

AUDIT AND GOVERNANCE COMMITTEE

Minutes of the meeting held on 27 July, 2015

- PRESENT:** Councillor R.Llewelyn Jones (Chair)
Councillor John Griffith (Vice-Chair)
- Councillors Jim Evans, Alun Mummery, Richard Owain Jones,
Peter Rogers, Dafydd Rhys Thomas
- Lay Members: Mr Richard Barker, Mrs Sharon Warnes
- IN ATTENDANCE:** Chief Executive
Interim Head of Resources & Section 151 Officer
Accountancy Services Manager & Deputy Section 151 Officer
Interim Audit Manager (RS)
Risk and Insurance Manager (for items 8 and 10)
Finance Service Manager (CK) (for item 3)
Senior Accountant (Strategic Planning & Transformation) (BD) (for
item 3)
Committee Officer (ATH)
- APOLOGIES:** None
- ALSO PRESENT:** Mr Martin George (PwC), Mr Mike Halstead (Head of Audit &
Procurement) and Sioned Parry (Audit Manager – Performance)
(Conwy County Borough Council)
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1. DECLARATION OF INTEREST

No declaration of interest was received.

2. MINUTES 23 JUNE, 2015 MEETING

The minutes of the previous meeting of the Audit and Governance Committee held on 23 June, 2015 were presented and confirmed as correct, subject to noting with reference to item 1 that Mrs Sharon Warnes had been appointed to the new Gwynedd Pension Fund Board rather than the Pension Fund Committee.

Arising thereon –

- The Interim Head of Resources and Section 1512 Officer confirmed that in accordance with the undertaking he had made at the previous meeting, he had raised the concerns expressed by the Committee's Lay Members about the absence from the process of electing a Chair and Vice-Chair for the Audit and Governance Committee of a provision to enable their involvement therein with the Senior Leadership Team with the result that the Chief Executive will discuss the issue with the Leaders of the Political Groups, and subsequently, and in conjunction with the Monitoring Officer will present a report to the next meeting on adjusting the process so as to address those concerns for the future.

The Committee accepted and noted the information.

- In response to a request for an update on whether or not there had been further communication by North Wales Police with regard to progress in investigating a case of attempted fraud against the Council previously highlighted by Internal Audit and raised in correspondence with North

Wales Police as reported to the Committee's June meeting, the Interim Head of Resources and Section 151 Officer said that he had sought further clarification from North Wales Police of the action being taken in respect of this matter, and could report that the Police have confirmed that they are now liaising with other forces (the scam having not been confined to this Authority) and will come back with a more detailed response which at this time is still awaited.

The Committee noted the position without any further action ensuing.

3. ANNUAL TREASURY MANAGEMENT REVIEW 2014/15

The report of the Interim Head of Resources and Section 151 Officer incorporating the Annual Treasury Management review for 2014/15 was presented for the Committee's consideration and scrutiny. The report set out the out-turn position for treasury activities during the year and highlighted compliance with Council's policies as previously approved by Members.

The Senior Accountant (Strategic Planning and Transformation) reported that capital expenditure during the year was financed through a number of sources; in light of the current and projected market interest rates and counterparty credit risks (the credit ratings of which were given in Appendix 2) it was decided to continue internalising borrowing in the short term to reduce both those risks and costs. This strategy has now been implemented throughout each of the last four years, and as a result of continuing with this approach, the gap between the Council's underlying borrowing need (CFR) and external borrowing decreased during 2014/15 to £19m. The Officer said that a reducing CFR against external borrowing has been a theme of recent years and he confirmed that the Council has complied with all the treasury limits and prudential indicators and is operating in line with the approved Treasury Management Strategy. It was previously reported that the Authority was preparing to exit the HRA subsidy system on 2 April, 2015, and at the time of reporting for Quarter 3 it was known that the buyout was to be financed through the PWLB and that the settlement amount and rate of interest on the borrowing were to be confirmed. The buyout has since been completed and the HRA is now self-financed.

