

AUDIT AND GOVERNANCE COMMITTEE

Minutes of the meeting held on 25 July, 2016

- PRESENT:** Councillor R. Llewelyn Jones (Chair)
Councillor John Griffith (Vice-Chair)
- Councillors Alun Mummery, Nicola Roberts, Peter Rogers,
Dafydd Rhys Thomas
- Lay Members: Mr Richard Barker and Mrs Sharon Warnes
- IN ATTENDANCE:** Assistant Chief Executive (Partnerships, Community and Service Improvement)
Head of Function (Resources) and Section 151 Officer
Head of Function (Council Business)/Monitoring Officer (for item 5)
Programme, Business Planning and Performance Manager (GM) (for item 7)
Head of Internal Audit (MH)
Audit Manager (SP)
ICT Service and Performance Management Manager (LE) (for item 3)
Committee Officer (ATH)
- APOLOGIES:** Councillors Jim Evans, Richard Owain Jones, H. Eifion Jones
(Portfolio Member for Finance)
- ALSO PRESENT:** Mr Gwilym Bury (Wales Audit Office)
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1. DECLARATION OF INTEREST

No declaration of interest was received.

2. MINUTES 27 JUNE 2016 MEETING

The minutes of the previous meeting of the Audit and Governance Committee held on 27 June, 2016 were presented and were confirmed as correct.

Arising thereon –

The Head of Function (Resources) and Section 151 Officer informed the Committee that the audit of the 2015/16 accounts is underway and although there has been some slippage on the original timetable, the Finance Service is bringing together the information required by the external auditors and it is envisaged they will be in a position to report on the outcome of the audit of the financial statements for 2015/16 to the Committee in September as is required.

3. ICT DISASTER RECOVERY UPDATE

The ICT Service and Performance Management Manager provided the Committee with a verbal update on progress on implementing internal audit recommendations following the 2015/16 audit of ICT Disaster Recovery which found shortcomings in the governance, risk management and internal control arrangements in this area.

The Officer reported that the ICT Service is now in the advanced stages of designing a dedicated data back-up centre. The proposal in practice is for a second data centre away from the ICT suite in the Council's main offices which will always be active along with the principal data centre and together, they will share the processing power of running the Council's key systems. In the event of the main

council offices becoming unusable, the second data centre will be able to run key services, namely those services identified as such e.g. social care and finance. There remains some work to do in confirming that the list of key services is up to date and an outstanding element in terms of design is the need to discuss the fire retardant element of the building which would determine for how long the data centre can survive in a fire. The data centre will have resilient power via an UPS and on site generator. Capital funding for the new facility is in place and the ICT Service is confident that the project will be delivered within budget and to a planned completion date of December, 2016. As well as a back-up, this is a high quality solution that is meant to meet the changing needs of the Council in allowing it to utilise the processing power as and when the business requires.

From the information presented the Committee took assurance that satisfactory progress has been made in responding appropriately to the issues identified by the 2015/16 internal audit report in terms of strengthening the controls with regard to Disaster Recovery to enable the risks in this area to be managed effectively. The Committee noted that it would be helpful for it to have sight of the plan for disaster recovery in due course. The ICT Service and Performance Management Manager said that the Disaster Recovery Plan i.e. the ability to respond to a disaster is limited by the existing infrastructure but that the Committee could be provided with a design of how the system would operate in the event of a disaster. Once the new infrastructure is in place that design would be included in the Disaster Recovery Plan which could be presented to this Committee. The Officer confirmed that it is intended to test the system prior to its going live in accordance with best practice requirements to ensure that it is functioning and that data can be restored promptly and reliably in a disaster event.

It was resolved to accept and to note the update information provided with regard to progress on ICT Disaster Recovery plans.

ACTION ENSUING: The Committee to be provided with a summary document of how the back up system would operate in a disaster scenario.

4. INTERNAL AUDIT PROGRESS REPORT QUARTER 1 2016/17

The report of the Head of Internal Audit on the work of the Internal Audit service during the period from 1 April, 2016 to 30 June, 2016 was presented for the Committee's consideration in line with the requirements of the UK Public Sector Internal Audit Standards and the CIPFA UK Standards whereby the Head of Internal Audit is required to report periodically to the Committee on the Internal Audit Service's performance relative to the 2016/17 Audit Plan.

