head of Resources and Section 151 Officer incorporating the final Statement of Accounts for 2014/15 was presented for the Committee's consideration. The report confirmed that for the fourth consecutive year the statutory deadline for completion of the audited accounts had been met and that the improvements in the audit process identified the previous year had continued with the issues arising therefrom having been dealt with promptly and in a satisfactory manner.

The Interim Head of Resources and Section 151 Officer said that he was satisfied with the way in which the closure of accounts process had been conducted and that he anticipated that an unqualified audit opinion on the financial statements would be issued.

The Accountancy Services Manager referred the Committee to the key sections of the accounts covering the Movement in Reserves Statement; the Comprehensive Income and Expenditure Statement and the Balance Sheet. The Officer said that the General Fund is relatively stable at £7.193m; the HRA reserve is up at £2.821m and there is also an overall increase in usable reserves.

3.2 The report of the External Auditor on the outcome of the audit of the Financial Statements for 2014/15 (Report under International Standard on Auditing 260) was presented for the Committee's consideration.

Mr Martin George, Engagement Manager, PwC confirmed that subject to the satisfactory completion of outstanding work as outlined in paragraph 6 of the report, it is the Auditor General's intention upon receipt of a Letter of Representation (based on that set out in Appendix 1) to issue an unqualified audit report on the financial statements (as per Appendix 2). The Auditor elaborated on the more significant issues arising from the audit to which the Committee's attention was drawn as the committee with oversight of the financial reporting process as follows:

- There are no misstatements identified in the financial statements that remain uncorrected.
- A summary of the corrections made to the draft financial statements which have been accepted and actioned by Management are listed in Appendix 3 to the report. Many of those involve reclassifications on the Balance Sheet which do not affect the General Fund; neither do those adjustments that relate to the revaluation of property affect the Fund. The net impact on the General Fund is £279k (the balance of the General Fund in the draft statement being £7.47m revised down to £7.193m in the final statement)
- The significant and elevated audit risks identified during the audit planning process were dealt with in accordance with the procedures set out in the Financial Audit Strategy and the outcome is set out in paragraph 13 of the report. An additional elevated risk was identified in relation to the accounting of the Job Evaluation exercise and an amendment proposed to the treatment thereof in the accounts. The Auditors will continue to monitor this area until the accounts are signed off.
- The audit findings arising from the examination of areas that are subject to estimation risk are provided in paragraph 16 to 40 of the report. Those areas relate to Fixed asset valuation methodology and assumptions; pension liabilities; Equal Pay liabilities; Job Evaluation and Waste provision.
- No risks of material misstatements of the financial statements due to fraud were identified during the course of the audit.
- There were no concerns regarding the qualitative aspects of the Authority's accounting practices and financial reporting. The information provided was found to be relevant, reliable, comparable and easy to understand.
- The Auditors did not encounter any significant difficulties during the audit and no significant matters were discussed and corresponded upon with management that need to be reported to the Committee.

- Whilst no material weaknesses in the Authority's internal controls were identified there are areas wherein it is deemed it would be possible to improve control and recommendations to that end are made in Appendix 4 of the report. These relate to the revaluation of the Council's property assets and the accuracy of the information provided in the Pensions Annual Return to Gwynedd Council.
- The Authority's Annual Governance Statement was reviewed and found to be compliant with the CIPFA/SOALCE Delivering Good Governance in Local Government framework.

The Committee considered the information presented and made the following points thereon –

