

# AUDIT COMMITTEE

## Minutes of the meeting held on 10 December, 2014

- PRESENT:** Councillor Trefor Lloyd Hughes (Chair)  
Councillor John Griffith (Vice-Chair)
- Councillors Jim Evans, Alun Mummery, R. Llewelyn Jones
- Lay Members: Mr Richard Barker, Mrs Sharon Warnes
- IN ATTENDANCE:** Deputy Chief Executive  
Interim Head of Resources & Section 151 Officer  
Internal Audit Manager (JF)  
Interim Accountancy Services Manager (BHO)  
Insurance & Risk Manager (JJ)(for item 4)  
Grants Co-Ordinator (JW)(for item 3)  
Capital & Treasury Management Accountant (GR) (for item 2)  
Committee Officer (ATH)
- APOLOGIES:** Councillors Jeff Evans, Richard Owain Jones, Dafydd Rhys Thomas  
H. Eifion Jones (Portfolio Member for Finance)
- ALSO PRESENT:** Andy Bruce (Welsh Audit Office), Lynn Pamment (PwC), Joe Hargreaves (PwC), Ian Hughes (Communities First Ltd.)

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### 1 DECLARATION OF INTEREST

No declaration of interest was received.

### 2 MINUTES

The minutes of the previous extraordinary meeting of the Audit Committee held on 7<sup>th</sup> November, 2014, were presented and confirmed as correct.

Arising thereon –

- The Capital & Treasury Management Accountant reported back to the Committee as requested with information in relation to average borrowing rates across authorities in Wales which he had organised in tabular form and rank order based on data sourced from the Public Works Loan Board (PWLB) website. The Officer explained that although benchmarking against other authorities can be useful, it is also important to emphasise that the timing of historic borrowing is dependent on when the capital programme has required borrowing to fund the schemes therein. For this reason, some authorities may have needed external borrowing to fund the programme at a time when interest rates were low whilst other authorities will have had to take up borrowing to fund their programmes at a time when rates were high. Also this approach can cloud the picture in as much that an authority's performance is based on interest rates from outstanding loans which can date back decades and which cannot be rescheduled due to the premiums that will be incurred in doing so, which would outweigh the savings.

The Officer said that the Average Fixed Rate for outstanding PWLB loans across local authorities in Wales is 5.58% meaning that the Isle of Anglesey County Council (IOACC) at 5.72% is slightly higher than the Welsh average. By ranking the authorities by the fixed interest rate for PWLB loans, the IOACC has the 14<sup>th</sup> lowest fixed interest rate out of the 22 local authorities in Wales. By ranking the authorities by the fixed interest rate for PWLB loans on a regional basis, the IOACC has the 3<sup>rd</sup> lowest fixed interest rate out of the six local authorities in North Wales.

The Committee noted the information.

- The Internal Audit Manager confirmed that he had contacted the Gwynedd Pension Fund to ascertain whether an official from the Fund would be able to attend this meeting of the Audit Committee to update Members on any performance issues. Whilst that had not been possible, alternative options had been offered viz. Members of the Committee could ask for feedback from the Isle of Anglesey's Elected Member representative (the Portfolio Member for Finance) on the Pension Fund Committee, or otherwise they could forward any questions directly to the Fund Management.

The Interim Head of Resources & Section 151 Officer said that it is customary every year for the pension funding and holding authority to convene a meeting with the Section 151 Officers of the Fund's constituent partners to address any issues pertaining to performance, investment and /or shortfalls etc. Whilst he had not been informed of when that meeting would be held he assumed that if the previous one had been held in March, 2014 then the next will be in March of next year. He confirmed that he would be happy to report back to the Committee on the first available date following the meeting, and for the Committee subsequently to follow up any issues that might arise with Gwynedd should that be the case.

The Committee took the view that it was important for it to be kept informed on the Pension Fund since performance issues were highlighted at the previous presentation in September 2013 and because the deficit on the Pension Fund does impact on the Authority's Balance Sheet. It was proposed and accepted that the Portfolio Member for Finance be asked to brief the Audit Committee at its next meeting with regard to the Pension Fund and any matter that may have arisen at meetings of the Pension Fund Committee.

