

# AUDIT AND GOVERNANCE COMMITTEE

## Minutes of the meeting held on 28 March 2017

- PRESENT:** R. Llewelyn Jones (Chair)  
Councillor John Griffith (Vice-Chair)
- Councillors Jim Evans, Alun Mummery, Peter Rogers,  
Dafydd Thomas
- Lay Members: Mr Richard Barker and Mrs Sharon Warnes
- IN ATTENDANCE:** Head of Function (Resources) and Section 151 Officer  
Internal Audit Manager (SP)  
Committee Officer (ATH)
- APOLOGIES:** Councillor Richard Owain Jones, Mr Mike Halstead (Head of Internal Audit), Mr  
Ian Howse (Deloittes)
- ALSO PRESENT:** Councillor H. Eifion Jones (Portfolio Member for Finance), Mr Gwilym Bury  
(Performance Audit Lead - Wales Audit Office), Ms Clare Edge (Financial Audit  
Manager – Deloittes)
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### 1 APOLOGIES

The apologies for absence were presented and noted as above.

### 2 DECLARATION OF INTEREST

Mr Richard Barker and Mrs Sharon Warnes declared a prejudicial interest with regard to item 8 on the agenda.

### 3 MINUTES OF THE 9TH FEBRUARY, 2017 MEETING

The minutes of the previous meeting of the Audit and Governance Committee held on 9th February, 2017 were presented and confirmed as correct.

Arising thereon –

The Internal Audit Manager informed the Committee that a report by Mr Ivan Butler, Denbighshire County Council's Head of Internal Audit following his peer assessment of Anglesey's Internal Audit Service had been received today and would be presented to the Committee at its June meeting.

### 4 STRATEGIC INTERNAL AUDIT PLAN 2017/18 - 2019/20 & ANNUAL PLAN 2017/18

The report of the Internal Audit Manager incorporating the Strategic Audit Plan for 2017/18 to 2019/20 and the Annual Plan for 2017/18 was presented for the Committee's consideration and approval in compliance with the Public Sector Internal Audit Standards produced by CIPFA and other standard setting bodies, which came into force on 1 April, 2013.

The Internal Audit Manager reported as follows –

- That the Internal Audit Strategy at Appendix A is a high level statement of how the Internal Audit Service will be delivered and developed and it is supported by a detailed Annual Plan as set out in Appendix B to the report.

- The purpose of the Strategy is to put in place an approach that enables IoAC's Internal Audit Service to be managed in a way that will facilitate the objectives described in paragraph 1.1.2 of the report. The Strategy and Annual Plan is supported by Appendices B to E detailing the Annual Plan for 2017/18, a 3 year Strategic Plan for the period 2017 to 2020, an analysis of Internal Audit resources and the performance targets for 2017/18.
- In order to identify the areas that require internal audit coverage, the risks facing the organisation need to be understood. An audit needs assessment for 2017/18 has therefore been undertaken using the processes set out in paragraph 1.2.2 of the report.
- Other documentation consulted which informed the development of the plan included but was not limited to the Annual Governance Statement 2015/16; the Deloitte's Audit of Accounting Statements and the Annual Delivery Document (Improvement Plan) 2016/17.
- Internal Audit's risk based approach is to use the Council's Corporate Risk Register to drive the Internal Audit Strategic and Operational Plans and to use the 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.
- A review of the Risk Management Framework and the effectiveness of actions to mitigate the Council's highest risks has been included in the 2017/18 Operational 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 the Senior Leadership Team and Heads of Service 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 the objectives.
- The provision of the Internal Audit service will be delivered by an in-house team of 6 officers as outlined in Appendix D.
- The service continues to focus on ways in which to maximise audit resources and improve performance, whilst maintaining a quality service and ensuring compliance with professional standards. This is achieved through robust quality assurance processes and the setting of objectives in the Annual Service Plan. Progress in achieving those objectives is monitored through quarterly service performance reviews and the performance of the service is reported to this Committee on a quarterly basis. Performance targets for 2017/18 are set out in Appendix E to the report.

The Committee considered the report and made the following points –

- That whilst it was satisfied that the Strategic Internal Audit Plan for 2017/18 to 2019/20 covers the right areas in terms of the nature and extent of the risks facing the Council, and that those risks have been properly identified and evaluated, the Committee noted that it does not contain a reference to the Council's savings agenda. The Committee noted further that the Plan although comprehensive as regards coverage of individual service areas, does not provide the means by which the Committee can be assured that the Council overall is delivering on its savings plans or that the impact on the Council's objectives of not being able to achieve proposed savings has been planned for and mitigated. Neither is the Committee able to derive a sense of how the Council as a whole is providing value for money. The Internal Audit Manager said that she noted the point made and would take it into consideration in formulating the Internal Audit Strategic Plan in future.
- The Committee noted that whilst the level of assurance is generally satisfactory, some areas included for review as part of the Strategic Internal Audit Plan in Appendix C reflect a Limited Assurance level; the Committee sought clarification of the progress of improvement with regard to these areas and the process for dealing with them. The Internal Audit Manager said that in developing the Strategic Plan the assurance level deriving from each audit is considered and then fed into the planning process. All audit reviews resulting in a Limited Assurance opinion are followed up within six months of the original audit and the outcome reported to the Committee.
- The Committee noted the performance targets set out in Appendix E; it sought clarification with regard to the progress made in terms of the Internal Audit Service being able to meet the targets at year end. The Internal Audit Manager said that to date 72.73% of planned audits have been completed and 49 audits undertaken.

