

AUDIT COMMITTEE

Minutes of the meeting held on 5 February, 2013

- PRESENT:** Councillor T.H.Jones (Chair)
Councillor Eric Roberts (Vice-Chair)
- Councillors E.G.Davies, Jim Evans, Vaughan Hughes, Alun Mummery
- Lay Members: Mr Richard Barker, Mrs Sharon Warnes
- IN ATTENDANCE:** Chief Executive
Head of Function (Resources)
Head of Service (Finance)
Head of Service (Policy) (for item 4.5)
Audit Manager (JF)
Accountant (Mr Ben Davies)
Committee Officer (ATH)
- APOLOGIES:** Councillors Keith Evans, G.O.Jones, Ieuan Williams
- ALSO PRESENT:** Mrs Gill Lewis (Senior Finance Advisor), Andy Bruce (WAO), James Quance (Audit Senior Manager – PwC), Lynn Pamment (Engagement Partner – PwC)
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The Chair welcomed all those present to this meeting of the Audit Committee and he extended a particular welcome to Miss Clare Williams to her first meeting of the Audit Committee since her appointment as Head of Function (Resources).

1 DECLARATION OF INTEREST

No declaration of interest was received.

2 MINUTES

The minutes of the previous meeting of the Audit Committee held on 12 December, 2012 were submitted and confirmed as correct.

Arising thereon -

- In response to a query by a Member, the Head of Service (Finance) informed the Committee that due to time constraints on the meeting of the Isle of Anglesey Charitable Trust held on 24th January, the report of the Head of Service (Leisure and Culture) in respect of the achievement and performance of Oriel Ynys Môn for 2011/12 has been referred to a sub-committee of the Charitable Trust for further consideration and scrutiny.
- In response to a query by a Member, the Senior Finance Advisor confirmed that work regarding the Building Maintenance Unit (BMU) is on-going and that the Head of Service (Housing) is in discussions regarding modernising the Unit. The Audit Committee has received reports in relation to the BMU subsequent to the WAO review of the service delivery arrangements of the Unit, and also following an internal audit review of the BMU's procurement arrangements. Internal Audit is undertaking further targeted work in relation to this matter.

ACTION ARISING: Head of Service (Housing) to be asked to report back to the Committee at its next meeting on progress in addressing governance issues with regard to the BMU.

- With the Committee's consent, an Information Management/Governance Action Plan was tabled for Members' initial consideration as per the Committee's decision at its previous meeting that it be provided with feedback from the Information Management Group.

ACTION ARISING: The Head of Function (Resources) to update the Audit Committee at its next meeting on progress in implementing the Information Management /Governance Action Plan and any related issues arising.

3 CORPORATE RISK REGISTER

A report by the Head of Function (Resources) summarising progress on implementing the Risk Management Framework was presented for the Committee's consideration along with the revised Corporate Risk Register as at Appendix A to the report.

The Senior Finance Advisor reminded the Committee that the Risk Management Strategy and Guidance had been approved and training on the subject area delivered and that the only aspect that remained outstanding was to provide an update on the risk register. The report as presented outlines the work undertaken to date including a review by the Authority's Senior Leadership Team of the risk definitions, triggers and risk levels and the identification of the primary five risks facing the Council as set out in paragraph 3.3 of the report. The Corporate Risk Register denotes a number of other risk areas in addition to the top five and the matrix will be complete once the additional control measures/treatment required in terms of actions, responsible officer(s) and target date have been determined and defined. The Head of Function (Resources) confirmed that a further update would be provided to the next meeting of the Audit Committee.

Members of the Committee considered the contents of the report and accompanying Corporate Risk Register and the following were matters regarding which they commented and/or sought further clarification –

- The criteria used to determine the Council's top five risks.
- Whether it was considered that risk YM36 defined as failing to plan for the impact of the health sector reforms was confined mainly to Social Services or whether its impact would be more widespread across Council services.
- The grounds for not including risk YM23 (failing to implement the contents of the post Estyn inspection plan and improve performance against key indicators) as one of the Council's primary risks given the terms in which the consequence of this failure are described in the risk register. It was felt that that the non-inclusion of this risk among the top five was at odds with what was being said in the register as regards the severity of the consequences.
- The reiteration of reputational damage as a possible consequence of a number of risk areas. It was suggested that the potential for reputational damage lies in all things and does not need to be restated and that moreover, the references appear to be random. It was suggested that the references to reputational damage within the register need to be reduced.

The Officers responded to the questions asked by providing explanations as appropriate.

It was resolved to accept the report and accompanying Corporate Risk Register and to note their contents.