The Committee considered the report and made the following points –

- The Committee sought clarification whether in view of the prevailing climate of cheap borrowing the Council should be looking to maximise borrowing opportunities. The Senior Accountant (Strategic Planning and Transformation) said that should the Authority externalise its full borrowing it would mean placing that cash with counterparties at the banks which renders the Council open to risk due to the potential for default on their part. Additionally, in the short term using its own cash allows the Authority to reduce borrowing costs. The approach is to eschew short-term gains which might be to the detriment of the Authority in the long term. It is important to assess the forecast movement on the markets and the conditions for investing on an ongoing basis to ensure they are suitable. The Officer confirmed that the situation is kept under regular review.
- The Committee sought to establish whether in light of historically low interest rates, it would have been more advantageous to the Authority to have adopted a strategy of using its borrowing capacity to make planned investment in its property portfolio (the small holdings portfolio was cited as an example) which it was suggested has been allowed to suffer decline to the extent that remedial works are required at potentially greater cost. The Interim Head of Resources and Section 151 Officer whilst acknowledging the point made said that it has to be borne in mind that borrowing brings with it additional revenue costs. If it could be shown that there was a clear difference between the amount paid on loans and the returns obtained by investment over the course of a period of years then it might have been in the Authority's interests to have taken such an approach but that is a deduction that can only be made with the benefit of hindsight. There are however options that could have been considered.

It was resolved –

- **To note that the figures contained within the review report will remain provisional until the audit of the 2014/15 Statement of Accounts is completed and signed off and that any resulting significant adjustments to the figures included within the report will be reported as appropriate.**

- **To note the provisional actual 2014/15 prudential and treasury indicators within the report.**
- **To note and accept the Treasury Management Review report for 2014/15 as presented and to forward it to the Executive without additional comment.**

4. EXTERNAL AUDIT – FINANCIAL AUDIT PROGRESS REPORT

Mr Martin George, Audit Manager, PwC reported that the formal audit of the Authority's financial statements commenced immediately following the Committee's June meeting to which the draft 2014/15 Statement of Accounts was presented. The auditors are receiving support by the Finance Service team and the formal findings from the audit will be presented to this Committee's September meeting in advance of a recommendation that they be approved ahead of the 30 September statutory deadline.

It was resolved to note the position without comment.

NO FURTHER ACTION ENSUING.

5. INTERNAL AUDIT PROGRESS REPORT

The report of the Interim Internal Audit Manager outlining progress in delivering the Internal Audit Section's planned audit work for the first quarter of the 2015/16 financial year was presented for the Committee's consideration.

The Interim Audit Manager reported as follows –

- The table at paragraph 2.2 of the report shows the progress made against the Operational Audit Plan for 2015/16 which is broadly in line with expectations for this period. Progress has been hampered to a degree by a higher than expected level of sickness within the Audit team and by the fact that the team is carrying two vacancies.
- The table at paragraph 3.1 of the report records the final reports issued since 1 April, 2015; the RAG assurance ratings used during 2014/15 and what they signify are given in paragraph 3.2.
- For 2015/16 new assurance level definitions have been introduced which are clear and more precise and bring into play the priority of recommendations made. These are set out in paragraph 3.3.
- At the same time, and for the first time, definitions of the priority levels issued for internal audit recommendations have been introduced with a view to both improving consistency within the audit team and clarity of understanding by the report recipient. These are explained in paragraph 3.4 of the report.
- Whilst it has been the practice to include within the quarterly internal audit progress reports, information regarding the implementation status of high and medium term priority recommendations no such data has been provided for this quarter because having explored the basis on which that information has been compiled, the Interim Internal Audit Manager is not confident that data can be produced that reliably reflects the state of play and provides the necessary level of assurance. Work needs to be done to improve the process for collecting the data concerning agreed recommendations and how progress in implementation is monitored so as to be able to report accurately to the SLT and this Committee in future.