**It was resolved to –**

- **Approve the Internal Audit Strategy and Annual Plan for 2017/18**

- **Approve the Internal Audit Service's Performance targets for 2017/18.**

## **NO FURTHER ACTION ENSUING**

### **5 EXTERNAL AUDIT: SAVINGS PLANNING - ISLE OF ANGLESEY COUNTY COUNCIL**

The report of the Head of Function (Resources) and Section 151 Officer incorporating the Wales Audit Office's report on Savings Planning at the Council along with the Management response to the recommendations made therein was presented for the Committee's consideration.

The Head of Function (Resources) and Section 151 Officer reported that the Wales Audit Office's Savings Planning report is the result of a further review of the Council's financial planning arrangements undertaken in September, 2016. This review was conducted in all of the Welsh Local Authorities and follows on from an earlier review of financial resilience in local authorities which was reported upon at individual authority level and at national level through a national summary report published in August 2016. The Officer referred to the scope of the Savings Planning review and said that the resulting report comes to the conclusion that although the Council "has an improving financial planning framework, underdeveloped savings plans may not fully support financial resilience." The report also identifies some positive change in the position from 2015/16 and notes that the Council "has recognised the need for it to change its strategic approach to financial planning and to review its approach to fees and charges." The report has made five proposals for improvement; these are detailed in Appendix 2 along with the Management response and completion date for the actions proposed.

Mr Gwilym Bury, WAO said that the report is a positive report for the Council and reflects the fact that the Council has continued to strengthen its financial arrangements. Where process can be improved is with regard to how equality impact assessments of savings proposals are carried out. Although these were done they were not all undertaken at the time the savings proposals were agreed. It would assist Elected Members to make fully informed decisions on savings proposals if an equality impact assessment of each proposal was carried out beforehand. The Head of Function (Resources) and Section 151 Officer confirmed that this is being addressed as part of the review of the 2017/18 budget setting process.

The Committee considered the report and made the following points –

- The Committee sought assurance that Management is confident that it is able to develop savings plans that are robust, accurate and capable of being delivered thereby improving the Council's resilience to withstand future financial pressures. The Head of Function (Resources) and Section 151 Officer said that the Council's strategy over recent years has worked to eliminate the slack in the budget to the extent that this approach is no longer feasible or adequate. While there is still scope to improve processes, the long-term approach necessarily involves re-considering what services can be delivered bearing in mind the services the Council is required by law to deliver and those which it is not and are discretionary, and also the way in which they should be delivered. The bulk of the Council's expenditure is on Education, Social Services and Highways which are all statutory services; it is therefore difficult to see how the Council can continue to operate effectively and viably in a context of reducing budgets without transforming how services are delivered in order to reduce costs. This process has commenced within the Council and is ongoing.

The Portfolio Member for Finance agreed with the comments made and added that the Council has in recent years made significant improvements in its financial and budget planning arrangements. The way councils are funded and the timing of the Welsh Government's announcement of the local government settlement makes budget planning difficult. Budget and savings planning on a year by year basis no longer meets the need; the Council has to take a long term view and key to this is the transformation of services and the way in which they are delivered.

- The Committee sought assurance with regard to the Council's financial planning arrangements and the continuation of the austerity agenda, that 5% general balances remains sufficient and viable. The Head of Function (Resources) and Section 151 Officer said that as a general rule of thumb, 5% of the net revenue budget is considered to be an acceptable level of resources to be held in reserve. For the Council this equates to £6m. However, certain

considerations need to be resolved before the final reserves position becomes clear including Equal Pay and whether or not the Welsh Government approves a capitalisation directive for equal pay that would allow the Authority to capitalise equal pay costs. Should that not happen, then meeting the costs of remaining equal pay claims would have to be met from general balances. Last year, £1m was released from general balances to improve the Council's business processes in order to generate further efficiency savings in future; whilst the use of reserves for such a purpose is acceptable, he would not advise drawing on reserves to reduce Council Tax increases.

- The Committee sought clarification of whether the Welsh Government's advocacy of regional collaboration and working especially with regard to the larger statutory services is likely to impact on an individual authority's savings plans when that authority is expected to align its services with those of up to five other authorities which may have a different baseline and a different approach.

The Head of Function (Resources) and Section 151 Officer said that whilst the Welsh Government's White Paper on Local Government Reform does not make regional working mandatory, it does propose that local authorities work together and share responsibilities where that is in the interests of the service, of efficiency and where it has cost benefits. What has not been addressed is the cost of the governance and administration arrangements for regional working. Where resources are pooled and joint committees established there has to be accountability for them and those arrangements have cost implications. This is an assessment which local authorities have to make in entering into regional and collaborative working arrangements.