ACTIONS ARISING:

- **Head of Function (Resources) to include an update on the Corporate Risk Register as a standing item on the Audit Committee agenda together with the minutes of the Risk Management Group where appropriate.**
- **Head of Function (Resources) to raise the following points with the Senior Leadership Team:**
 - **The non-inclusion of YM23 as one of the five top corporate risks as being incongruous with the described risk level and consequences.**
 - **Reducing the references to reputational damage within the Corporate Risk Register.**

- **Audit Manager to arrange for the Committee to be provided with the Annual Governance Statement Action Plan in due course.**

4 EXTERNAL AUDIT

4.1 Mr Andy Bruce, Performance Audit Lead, WAO provided the Committee with an update on the status of work commenced under the Performance Work Programme as at the report under cover of 4.1 along with a tabular summary of on-going work and planned projects both on a national basis taking in all councils and on an Anglesey basis as at the work plan report under cover of 4.2. The Officer referred to the Corporate Governance review of all individual authorities in Wales which will be a new item to the programme which will take place on a 4 year cycle. The details as to when the Corporate Governance review of Anglesey will be undertaken have not as yet been finalised although it is not expected that the Authority will be subject to review in Year 1.

The Committee considered the information presented and there was discussion around the Corporate Governance review schedule in terms of where Anglesey is likely to fit into the cycle and also around the implementation of the post Estyn Inspection Action Plan in terms of seeking to clarify how the Education Recovery Board links into the regulatory programme.

It was resolved to note the information provided in the reports at 4.1 and 4.2

4.3 Mr James Quance, PwC provided the Committee with an update on the financial audit's progress against the key milestones in the 2012/13 Financial Audit Outline and in respect of grant certification work covering 2010/11 and 2011/12. The report set out the timeline for the key stages in the 2012/13 accounts audit process, the position with regard to certifying the 2011/12 Statement of Accounts as well as grant claims along with liaison arrangements with Internal Audit, Management and the WAO.

It was resolved to accept the report and to note the information.

4.4 Mrs Lynn Pamment, Engagement Partner, PwC presented the Committee with the Annual Financial Audit Outline for the 2012/13 audit year. The report set out the audit responsibilities under the relevant legislation and regulations, the audit approach to the audit of the financial statements; the main operational and financial risks faced by the Authority that could impact on the audit as illustrated under Exhibit 1; the auditor's responsibilities in terms of evaluating the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources together with the Audit fee and what that covers.

Members of the Committee considered the report and asked the following questions to which the Officers responded with further details.

- The concept of materiality and how it is derived.
- Whether the Auditor's assessment of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is limited to examining procedures or whether it encompasses the Authority's approach to identifying and achieving savings and the general corporate setting in which savings can be produced.
- The ways in which the Authority can mitigate the risks in new systems implementation.

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

4.5 Mr Andy Bruce, Performance Audit Lead, WAO presented the Auditor General's Improvement Assessment Letter (2) which summarised the work in respect of improvement reporting under the Local Government (Wales) Measure 2009 and specifically the outcome of the audit and assessment work in relation to whether the Isle of Anglesey County Council has discharged its duties and met the requirements of the Measure; the reliability of its self-evaluation and any further proposals for improvement and/or recommendations.

Mr Andy Bruce informed the Committee that the Auditor General has concluded that the Council has complied in full with its improvement reporting duties under the Measure but that the content and structure of the Council's Performance Report for 2011/12 could include more qualitative information to provide a more rounded evidence base to enable the Council to assess its performance. In expanding on the conclusions reached, he referred to the explanatory points at page 2 of the Letter which illustrates the ways in which the Report meets all the required

elements. Page 3 of the Letter explains in what ways the content and structure of the Performance Improvement Report could include more qualitative information to provide a more rounded evidence base. The Auditor General includes two proposals for improvement in relation to ensuring consistency across services in the quality of self-evaluation and the application of better editorial control over the report.

The Officer stated that overall the Council's performance report for 2011/ can be regarded as a positive and encouraging piece of work.

It was resolved to accept the Assessment Letter and to note its contents.

5 INTERNAL AUDIT

The Audit Manager presented for the Committee's consideration a progress report on the work of the Internal Audit Section for the period from 1 April to 31 December, 2012.

The Audit Manager highlighted the following key points from the report –

- There were no reviews in the period which resulted in a Red Assurance opinion
- The key findings from the three audit review reports issued are set out in section 2.2 of the report.
- Performance in terms of the percentage of the Audit Plan completed is up from 46% to 53% but remains well below the target of 90%. A contributory factor is the eleven referrals that have been completed and reported on in the period and which have diverted resources from planned internal audit work.
- The performance in implementing recommendations in the period remains below target with 68% of High and Medium recommendations having been recorded as implemented. An analysis of recommendation implementation by service is provided at Appendix A to the report.

Members considered the report and they asked the Officer to clarify certain points in respect of the arrangements for scrutinising Social Services Direct Payments other than by internal audit, and in respect of governance and control issues within schools and whether any thought had been given to engaging a bookkeeper to provide schools with peripatetic assistance in this respect. The Officers responded to the points made.

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

6 ENHANCING THE AUDIT COMMITTEE

The Audit Manager presented for the Committee's consideration, a report detailing the outcome of the 2013 Effectiveness Self-Assessment (Appendix B to the report) along with an Improvement Action Plan for 2013/14 (Appendix C to the report).

