

AUDIT COMMITTEE

Minutes of the meeting held on 23 February, 2015

- PRESENT:** Councillor Trefor Lloyd Hughes (Chair)
Councillor John Griffith (Vice-Chair)
- Councillors Richard Owain Jones, Robert Llewelyn Jones, Alun Mummery, Dafydd Thomas.
- Lay Member: Mr Richard Barker
- IN ATTENDANCE:** Chief Executive (from item 5.2)
Deputy Chief Executive
Interim Head of Resources & Section 151 Officer
Internal Audit Manager (JF)
Acting Accountancy Services Manager (BHO)
Senior Accountant (Strategic Planning) (BD)
Committee Officer (ATH)
- APOLOGIES:** Councillor Jim Evans, Mrs Sharon Warnes (Lay Member)
- ALSO PRESENT:** Councillor H. Eifion Jones (Portfolio Member for Finance), Mr Andy Bruce (Wales Audit Office), Melanie Watson (Wales Audit Office Corporate Assessment Team), Mr Joe Hargreaves (PwC)

The Chair welcomed all those present to this meeting of the Audit Committee. He updated the Committee with regard to the resignation of Councillor Jeff Evans as a member of the Committee and he also informed the Committee that Councillor Jim Evans was absent due to his having recently suffered a fall. On behalf of the Audit Committee, he wished Councillor Evans a full and speedy recovery.

1 DECLARATION OF INTEREST

Mr John Fidoe, Internal Audit Manager declared an interest in relation to item 9 on the agenda and he withdrew from the meeting during the consideration thereof.

With reference to item 3 on the agenda, it was noted that a number of Members present were affiliated to the Gwynedd Pension Fund as members of the fund.

2 MINUTES

The minutes of the previous meetings of the Audit Committee held on 10th December, 2014 and 9th February, 2015 were presented and confirmed as correct.

3 GWYNEDD PENSION FUND

In accordance with the request made by the Audit Committee at its 10th December, 2014 meeting, the Portfolio Member for Finance provided the Committee with a synopsis of the performance of the Gwynedd Pension Fund for 2013/14.

The Portfolio Member for Finance as the Isle of Anglesey County Council's representative on the Gwynedd Pensions Fund Committee reported as follows based on information contained in the Pension Fund summary report and accounts for 2013/14 –

- That subject to audit, the Pension Fund Accounts summary shows that total income for the period was £83.523m compared to £78.525m in the previous year of which the bulk is made up of a combination of Employer contributions (£50.909m in 2013/14) and Employee contributions (£14.791m in 2013/14).

- For 2013/14, expenditure totalled £55.267m, the greater part of which was made up of pension benefits (£34.424m).
- That there was a surplus of £28.256m on the Fund at the end of 2013/4 which was available for investment. This is significant given there is a general misconception that not enough is being paid into the Fund in the form of annual contributions.
- The Fund's net assets position stood at £1,310m at 31 March, 2014 representing an increase of £117m during the year. The Fund's investment approach is based on reducing risk by investing across a range of different asset classes e.g. equities, property and more recently, infrastructure.
- The overall fund return for 2013/14 was 8.2% against a benchmark of 6.3%. Over three years the Fund return was 6.7% against a benchmark of 6.5%.
- During 2013/14, the Fund's triennial actuarial valuation as at March, 2013 was completed. The funding level increased from 84% to 85% which is ahead of the average of 79% in England and Wales. However, the deficit in the Fund also increased due in part to longevity factors and a low level of gilt yield at the time of valuation.
- Compared with other local authority funds, the Gwynedd Pension Fund ranked 19th out of 85 in terms of investment performance which is indicative of a sound performance. It is a solid fund which has a broad mix of investments.

The Committee was given the opportunity to question the Portfolio Member for Finance on the information presented and the following issues were raised –

- The Fund's management charges compared with other similar funds. The Committee was informed that investment management expenses were £7.316m for 2013/14 and administration expenses were £1.268m. A central Government consultation paper has proposed that equity investment should be passive rather than active in order to reduce costs. The Gwynedd Pension Fund takes the view that funds should be given the choice to comply with the proposal or explain a decision to pursue active management.
- Whether the return on the Gwynedd Pension Fund compares favourably with the Isle of Anglesey Charitable Trust Fund. The Committee was informed that the two funds are different as regards investment objectives with the Charitable Trust Fund invested mainly to produce a good yield while the Pension Fund is invested with a view to long term performance.
- Whether the Gwynedd Pension Fund has the capacity to continue as it is in the event of another stock market crash. The Committee was informed that the Gwynedd Pension Fund by its very nature is subject to market fluctuations but that its investment strategy seeks to mitigate risk by allocating assets across a spread of categories. Moreover the Fund does have £26.148m in cash and bank deposits.

