

# AUDIT AND GOVERNANCE COMMITTEE

## Minutes of the meeting held on 24 April 2018

<b>PRESENT:</b>	Councillor Peter Rogers (Chair)  Councillors Richard Griffiths, Gwilym O. Jones, Dylan Rees, Alun Roberts, Margaret M. Roberts, Robin Williams  Lay Members: Dilwyn Evans, Jonathan Mendoza
<b>IN ATTENDANCE:</b>	Head of Function (Resources) and Section 151 Officer Head of Audit and Risk (MP) Committee Officer (ATH)
<b>APOLOGIES:</b>	Councillors R.Llewelyn Jones, John Griffith (Portfolio Member for Finance)
<b>ALSO PRESENT:</b>	Gwilym Bury (Performance Audit Lead, Wales Audit Office), Wil Bevan (Manager, Deloitte) Chief Executive, Principal Internal Auditor (EW) Senior Internal Auditor (SJ), Senior Internal Auditor (EC)

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### 1 **DECLARATION OF INTEREST**

No declaration of interest was received.

### 2 **MINUTES OF THE PREVIOUS MEETING - 13 FEBRUARY, 2018**

The minutes of the previous meeting of the Audit and Governance Committee held on 13th February, 2018 were presented and were confirmed as correct.

Arising thereon -

- The Committee sought an update on the position with regard to schools' readiness in preparing for the implementation of the new General Data Protection Regulations in May, 2018; the Committee also sought clarification of whether a planned internal audit of this area scheduled for early in 2018/19 is sufficiently timely in terms of being able to highlight any problems with GDPR compliance.

The Head of Audit and Risk said that the internal audit is underway and the resultant draft findings are in the course of being discussed with the relevant Officer for verification and agreement prior to the final report being issued. It is Internal Audit's intention to report on the outcome of the audit and the level of assurance provided to the Committee's June meeting.

- The Committee sought an update on the position with regard to the First Follow-Up Review of the Corporate Procurement Framework which had identified two actions that had not been completed because of a lack of response by the relevant officers.

The Head of Audit and Risk informed the Committee that the Officer that made the response in relation to the Corporate Procurement Framework was an interim officer covering Officer absence. The permanent Officer has since returned to work and has become aware of the outstanding recommendations and has actioned them.

### **3 ANNUAL REPORT OF THE AUDIT AND GOVERNANCE COMMITTEE 2017/18**

The Annual Report of the Audit and Governance Committee for 2017/18 was presented for the Committee's endorsement. The report detailed the activities of the Audit and Governance Committee during the year including progress on actions raised by the Committee during 2017/18 as at Appendix A to the report.

The Head of Audit and Risk reported that the Audit and Governance Committee is required under its terms of reference to report annually on its activities to the Full Council which requirement is fulfilled by the report above.

The Committee noted and accepted the overview of its activities provided by the Annual Report. The Committee sought an update on the position with regard to its Terms of Reference which it had been due to review back in September, 2017 but which task had since been deferred pending publication of updated CIPFA guidance.

The Head of Audit and Risk said that CIPFA has been postponing publication of its new guidance which has been completed as it has been awaiting the Home Office to issue its new Financial Code of Practice that impacts on police audit committees. CIPFA has now confirmed that the new guidance will be published during April, 2018 in any case. The Officer said that she would therefore review the Audit and Governance Committee's Terms of Reference against the updated CIPFA guidance and recommend any amendments as appropriate to the Committee at its June, 2018 meeting.

The Chair said that he wished to take the opportunity to thank both the Members and Officers who had contributed to and supported the Audit and Governance Committee in its activities during the past year. He emphasised the importance of the Committee's work and its particular relevance in the current economic climate in ensuring that the Council is run in a sound manner and that value for money is being obtained.

**It was resolved to endorse the Annual Report of the Audit and Governance Committee for 2017/18 for submission to the County Council on 15 May, 2018.**

### **NO ADDITIONAL ACTION WAS PROPOSED**

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

An update report on the External Audit Performance Work Programme including current and planned Wales Audit Office work both national and Anglesey specific was presented for the Committee's consideration.

Mr Gwilym Bury, WAO Performance Audit Lead referred specifically to the status of local reports and their planned publication. He said that with regard to work by other regulators, apart from the local school inspection programme, no inspection of the Isle of Anglesey Education Service has yet been announced. Similarly, Care Inspectorate Wales (formerly CSSIW) has not yet announced any local follow-up work in the Isle of Anglesey County Council.