The Committee considered the information presented and sought further explanation of the issues around the integrity and dependability of the database for producing information about the rate and status of implementation of internal audit recommendations and whether this a Management or an Internal Audit derived issue. The Interim Internal Audit Manager said that there are questions which Internal Audit needs to address relating to the collection of data and that it was his opinion that the database which has been used to extract the information is flawed and does not give adequate assurance. However, it is Management's responsibility to implement the recommendations and Internal Audit's responsibility to report on the status of implementation so that the Committee is able to take assurance or otherwise from Management's response to internal audit recommendations in relation to internal controls and compliance.

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

NO FURTHER ACTION ENSUING

6. STRATEGIC INTERNAL AUDIT PLAN 2015/16 TO 2017/18

The report of the Interim Internal Audit Manager incorporating a revised Strategic Internal Audit Plan for 2015/16 to 2017/18 was presented for the Committee's consideration and approval.

The Interim Internal Audit Manager reported that the existing Operational Audit Plan for 2015/16 was presented to and approved by the Audit Committee at its meeting on 23 February, 2015. Enquiries since then have identified the need to re-examine the planned internal audit coverage resulting in the presentation to the Committee of the proposed modified strategic audit plan under Appendix A. The Officer said that the main modifications and the reasons for change can be summarised thus –

- Compared with the existing plan, the revised plan is more balanced, spreads audit coverage more widely and extends over three years rather than one. The plan addresses all areas considered relevant for review by internal audit within the three year timespan.
- The allocation of audit resource in the original plan was heavily weighted towards key financial systems and as it was based on a fixed amount of resources, it did not allow for the coverage of other equally significant areas of activity. The revised plan seeks to re-balance the audit resource to enable the examination of a number of areas which have not been subject to audit review in recent years.
- The revised plan has an in built element of flexibility and provides a contingency item of approximately 10% of resource.
- Auditing of schools is targeted at the larger schools within the revised plan rather than being undertaken by rote as was the past practice. The plan also provides for thematic reviews across a selection of smaller schools.
- The plan has identified a shortfall in internal audit resources and indicates that the service is in need of one additional full time person to deliver the planned work. The service currently has two vacancies at junior level, and having considered how the shortfall can be best addressed in terms of effectively delivering the plan, the opinion is that the two junior posts should be relinquished in favour of one senior post.

The Committee considered the revised strategic internal audit plan and made the following comments thereon –

- The Committee acknowledged the plan as comprehensive in its coverage and welcomed the new three year perspective. The Committee also deemed that the plan satisfied the request made at the previous meeting for a working guide to the areas and themes which it should be keeping under review.
- The Committee noted that the Internal Audit function is a key part of the Authority's governance framework in terms of monitoring the performance of the Council's internal controls and in providing confidence and assurance with regard to how the Council conducts its business, manages its risks and complies with regulations and internal policies. It stressed that Internal Audit needs to work closely with Management to ensure that the system of internal controls is working effectively. The Interim Audit Manager said that there are several areas of Council activity that require examination that have not been looked at for a number of years and that the revised audit plan identifies this requirement and meets it head-on. However, it is important that the audit plan is not viewed as a document set in stone - issues will inevitably arise during the course of the year and whilst in the past planned projects yielded to those issues, the revised audit plan has a contingency of 10% which means that planned commitments do not have to be sacrificed in order to be able to respond to emerging issues. The Audit Team requires an element of flexibility in order to be effective.
- The Committee expressed some concern regarding the proposed sacrifice of two junior posts in favour of one senior post in terms of capacity building within Internal Audit for the future and in the context of an avowed intention to take a "grow your own" approach to developing capacity and skills within the Authority generally. The Committee noted that sacrificing the developmental element for a short term imperative might be counter-productive in the long term. The Interim Internal Audit Manager said that the Internal Audit Service requires a skilled individual who can take up the work immediately; being a small team with objectives to fulfil within a prescribed time period, the service requires a level of expertise to satisfy those

