

# AUDIT AND GOVERNANCE COMMITTEE

## Minutes of the meeting held on 6 December, 2016

- PRESENT:** Councillor R. Llewelyn Jones (Chair)  
Councillor John Griffith (Vice-Chair)
- Councillors Alun Mummery, Nicola Roberts, Dafydd Rhys Thomas
- Lay Member: Mrs Sharon Warnes
- IN ATTENDANCE:** Head of Function (Resources) and Section 151 Officer  
Internal Audit Manager (SP)  
Risk and Insurance Manager (JJ) (for item 9)  
Committee Officer (ATH)
- APOLOGIES:** Councillors Jim Evans, Peter Rogers, Mr Richard Barker (Lay Member)
- ALSO PRESENT:** Councillor Ieuan Williams (Leader), Councillor H. Eifion Jones (Portfolio Member for Finance), Councillor Llinos Medi Huws (Shadow Portfolio Member for Finance), Clare Edge (Financial Audit Manager – Deloitte), Mr Gwilym Bury (Performance Audit Lead - Wales Audit Office)
- 

### 1 DECLARATION OF INTEREST

No declaration of interest was received.

### 2 MINUTES 21 SEPTEMBER, 2016 MEETING

The minutes of the previous meeting of the Audit and Governance Committee held on 21 September, 2016 were presented and confirmed as correct.

Arising thereon –

- The Head of Function and Section 151 Officer referred to the outstanding issue on the 2015/16 Statement of Accounts which had delayed approval of the Financial Statements by the Audit Committee at its meeting held on 21 September, 2016; the Officer confirmed that following the meeting, the Finance Service was able to provide the auditors with the necessary supporting evidence for the item in question on the accounts and the auditors were satisfied with the assurance provided. The Statement of Accounts was subsequently approved by the Chair of the Audit Committee in line with the authority delegated to him by the Committee at its 21 September meeting and was thereafter approved by the County Council on the 29<sup>th</sup> September, 2016. The Auditors issued an unqualified opinion on the accounting statements on 30<sup>th</sup> September, 2016.
- The Head of Function and Section 151 Officer reported that the issue of Corporate Safeguarding which the Audit Committee at its 21<sup>st</sup> September meeting resolved to refer to the Corporate Scrutiny Committee on the basis of the findings of an internal audit review of this area, has been the subject of examination by a scrutiny outcome panel of the Corporate Scrutiny Committee. The panel formally reported on its conclusions and recommendations to the Executive on 17<sup>th</sup> October, 2016.

### 3 PUBLIC SECTOR INTERNAL AUDIT STANDARDS – COMPLIANCE

The report of the Head of Internal Audit regarding the Anglesey Internal Audit Service's conformance with the Public Sector Internal Audit Standards (PSIAS) was presented for the Committee's consideration.

The Internal Audit Manager reported that it is a statutory requirement for Internal Audit to work in compliance with proper audit practices. The Public Sector Internal Audit Standards and the CIPFA Local Government Application Note came into force on 1<sup>st</sup> April, 2013 and superseded the 2006 CIPFA Code of Practice for Internal Audit in Local Government. The new standards have been produced by the Relevant Internal Audit Standard Setters (RIASS), including the Chartered Institute of Public Finance and Accountancy, are mandatory in nature and apply to various parts of the UK public sector, including Local Government. They are intended to promote further improvement in the professionalism, quality and effectiveness of internal audit across the public sector.

The Officer said that the RIASS have developed a checklist to satisfy the requirements set out in PSIAS 1311 and 1312 for periodic self-assessments and externally validated self-assessments as part of the Quality Assurance and Improvement Programme. Each requirement on the checklist must be ticked to indicate full, partial or non-conformance with the Standards and evidence provided for each response, along with the reasons for any partial conformance or non-conformance and a statement of the compensating measures put in place or actions in progress to address this. The best practice checklist (Appendix 1 to the report) has been completed to provide an annual assessment for 2016/17 and shows that Anglesey's Internal Audit Service is fully compliant against 97% of the 334 individual requirements. A summary of the checklist results is provided in the table at paragraph 3.5 of the report. The Officer elaborated on the six areas identified as being non-compliant as well as the 5 areas assessed as being partially compliant as per paragraph 3.6 of the report. The Officer also drew attention to Standards 1100, 1110 and 1130 in relation to independence and objectivity to which the Internal Audit Service currently conforms. At present, the Chief Audit Executive (CAE) has no operational responsibilities other than Internal Audit. The advertisement of the post of Head of Audit and Risk combining the responsibilities for audit, risk and insurance renders the service non-compliant with the Standards and means that in future, the CAE will need to declare to the Audit and Governance Committee a conflict of interest and non-compliance with Standard 1100 (Independence and Objectivity).