- The Committee acknowledged that the accounts had been prepared, presented and audited within the statutory timescale and that they were qualitatively sound. The Committee also took assurance from the External Auditor's positive views regarding the qualitative aspects of the Authority's accounting practices and financial reporting.
- The Committee sought confirmation that the improvements in practice recommended by the External Auditor with regard to Revaluation and Pensions would be implemented and the Committee provided with an update thereon. The Interim Head of Resources confirmed that reporting on the response to the recommendations of the External Auditor has been scheduled for the Committee's first meeting in the New Year.
- With reference to the valuation of the Council's property assets and the adjustments recommended by the External Auditor in relation thereto, the Committee queried whether the Authority should be seeking specialist external input with regard to the valuation of its asset portfolio. Mr Martin George said that PwC does engage one of its internal valuation specialists to consider the valuation work undertaken by the Authority in order to obtain an opinion on the appropriateness of the valuation. The Authority's investment properties are all revalued annually whilst its operational assets are revalued on a rolling basis. The PwC valuer has raised certain points, but subject to the amendments proposed by the Auditors, the view is that the valuation for the purpose of the accounts is appropriate. The Interim Head of Resources confirmed that as the report indicates, Management, as part of its response to the recommendation made, is considering the options around the provision of services for valuations for next year and will include this as part of the process.
- The Committee noted that the process for selling assets identified as not required by the Authority has been slow. The Committee sought clarification of whether the Authority has in place a schedule of those assets listed for sale and whether it is monitoring that process. The Interim Head of Resources and Section 151 Officer confirmed that such a schedule has been formulated and that steps are in place to market for sale assets and to bring their sale to a successful conclusion.

It was resolved –

- **To recommend to the County Council that it approves the Statement of Accounts for 2014/15.**
- **To accept the report of the External Auditor on audit of the Financial Statements and to note the findings therein.**
- **To approve the Annual Governance Statement for 2014/15 and to refer it to the Leader of the Council and the Chief Executive to be signed.**

ACTION ARISING: Interim Head of Resources and Section 151 Officer to circulate the schedule of the Authority's for sale assets to Members of the Audit and Governance Committee.

4 EXTERNAL AUDIT - PERFORMANCE WORK PROGRAMME UPDATE

Mr Andy Bruce, WAO updated the Committee on the status of the Wales Audit Office Performance Work Programme comprising of items of work under Local Government Studies from 2014/15 through to 2016/17; Improvement Audit Assessment work for 2015/16 and National Value for Money Studies (as per the appended table).

The Officer highlighted the following points -

- That he would endeavour with regard to studies undertaken on an All-Wales basis to extrapolate information from those studies that is relevant to Anglesey and bring it to the Audit and Governance Committee's attention.

- That with regard to the 2016/17 Programme of Local Government Studies, the process of developing and finalising a list of potential study topics for consultation on the future programme of work is underway. In developing a programme of work, the WAO seeks to identify what is likely to be the most useful areas of study to a local authority and in the event that a potential local study is not undertaken by the Auditor General, it can if it is deemed locally relevant and useful, be carried out the following year as part of the local programme.
- That with regard to the Financial Resilience review the draft feedback for Anglesey is positive.
- That work in relation to the performance management review on benchmarking social services costs against performance across all six North Wales Councils has commenced and will involve in-depth discussions with each council.

The Committee referred to the Independence of Older People Study and suggested that the programme to reconfigure older people's care provision in Anglesey might be lagging behind that of other authorities and it sought clarification of what the study would be able to contribute in terms of moving this programme forwards. Mr Andy Bruce clarified that the study was identified as part of the stakeholder consultation process in 2014/15 and will seek among other things to identify examples of good practice that may be more widely adopted to address the issues arising in this service area.

The Interim Head of Resources and Section 151 Officer requested that Anglesey be given the opportunity to contribute with regard to the National Value for Money Study on Public Procurement and the National Procurement Service. Mr Andy Bruce said that ordinarily with such studies, a consultation group is established involving the WLGA and according to where the fieldwork is taking place, expertise drawn from a peer review group of either officers or members; however, he could pass on the request by Anglesey.

It was resolved to note the report and the information presented.

NO FURTHER ACTION ENSUING

5 INTERNAL AUDIT PROGRESS REPORT

The report of the Internal Audit Manager on the work of the Internal Audit Service during the period from 1 April to 31 August, 2015 relative to the 2015/16 Audit Plan was presented for the Committee's consideration.