The Committee noted the information presented. The Committee sought clarification of the determining factors in establishing the timescale for the publication of External Audit

reports given that the issue date for some reports appears to be open-ended. Mr Gwilym Bury said that the timescale for publishing local reports is more specific as it involves consulting with one local authority at a time. With national reports the timescale can be more indeterminate due to the need to consult not only with the 22 local authorities but also with Welsh Government, and depending on the area reviewed, with other relevant bodies as well.

The Committee noted with regard to the External Audit review of the Council's readiness to support the delivery of the Wylfa Newydd project that the approach taken by the Council has been to involve all Members from the outset in scrutinising the development and progression of the project rather than assigning the task to one or other of the scrutiny committees so that all Members are kept up to date and are able to provide challenge along key stages.

The Committee sought clarification with regard to financial audit work of the process for setting the fee payable to Deloitte as the Council's financial auditors. The Head of Function (Resources) said that Deloitte is contracted to and undertakes financial audit work at the Council on behalf of the Wales Audit Office; the fee payable to the Wales Audit Office includes payment for the financial audit work undertaken by Deloitte.

**It was resolved to accept and to note the update on the External Audit Performance Work Programme.**

#### **NO ADDITIONAL ACTION WAS PROPOSED**

#### **5 EXTERNAL AUDIT - AUDIT PLAN 2018**

The External Audit report incorporating the proposed Audit Plan for the 2017/2018 financial year was presented for the Committee's consideration. The Plan set out the audit approach, the key financial audit risks, a summary of performance audit and grant certification work along with the estimated fees.

Mr Wil Bevan, Manager, Deloitte reported specifically on the key financial audit risks identified at the planning stage of the audit, i.e. areas where the risk of material misstatement are considered to be significant and therefore requiring of special audit consideration. These are outlined in Exhibit 2 of the report which also sets out the proposed audit response in addressing the risks so highlighted. The Officer said that the financial audit is scheduled to be completed in June/July and to be signed off definitively in September.

The Committee noted the information. The Committee sought clarification of the position with regard to finalising the 2016/17 Housing Benefit Claim in relation to which additional work was stated as being required.

Mr Wil Bevan said that a significant qualification was issued in relation to the 2015/16 Housing Benefit Claim; consequently there is additional sample testing work that has to be completed under the Grant Audit Framework as required by the DWP in relation to the 2016/17 claim. This work is ongoing due mainly to the volume of work falling to the Council in looking at specific claims and also to the Auditor in reviewing them. The claim itself has been completed but there is substantive underlying work that needs to be done on testing the claim. The Head of Function (Resources) and Section 151 Officer said that the 2016/17 Housing Benefit Claim could not be finalised until the 2015/16 claim had been finalised – a delay ensued because of issues arising with the latter claim. There is also a capacity issue in that the Finance Service has one officer who has the detailed knowledge to assist the Auditors with this aspect of their work. The particular Officer is also involved in end of year

financial management work which means that a skilled resource is removed from the process for a period at the end of the year and is unavailable to support the auditors. A timetable has to be agreed with the auditors to complete this work. The Housing Benefit grant claim is a very complex claim and although the Finance Service's team that is engaged on completing the work to the DWP and auditors' satisfaction is small, the requirements are the same as for larger local authorities with far greater staff resources at their disposal. Any additional fee for the extra work undertaken will be agreed in discussions between the Section 151 Officer, the Wales Audit Office and Deloitte's Engagement Lead for Financial Audit.

The Committee noted that property valuations have been identified as a financial audit risk. The Committee sought clarification of whether the focus of the auditors' work with regard to property valuations is on the accuracy of the valuation in terms of the Council's assets or whether it is on value for money obtained in disposing of assets. Mr Wil Bevan said that the auditors' focus is on the valuation and on the inputs used in arriving thereat; given that property valuations include judgements and estimates and that the figure for land and building valuations as at March, 2018 was £288m, any changes in the judgements and estimates can have a material impact on the carrying value. The Head of Function (Resources) and Section 151 Officer said that the value of the Council's assets as provided for in the accounts is not equivalent to their market value e.g. if the Council's own housing stock was to be sold as untenanted properties their value would likely be greater than the carrying value on the Balance Sheet which reflects the fact that they are tenanted and cannot be sold as such. It is an accounting treatment of property that does not give the true value of the Council's assets.

The Committee noted with regard to Performance Audit that reference is made to changes in the statutory basis of the External Auditor's work for which it sought clarification. Mr Gwilym Bury confirmed that there are plans to introduce new legislation to replace the Local Government (Wales) Measure but until that happens the WAO as well as the council have to comply with the requirements of the Measure. In addition, the Well-being of Future Generations (Wales) Act 2015 has placed new responsibilities both on councils in requiring them to have regard to sustainability and to future generations in making strategic changes, and on the WAO in terms of assessing councils' compliance therewith.