Mrs Sharon Warnes informed the Committee that she had attended a meeting of Gwynedd Council's Audit Committee in September to observe Lay Member participation, and that the Pension Fund had been discussed at that meeting as part of the submission of the accounts, and an improvement in the Fund's performance was reported. The establishment of a committee comprised of representatives of each of the constituent partners within the Pension Fund to scrutinise the Fund had also been mooted as part of the discussions. She suggested it might be worthwhile inquiring whether that forum had indeed been set up, and its implications.

The Committee noted the update by the Internal Audit Manager and the additional information provided by Mrs Sharon Warnes.

#### **ACTIONS ARISING:**

- **Internal Audit Manager to request the Portfolio Member for Finance to brief the Committee at its next meeting on the Pension Fund and any related matters.**
- **Interim Head of Resources and Section 151 Officer to report back on any salient issues from the Pension Fund's constituent bodies' Section 151 Officers meeting when held.**

### **3 MÔN COMMUNITIES FIRST PROGRESS REPORT AND ACCOUNTS 2013-14**

A report by the Grants Co-Ordinator incorporating the Môn Communities First Ltd. accounts for 2013/14 along with a breakdown of the body's grant funding for 2013/14 and its budget for 2014/15 was presented for the Committee's consideration.

The Grants Co-ordinator reported that under the terms of the legal agreement between the Authority and Môn Communities First Ltd for the delivery of the programme, Môn Communities First Ltd is required to present its annual accounts to the Audit Committee. The accounts for 2013/14 have been audited by Williams Denton as the company's appointed auditors and they have confirmed they are sound with no issues to report on.

A Member of the Committee inquired regarding progress with the establishment of an academy which was initially put forward as an idea to address the needs of disaffected young people and whether that collaborative work had developed, and if so whether it could be extended as good practice to other areas of Anglesey. The Grants Co-Ordinator confirmed that the academy concept had evolved significantly over the past six months with Communities First Ltd having worked closely with Holyhead High School with the result that the academy is now an option for pupils at risk of exclusion. The Partnerships and Regeneration Scrutiny Committee indicated that it would

like to stage a best practice workshop with Communities First staff so that they could see the best practice that is going on with a view to rolling it out.

The Committee noted the information and considered whether it would be helpful for it to be briefed on aspects of Communities First other than the accounts. A Member confirmed that as part of a presentation to the Partnerships and Regeneration Scrutiny Committee in September an invitation to Communities First in Holyhead to see the work at first hand was extended to all Members. The Grants Co-Ordinator said that a follow up visit will also be held in the New Year at a time to be arranged.

**It was resolved to accept the report and the Communities First Ltd. accounts for 2013/14 as presented.**

**NO FURTHER ACTION ARISING**

#### **4 RISK MANAGEMENT**

The report of the Risk and Insurance Manager on the outcome and findings of a review of risk management policies, procedures and practice within the Authority undertaken by Caerus Consulting was presented for the Committee's consideration. The review conclusions which have been made available to the SLT, Penaethiaid and the Executive were attached in full under Appendix 1 to the report.

The Risk and Insurance Manager reported on the primary shortcomings identified within the review in relation to inconsistent application of risk management across the Council; lack of correlation between service and corporate risks; non alignment between risk management and other processes; insufficient coverage of risk within partnerships and joint working and a lack of understanding of roles and responsibilities with regard to risk. The Officer referred to the post review action that had, and is taking place in the form of clarifying scrutiny and audit committee roles in relation to risk; consulting on new risk management and guidance documents and delivering risk management training.

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

- It was acknowledged that the successful entrenchment of risk management practice throughout the Council is a long-standing issue for this Committee and is fundamental to the effective conduct of the Council's business in so much as every decision needs to be referenced to risk. It was suggested that the profile of risk management within the Council is not sufficiently elevated.
- It was asked at what point does Management consider it will be able to report back to the Committee that it is satisfied with the status and implementation of risk management within the Authority. In response to the Officer reply that the aim is to have a substantial corporate risk register compiled and in place by March, 2015, the Committee asked for an update for that time.
- The outcome of the discussions regarding the division of risk responsibilities between the Audit and Corporate Scrutiny Committee. The Risk and Insurance Manager said that to avoid duplication, it is intended that the Audit Committee will focus on the risk register and system whilst the Scrutiny Committee will look at individual risks.
- The need to simplify risk documentation to make it accessible so that the Audit Committee having an oversight responsibility can easily identify the key sources of risk and be assured that arrangements are in place to manage them, and Management is able to buy into the risk management process and register and take ownership of them as a useful tool.