**It was resolved to –**

- **Accept the findings of the Auditor's report and to note its conclusions, and to acknowledge that the Council is continuing to review and refine its arrangements in respect of financial planning.**
- **Accept the Management response and to agree that it be submitted to the Wales Audit Office.**

**NO FURTHER ACTION ENSUING**

## **6 EXTERNAL AUDIT : DRAFT 2017 AUDIT PLAN - ISLE OF ANGLESEY COUNTY COUNCIL**

The Wales Audit Offices draft Audit Plan for 2017 for the Isle of Anglesey County Council was presented for the Committee's consideration.

Ms Clare Edge, Financial Audit Manager reported on the audit process in relation to the audit of the 2016/17 accounts and she referred to the approach to be taken; the financial audit risks and proposed audit response along with the planned level of materiality and reporting timetable. The Officer said that the Plan also covers the 2017/18 programme of Performance audit work.

The Committee sought clarification of the position with regard to Corporate Safeguarding. The Committee noted that the internal audit of Corporate Safeguarding had resulted in a Limited Assurance opinion and that a recent report by CSSIW following an inspection of Children's Services at the Isle of Anglesey County Council had also highlighted a number of shortcomings in the Council's performance and practices. Given that these are areas where the risk level is high, and given the need for the Committee to be assured that those risks are being managed properly, it sought clarification of where in the spectrum of internal and external audit responsibilities does the focus for follow up work in these areas lie and how it would be addressed through audit processes.

The Committee was informed that Internal Audit will be undertaking follow up work on the Limited Assurance audit of Corporate Safeguarding the outcome of which will be reported to the Committee. The Committee can take assurance from the implementation of internal audit recommendations and if that is not the case, it can call the service to account. CSSIW will have oversight of the implementation of the Improvement Plan in response to the recommendations in its report on Children's Services.

The Internal Audit Manager confirmed that the Committee's Forward Work Programme shows that Internal Audit is scheduled to update the Committee on the follow up to the audit of Corporate Safeguarding at the June, 2017 meeting.

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

## **NO FURTHER ACTION ENSUING**

### **7 FORWARD WORK PROGRAMME**

The updated Forward Work Programme was presented for the Committee's consideration.

The Committee noted the Forward Work Programme and in light of the discussion above, it considered whether the CSSIW report on the inspection of Children's Services should be accommodated. The Committee was informed that the Corporate Scrutiny Committee has already considered the CSSIW report and that a sub-panel of the Scrutiny Committee is to be established to monitor progress against the related Improvement Plan. The Internal Audit Manager confirmed that Internal Audit has been consulted on the Improvement Plan to ensure that the Management response is appropriate.

While the Committee recognised that the primary responsibility for monitoring this matter might better sit with the Corporate Scrutiny Committee as being about the provision of service, because of the risks involved, it requested that it be provided with an update at its June meeting so that it can be satisfied that Management actions are being implemented and that progress is being made.

**It was resolved to accept and to note the Forward Work Programme subject to the inclusion for the Committee's June meeting of an update on the position with regard to responding to the CSSIW inspection report on Children's Services.**

**ACTION ENSUING: Internal Audit Manager to update the Forward Work Programme accordingly.**

### **8 APPOINTMENT OF LAY MEMBERS**

The report of the Head of Function (Resources) and Section 151 Officer setting out proposed arrangements for the appointment of the Committee's Lay Members was presented for the Committee's consideration.

*Having declared a prejudicial interest in this matter, Mr Richard Barker and Mrs Sharon Warnes withdrew from the meeting for the consideration and determination thereof.*

The Head of Function (Resources) and Section 151 Officer reported on the following aspects of the appointment process –

- The eligibility criteria as provided by the Local Government (Wales) Measure 2011 statutory guidance listed in paragraph 2.1 of the report
- Proposed additional qualifying criteria as listed in paragraph 2.2 of the report
- The number of Lay Members to be appointed the recommendation being that the Committee retains two Lay Members.
- The proposed job description and person specification
- The proposed recruitment process and timetable as set out in paragraph 5 of the report.

Whilst the Committee was in agreement with the recruitment process in general, it expressed some reservation regarding the nature and extent of the qualifying criteria which it considered might limit the number of suitable candidates applying to become Lay Members of the Committee. The Head of Function (Resources) and Section 151 Officer said that the qualifying criteria listed in paragraph 2.1 are those which the Authority's Legal Section advises are set out by the Measure. However, he confirmed that he would report back to the Legal Section on the Committee's reservations with regard to this element of the recruitment process.

**It was resolved to -**

- **Approve the additional qualification criteria as set out in paragraph 2.2 of the report**
- **Confirm that the number of lay members continues as two.**
- **Approve the draft job description and person specification as per Appendix 1.**
- **Confirm the proposed recruitment process and timetable as set out in paragraph 5 of the report.**

**ACTION ENSUING: Head of Function (Resources) and Section 151 Officer to confirm with the Head of Function (Council Business)/Monitoring Officer whether there is any flexibility with regard to the application of the qualifying criteria.**

**Councillor R. Llewelyn Jones  
Chair**