**It was resolved to accept the Audit Plan 2018 and to note its contents.**

**NO ADDITIONAL ACTION WAS PROPOSED.**

## **6 INTERNAL AUDIT PROGRESS UPDATE**

The report of the Head of Audit and Risk setting out the work of Internal Audit in the period since the last committee meeting was presented for the Committee's consideration.

The Head of Audit and Risk summarised the main considerations as follows –

- That one report has been finalised during the period which was in relation to **Project and Programme Management Arrangements** and specifically the governance of programme and project management. The high level audit review undertaken resulted in a Reasonable Assurance rating having found that much work has been undertaken to ensure that the Council's projects and programmes are governed appropriately with the establishment of two Corporate Programme Boards, the assistance provided by the corporate project managers and the project management methodology used and promoted corporately. Two moderate risks were raised for management attention, with the review having found that insufficient attention is being given to impact assessment and risk registers with no mention of these being made in minutes of meetings. Impact assessments

should be used to ensure decisions are made with full awareness of how they may affect different sections of the community.

- That one follow-up review was finalised in the period relating to **School Transport**. The review confirmed that significant progress has been made towards improving School Transport arrangements and addressing the issues/risks raised in the Internal Audit review report. Eleven of the risks identified from the audit report have been fully addressed; three risks have been partially implemented or are in the progress of being implemented; these are subject to the issuing of identification badges to all school bus drivers in September 2018, the Capita ONE system to be in operation and the review of the school taxis' eligibility criteria together with the review of the school taxis' budget. Two risks remain outstanding which are centred around the next procurement process when the Transport Section will be reviewing its current contractors' terms and conditions. It is deemed that the Council has demonstrated good progress in addressing the issues and risks raised and as a result the assurance rating has increased to Reasonable Assurance.
- The withdrawal of the facility enabling managers to extend target implementation dates for risk/issues/recommendations without reference to Internal Audit has resulted in the anticipated dip in performance over the short-term. Notwithstanding, this is a more robust process for ensuring that risks are addressed and reduces the risk of "drift." Additionally, overall the Council has steadily improved its performance in implementing actions over the last 15 months with a significant year on year improvement as testified to by the graph at section 18 of the report. A more detailed report on all outstanding recommendations and issues/risks is presented to the Committee twice a year with the next report due in September, 2018.
- Due to a significant slippage of work from 2016/17 and the loss of two officers through retirement and resignation, the resource available to complete the Internal Audit Operational Plan for 2017/18 has reduced. Consequently, the Head of Audit and Risk has undertaken a risk assessment with Heads of Service and the Head of Function (Resources)/Section 151 Officer. Audit reviews have been prioritised to ensure resources are targeted to the areas of highest risk. The revised Annual Plan is attached to the report at Appendix A. To date, 79% of the revised plan has been completed with a further 21% currently work in progress – a combined total of 100%. Ninety-two percent of audits have been completed in time against a target of 90%. Eighty-one percent of Internal Audit's reports have been submitted to the targeted Audit and Governance Committee.
- That with regard to the Committee's planned review of its terms of reference, CIPFA has once again postponed publication of its updated guidance. The Committee is therefore asked to agree deferring its review to the following meeting.

The Committee noted the information presented and raised the following points –

- The Committee noted that the audit review of Project and Programme Management Arrangements found that little significance is given to impact assessments and to risk registers with no evidence to show that decisions are being made with full awareness of the content of the assessments. The Committee further noted that the risks raised by the review were assessed as moderate. The Committee sought clarification of whether in light of the audit review finding that not enough regard is had of the impact of projects when making decisions – which it deemed to be a not insignificant shortcoming - the risk rating should be elevated.

The Head of Audit and Risk said that the Council's risk management matrix is used to evaluate risks in terms of what the effect would be on the Council if a risk came to pass. The risks raised as a result of the review of Project and Programme Management were assessed as being firmly in the Yellow or Moderate category meaning they are not a major consideration. This is on the basis that the impact assessments and risk registers were being done but were not given the significance they should be given.

- The Committee sought clarification of whether the Council's Programme Management arrangements include measuring the outputs of various projects and assessing whether projects deliver the benefits originally envisaged of them.

The Head of Audit and Risk confirmed that post-implementation reviews are conducted at the end of every project. However, the focus of the audit review was on the governance of the Council's projects and programme management arrangements and although the review did include sampling a few projects to confirm that all elements were in place, it did not entail any compliance testing in terms of verifying actual outputs.