The Deputy Chief Executive confirmed that she had not been persuaded that risk management is sufficiently embedded within the Authority, hence the review and the post review actions around revision of policy, simplification of the risk matrix and the delivery of training. The Authority needs to focus on its high level risks and ensure that the register remains a live document. All senior and middle managers have received the risk management training and are to incorporate risk management within the business planning process and service performance reviews. It is important that there is consistency in assessing risk and that risks are evaluated against a common base – the revised matrix will assist with that process.

The Interim Head of Resources and Section 151 Officer said that the Audit Committee needs to receive regular reports on risk management within the Council and could request the relevant managers to give account directly to the Committee for any non-compliance identified. The Executive reporting pro forma also includes a section for reporting on risk and mitigation which is not always completed by report authors; there is an argument for questioning the acceptability of reports that are not properly constituted in terms of accounting for and documenting the consideration of risk.

**It was resolved to accept the report and the findings of the review of risk management.**

**ACTION ARISING: Risk and Insurance Manager/Deputy Chief Executive to report back to the Audit Committee in April, 2015 on the status and implementation of the revised corporate risk register/matrix and associated risk guidance documentation.**

## **5 EXTERNAL AUDIT**

5.1 The Annual Audit Letter for the Isle of Anglesey County Council for 2013/14 in confirmation of the Authority's fulfilment of its responsibilities with regard to financial reporting and use of resources and the issuing of an audit certificate on the completion of the 2013/14 accounts audit process was presented for the Committee's information and was noted.

5.2 Mr Andy Bruce, WAO updated the Committee on the status, timing and expected outputs of ongoing and planned external audit performance work on a national and local basis. The information was noted.

A Member of the Committee asked whether in light of the challenging financial outlook for the Council the performance update report might make reference to good practice with regard to efficiencies where that applies. Mr Andy Bruce confirmed that in the case of local reviews efficiency issues are highlighted and form part of the formal feedback. External audit could however seek to bring out good practice from national reports.

## **6 INTERNAL AUDIT**

The report of the Internal Audit Manager on the work of the internal Audit Section for the period from 1 April to 14 November, 2014 was presented for the Committee's consideration. The report made reference to audit reviews undertaken and reports issued along with the assurance opinion awarded; referrals to Internal Audit and action taken, together with the internal audit recommendations issued and their implementation status.

The Internal Audit Manager highlighted two specific areas which were the subject of Red review reports reflecting a number of control weaknesses in the review areas, and these were in relation to System Controls – Logical Access and Segregation of Duties, and Third Sector Grants. A follow up report on progress in implementing the recommendations made as part of these reviews will be provided to the February, 2015 meeting of the Audit Committee. The Internal Audit Manager said that he would also update the Committee in February on current Audit concerns following the submission by the Deputy Chief Executive of an action plan to the September, 2014 meeting to address those concerns.

The Committee considered the information presented and was dismayed by the shortcomings reflected by the red review reports as regards the absence of policy and procedures in the areas reviewed and where those did exist, the lack of awareness and/or non-adherence to them. The issue of accountability was raised and consequently, the feasibility of calling to account the managers concerned. The Internal Audit Manager confirmed that the SLT and Heads of Service have been provided with a copy of the reviews and that the Deputy Chief Executive and the Head of IT are looking at ways of resolving the issues raised with regard to the System Controls review.

The Interim Head of Resources and Section 151 Officer said that the issues highlighted by the internal audit report replicate some of the issues raised with regard to risk management in terms of non-compliance with proper processes, and whilst the Committee's sentiments in wanting to highlight responsibility are understood, it is Management's responsibility to respond appropriately to the internal audit review reports by implementing the recommendations therein. The follow up report to the Committee in February will confirm whether or not that has happened. The

Committee's oversight discipline might be more productively applied to scrutinising the audit recommendation implementation rates by service as set out in Appendix A, and in identifying and calling to account the managers of those services who demonstrate a repeated failure to implement internal audit recommendations satisfactorily over the course of time.

