

AUDIT AND GOVERNANCE COMMITTEE

Minutes of the meeting held on 25 July, 2017

PRESENT: Councillor R. Llewelyn Jones (Vice-Chair) (In the Chair)

Councillors Richard Griffiths, G.O. Jones, Dylan Rees,
Alun Roberts, Margaret Roberts, Robin Williams

Lay Members: Dilwyn Evans and Jonathan Mendoza

IN ATTENDANCE: Head of Function (Resources) and Section 151 Officer
Head of Internal Audit & Risk (MP)
Senior Internal Auditor (ECW)
Technical Services Manager (Housing) (DR) (for item 2)
Housing Maintenance Unit General Manager (IR) (for item 2)
Committee Officer (ATH)

APOLOGIES: Councillor Peter Rogers (Chair)

ALSO PRESENT: Councillor John Griffith (Portfolio Member for Finance), Michelle
Hopton (Deloitte)

1. DECLARATION OF INTEREST

No declaration of interest was received.

2. MINUTES OF THE 28TH JUNE, 2017 MEETING

The minutes of the previous meeting of the Audit and Governance Committee held on 28th June, 2017, were presented and confirmed as correct.

Arising thereon –

- **Statement of Accounts**

Michelle Hopton, Deloitte, informed the Committee that the audit of the accounts had commenced in mid-June and that the substantive work is expected to have been completed by the end of this week. The Auditor confirmed that there were no issues of significance to report of at this point in time. External Audit's full report and conclusions regarding the accounts would be presented to the Committee's September meeting.

- **Limited Assurance Audits – Housing Maintenance Unit**

The Internal Audit Update presented to the Committee's 28th June, 2017 meeting had highlighted two reviews relating to the Housing Maintenance Unit in Gaerwen where the assurance provided was deemed to be Limited. The Committee had requested that the Housing Services Manager be called to the Audit and Governance Committee to explain how the weaknesses in internal controls arose, how the service is delivering on the agreed actions to address the control issues identified in the audit reviews and how it proposes to ensure that the system of control remains effective in future.

The Housing Technical Services Manager informed the Committee that the two audit reviews had formed part of the process of transforming the Housing Maintenance Unit (HMU). Following the adoption of new arrangements, Housing Maintenance Management asked Internal Audit to review the systems for effectiveness and to identify any potential weaknesses that needed remedying. The HMU's General Manager has been co-ordinating the introduction and implementation of new processes within the existing system with the ICT Service.

The HMU's General Manager reported that the internal audit review had produced in the region of 15 recommendations some of which were due for implementation by 31 May, 2017. All of these latter recommendations have been actioned and the processes to which they relate are now being re-audited the results of which are due by the end of July. The Officer said that he did not foresee any major problems as the initial results have been favourable apart from one or two issues that will need to be addressed but which are not unexpected given that the implementation date was only the end of May. Other recommended actions are due to be completed by October which he was confident would be fulfilled and the final tranche of recommendations are to be actioned by March, 2018. Arrangements are in place to ensure that the dates will be met; the HMU's staff have embraced the recommendations and actioning them has already yielded improvements especially with regard to recording information on the Orchard Housing Management system which is the service's key system as regards housing and asset management.

The Committee considered the information presented verbally and it made the following points –

- The Committee sought clarification of whether actioning the audit recommendations had entailed introducing new systems. The HMU's General Manager said that that changes have been in the way the service utilises the existing Orchard Housing Management system particularly in relation to recording jobs by contractors including by whom the job was undertaken, the completion date as well as the invoice and order tracking number so that an audit trail is produced for each job. Job tracking is already undertaken by the in-house officers via electronic recording devices; these are not used for external contractors. The latter are manually managed which involves recording information relating to orders, completion dates and invoices. The team includes 2 schedulers and 3 administrative staff who are responsible for inputting the information. The ultimate aim of the work prior to and stemming from the internal audit review is to ensure that the processes and procedures in place to manage the external contractor side of the HMU's operations are as robust as they can be and provide the necessary safeguards and assurance.
- The Committee noted that the timescale for implementing the improvements as recommended by Internal Audit was generous especially when making such fundamental administrative and procedural changes might be expected to take much less time. The HMU's General Manager said that the issue is ICT derived and involves trying to make the best use of the Orchard system in a way that meets the HMU's needs and produces the relevant information as and when required in a user friendly way, and in a way that helps informed decision making. The Orchard system is very technical and such a task is not an overnight fix and could take a matter of months which is reflected in the implementation timescale.
- The Committee noted that the Internal Audit review as presented to the Committee's June meeting highlighted shortcomings in the Orchard system in relation to its not recording the true costs per job as the system does not include staff costs per job. Consequently, the real costs of each job are not identified nor recharged, the trading account is therefore misstated resulting in poor decision making and value for money analyses. The Committee sought assurance that this problem has or is being rectified.