responsibilities and therefore cannot afford to engage a trainee at this time although that is not necessarily reflective of the approach the Authority might wish to take corporately. The Interim Head of Resources and Section 151 Officer informed the Committee that there will be a limited level of trainee time available next year as the Council has taken on a Corporate Finance Trainee; the proposed training programme for that individual will involve spending a period of time in Internal Audit thereby providing a modicum of additional resource within the service. The point made by the Interim Internal Audit Manager about the value to the Council of having a single qualified individual rather than two individuals at junior level is a valid one and one that the Committee needs to bear in mind. Should an issue around resources arise in the coming months there will be an opportunity to identify such issues in Internal Audit progress reports; however, it would be premature to seek to make any determination as regards staffing at this meeting. Such a decision needs to be made carefully and on the basis of a report setting out all the facts about what is required to ensure the Internal Audit Service is adequately resourced and has the right staff mix and competencies to be able to carry out its responsibilities effectively.

- The Committee noted that some areas scheduled for review within the revised Audit Plan had not been examined for a number of years and therefore carried no audit opinion and provided no level of assurance. The issue of Safeguarding was given as an example as an especially current and critical area which the Committee believed needed to be audited regularly. The Interim Internal Audit Manager confirmed that under the revised plan, Safeguarding as an area of activity is to be audited annually, thus ensuring that it is placed on a sound footing from now onwards. The Officer said that with regard to the last audit undertaken for each area in the plan he had not investigated further back than 2012/13 on the grounds that any review of longer standing would have minimal value and relevance.
- The Committee also highlighted Business Continuity as of particular relevance given the Island's industrial context and was concerned that the last audit review of this area carried a red audit opinion. The Committee sought clarification of how soon a report on this area would be available to it. The Interim Head of Resources and Section 151 Officer advised that the Committee's focus should be on the Management response to any recommendations made by Internal Audit on improving Business Continuity governance arrangements once the report is issued rather than the report itself. The scenario wherein no action is taken by Management on a report is the situation that should occasion concern to the Committee otherwise the information it would receive were it to try to look at each and every report would become unmanageable. The Internal Audit Service will continue to produce quarterly progress reports which show what issues are outstanding and will continue to report on those issues until they are properly addressed and resolved. The Committee needs to stay up to date on Management's response to the recommendations issued by Internal Audit.
- The Committee noted that several areas identified for review within the audit plan particularly those of a corporate nature are areas which the Committee has previously identified as needing attention and which it is keen to see being moved forwards. The Committee sought assurance that the audit plan would not be changed without its first being consulted, and emphasised that it did not wish to see these areas being lost in the changeover to new internal audit management arrangements. The Interim Head of Resources and Section 151 Officer confirmed that the Audit and Governance Committee would be consulted in the event of any proposed changes as the deciding authority with regard to the audit plan.
- The Committee suggested that as well as being kept informed on progress and outcomes it would be helpful if it were in possession of a process log which would show key process milestones for those issues that might not have fallen but might still be in process. It was proposed that Internal Audit consider incorporating such a provision within its reporting arrangements.

It was resolved to approve the Strategic Audit Plan for 2015/16 to 2017/18 as set out in Appendix A to the report.

ACTION ENSUING: Internal Audit to incorporate within its reporting arrangements a provision for showing issues that are still in process.

7. MARITIME DIESEL SERVICE

The Accountancy Services Manager provided the Committee with additional information about the Maritime Diesel Service in relation to income and expenditure and debt write-offs as requested at the previous meeting.

The Officer informed the Committee that she had examined the records for the Maritime Diesel Service for the previous six years and could confirm that the diesel element of the service has remained profitable for each of those years with a minimum profit of £2,000 generated in the 2011/12 financial year and a maximum profit of £66,000 generated in the 2012/13 financial year. There were no debt write-offs on diesel made during the two years looked at, namely 2013/14 and 2014/15.

In response to requests for clarification on specific points the Officer said -

- She would seek to ascertain with the Service if diesel can be purchased by cash and if and when such payments were made.
- That three invoices amounting to £18k in total have been set aside for provisional write-off

It was resolved to note the information.