The Officer referred to the Improvement Plan attached as Appendix 2 to the report which sets out the recommendations made to address the areas of non-conformance, the actions proposed and the completion timescale. Progress against the proposed actions will be reported in the Annual Report 2016/17. In accordance with the Standards, an external assessment must take place at least every five years by a qualified, independent assessor or assessment team from outside the organisation. Anglesey's Internal Audit Service's peer assessment is scheduled to be performed in early 2017 by Denbighshire County Council's Head of Internal Audit; the results of the assessment will be reported to this Committee in May, 2017.

The Head of Function and Section 151 Officer said that he was satisfied with the results of the checklist and confident that the areas of non-conformance do not have implications for the Service's operational abilities or its ability to meet the greater part of the Standards.

The Committee noted the information presented by the Internal Audit Manager and was satisfied both with the overall outcome of the self-assessment and with the evidence provided to show that the areas of partial and non-compliance are either being addressed or have plans in place to address them.

#### **It was resolved –**

- **To accept the self-assessment as presented and agree that the current areas of partial or non-compliance do not significantly impact on the Service's ability to demonstrate overall compliance.**
- **To approve the Improvement Plan 2016/17.**

#### **NO FURTHER ACTION ENSUING**

#### **4 EXTERNAL AUDIT – ANNUAL AUDIT LETTER 2015/16**

The Annual Audit Letter summarising the key messages from the external audit of the Authority's financial statements for 2015/16 was presented for the Committee's information **and was noted by the Committee**. The Letter confirmed the following –

- That the Council complied with its responsibilities relating to financial reporting and use of resources.
- That the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources.
- That a certificate confirming the completion of the audit of accounts on 30 September, 2016 was issued.
- That work to date on certification of grant claims and returns has not identified significant issues that would impact on the 2016/17 accounts or key financial systems.

The Committee sought clarification of the additional work which the Letter noted was needed to complete the audit and due to which the audit fee is currently the subject of discussion. The Head of (Function) Resources and Section 151 said that as the Council's new financial auditors, Deloitte was not immediately familiar with the Council's financial processes, systems and procedures and some further work was required as regards agreeing the documentation and methodology for the audit. Resolution of the outstanding item on the accounts as previously reported also necessitated some additional work. The basic audit is covered by a standard fee and it is the fee for the element of additional work that is currently the subject of negotiation.

#### **NO FURTHER ACTION ENSUING**

### **5 EXTERNAL AUDIT – CERTIFICATE OF COMPLIANCE**

The Wales Audit Office Certificate of Compliance confirming that the Isle of Anglesey County Council has discharged its duties under the Local Government (Wales) Measure 2009 to publish an assessment of its 2015/16 performance before 31 October in the financial year following that to which the information relates i.e. before 31 October, 2016, was presented **and was noted by the Committee.**

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

### **6 TREASURY MANAGEMENT**

6.1 The Treasury Management Strategy Statement for 2017/18 was presented for the Committee's consideration. The Statement incorporated the Annual Investment Strategy, the annual Minimum Revenue Provision (MRP) Policy Statement, the annual Treasury Management Policy Statement and the Treasury Management Scheme of Delegation.

The Head of Function (Resources) and Section 151 Officer reported as follows –

- That the Treasury Management Statement remains fundamentally the same as that adopted for 2016/17. The situation with regard to the economy has not changed essentially with interest rates still at a low level thereby limiting the options in terms of the strategy.
- The Council's capital expenditure plans are the key driver of treasury management activity. The overall programmes (as per the table in section 2 of the report) will be limited to what is affordable, both as regards actual capital spend and the revenue implications i.e. the revenue costs that flow from capital financing decisions.
- Over the last few years, the Council has implemented a policy of avoiding new borrowing by running down spare cash balances. This needs to be carefully reviewed to avoid incurring higher borrowing costs in later times when the Authority will not be able to avoid new borrowing to finance capital expenditure e.g. to fund the Council's contribution towards the 21st Century Schools programme and/or to refinance maturing debt.
- The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement) has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. The approach is prudent as investment returns are low and counterparty risk is high, and will continue to be followed where appropriate.
- Current conditions indicate a need for a flexible approach to the choice between internal and external borrowing. The merits and demerits of both internalisation and externalisation are set out in section 3.3.1 of the report. The Section 151 Officer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decision to the appropriate decision making body at the earliest opportunity.