The Internal Audit Manager reported on the following aspects of the Service's performance:

- That there were 6 audit projects of varying complexity in respect of 2015/16 that were not completed or issued by 31 March, 2016 and constitute work in progress as listed in paragraph 3.1.1 of the report.
- A schedule of performance targets for the period ending 30 June, 2016 is contained in Appendix A to the report and shows that 24.19% of planned audits have been completed at this stage against an annual target of 80%.
- A schedule of all audit assignments completed during the year to date including work in progress for 2015/16 is provided in Appendix C to the report and this summarises the audit opinions and recommendations in respect of each area reviewed. Since 1 April, 2016, two final reports have been issued from the 2015/16 Internal Audit Operational Plan and six from the 2016/17 Plan.
- Two of the planned audits completed during the first quarter have been assessed as not providing positive levels of assurance. The Housing Benefit Key Controls and the Building Regulation Fees Inspection and Enforcement Regimes were both assessed as providing Limited Assurance.
- Internal Audit recommendations are rated as High, Medium or Low according to the perceived risk as defined in Appendix B to the report. The percentage implementation rate as at 30 June, 2016 was 72% of High and Medium recommendations having been recorded as implemented.
- A schedule of the 3 follow up audits conducted during the first quarter is provided at Appendix E to the report and demonstrates the number of recommendations accepted and implemented by Management along with the revised audit opinion.
- The special investigations undertaken by Internal Audit during the period amount to 37.70 days and are outlined in Appendix F.

- An analysis of the Internal Audit Service's performance for the first quarter of the 2016/17 financial year shows that performance levels are currently on target.

The Committee considered the information presented and noted the following:

- The Committee noted that the audits in relation to two areas (Housing Benefit and Building Regulation Fees Inspection and Enforcement) found weaknesses in the key controls in those areas meaning that the arrangements for the effective governance and the management of risk in these areas could not be deemed to be reliable. The Committee sought clarification of the actions being taken to rectify the situation and in the case of the latter; the Committee noted that the shortcomings go to the root of the service. The Head of Function (Resources) and Section 151 Officer said that the Housing Benefit system is a complex system which manages a volume of information and as such cannot provide complete assurance that it can always be 100% accurate. Consideration is being given to acquiring an electronic system to scan paper documents and correspondence and to allocate tasks to the Team's members. Of the 12 audit recommendations issued, 10 were accepted by Management and of those, 7 have been implemented and the remaining 3 will be actioned by September. With regard to Building Regulation Fees Inspection and Enforcement, the new Head of Service for Regulation and Economic Development is currently reviewing the Service's administrative processes. The Committee noted that it would be prudent for it to keep a watching brief on both areas to ensure that the audit recommendations are implemented.
- The Committee noted that with regard to certain service areas as indicated in Appendix D there has been slippage over a number of years on the agreed date for implementing audit recommendations with in some cases, no management commentary to account for the delay or to provide assurance that the matter is in progress and will be completed by a specific date. The Committee sought clarification whether this was due to services having to catch up on unactioned recommendations and whether there is a mechanism for chasing up Management in instances where no demonstrable progress has been made within the specified timeframe. The Committee further noted that where there is commentary by Management it can be vague or non-committal as regards setting a deadline, and is therefore unhelpful in terms of the Committee being able to track progress and/or establish whether there are any issues preventing recommendations from being implemented. The Committee was informed that the implementation rate for High and Medium rated recommendations is now up to 72%. The system by which implementation is recorded is not especially user friendly and recommendations that have been implemented may not always show up as such on the system. In cases where the follow up audit shows that the recommendations have not been implemented, the Committee does have recourse to calling the relevant Head of Service to account. Furthermore, there is a case for better educating staff about the reporting process so that they are clearer in what they report, that they know to whom the information is presented, and the weight placed on the information.
- The Committee noted consequently that all Management need to be aware that the reporting procedure to the Audit Committee is important and needs to be effective in communicating the position of services in taking action on audit recommendations and that staff need to understand that it is also a public process meaning that inaccurate reporting can be misleading. The Committee was informed that the SLT is kept informed about the implementation of audit recommendations on a quarterly basis; the message regarding the importance of providing proper updates to give an accurate picture needs to cascade down from the SLT to Head of Service level and therefrom to managers and staff.
- The Committee noted with regard to school audits that those completed during the year to date have resulted in a Reasonable or Substantial audit opinion and it took assurance from the improvement this evidenced whilst recognising also that some outstanding issues remain in relation to schools' governance arrangements as shown by Appendix D. The Committee suggested it would be worthwhile reminding the Lifelong Learning Directorate of the importance of schools maintaining accurate and up to date records and of complying with agreed processes and procedures. *(Councillor John Griffith wished it to be noted in this context that he is a serving governor of Ysgol Llanerchymedd and Ysgol Bodedern and Councillor Peter Rogers also referred to his position as a school governor.)*
- The Committee noted that the follow up audit of sundry debtors had as with the original audit, resulted in a Limited assurance opinion and it sought an explanation for the lack of improvement. The Committee was informed that the recommendations of the original audit are