NO FURTHER ACTION ENSUING

8. INSURANCE CLAIMS

The report of the Risk and Insurance Manager with regard to insurance claims against the Authority during the financial years from 2010/11 to 2014/15 was presented from the Committee's consideration. Attached at Appendix A was a breakdown per policy for each of those financial years for the Council as a whole of the number of claims which have been paid, where the claim has been settled without any costs or payment being made, or where the claim has not yet been settled. Also provided was information about the amount paid in respect of those claims which have been settled and the amount reserved against those claims not yet settled.

The Risk and Insurance Manager referred to claim trends for the period reported upon along with future challenges and what these might mean for the Council especially in terms of successfully defending claims. The Officer confirmed that the report does not bring to the fore any stand out issues which the Committee should be concerned about at this point in time.

The Committee sought an explanation of certain points within the report and it also asked for clarification of the extent of the calls on the insurance reserve. In response to confirmation that the reserve has remained stable, the Committee suggested that in the current climate of depleting services, the £2m insurance reserve might need to be reconsidered especially when the demand on the reserve remains well below that ceiling. The Accountancy Services Manager confirmed that the insurance reserve has been reviewed and has subsequently been reduced to £1m.

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

NO FURTHER ACTION ENSUING.

9. EXCLUSION OF PRESS AND PUBLIC

It was resolved under Section 100(A)(4) 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 involves the disclosure of exempt information as defined in Schedule 12A of the said Act and in the Public Interest Test presented.

10. RISK MANAGEMENT

The report of the Risk and Insurance Manager incorporating the Risk Management Policy and Risk Assessment Criteria along with the current Corporate Risk Register was presented for the Committee's consideration.

The Risk and Insurance Manager informed the Committee that following an external review of risk management in the autumn 2014, the Council updated the format and reviewed the content of its Corporate Risk Register. The updated Corporate Risk Register is provided under Appendix C to the report. Ten major risks were identified as outlined in the report. In addition, Service Risk Registers have been presented by each service as part of the Business Planning process. These were first risk registers submitted using the new format and it is recognised that services will need time to adjust and fully appreciate the changes made. Services will therefore continue to receive support from the Risk and Insurance Manager to develop their Service Risk registers as required. Consequently it is envisaged that some additional service risks will be escalated to or removed from the Corporate Risk Register over the next 12 to 18 months. New service risks and those risks where the score escalates due to change of circumstances will continually be monitored and escalated as required.

The Committee considered the report and sought clarification of how it would be kept informed on risk management activities particularly with reference to any changes that may occur and the reasons why, so that it can be assured that the key risks are being managed properly. The Risk and Insurance Manager said that the intention is to report to the Committee on the Corporate Risk Register twice a year and it will also be updated on the risk management process. In addition the Committee will be briefed on any exceptions/slippages as well as any escalations.

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

ACTION ENSUING: Risk and Insurance Manager to provide the Committee with a summary progress report at its next meeting.

11. EXCLUSION OF THE PRESS AND PUBLIC

It was resolved under Section 100(A)(4) 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 involves the disclosure of exempt information as defined in Schedule 12A of the said Act and in the Public Interest Test presented.

12. DELIVERY OF INTERNAL AUDIT SERVICE

The report of the Interim Head of Resources and Section 151 Officer outlining arrangements for the delivery of the Internal Audit Service was presented for the Committee's consideration. The report set out the arrangements whereby Conwy County Borough Council and this Council will jointly provide the service, with management oversight of this Council's Internal Audit Service to be provided by Conwy, along with the details of the partnership agreement with Conwy.

The Interim Head of Resources and Section 151 Officer confirmed that he had signed the contract under delegated powers and that it would come into effect on 1 August, 2015.

It was resolved to accept and to note the information.

NO FURTHER ACTION ENSUING

**Councillor R.Llewelyn Jones
Chair**