- The Council will not borrow more than, or in advance of its needs, solely in order to profit from the investment of the extra sums borrowed.
- As short term borrowing rates will be considerably cheaper than longer term fixed rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. All debt rescheduling will be reported to the Audit Committee. However, a recent review of this highlighted that it would cost the Council more to reschedule debt than it would save in interest due to significant early premiums imposed by the PWLB.
- The Council's investment strategy and consequently its priorities are based on security first, liquidity second and then return. The Section 151 Officer will maintain a counterparty list in compliance with the criteria set out in Appendix 6 of the report and will revise the criteria and submit them to the Council for approval as necessary. The creditworthiness policy is set out in section 4.2 of the report.
- Due to the prospect that investment returns are likely to remain low during 2017/18 and beyond, the only proposed amendment to the core principles and policies of the previous year's TM Strategy is to include Money Market Funds as an additional investment option to the Counterparty Criteria in order to create additional secure options for the Council's investments.

The Committee considered the report and made the following points –

- The Committee noted and it supported the Authority's adoption of a generally conservative approach to treasury management particularly given the range of uncertainties within the economic environment.
- The Committee noted that the anticipated cost of borrowing for 2016/17 is £6m for both the General Fund (£4m) and the Housing Revenue Account (£2m). The Committee sought clarification whether in the context of so much uncertainties in relation to the prospects for interest rates as documented in section 3.2 of the report, it was wise to be thinking about taking on further borrowing. The Head of Function (Resources) and Section 151 said that the Council will likely have to commit to borrowing to fund its part of the 21<sup>st</sup> Century Schools Programme. While borrowing is favourable at present because of the low interest rates, the Authority will not borrow simply for the purpose of reinvestment to take advantage of low interest rates because the returns would probably be less than the cost of borrowing. Should the indications be that interest rates are going to rise the Authority will possibly consider borrowing at that point to make the most of the low interest rates. However, the Council's advisors do not foresee a rise in interest rates in the medium term so the strategy will remain unchanged.
- The Committee noted that the Council's external borrowing stood at £110.7m as at 10 November which is considerably higher than its position a few years previously of around £89m. The Committee sought assurance that the Council will be able to repay the debt in the event that interest rates rise. The Head of Function (Resources) and Section 151 Officer said that most of the Authority's loans at present are on a fixed rate so it knows what the level of repayment is – fixing at a low rate is advantageous and affords the Council some protection against future rate rises; were the interest rates high then consideration would be given to moving to a variable rate. The increase in the Council's net borrowing is largely due to the HRA buy-out (approximately £21m). As the Council invests in its assets via the capital programme, then the need to borrow will arise because that is how the capital programme is partly funded. The Executive's strategy for next year is to restrict the capital budget to what is sustainable through supported borrowing i.e. borrowing that is financed through the settlement (apart from the 21<sup>st</sup> Century Schools project which will require a level of unsupported borrowing). The Officer confirmed that any HRA related borrowing is funded from HRA monies i.e. the rents raised.
- The Committee sought clarification of the Authority's borrowing history relative to that of other authorities. The Head of Function (Resources) said that the Authority in Anglesey has been relatively conservative in its approach to borrowing. Additionally, it did not inherit any debt from the authority pre local government re-organisation in 1996.

**It was resolved –**

- **To note the contents of the covering report.**
- **To endorse the Treasury Management Strategy Statement (including the Prudential and Treasury Management Indicators as at Annex A) for 2017/18 and**
- **To forward the TM strategy Statement to the Executive without additional comment.**

## **NO FURTHER ACTION ENSUING**

6.2 The Treasury Management Mid-Year Review report was presented for the Committee's consideration. The report provided an economic update for the first part of the 2016/17 financial year; it reviewed the main TM, borrowing and investment strategies at mid-point as well as activity since Quarter 2, and it cast a look at the year ahead.