in the process of being implemented and that the service has lost staff over a period of time meaning it has not had the resources to be able to fulfil certain elements of the work. The Revenue and Benefits Team is currently undergoing review and restructure and once that is completed, the service's processes and procedures will be looked at and tasks will be re-assigned within the team thereby releasing resources to undertake on a regular basis, aspects of the work that are not regularly carried out at present.

- The Committee was satisfied from the information presented and the updates provided verbally that the internal control, risk management and corporate governing processes that are in place to manage the achievement of the Authority's objectives are functioning satisfactorily, and that where weaknesses have been identified, remedial action is being taken or is planned.

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

ACTION ENSUING: Head of Function (Resources) and Section 151 Officer to raise with the SLT the importance of effective and timely communication by Management in providing a clear and accurate picture of the position of services with regard to implementing audit recommendations.

5. CONCERNS, COMPLAINTS AND WHISTLEBLOWING

The report of the Monitoring Officer which provided an outline of issues arising under the Council's Concerns and Complaints Policy for the period from 1st April, 2015 to 31st March, 2016 was presented for the Committee's consideration. The report also included a high level summary of whistleblowing issues notified during the same period as well as Social Services complaints where the complainant is not a service user.

(Councillor Peter Rogers declared a prejudicial interest in this matter and did not participate in the discussion and determination thereof. Mrs Sharon Warnes informed the Committee that she was a member of the Public Services Ombudsman's Advisory Board)

The Monitoring Officer highlighted the following considerations:

- That during the said period, 261 concerns were recorded and 59 formal complaints were received.
- The number of complaints received has fallen to 59 from 65 in 2014/15 and from 66 in 2013/14. The highest recorded number of complaints since statistics have been collected was in 2011/12 when 89 complaints were recorded under the Policy.
- The overall response to complaints issued within the specified time limit (20 working days) is 70%.
- Of the 59 complaints received during the periods, 10 were upheld in full, 6 were partially upheld and 43 were not upheld. 5 complaints were referred to the Ombudsman but none was accepted for investigation. A breakdown of concerns and complaints by service is provided at paragraph 8.
- The Council also records compliments received, and 561 were recorded during the relevant period. In addition, 2,059 positive comments were received at the Oriel and 513 at the Breakwater Country Park. A breakdown of compliments by service is provided at paragraph 9.
- The Concerns and Complaints Policy places an emphasis on learning lessons from complaints and thereby improving services. The issues noted in paragraph 10 of the report were identified as lessons learnt, but none required any formal action plans to be put in place.
- During 2015/16, 5 complaints were made to the Ombudsman which all related to the Planning and Public Protection Services. Having looked at the complaints and the Council's responses, the Ombudsman decided not to investigate the complaints.
- A summary of the complaints against Elected Members is provided at paragraph 12 of the report.
- One Language related complaint was received during the year which is recorded in the breakdown of complaints under the Lifelong Learning Service and also in paragraph 10 under lessons learnt.
- A summary of whistleblowing complaints reported by services for 2015/16 is provided at paragraph 12 of the report.

The Committee considered the report and it noted the following matters:

- The Committee noted that the 261 concerns and 59 complaints received had led to the identification of only three lessons to be learnt and it was suggested that this amount of feedback should be generating more learning opportunities for the Authority and that the Authority should be looking to style itself as a learning authority. The Committee was informed that 207 of the concerns were registered by the Waste Management Service and these related to the same issue namely a change in the Council's charging policy for the collection of bulky waste. The change was adopted and implemented without simultaneously reviewing the work processes that supported it including the telephone function and it led to a volume of public interest and inquiries which the service could not cope with and created a backlog of calls and attempted payments. The Corporate Transformation Team has worked with the service to address the systems and processes. The number of concerns recorded for the subsequent quarter for the same service was 13 of which 5 related to the telephone system which represents a significant improvement and indicates that the issue is being addressed and that a lesson has been learnt that any policy changes should be accompanied by a review of the supporting processes. More generally, work on improving the interface between systems and customer service by moving towards the increased digitisation of processes is ongoing alongside work to introduce, facilitate and promote alternative payment methods. The recommendations also recognise that lessons learnt is an area for development.
- The Committee asked about the availability of comparative information with other authorities so that it can gain a better idea of where the Council stands in the context of its peers. The Monitoring Officer referred to the number of complaints received by two other North Wales authorities in the same period considered to be high performing authorities, which was higher.
- The Committee noted and welcomed the information with regard to whistleblowing as testimony of staff being aware of the policy and being sufficiently confident that in invoking it, they will be heard and their concerns followed up.
- The Committee noted that the number of complaints is on a downward trajectory and that the Authority has received a number of compliments, and it was satisfied by the update provided that lessons have been learnt from the complaints and concerns received. Notwithstanding, the Committee noted that a low number of complaints can also be indicative of a low level of information about the complaints procedure and/or poor expectations of being heard although it was satisfied that this was not the case in Anglesey.