The HMU's General Manager said that the issue requires a long term solution; the Orchard system is made up of a number of different modules one of which is Direct Works which is the costing system within Orchard. This is not currently utilised by the service; fully implementing the module would require significant work.

- The Committee sought clarification of whether the Council has evaluated the Orchard system for effectiveness and functionality and whether it is satisfied that the system meets the HMU's needs to be able to generate the necessary data to evidence that the service is efficient, cost-effective and provides value for money. The Head of Function (Resources) and Section 151 Officer said that implementing and administering the Orchard Direct Works module is difficult because in order for it to operate in way that is effective and helpful the module requires full details of all the costings involved in any single job; this is an onerous task in terms of time and effort. The assessment that needs to be made is whether implementing the Direct Works full costings module is justified given the time and effort that requires and whether the information about the HMU's efficiency and value for money can be obtained in a better, less time intensive way than by drilling down to the details of each individual job. HMU Management does record and monitor actual costs against the service's budget but this is done on a global basis against the global budget rather than on a job by job basis. Another measure of the HMU's efficiency is the level of customer satisfaction with the service provided which is reflected in the performance data issued.
- The Committee sought assurance that sufficient controls were now in place to guard against the potential manipulation of data for performance target purposes. The HMU's General Manager confirmed that the order number for each job by external contractors is recorded and noted in Orchard, the completion date is sent by e-mail or other approved communication by the contractor to say the job has been completed; an invoice is raised which has on it the job number, completion date and contractor address; in-house operatives use the electronic mobile device to record jobs - when these shut down a telephone call is made to confirm job completion. The Officer confirmed that he was satisfied that there are controls now in place and they are working, but that it will take additional time to complete all actions and ensure 100% compliance.

The Head of Internal Audit and Risk said that the follow-up audit shows that all the immediate actions have been completed by 31 May; of the 4 recommendations required to be implemented by 31 July, 1 has been implemented and the other 3 are in progress. The formal follow-up report will be presented to the Committee's September meeting.

It was resolved to accept the information presented and to note the progress to date by the Housing Maintenance Unit against the actions recommended by the Internal Audit review.

3. INTERNAL AUDIT UPDATE

The report of the Head of Internal Audit and Risk which provided an update on Internal Audit's latest progress with regard to service delivery, assurance provision, and reviews completed was presented for the Committee's consideration.

The Head of Audit and Risk reported as follows –

- That the three Internal Audit reports finalised during the period, relating to grant certification work (Rent Smart Wales Grant 2016/17, Education Improvement Grant 2016/17 and the Pupil Deprivation Grant 2016/17), all produced Substantial Assurance ratings.

- That one follow-up review in relation to the Council's Corporate Safeguarding arrangements was finalised in the period the outcome of which is summarised in section 5 of the report. A further follow up review will be undertaken during October, 2017.
- That progress in delivering the Internal Audit Operational Plan for 2017/18 is set out in section 6 of the report and shows that work is currently ongoing in 12 areas. The Head of Audit and Risk will review and amend the Annual Plan during the year to ensure the coverage remains relevant and risk-based. Changes will be reported to the Audit and Governance Committee at each meeting.