The Head of Function (Resources) and Section 151 reported that the report shows that the Authority has borrowed slightly less than that profiled in the strategy at the beginning of the year. This can be attributed to some projects not having started, capital grant monies not spent and some slippage on HRA expenditure. The capital expenditure has therefore been less and no additional borrowing has been undertaken, with the Authority instead utilising funds internally; it is not foreseen that any additional borrowing will be undertaken from now until the end of the year. The Authority has to date complied with all the relevant prudential indicators within the 2016/17 TM strategy. The report also provides at Appendix 5 a summary of investment activity so far this year. The Officer confirmed that he was happy with the position as presented.

The Committee noted the information and was satisfied that treasury management activity is delivering in accordance with the strategy at mid-point in the 2016/17 financial year.

**It was resolved to accept the report and to forward it to the Executive without additional comment.**

## **NO FURTHER ACTION ENSUING**

6.3 The report of the Head of Function (Resources) and Section 151 Officer incorporating the Authority's Treasury Management Practices was presented for the Committee's consideration. The report was presented to the Committee to ensure that the Council is implementing best practice in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management which recommends that the Council formally documents its treasury management procedures as Treasury Management Practices (TMPs), and that those are subsequently monitored.

**It was resolved –**

- **To note the contents of the report.**
- **To endorse the Treasury Management Practices as set out in Appendix 1 to the report.**

## **NO FURTHER ACTION ENSUING**

## **7 INTERNAL AUDIT FORWARD WORK PROGRAMME**

The report of the Head of Internal Audit incorporating a Forward Work Programme for the Audit and Governance Committee for the remainder of 2016/17 and for 2017/18 was presented for the Committee's consideration.

The Internal Audit Manager said that the Forward Work Programme is intended to act as a record of the ongoing concerns of the Audit Committee and to ensure that progress to address those concerns are considered on a regular basis in a planned way by the Committee.

The Committee acknowledged the forward work programme as providing a good framework for moving forwards both on issues which it has highlighted previously and on any new concerns which it would like to keep track of until they can be satisfactorily closed.

**It was resolved -**

- **To approve the proposed forward work programme for the remainder of 2016/17 and 2017/18 as set out in Appendix A to the report.**
- **That any amendments to the programme are reported as a standard item on the agenda of each meeting of the Audit and Governance Committee.**

## **NO FURTHER ACTION ENSUING**

## **8 EXCLUSION OF PRESS AND PUBLIC**

It was resolved under Section 100 (A) (4) of the Local Government Act 1972, to exclude the press and the public from meeting during the discussion on the following item on the grounds that it involved the disclosure of exempt information as defined in Schedule 12 of the said Act and in the Public Interest Test presented.

## **9 CORPORATE RISK REGISTER**

The report of the Head of Function (Resources) and Section 151 Officer incorporating the Corporate Risk Register updated to the end of Quarter 1 2016/17 was presented for the Committee's consideration.

The Risk and Insurance Manager reported on the following considerations –

- Those risks considered the top risks to the Council.
- Risks which have either been escalated or de-escalated in the period since the last report to the Committee in May, 2016.
- Any risks newly identified to the Corporate Risk Register and the reasons for their inclusion therein.

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

- The Committee noted that it would be helpful if the presentation of the Corporate Risk Register could be better synchronised with the Committee's meetings schedule.
- The Committee noted that while some risks are capable of being addressed within a specified timeframe, others are ongoing and need to be managed over time. The Committee sought clarification of how long those risks presenting as red on the schedule had been designated as such; whether they were capable of being treated and the time frame for so doing. The Committee was informed that any slippage on actions required to address a specific risk is reported to the Senior Leadership Team which will then follow the matter up. This is not formally recorded on the register in an endeavour to make the reporting process as clear as possible – a previous criticism of the register was that it was too "busy" to be easily understood.
- The Committee sought clarification of service risks. The Committee was informed that service risks categorised as amber or red are referred for consideration by the Senior Leadership Team for possible escalation to the Corporate Risk Register.

**It was resolved to accept the report, to note its contents and to take assurance that the risks to the Council's aims and objectives are being recognised and managed by the Senior Leadership Team.**

**NO FURTHER ACTION ENSUING**

**Councillor R. Llewelyn Jones  
Chair**