It was resolved that the Committee –

- **Accepts the report as providing reasonable assurance that the Council is compliant with its Concern and Complaints Policy and Whistleblowing Policy.**
- **Agrees that Officers undertake further work with a view to ensuring that the process shall include more emphasis on the following:**
 - capturing lessons learnt, and changes arising therefrom, and implemented by services;
 - analysing the overall corporate data and using the information to best effect;
 - assessing whether there is a parallel role and complementary role for the Corporate Scrutiny Committee to consider any emerging patterns.

NO FURTHER ACTION ENSUING

6. ANNUAL TREASURY MANAGEMENT REVIEW 2015/16

The report of the Head of Function (Resources) and Section 151 Officer incorporating the Annual Treasury Management Review for 2015/16 was presented for the Committee's consideration and comment. The report provided details of the outturn position for treasury activities in 2015/16 and confirms compliance with the Council's policies previously approved by Members.

The Head of Function (Resources) and Section 151 Officer elaborated on the following elements of the Treasury Management review:

- Capital activity. The Council's actual capital expenditure and how this was financed is set out in table 2.2 of the report and forms one of the required prudential indicators.

- The impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement). The Council's CFR for the year is shown in table 3.3.4 and represents a key prudential indicator.
- The overall treasury position identifying how the Council has borrowed in relation to its indebtedness and the impact on investment balances. It was decided in light of the current and projected market interest rates and counterparty credit risks, to continue internalising borrowing at least in the short term which is a strategy that has been implemented throughout out each of the last five years. The gross borrowing position has increased during 2015/16 due to the loan from the PWLB for the HRA buy-out which replaces the former subsidy payments to Welsh Government.
- The borrowing and investment figures for the Council as at the end of the 2014/15 and 2015/16 financial years. These are shown in paragraph 4.1 of the report and in more detail in Appendix 1. There was no debt rescheduling during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.
- Investment activity. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations resulting in relatively low returns compared to borrowing rates. In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk. The expected investment strategy was to keep to shorter term deposits although the ability to invest up to longer periods was retained.
- Investment security and credit quality. No institutions in which the Council had made investments had any difficulty in repaying investments and interest on time and in full during the year. The UK Referendum result led to UK banks long-term outlook being downgraded from stable outlook to negative outlook. However their short and medium term ratings are still within the appropriate ratings approved in the Treasury Management Strategy 2015/16. The status of the banks and the Council's deposits are under constant review to ensure that the Council's risks are minimised.

The Committee noted the information and made the following points:

- The Committee noted that the Council has complied with the key prudential and treasury indicators in 2015/16.
- The Committee noted that borrowing was only undertaken for a capital purpose and that the statutory borrowing limit (the authorised limit) was not breached.
- The Committee sought clarification of the impact on the Council's borrowing of the Schools Modernisation Programme and how much of the Council's contribution to the programme would be based on capital receipts and how much on borrowing. The Committee was informed that there would be an increase in the Council's borrowing in the short-term until capital receipts are realised to make up the shortfall. The Council's Treasury Management advisors, Capita have been asked to review the Council's borrowing requirements over the next few years to take account of the 21st Century Schools Programme and the outcome of the review will form the basis of the Council's borrowing strategy over the long-term.
- The Committee sought clarification of the impact of Brexit on interest rates and whether they were more likely to be driven upwards as a result. The Committee was informed that the prevailing uncertainty in relation to a number of key factors could drive interest rates up or down but that an increase in the region of 2% or 3% would put pressure on the revenue budget. Should there be an indication of a pressure upwards on interest rates then the Council's borrowing position will be reviewed and consideration given to repaying some loans and to bringing forward borrowing to benefit from the low interest rates. However, timing is essential and the Council takes advice from Capita and its treasury management advisors as to the optimum time in which to borrow; it is not considered the Council is at that point currently. Although there is a significant gap between the Council's level of borrowing and the authorised limit any additional borrowing feeds through to the capital financing costs which have a knock on effect on the revenue budget.
- The Committee noted subsequently that the Council needs to be mindful of the impact on the revenue budget of committing to extra borrowing.