The Internal Audit Manager pointed out the absence of a corporate mechanism for ensuring and monitoring that policies, processes and recommendations are implemented and are adhered to. He said that he would bring a more detailed analysis of internal audit recommendations outstanding, the length of time they have remained unimplemented and the services/managers to which they pertain to the February meeting of the Audit Committee.

The Committee recognised that there appeared to be a disconnection between policies and processes promulgated and the active management of their implementation and conformity with what is required, and suggested that as part of its action plan for 2015/16 it should focus on areas that are not moving forwards. Mrs Lynn Pamment, PwC said that the Audit Committee's challenge function lies in following through on actions subsequent to a Red review and that it might wish to consider taking a more rigorous stance on implementation.

**It was resolved to accept the Internal Audit progress report for April to November, 2014 and to note its contents.**

**ACTIONS ARISING: Internal Audit Manager to provide the following to the Committee's February meeting:**

- **Follow up reports on the Red Reviews with regard to System Controls – Logical Access and Segregation of Duties and Third Sector Grants including recommendations implemented.**
- **A detailed analysis of internal audit recommendations outstanding, the length of time they have remained unimplemented and the services/managers to which they pertain.**

## **7 ANNUAL REPORT ON THE PREVENTION OF FRAUD AND CORRUPTION 2013/14**

The Annual Report on activity with regard to implementing the Councils policy on preventing Fraud and Corruption during 2013/14 was presented for the Committee's information.

A Member of the Committee referred to what seemed to be the primacy of the fraud dimension within the policy, and the absence of references to anti-corruption measures, for example in relation to ensuring transparency in the award of large contracts.

The Internal Audit Manager reported that KPMG has undertaken a review of the Authority's procurement framework and that the Section 151 Officer and the Procurement Officer have a contract list in place as well as additional controls. Procurement will also form part of the remit of the Counter Fraud Officer. The Interim Head of Resources and Section 151 Officer confirmed that a great deal of work has been undertaken following the KPMG review in terms of increasing capacity and instigating a wide ranging review of contractual procurement across the Council to identify efficiencies and to ensure that contracts are being let in a structured and uniform way across the Council. Compliance with proper processes will make corruption harder to occur. Mr Joe Hargreaves PwC, said that as part of external audit work, new and amended contracts and the processes by which they have been let are checked. No discrepancies have been found.

**It was resolved to accept the Annual Report on the Prevention of Fraud and Corruption 2013/14 and to note its contents.**

**NO FURTHER ACTION ARISING**

## **8 REVISED COUNTER FRAUD ARRANGEMENTS**

The report of the Internal Audit Manager outlining the revisions to counter fraud arrangements which have been put in place in response to national changes in how Housing Benefit fraud is identified, investigated and prosecuted through the establishment of a Single Fraud Investigation Service was presented for the Committee's information.

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

**NO FURTHER ACTION ARISING**

## **9 AUDIT COMMITTEE SEMINAR**

The report of the Interim Head of Resources and Section 151 Officer on the outcome of a seminar to assess the effectiveness of the Audit Committee and to identify any adjustments that are worthy of consideration in respect of the Committee's terms of reference and activities was presented for the Committee's consideration.

Mrs Sharon Warnes referred to practice within the Audit Committee in a neighbouring authority with regard to the establishment of work groups which meet in the interim between formal meetings of the Audit Committee and which focus on specific areas in greater detail and depth than a committee setting will allow. The Committee noted the information as an option in considering how the Audit Committee's effectiveness can be enhanced.

**It was resolved –**

- **To recommend to the Executive, and thereafter the Council, that the name of the Audit Committee be changed to the Audit and Governance Committee.**
- **To request that the Internal Audit Manager carry out a review of the effectiveness of the Council's arrangements for dealing with partnership working**
- **To note its past actions and to continue to carry out the annual self-assessment of its effectiveness.**

**NO FURTHER ACTION TO THE ABOVE ARISING**

**Councillor Trefor Lloyd Hughes  
Chair**