

AUDIT COMMITTEE

Minutes of the meeting held on 25 September, 2012

PRESENT: Councillor Thomas Jones (Chair)
Councillor Eric Roberts (Vice-Chair)

Councillors Jim Evans, Keith Evans, Cliff Everett,
G.O.Jones, Vaughan Hughes, Alun Mummery, Ieuan Williams

Lay Members – Mr Richard Barker, Mrs Sharon Warnes

IN ATTENDANCE: Chief Executive
Interim Head of Resources & Section 151 Officer
Head of Service (Finance)
Audit Manager (JF)
Senior Internal Auditor (EW)
Programmes & Business Planning Manager (GM) (for item 6.1)
Risk and Insurance Manager (JJ) (for item 5)
Committee Officer (ATH)

APOLOGIES: Councillor E.G.Davies

ALSO PRESENT: Councillor W.J.Chorlton (Shadow Portfolio Member for Finance & IT), Commissioner Mick Gianassi, Messrs Huw Lloyd Jones, Andy Bruce (Wales Audit Office), Ms Lynn Hine, Mr James Quance (PwC), Mr Tony Furber (Accountant) (for item 3), Mr Barry Eaton (IT Manager) (for item 4.3)

The Chair welcomed all those present and he extended a particular welcome to Councillor Alun Mummery to his first meeting of the Audit Committee.

1 DECLARATION OF INTEREST

No declaration of interest was received.

2 MINUTES

The minutes of the previous meeting of the Audit Committee held on 24 July, 2012 were submitted and confirmed as correct.

3 STATEMENT OF ACCOUNTS 2011/12 AND ANNUAL GOVERNANCE STATEMENT

3.1 The Statement of Accounts for 2011/12 and Annual Governance Statement 2011/12 along with the Interim Head of Resources & Section 151 Officer's commentary on the accounts were submitted for the Committee's consideration.

The Interim Head of Resources and Section 151 Officer informed Members that the County Council's draft accounts for 2011/12 were presented for audit on 29 June, 2012. The detailed audit was now substantially complete and the Auditor's report had been issued. Subject to the County Council's approval, the accounts will be signed by the Interim Head of Function (Resources) and Section 151 Officer and, on receipt of the Auditor's opinion, they will be published.

The Officer drew particular attention to the quality of the process for publishing the accounts for 2011/12 and she said that she was extremely pleased to be able to present them within the

statutory deadline. She wished to formally put on record that there had been improvements in the audit process this year in terms of liaison, greater clarity around the expectations with regard to the presentation of working papers and better communication of issues arising. There had been improved dialogue throughout the process. She referred Members of the Committee to the main amendments to the accounts a synopsis of which was given in paragraph 3 of the report and which are dealt with in greater detail in the External Auditor's reports as per item 3.2, and to the non adjusted items an explanation of which was given in paragraph 4. Appended to the accounts was the Annual Governance Statement for 2011/12 a draft of which had been presented to the July meeting of the Audit Committee. The Statement has been subsequently updated to reflect the governance implications of the Estyn report on the quality of local authority Education Services for children and Young People in Anglesey which although published in July, 2012, refers back to issues in previous years.

The Officer concluded her presentation by referring to the change this year to the accounts approval process. As a consequence of the changes to the Council's Constitution, the responsibility for approving the accounts now lies with the County Council whilst the Audit Committee remains responsible for scrutinising the accounts.