It was resolved :

- **To note that the out-turn figures in the report will remain provisional until the audit of the 2015/16 Statement of Accounts is completed and signed off; any resulting**

significant adjustments to the figures included in the report will be reported as appropriate.

- **To note the provisional 2015/16 prudential and treasury indicators within the report.**
- **To accept and to note the Annual Treasury Management Review report for 2015/16 and to forward it to the Executive without further comment.**

NO FURTHER ACTION ENSUING

7. EXTERNAL AUDIT – ISLE OF ANGLESEY ANNUAL IMPROVEMENT REPORT 2015/16

- The WAO's Annual Improvement Report for 2015/16 in relation to the Isle of Anglesey County Council was presented for the Committee's consideration. The report summarised the audit work undertaken at the Council since the publication of the last report in December 2015 and includes a summary of the findings from reports issued by other relevant regulators namely, CSSIW; Estyn and the Welsh Language Commissioner.

Mr Gwilym Bury confirmed that taking into consideration the work carried out at the Council by the relevant external review bodies in 2015/16 the Auditor General concludes that overall, the Council has continued to make progress in priority areas while restructuring its leadership and governance arrangements, that it remains self-aware and that it is likely to comply with the requirements of the Local Government Measure 2009 and secure improvement during 2016/17. Whilst the Auditor General makes no statutory recommendations, the report does make proposals for improvement in some of the areas reviewed.

Mr Gwilym Bury, WAO reported on the detailed findings with regard to the key areas assessed in relation to Performance, Use of Resources and Governance including services where improvements had been made as well as areas where performance and/or arrangements require further improvement.

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

- With regard to Estyn's evaluation of school performance, the Committee noted the percentage of pupils achieving five A* to A grades or equivalent in Anglesey has declined since 2012 and in 2015 and is lower than the Wales average. The Committee was concerned by this downward trend particularly in the context of the Energy Island initiative and the highly skilled employment opportunities this is likely to create and sought confirmation that measures to improve pupils' attainment levels are being implemented. The Committee was informed that the Wales Audit Office has issued a report on the quality of the School Improvement Services provided by the North Wales Consortium (GwE). The Committee deemed that it would be helpful for it to consider the report on GwE given that it links into school performance along with any Action Plan prepared by the consortium in response to the report as well as information about the support and improvement services that GwE provides from an Anglesey specific perspective.
- The Committee noted that as well as assessing and reviewing performance and having oversight over the arrangements and processes that underpin performance, it should be looking to extend its perspective by receiving comparative information more often which would be helpful to the Committee in putting performance in context.
- The Committee asked in the context of the CSSIW's Performance Evaluation report for 2014/15 and the Council's use of resources, that it be updated on the position with regard to the Council's services for children and adults' services. The Committee noted that in light of the national funding problems in relation to adult social care provision and issues around the financial viability of an increasing number of social care providers, it could be helpful to know how the Council's financial plans are helping to address this issue. *(Mr Richard Barker declared an interest in this context as a trustee of a social care provider).*

It was resolved to accept the Annual Improvement Report for 2015/16 and to note its contents.

ACTIONS ENSUING:

- **The Committee to be provided with and to consider the WAO report on the quality of the School Improvement Services provided by the North Wales Consortium (GwE) together with the consortium's resultant Action Plan.**
- **The Committee to be provided with information in relation to how the Council's use of resources and financial plans are taking account of current funding issues with regard to adult social care and children's services.**
- The Certificate of Compliance for the Isle of Anglesey County Council's 2016/17 Improvement Plan in confirmation of the Council having discharged its duties under the Local Government (Wales) Measure 2009, and having acted in accordance with Welsh Government guidance was presented and **was noted by the Committee.**

8. EXTERNAL AUDIT – PERFORMANCE WORK PROGRAMME AUDIT

Mr Gwilym Bury, Wales Audit Officer provided a verbal update on the status of the WAO's Performance Work Programme encompassing value for money studies, local government studies and local performance work as regards reports published, planned and in progress. **The information was noted by the Committee.**

**Councillor R. Llewelyn Jones
Chair**

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