The Committee noted the information presented along with the Gwynedd Pension Fund position as at the end of 2013/14 and indicated that it would wish to continue to monitor the Pension Fund performance on an annual basis.

NO FURTHER ACTION ARISING

4 TREASURY MANAGEMENT QUARTER 3 2014/15

The report of the Interim Head of Resources and Section 151 Officer with regard to treasury management activities in the third quarter of 2014/15 was presented for the Committee's consideration.

The Senior Accountant (Strategic Planning) referred to the following considerations –

- Forecast interest rates to March 2018 as provided by the Council's Treasury Advisors which predict a slow and steady upward trend, whilst highlighting the continued volatility in the markets and the unpredictability of rates.
- The Council's borrowing position as set out at section 3 and the rationale for continuing to internalise borrowing at this time.
- Borrowing and investments at the beginning and end of the quarter as set out in section 4 of the report and the influencing factors in relation to the investment approach.

- Confirmation that the Council remained within its Prudential and Treasury limits during the quarter.
- Plans for the remainder of the year and beyond with particular reference to the Council's exit from the HRA subsidy system on 2 April via a buyout financed through the PWLB the details of which remain under consultation but which situation is reflected within the budget setting papers and 2015/16 Treasury Management Strategy Statement.

The Committee noted the information without further comment.

It was resolved to accept the Treasury Management update for Quarter 3 2014/15.

NO FURTHER ACTION ARISING

5 EXTERNAL AUDIT

5.1 Mr Andy Bruce, WAO reported verbally on the progress and status of items of work under the Performance Work Programme as follows –

- Fieldwork for the Corporate Assessment of the Authority is currently underway. The Corporate Assessment supersedes the Annual Improvement Report in 2015 and will take into account the Authority's Self-Assessment and the WAO local reviews on the management of financial resources, governance and the effectiveness of Joint Local Service Board arrangements. A draft report is expected to be issued in April with the definitive report to follow in June.
- The national report on the Safeguarding review is being drafted and is expected to be issued in March.
- The draft national report with regard to the Financial position review which will give an all Wales picture of financial resilience is currently going through the internal clearing process. The methodology for the review is being considered for a follow-up review in 2016.
- The public survey with regard to Delivering with Less – Leisure Studies study has closed and the results are being analysed to feed into a national report.
- The fieldwork in relation to the study of joined up working to address health and social care demand in relation to the independence of older people has been completed. The Authority in Anglesey was not directly involved in this study and the output will be in the form of a short national summary of findings to be issued in March 2015.
- Consultation on the seven study options for the 2015/16 Performance Work Plan has closed and the definitive work programme will be selected on the basis of the feedback received and published in April, 2015.

The Committee noted the information without further comment.

5.2 Mr Joe Hargreaves, PwC provided a verbal update on the status of the certification of grants work. Grant claims are certified in accordance with a series of deadlines and all work in relation to claims for 2013/14 is complete and all grants certified apart from the Learning Pathway Grant. For those grants certified the Grants Co-ordinator will have available the certification letters which provide details of the nature of the certification. In relation to the February deadline, work on WEFO grants certification (North Wales Local Investment Fund and Strategic Infrastructure Grant) is ongoing and those grants are expected to be certified by the end of the month. In total 18 grants have been certified of which 6 are unqualified with no amendments, 7 are unqualified with some amendments; 2 required qualification on the audit certification and 3 were qualified and required additional amendments to the final figures.

The Committee considered the information and acknowledged the improvement as regards the number of grants certified without qualification. The Committee raised a general point regarding what appeared to be the proliferation of grants in recent years both from the Welsh Government and other sources. It was suggested and subsequently agreed, that it would be informative for the Audit Committee to receive a schedule of available grants both in terms of gaining an impression of the bigger picture with regard to grant funding and in terms of ensuring that the Authority is making the most of grant funding opportunities that may be open to it.

The Chief Executive said that most of the grant funding offers to the Authority are received via the Chief Executive's Office and are looked at by the Chief Executive before being forwarded to the

relevant service directorate. A Finance Service Officer also oversees the grants for compliance with funding criteria. Not all grant offers received are applied for and consideration is given to whether they identify with the Council's corporate priorities and whether the resources expended in drawing up an application is justified given that the application process for many grants is competitive. There is a wide range of grants available and services in the Authority are sustained by grant funding of over £60m meaning that there are implications if or when that funding ceases. The timing of the confirmation of grant funding can also influence and/or delay service planning.