Members were agreed in welcoming the completion and presentation of the accounts within the statutory deadline and they acknowledged the efforts of the Finance Service and Team in contributing to this achievement. They sought clarification of certain aspects of the accounts in relation to the approach to maintaining balances in the current economic climate and usage of the Performance Management Reserve Fund. A particular issue raised was the Heritage Assets and specifically the Authority's Arts Collection. It was suggested that in a climate of serious budgetary pressures the Authority might consider maximising the potential of the Arts Collection in terms of realising these assets for reinvestment in a short term capital project or for revenue purposes by placing them on loan. The Chief Executive explained why such a course of action could be problematic as regards the legal implications of the terms under which items within the Arts Collection had been entrusted to the Authority and as regards the Authority's stewardship obligations. It would also require significant officer time and resources in detailed examination of the legal terms and conditions. It was subsequently proposed and seconded that the Audit Committee therefore be provided with a report explaining what the Authority can legally do, and cannot do in relation to utilising the Arts Collection. The prevailing view within the Committee was that this was not a route which it wished to follow based on the advice given by the Chief Executive ; the best use of resources and for reasons of heritage preservation. An amendment was put and seconded that officer resources should not be expended in this way and that they would be put to better use by asking the Economic Development Department for example to investigate ways of making optimum use of the Authority's other heritage assets and maximising the income deriving from them. Following a vote, the amendment was carried.

3.2 The External Auditor's report on the audit of the Financial Statements was presented for the Committee's consideration.

Ms Lynn Hine, PwC reported to the Committee on the significant issues arising from the audit as set out in the written report. These related to uncorrected misstatements documented in detail under Appendix 3 to the report; audit risks outlined in tabular form under paragraph 10 of the report; issues in respect of estimates; fixed term valuations, equal pay liabilities, waster provision and the treatment of heritage assets under new requirements by the CIPFA Code of Practice. The Auditor informed members that no other significant issues had arisen from the audit and that there were no concerns regarding the qualitative aspects of the Authority's accounting practices and financial reporting. The Auditors acknowledge that the Council has in 2011/12 made a significant amount of progress in addressing issues with producing the statement of accounts and in meeting the accounts publication deadline of 30 September although the Auditor emphasised the importance of ensuring that these improvements are sustained.

Attached at Appendix 2 to the report was the proposed audit report of the Appointed Auditor to the Members of the Isle of Anglesey County Council. Whilst the Appointed Auditor intends to issue an unqualified audit opinion, Members' attention was drawn to the fact that a certificate of closure will only be issued pending resolution of an objection to the accounts by a member of the public which was received relatively late in the audit process.

The Interim Head of Function (Resources) and Section 15 Officer explained to the Committee the reasoning for not adjusting the accounts in respect of the aftercare provision at Penhesgyn landfill

site. Members asked a number of follow up questions regarding the accounts and related matters as well as regarding the External Auditor's findings to which the Officers responded.

It was resolved –

- **To accept the Statement of Accounts for 2011/12 and accompanying Annual Governance Statement for 2011/12 and to recommend to the County Council that -**
 - **it confirms acceptance of the Statement of Accounts,**
 - **confirms that no further provision be made at this time, in respect of after care at the Penhesgyn waste site,**
 - **confirms that no amendments be made in respect of accounts payable.**
- **To accept the External Auditor's report on the audit of the financial statements and to note its contents.**

ACTIONS :

- **The Interim Head of Function (Resources) and Section 151 Officer to present the Statement of Accounts to the County Council for approval.**
- **That officers investigate ways of making best use of and maximising income from the Authority's heritage assets (other than the Arts Collection).**

4 GOVERNANCE MATTERS

4.1 A report by the Head of Service (Audit) incorporating a draft Local Code of Governance was presented for the Committee's consideration and comment. Members were informed that the Code has been formulated in accordance with the CIPFA/SOLACE Framework Delivering Good Governance in Local Government which requires local authorities seeking to meet best practice to adopt such a Code. The aim of the Code is to bring together the key elements of corporate governance which exist in the Authority.

Members were happy to accept the draft Local Code of Governance with the proviso that it be amended to more accurately reflect the extent and range of the Authority's engagement with communities, local people and stakeholders and its promotion of community participation.

It was resolved to accept the draft Local Code of Governance and to recommend its adoption by the Executive subject to the amendment as noted.

ACTION: Head of Service (Audit) to amend the draft Local Code of Governance to expand on the community engagement element of the Authority's corporate governance arrangements and to subsequently present the Code to the Executive for approval and adoption.