The Audit Manager drew attention to the following principal considerations from the report –

- Areas for improvement identified at the January 2013 workshop for the Audit Committee's Members encompassing enhancing induction training and individual training needs analysis for Members; clarification of the roles of the Audit and Scrutiny Committees in relation to risk management; adoption of Counter Fraud and Corruption guidelines; increased liaison in relation to External Audit planning and performance.
- Counter Fraud Arrangements – there is a need to take action in order for the Committee to obtain assurance that the Council's current counter fraud arrangements are effective and are being implemented as per the CIPFA guidance – Managing the Risk of Fraud – Actions to Counter Fraud and Corruption. A Fraud Awareness Session for the Committee's Members is recommended so that they can be apprised of current arrangements and issues as well as the requirements of the CIPFA guidance.

Members considered the report and the point was made that as well as undertaking an annual self-assessment, the Audit Committee should consider means of obtaining an external perspective on its performance and effectiveness as a committee.

It was resolved –

- To endorse the outcome of the self-assessment of the Committee's effectiveness together with the Improvement Action Plan as at Appendix C.
- That a fraud awareness training session be included in the Committee's training Schedule for 2013/14 in order to inform its opinion on the effectiveness of the Council's existing Counter Fraud and Corruption arrangements.
- That a revised self-assessment on the Committee's effectiveness be incorporated in its work plan for 2013/14 with the addition that provision be made also to allow for an external perspective.

ACTIONS ARISING:

- Audit Manager to make arrangements for a fraud awareness training session for the Committee in due course as part of its Training Schedule for 2013/4.
- Audit Manager to take steps to include within the Committee's work plan, a revised self-assessment on the Committee's effectiveness.
- Audit Manager to consult with RSM Tenon with a view to bringing back to the Committee, options for obtaining an external perspective on the Committee's performance and effectiveness.

7 ANNUAL REPORT OF THE AUDIT COMMITTEE 2012/13

The Chair presented the Annual Report of the Audit Committee for the 2012/13 municipal year. The report provided a synopsis of the work and activities of the Audit Committee during the year including the meetings held and attendance thereat; the key areas/issues covered and training arranged and delivered.

The Chair sought the Committee's endorsement of the inclusion as part of the Annual Report, Members' record of attendance at the Committee's meetings and training events during the year. Members supported the inclusion of attendance data as an element of the report as good practice with the proviso that the training attendance schedule at Appendix B be amended to show the presence at the 16th October, 2012 session of Councillor Alun Mummery.

It was resolved to endorse the Annual Report for 2012/13 for presentation to the County Council at its meeting in May, 2013 subject to the amendment noted.

ACTIONS ARISING:

- Audit Manager to amend the training attendance schedule at Appendix B to reflect the presence at the 16th October, 2012 session of Councillor Alun Mummery.
- Audit Manager to make the necessary arrangements to present the Annual Report to May full Council.

8 TREASURY MANAGEMENT

8.1 The Treasury Management report for the Third Quarter of the 2012/13 financial year was presented for the Committee's consideration. The report provided Members with an update on treasury management activities in Quarter 3 within the context of the broader economic background and outlook.

The Head of Service (Finance) referred to the position with regard to the Authority's borrowing activities and its investment portfolio with particular reference to the re-investment with RBS on maturity during the quarter, of a £5m fixed term investment for 364 days at a rate of 1.58%. No other fixed term investments were made and no new borrowing or debt rescheduling took place. The Officer stated that during the quarter the Council remained within its prudential and Treasury Limits as set out in Appendix 2 to the report. Plans for the remainder of the year are outlined under paragraph 7 of the report.

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

8.2 The Treasury Management Strategy Statement for 2013/14 was presented for the Committee's consideration as part of the consultation on budget issues prior to its submission to the Executive. The strategy for 2013/14 covered in detail two main areas, namely capital issues and treasury management issues including amongst other aspects, the borrowing strategy, investment strategy and debt rescheduling.

The Head of Service (Finance) drew particular attention to the following matters –

- The Investment Policy as outlined under section 4.2 of the report includes a provision as highlighted which allows the Authority where appropriate, to invest or make deposits in a credit union or similar for the purpose of the delivery of its service with the objective that when the proposed welfare reform changes are implemented there will be available to those affected by the changes, a safe and inexpensive source of borrowing. Whilst this is a possibility at this point in time the strategy has been adapted as outlined in non-specific terms as regards counterparties, in order to allow this to happen.
- Appendix 5 – Approved Lending List by Credit. Section 4.1 (specified investments) will need to be amended to clarify that nationalised or semi nationalised UK Banks are outside of the specified criteria and that their nationalised or part nationalised status constitutes their credit score.
- The Local Authority Mortgage Scheme in which the Authority is considering participating. If this was to occur, the Strategy would require amending accordingly.

Members were given the opportunity to raise questions and to seek clarification of any aspects of the Treasury Management Strategy Statement.

It was resolved to accept the Treasury Management Strategy Statement for 2013/14 and to note its contents.

ACTION ARISING: Head of Service (Finance) to amend Appendix 5 of the Treasury Management Strategy Statement as outlined prior to its submission to the Executive.

**Councillor Thomas Jones
Chair**