- The Committee noted with regard to the Follow-up review of School Transport that out of the outstanding actions including actions that have been partially implemented all target dates have been revised and extended based on updates received. The Committee sought assurance that this is acceptable to Internal Audit. The Head of Audit and Risk confirmed that Internal Audit is satisfied that the grounds for extending the timescales are reasonable. The Head of Function (Resources) and Section 151 Officer said that the Capita ONE system uses pupils' addresses via the GIS system to plot the optimum routes for school taxis and minibuses. Much work has been done in the past few months to verify addresses on the database. Given that it is expected there will be movement on the pupil database in September as pupils change schools the Authority is delaying work on the route plotting process until that time so as to avoid the revisions that would have to be done as a result of changes in the database. By gearing this work to September the Authority can start from a fresh base and plot the routes for the full the school year.
- The Committee noted that Identification Badges will be issued to all school bus drivers in September. The Committee sought clarification of the arrangements in place in the intervening period from April to September and whether the delay creates a risk that the Authority finds tolerable. The Head of Function (Resources) and Section 151 Officer confirmed that a vetting process is and has been in place which involves checks other than ID badges. The audit review identified that that process was capable of being improved and strengthened with the issuing of ID badges being one of the improvements to be introduced.
- With regard to the implementation of Management actions, the Committee sought assurance that any uncompleted red risks/issues are closely monitored. The Head of Audit and Risk confirmed that Red risks/issues tend to be raised in Limited Assurance reports; these reports are regularly followed up so that when the actions are due for implementation, Internal Audit will revisit the review. The Committee further noted that there could therefore be a three month period wherein red risks remain unactioned. The Head of Audit and Risk said that although technically this is possible, it is unlikely for Red risks to have as long an implementation date as three months unless it is a corporate issue which do have longer implementation dates than service specific actions/ recommendations. The Officer said that the Committee is provided with a report on all outstanding issues and risks twice a year and will be next updated on this matter in September.
- The Committee noted that 79% of the revised Annual Internal Audit Plan for 2017/18 has been completed which it acknowledged as an achievement given that staff resources have reduced in the period. The Committee further noted however that this means that 21% or a fifth of the Plan remains to be completed some of which will likely roll forward into 2018/19 thereby adding to the service workload and potentially placing pressure on staff. The Committee sought assurance therefore that the Internal Audit Service is sufficiently resourced to be able to meet expectations both now and in the coming year. The Head of Audit and Risk said that the 21% described as work in progress was at the beginning of April; since then some of this work has had to be postponed due to

the unavailability of Council staff. The Operational Plan includes a contingency provision to enable the service to complete work from the previous year's plan; it is also the aim to complete unfinished work from the 2017/18 Plan by the end of April.

- The Committee sought clarification of whether the 2018/19 Operational Plan reflects the current staff level (there having been a reduction of 2 in the Internal Audit establishment one being an efficiency saving following a retirement and the other a vacancy following a resignation). The Committee also sought clarification of whether the priorities within the Plan will change while the service has a vacancy. The Head of Audit confirmed that with regard to the vacancy and depending on the speed of recruitment the 2018/19 Plan does include that Officer's time in full. She also confirmed that the Plan will change to reflect circumstances and said that the Internal Audit Annual Operational Plan is in any case a dynamic document; it is not a one-time only document but is regularly updated as the level and nature of risks change with some risks coming off and others coming onto the Corporate Risk Register. The Officer said that the approach to risk is changing with continuous assessment and prioritisation of risks replacing longer term plans, the thinking being that as risks are constantly changing, any plans that cover a period longer than a year are likely to become out of date very quickly. The Internal Audit Service will seek to allocate time to areas it is expected and needs to cover which are not risk based but on which External Audit places reliance e.g. key Financial Systems audits whilst the remainder of the plan will be risk focused. In the event that the Chief Audit Executive assesses that the service does not have the necessary resources to cover priority areas and/or current risks then a report would be brought to the Section 151 Officer and to the Committee.

**It was resolved –**

- **To note the Internal Audit Service's latest progress in relation to service delivery, assurance provision, reviews completed, performance and effectiveness in driving improvement, and to note also that the Audit and Governance Committee is satisfied with the assurance provided.**
- **To approve the postponement of the review of the Committee's terms of reference until the Chartered Institute of Public Finance and Accountancy (CIPFA) issues its new guidance document.**

**NO ADDITIONAL ACTION WAS PROPOSED**

## **7 FORWARD WORK PROGRAMME**

The Committee's Forward Work Programme to February, 2019 was presented for consideration and review.

The Head of Audit and Risk informed the Committee that the Work Programme is likely to change following the review of the Committee's terms of reference.

**It was resolved to accept and to note the Forward Work Programme without amendment.**

**Councillor Peter Rogers  
Chair**