4.2 A report by the Interim Head of Function (Resources) and Section 151 Officer outlining the Management response and approach to addressing issues raised in reports and/or reviews by External and Internal Audit in relation to Information Management/Governance matters was presented for the Committee's information. The main issues covered by the reports were listed under Appendix A to the report.

It was resolved to accept the report for information purposes.

5 RISK MANAGEMENT FRAMEWORK

A report by the Interim Head of Function (Resources) incorporating a draft Risk Management Strategy and accompanying draft Risk Management Guidance was presented for the Committee's consideration. Also attached to the report at Appendix C was an initial version of the Corporate Risk Register.

The Head of Function (Resources) referred to the progress on implementing the Risk Management Framework as documented chronologically in the report encompassing past as well as planned events. The draft Risk Management Strategy and draft Guidance along with Corporate Risk Register have been presented to and adopted by the Senior Leadership Team and forwarded to the Audit Committee for comment. Particular attention was drawn to the Audit Committee's responsibilities with

regard to Risk Management as set out in the Strategy and to the fact that the Committee's Members would receive training in this area jointly with Members of the Corporate Scrutiny Committee in the near future.

The Risk and Insurance Manager reported on the Corporate Risk Register which she informed Members was a work in progress in terms defining risks and mitigating actions.

The Chief Executive emphasised that one of challenges facing the Authority in implementing the requirements of the Corporate Risk Register is to maintain a balance between managing risk and being risk averse. Achieving this balance is key in terms of the Authority's improvement journey.

Members welcomed the Risk Management documentation and in particular the Corporate Risk Register, the format and contents of which they considered in the subsequent brief discussion.

It was resolved -

- **to accept the report and accompanying Risk Management documentation**
- **To recommend the adoption of the draft Risk Management Strategy and Draft Guidance by the Executive at its next meeting.**

ACTION: The Interim Head of Function (Resources) and Section 151 Officer to present the draft Risk Management Strategy and draft Risk Management Guidance to the next meeting of the Executive for its approval and adoption.

6 EXTERNAL AUDIT

6.1 A report by the Interim Head of Function (Resources) in respect of the findings of an audit by PwC of the Council's performance indicators was presented for the Committee's information

The Interim Head of Function (Resources) informed Members that under the National Performance Improvement Framework established in April, 2011, the Local Authority is expected to corporately report each year on a number of key performance indicators to the Welsh Government. Once that information has been gathered, it is audited by PwC for compliance. The details of PwC's findings were set out in Appendix 1 to the report.

The Programmes and Business Planning Manager referred members to section 2.1 of the report which listed the PIs which had been audited in 2011/12 and the reasons for that selection. He drew Members' attention to the fact that three PIs were qualified and that these were in the areas of Education, Waste Management and Visitor Numbers. He explained the reasons why the Auditor had qualified these indicators and the Authority's response in terms of the mitigation measures identified.

It was resolved to accept the information and the mitigation measures identified for information purposes.

6.2 An update report on the External Audit Work Plan and Timetable was presented for the Committee's information.

Mr Andy Bruce, WAO expanded on the activities listed in the report, their status and the form of the output from the perspective both of work relevant to all councils in Wales and Anglesey specific work.

Mr Huw Lloyd Jones referred to one of the outputs in the form of the Auditor General's Improvement Assessment Letter 1 which had been dispatched to the Council on 24 September and he provided the Committee with a verbal summary of the Auditor General's principal conclusions as set out in the Letter as follows –

- The Council has discharged its improvement planning duties under the Local Government (Wales) Measure 2009 and has acted in accordance with the Welsh Government guidance
- Based on and limited to work carried out by the WAO to date and relevant regulators, the Council is likely to comply with the requirements to make arrangements to secure continuous improvement during this financial year
- The Council is making good progress in addressing the Commissioners' 10 corporate governance improvement themes