The Committee noted the information presented; the Committee sought clarification of whether the progress on Corporate Safeguarding was considered satisfactory given the sensitivity of the area and given that the initial review was conducted back in September, 2016, and resulted in a Limited assurance opinion. The Committee noted that it would have expected the planned follow-up review in October, 2017 to confirm implementation of the recommendations rather than be assessing progress. The Head of Audit and Risk said that the majority of the recommendations will have been completed by September, 2017; a further recommendation is due to be implemented in December, 2017 and involves exploring an ICT solution to monitor compliance with DBS checks – the service is in discussions with Northgate to provide a central database of DBS records. The Head of Function (Resources) and Section 151 Officer said that the whole Payroll/HR system and how it is used is under review which is a long-term project. A number of modules need to be examined and these include Recruitment and Training encompassing the recording of DBS checks. The recommendation referred to by the Head of Audit and Risk is linked to the corporate project for reviewing and improving the use of the Payroll/HR system and explains the longer implementation timeframe.

The Committee inquired whether it was reasonable to keep the Corporate Safeguarding audit review open simply because an element of it forms part of a larger, ongoing project. The Committee, whilst recognising that putting the right system in place to deal with DBS records might take time, took the view that it should not be a reason for delaying the finalisation and sign off of the Corporate Safeguarding review as long as there is assurance that the issue of DBS checks is covered and will be actioned under the broader Corporate Payroll/HR system review. If that is the case, the Committee suggested that consideration should be given to removing the outstanding recommendation relating to DBS checks under the Corporate Safeguarding review from that review's schedule of recommendations.

The Head of Audit said that as a result of the follow up, Corporate Safeguarding has now been re-assessed as providing Reasonable Assurance, and as such it will not be brought back to the Committee. Under the new system only reviews where Catastrophic or Major recommendations remain unimplemented will continue to be followed up. If a reassessment shows that sufficient work has been done to reduce the risk to a moderate or minor level then a review will be effectively parked.

The Committee further requested with regard to the Internal Audit Operational Plan that the "On Track" column in the table showing progress of delivery against the Plan be amended to indicate the Audit Committee meeting to which the outcome of the review is due/likely to be reported.

It was resolved to accept and to note the progress to date by Internal Audit in terms of service delivery, assurance provision, reviews completed and its performance and effectiveness in driving improvement.

ACTION ENSUING: Head of Audit and Risk to amend the "On Track" column in the table showing the progress of delivery against the IA Operational Plan to indicate

the Audit Committee meeting to which the outcome of the review is due/likely to be reported.

4. EXTERNAL AUDIT PERFORMANCE WORK PROGRAMME UPDATE

The Wales Audit Office update on current and planned WAO work encompassing financial and performance audit work as well as the Auditor General's programme of national value for money examinations was presented for the Committee's information. **The Committee resolved to accept and to note the information as presented.**

NO FURTHER ACTION ENSUING

5. ANNUAL REPORT OF THE AUDIT AND GOVERNANCE COMMITTEE

The report of the Audit and Governance Committee documenting the activities of the Committee during the 2016/17 municipal year was presented for the Committee's endorsement prior to its submission to the Full Council as required by the Committee's terms of reference.

It was resolved to endorse the Annual Report of the Audit and Governance Committee for 2016/17 as presented.

NO FURTHER ACTION ENSUING

6. ANNUAL TREASURY MANAGEMENT REPORT

The Annual Treasury Management Review of Activities Report for 2016/17 was presented for the Committee's consideration and scrutiny in line with regulations under the Local Government Act 2003 and the Council's Treasury Management Scheme of Delegation for 2016/17.

The Head of Function (Resources) and Section 151 Officer reported that treasury management involves managing the Council's cash flow and balances and making decisions about investment and borrowing in a way that supports the Council's corporate objectives. Treasury management activity is undertaken in accordance with the Treasury Management Strategy which is approved by Full Council before the commencement of the financial year and which is then reviewed both mid-year and at year end. The report sets out in detail the activities and outcomes in the 2016/17 financial year in relation to the following areas –

- Capital Activity
- Impact of capital activity on the Council's underlying indebtedness (the Capital Financing Requirement).
- The actual prudential and treasury indicators which define the parameters for treasury management activity during the year against which performance is assessed. These are agreed by Full Council at the beginning of the financial year
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness and the impact on investment balances
- Interest rate movements in the year
- Debt activity, and
- Investment activity