The Interim Head of Resources said that there is an element of risk attached to the grant funding regime in so much as with the availability of so many grants both Welsh Government and EU, the pursuit of grants can become an objective in itself rather than the delivery of a service to the community. Given that many grants are awarded on a match funding basis, services can spend 50% to match fund a grant without sufficient regard to whether those funds could be better spent elsewhere. Grant funding is also very fluid with new grants emerging as current grants cease so any survey of grants available will only capture the situation at a particular time.

It was resolved to note the position to date in relation to the certification of grants.

ACTION ARISING: The Interim Head of Resources and Section 151 Officer to provide the Committee with a report on the grants available to the Authority and how the Authority maximises the take up of grants.

6 INTERNAL AUDIT PROGRESS REPORT

The report of the Internal Audit Manager on the work of the Internal Audit Section from 1 April, 2014 to 31 December, 2014 was presented for the Committee's consideration.

The Internal Audit Manager highlighted the following considerations –

- There were no reviews in the period which resulted in a Red Assurance opinion.
- A follow-up review of each of two previously reported red opinion reports – Logical Access Controls and Segregation of Duties and Third Sector Scheme - were undertaken and in the case of the former it concluded that management had demonstrated little progress in implementing actions agreed to address the audit recommendations within the original agreed timescales although it is recognised that a number of the items are linked to the response to the Information Commissioner's report and could take some time to fulfil. In the case of the Third Sector Scheme, the follow up review found that good progress is being made in addressing the issues raised in the original IA report.
- An audit of Homelessness undertaken as part of the approved internal audit periodic plan for 2013/14 resulted in an overall Red/Amber opinion as did an audit of the Teachers' Payroll which also identified control weaknesses unaddressed from previous annual key controls payroll reviews from 2012/13 and 2013/14. Both areas will be subject to follow-up reviews the findings of which will be reported to the Audit Committee.
- An advisory review of the arrangements for the sale, billing and payment of maritime diesel also identified a number of control weaknesses.
- To date, 27 Final reports have been issued from the 2014/15 Internal Operational Plan, 74% have resulted in a positive assurance opinion (Green or Green/Amber) and 26% in a negative opinion (Red or Red/Amber).
- The Committee has previously been made aware of an attempted Creditor related fraud against the Council and others. On 25th January, 2015 the Internal Audit Service received an e-mail response from the Police confirming that in line with West Midlands Police Fraud allocation and investigation policy, no further investigation will take place at this time.
- In respect of recommendation tracking, the percentage implementation rate at 14 January, 2015 was 61% of High and Medium recommendations. The performance in relation to recommendations other than those in Education is 79%. An analysis of outstanding audit recommendations was provided at Appendix B to the report.
- In respect of ongoing audit concerns, the current position in relation to the areas identified as such is documented at section 6 of the report. These areas will continue to be of concern for Internal Audit until all significant recommendations have been implemented and assurance can be provided that the frameworks and systems are in place, have been embedded are robust and are effective.

The Committee considered the report and the following matters were noted -

- That an explanation had been given in mitigation of the delay in implementing the IA recommendations subsequent to the review of Logical Access Controls and Segregation of Duties. The Interim Head of Resources and Section 151 Officer further clarified that a lack of resources has been an issue in the I.T. Service meaning that progress in taking matters forward has been slower than it would have been if the service had been fully resourced. The Officer confirmed that a new Head of I.T. Service has by now been appointed and will set about addressing the outstanding audit recommendations. The Committee noted and accepted the Officer's clarification.
- That the report brings to the fore issues relating to internal controls and the need to strengthen those in several areas as well as highlighting a number of generic governance issues around policies and procedures linked to compliance, duplication, disregard and/or lack of awareness thereof which the Committee noted was a recurring theme and which it deemed to be a matter of poor housekeeping which Management might be expected to fulfil as a core function.
- That as part of its brief to monitor Management responsiveness to Internal Audit findings and recommendations, and in light of the areas of ongoing audit concern at section 6 where progress for the most part was noted as slow, and the rate of implementation of internal audit high and medium recommendations which at 61% was judged unsatisfactory, the Committee considered whether it was now time for it to exercise its prerogative in calling managers directly to account for non-compliance and non-implementation.
- The Committee deliberated and agreed, that as a signal of its intent to take a more rigorous approach to implementation and to be assured that internal audit review results are being given appropriate attention, it would in the first instance seek to examine the issues raised by the internal audit review of arrangements for the sale, billing and payment of maritime diesel. To that end it was also agreed that the relevant Head of Service be asked to account for how the situation had arisen and to explain directly to the Committee what remedial measures are being taken to action the internal audit recommendations made.
- That with reference to referrals, the Committee was disappointed by the decision by West Midlands Police not to pursue the attempted creditor related fraud against the Council and others. The Committee took the view that had it succeeded the fraud could have had serious implications as regards potential loss of public money.