- The Council's clarity of direction is improving and there has been reasonable progress in addressing the proposals for improvement identified in the last Annual Improvement Report
- The restructuring of senior management adds significantly to the Councils capacity and its capability to deliver further improvement in both corporate and service-specific functions
- The Council is dealing more maturely than before with controversial issues and has taken steps to ensure that the improvement is sustainable
- The Council has improved its engagement with the public and is beginning to address democratic renewal
- The Council has responded constructively and responsibly to the recent highly critical inspection of its education services by Estyn and the WAO

The Letter makes no further proposals for improvement, and based on the findings listed above, the Auditor General concludes that the time is now right to implement the recommendation made in the last Annual Improvement report that Welsh Ministers should promote the gradual transfer of decision making power from the Commissioners to the Shadow Executive and that consequently, the role of the Commissioners should be redefined as more of an oversight role. The Auditor General states that he is in agreement with the Commissioners' evaluation that the conditions have now been created which would enable the Minister to consider a return to democratic control with safeguards.

The Chief Executive explained that the Auditor General's letter had been received too late to be included on the Audit Committee's agenda but would be referred to at the forthcoming meeting of the County Council on 27 September along with the Commissioners' Quarter 5 report to the Welsh Ministers. The Auditor General's Improvement Assessment Letter would also be considered in detail by the Sustainability Board at its meeting on 1 October. A formal announcement by the Minister for Local Government and Communities was expected shortly. He emphasised that while the Auditor General's conclusions provide very welcoming news, the Council continues to face a number of challenges in the future.

Members also welcomed the information and acknowledged that many challenges lay ahead.

It was resolved to note the information presented.

7 PREVENTING FRAUD AND CORRUPTION

7.1 The Annual Report on the Prevention of Fraud and Corruption documenting activity in this service area during 2011/12 was presented for the Committee's information.

It was resolved to accept the Annual Report and to note its contents.

7.2 The following draft policies were presented for the Committee's consideration and comment:

- The draft revised and updated Policy for the Prevention of Fraud and Corruption
- Draft Fraud Response Plan
- Draft Money Laundering Policy

It was resolved to recommend adoption of the following policies by the Executive:

- **The Policy for the Prevention of Fraud and Corruption**
- **Fraud Response Plan**
- **Money Laundering Policy**

ACTION: The Head of Service (Audit) to present the aforementioned policies to the Executive for approval and adoption.

8 INTERNAL AUDIT

A progress report summarising the work of the Internal Audit Section during the period from 1 April, 2012 to 14 September, 2012 was presented for the Committee's consideration.

The Head of Service (Audit) presented the salient points of the report which he informed Members was in an amended format meaning that it now expanded on the key findings from audit reviews.

He highlighted the fact that one report was issued in the period which carried a Red Assurance opinion, the executive summary of which was appended to the report. Whilst performance in terms of the percentage of the Audit Plan completed stood below target at 62% (due mainly to the diversion of resources to carrying out referral reviews), the percentage of High and Medium Term categorised recommendations was above target at 85%. A breakdown of recommendation implementation by service was provided at Appendix A.

It was resolved to accept the report for information purposes.

9 INTERIMS

The Head of Service (Finance) provided the Committee with a brief verbal report on the situation with regard to the engagement of interim staff within the Finance Service in terms of costs and function. There were currently 3 posts within the Service taken up by interim staff (in addition to the post of Section 151 Officer) and these are senior accountancy roles in areas which in the past have proved difficult to fill on a permanent basis at the level advertised. She emphasised the importance of the experience and expertise of the interims in these high level accountancy posts to the accounts preparation process and in particular in ensuring the timely completion and presentation of the 2011/12 accounts. The deployment of the interims was supported by the Improvement Board at the time. The intention from now on following the completion and presentation of the accounts is to move away from dependency on agency staff at a high level and to try to fill these posts on a permanent basis. The officer explained the steps being taken to effect this process.

Members sought further clarification of issues regarding the costs of agency staff. The point was made also that the Council needs to make sure that it obtains optimum return on its investment in professional trainees in terms of their remaining in the employ of the Council after qualifying.

It was resolved to note the information.

**Councillor Thomas Jones
Chair**