In general the year was fairly stable with the most significant activity being a loan from PWLB amounting to £6.2m for the 21st Century Schools project. Investment returns reduced to an all-time low due to the cut in the base rate down to 0.25%. The Council held appropriate cash balances at all times although the low interest rate meant that returns were

low. However, this was consistent with the Treasury Management Strategy for 2016/17 where the key objectives were low risk and ensuring there was sufficient cash to pay the Council's creditors. The key messages were that the Council continued to prioritise security over return in its investment approach; that borrowing was only taken out for capital purposes and that the statutory borrowing limit (the authorised limit) was not breached. The Council continued to implement the internal borrowing strategy as has been the case for each of the last six years. There was no debt rescheduling during the year as the average 1% differential between the Public Works Loan Board's new borrowing rates and premature repayment rates made rescheduling unviable. The Council complied with all its legislative and regulatory requirements in 2016/217 and the year continued the challenging investment environment of previous years, namely low investment returns.

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

- The Committee inquired in light of the poor returns on investment and the likelihood that this trend will continue for the foreseeable future, whether it was feasible for the North Wales authorities to be considering pooling their resources for joint investment purposes in order to try to secure more advantageous returns. The Head of Function (Resources) and Section 151 said that the Councils' day to day requirements vary making it difficult to arrive at an investment approach that would satisfy each Council's needs whilst ensuring that any returns are apportioned equitably. The six North Wales authorities can and do approach each other with their borrowing needs but in a climate where local authorities are holding significant cash reserves the immediate concern is how councils can invest in a way that makes money but at minimum risk.
- The Committee noted that the financing costs as a proportion of net revenue stream in relation to the HRA has increased from 14.6% in 2014/15 to 18.56% in 2016/17 (whilst reducing in 2015/16) and it sought clarification of the increase. The Head of Function (Resources) and Section 151 Officer said that there has been an increase in capital expenditure under the HRA in 2016/17 so the financing costs have increased.
- The Committee noted that the balance on deposit as at 31 March, 2016 was in the region of £13.3m whereas it had increased to £15.6m at 31 March, 2017. The Committee sought an explanation for the increase and whether the figure has historically varied by such an amount. The Head of Function (Resources) and Section 151 Officer said that the money which the Council has on deposit can vary enormously within the course of a day because as an organisation it deals with large cash transactions every day and receives funds from a variety of sources e.g. the Revenue Support Grant comes to the Council in monthly instalments of about £7m to £8m; Council Tax and Business rates payments are received as are direct debit payments. On the other hand salary payments and contractor payments go out, so there are large cash flow movements in and out which are not reflective of the Council's overall financial health only the position on a given day.
- The Committee sought clarification of why the budget for capital expenditure compared with actual expenditure varies widely, and whether such a variance is due to underestimation or overestimation of the budget. The Head of Function (Resources) and Section 151 Officer said that there are a number of large schemes within the capital programme some of which are funded externally e.g. highway improvements to the A5025 are funded wholly by Horizon. Whilst the funding for the schemes is included in the budget, work on them may slip for a number of reasons so less expenditure is actually incurred. The capital budget is set based on the information available at the time but other factors especially in relation to capital works can cause a scheme to slip. The funding for schemes supported by grants or external funding streams is not lost but rather slips into the following year.
- The Committee sought clarification of whether it is Council policy not to borrow for longer than the life of an asset. The Head of Function (Resources) and Section 151 Officer said

that borrowing for a longer period is possible; the Council has to make an annual charge to the revenue account to repay the borrowing need. The policy currently is to recharge at 4% for older loans on a reducing balance but that the approach going forwards is to borrow over the estimated life of the asset.

It was resolved –

- **To note that the outturn figures within the report will remain provisional until the audit of the 2016/17 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 2016/17 prudential and treasure indicators within the report.**
- **To accept the annual Treasury Management Review report for 2016/17 and to forward it to the next meeting of the Executive without further comment.**

NO FURTHER ACTION ENSUING

7. FORWARD WORK PROGRAMME

The Committee's Forward Work Programme was presented for review and comment.

The Head of Audit and Risk said that progress on ICT Business Disaster Recovery will be presented as part of the Internal Audit update to the Committee's September, 2017 meeting.

It was resolved to accept the Forward Work Programme as presented.

NO FURTHER ACTION ENSUING

**Councillor R. Llewelyn Jones
Chair**