The Deputy Chief Executive in response to the Committee's concerns regarding lack of progress on areas of ongoing audit concerns reported that internal audit review reports are now made available to the Senior Leadership Team thus ensuring that Senior Management is made aware of any emerging issues in a timely way. While progress has been made on the areas documented under section 6 of the report further work is required to ensure that the Authority becomes more effective in those areas and that does in part entail a change of culture which can take time to bring about.

It was resolved to accept the report of the Internal Audit Manager and to note its contents.

ACTIONS ARISING:

- **Internal Audit Manager on behalf of the Audit Committee to request the Head of Service (Economic and Community Regeneration) to attend the next meeting of the Audit Committee to account for how the situation with regard to the arrangements for the sale, billing and payment of maritime diesel had arisen and the steps being taken to address Internal Audit recommendations.**
- **Internal Audit Manager on behalf of the Audit Committee to convey in a letter to the North Wales Police and Crime Commissioner, the Committee's disappointment at the decision taken by West Midlands Police not to further investigate the attempted creditor fraud against the Council and others.**

7 ANNUAL NEEDS ANALYSIS AND INTERNAL AUDIT OPERATIONAL PLAN 2015/16

The report of the Internal Audit Manager incorporating the Internal Audit Operational Plan for 2015/16 was presented for the Committee's consideration. The report sets out the process whereby the audit needs to fulfil the Operational Plan is assessed.

The Internal Audit Manager reported that at the time of the production of the draft Internal Audit Operational Plan for 2015/16, a review of the provision of the Internal Audit Service within the Council was in progress meaning that it is not possible for the Chief Audit Executive to be able to provide assurance regarding the adequacy of the internal audit resources available to the Internal Audit Service in 2015/16.

It was resolved –

- **To approve the Internal Audit Operational Plan for 2015/16 as reflecting areas which the Committee believes should be covered as a priority subject to resources.**
- **To note that the Operational Plan for 2015/16 is based on 850 auditor days.**

NO FURTHER ACTION ARISING

8 EXCLUSION OF PRESS AND PUBLIC

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

9 INTERNAL AUDIT MANAGEMENT CONTRACT

The Interim Head of Resources and Section 151 Officer reported that the management of the in-house Internal Audit service team is currently provided by Baker Tilly whose contract expires at the end of March, 2015. It is not considered that the current hybrid model of provision is the most effective for an internal audit service and that delivery would be better on an entirely in-house basis or if it was entirely out-sourced. It had been agreed that a tender process should be undertaken to test the market for a price for the delivery of the service which could then be compared with the price for in-house delivery and reported to the Committee for its determination. The cost of in-house provision will reflect the cost of a revamped service in order to bring to the Committee a proposal for an in-house team that reflects best practice and is cost-effective.

Discussions have been held with the Procurement Service to look at the ways of undertaking a tendering exercise for the internal audit service as well as taking soundings from the market. However initial indications are that due to certain considerations, effective competition from the market might not be forthcoming. Steps have therefore been taken to explore the feasibility of delivering the service in partnership with another public sector organisation including with the NHS Shared Service Partnership which provides a number of services including internal audit, across the NHS in Wales and/or another local authority, and there have been initial discussions to that end. Further due diligence work is needed before a firm proposal is brought to the Committee.

In the interim, the Senior Internal Auditor will step up to the Internal Audit Manager's post and duties. Consideration will have to be given to whether there may be any impact on the 2015/16 Operational Plan in the short-term.

The Committee considered the information presented and whether exploratory discussions for the provision of an internal audit service should also be opened with other neighbouring authorities. The majority view was that the current lines of enquiry as described by the Officer should continue to be pursued.

It was resolved to support the continuation of the current lines of enquiry as reported by the Interim Head of Resources and Section 151 Officer.

ACTION ARISING: Interim Head of Resources and Section 151 Officer to update the Committee on the progress of discussions at its next meeting.

**Councillor Trefor Lloyd Hughes
Chair**