The Internal Audit Manager highlighted the following main points –

- That a schedule of performance targets for the period ending 31 August 2015 was attached at Appendix A and indicates that the Service is broadly on target.
- That the vacancy within the Internal Audit Team has now been filled and an appointment made.
- A summary of all audit assignments completed during the year to date including work in progress from 2014/15 is set out in the schedule at Appendix D which summarises the audit opinion and recommendations in respect of each area reviewed and will form the basis of the opinion contained in the Annual Statement of Assurance of the overall adequacy and effectiveness of the Authority's governance, risk management and internal control framework for 2015/16.
- Since 1 April, 2015 ten final reports have been issued from the 2014/15 Internal Audit Operational Plan and three from the 2015/16 Operational Plan.
- Two of the planned audits completed during the year to date are assessed as not providing positive levels of assurance. During the period 1 April 2015 to 31 August 2015 the ICT Disaster Recovery Audit resulted in a Minimal Assurance rating and the Business Continuity Management Audit was assessed as providing Limited Assurance.
- Audit recommendations are rated high, medium or low according to the perceived risk. The percentage implementation rate at 4 September, 2015 was 66% of high and medium recommendations having been recorded as implemented.
- A report by the previous Interim Audit Manager to the Committee in July 2015 identified that work is required to improve the monitoring and reporting of progress in implementing agreed recommendations. It is intended to review the follow up process within the Internal Audit Service so as to provide assurance to the Committee that the recommendations made in Internal Audit reviews are implemented by Management within agreed timescales. A report to that end will be presented to the Committee in due course.

The Committee considered the report and noted that some of the reviews listed at Appendix D were recorded as providing Limited or Minimal Assurance e.g. ICT Disaster Recovery and it sought clarification of the issues involved. The Interim Head of Resources and Section 151 Officer said that Business Continuity management of which ICT Disaster Recovery forms a part has been an area of longstanding concern for the Council and has been identified as an issue by previous audit reports. A new ICT Manager is now in post and steps are being taken to provide him with the funding necessary to improve the robustness of ICT disaster recovery arrangements. It is anticipated that a significant improvement will have been made by the time of the next audit review.

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

NO FURTHER ACTION ENSUING

6 RISK MANAGEMENT

The Risk and Insurance Manager updated the Committee on the latest position with regard to Risk Management as follows –

- The Corporate Risk Register has been updated at the end of Quarter 1 and is to be considered by the Senior Leadership Team at its meeting next week.
- Two new Political risks (changes to political stability, and Member response to Welsh Government proposals for local government reorganisation) have been put forward to the SLT for consideration. These are not necessarily a reflection of the actual situation but are identified as risks going forwards and, in the case of the first risk, is considered relevant in situations where the political balance is close.
- Two risks have emerged from the service risk registers both of which relate to the Council's ability to meet its statutory responsibilities, the first being a risk to some areas of service in the event of further budget reductions, and the other a risk arising from an increase in the demand for a service e.g. Children's Services, which is unplanned for.

The Committee noted the information presented and sought confirmation that services are now taking full ownership and accountability for risk management and risk assessment. The Risk and Insurance Manger said that the situation is an improving one.

The Committee also noted anti-social behaviour linked to certain pockets of poor housing as an emerging risk area and suggested that this needs to be highlighted. Mr Andy Bruce, Wales Audit Office said that the North Wales Safer Communities Board has identified anti-social behaviour in housing as a significant issue and one of its high risk areas; the Officer said that it can have a potential impact on resources and services. The Board in seeking to address the issue is to take a more co-ordinated approach across North Wales. The Officer said that he would try to identify relevant feedback from the Community Safety study to report to the next Audit Committee meeting.

The Chief Executive said that he was aware of the work being undertaken by the North Wales Safer Communities Board in this context. The Authority has held discussions with North Wales Police on how to respond locally to this challenge which will include reviewing the Authority's internal arrangements to ensure they correspond to the new requirements arising for the future. A key aspect in terms of being able to successfully address this challenge will be to respond on a multi-agency basis.

It was resolved to note the position with regard to Risk Management and the Corporate Risk Register.

NO FURTHER ACTION ENSUING

**Councillor R Llewelyn Jones
Chair**