

AUDIT AND GOVERNANCE COMMITTEE

Minutes of the meeting held on 27 April 2015

- PRESENT:** Councillor Trefor Lloyd Hughes (Chair)
Councillor John Griffith (Vice-Chair)
- Councillors Jim Evans, Alun Mummery, R. Llewelyn Jones,
Dafydd Rhys Thomas
- Lay Member: Mrs Sharon Warnes
- IN ATTENDANCE:** Interim Head of Resources & Section 151 Officer
Head of Economic & Community Regeneration (for item 9)
Interim Internal Audit Manager (RS)
Risk & Insurance Manager (JJ) (for item 11)
Grants Co-ordinator (JW) (for item 10)
Principal Development Officer (IH) (for item 9)
Committee Officer (ATH)
- APOLOGIES:** Councillor Richard Owain Jones, Mr Richard Barker (Lay Member), Councillor
H.E. Jones (Portfolio Member for Finance)
- ALSO PRESENT:** Mr Andy Bruce (WAO), Mrs Lynn Pamment (PwC), Mr Martin George (PwC)
Mr John Fidoe (Baker-Tilly) (for items 3,4 and 5)
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1 DECLARATION OF INTEREST

No declaration of interest was received.

2 MINUTES 23 FEBRUARY, 2015 MEETING

The minutes of the previous meeting of the Audit Committee held on 23 February, 2015 were presented and confirmed a correct.

Arising thereon – The Interim Head of Resources & Section 151 Officer confirmed that a letter would shortly be sent to the North Wales Police and Crime Commissioner with regard to the decision not to further investigate the attempted creditor fraud against the Council in accordance with the identified action at the previous meeting.

3 INTERNAL AUDIT ANNUAL REPORT 2014-15

The Internal Audit Annual Report summarising the work of the Internal Audit Service in 2014/15 in terms of output, performance, the overall conclusion of the areas audited and how this reflects on the efficacy of the Authority's internal control system, was presented for the Committee's consideration.

Mr John Fidoe, Baker-Tilly highlighted the main points from the report with regard to the total number of final and draft reports issued; the percentage of High and Medium category recommendations implemented as at 31 March, 2015 and the overall opinion for the systems reviewed which, as a positive Green/Amber opinion translates to a minimal to low risk to the Authority based on the scope of the work carried out, the action recommended to management being implemented and those systems continuing to operate as intended. The Officer said that on the basis of the Internal Audit work carried out in 2014/15 and taking into account the outstanding areas of concern as documented under section 4.4 of the report and the number of Red/Red Amber reports issued as at sections 6.3 and 6.4, the Council is considered to have in place adequate

control arrangements to manage risks with the caveat that action needs to be taken in 2015/16 to address those areas of ongoing concern to which attention has been drawn.

The Committee considered the report and raised the following points on the information presented –

- The continuing issue with regard to the implementation of internal audit recommendations by schools. The Committee was particularly concerned that internal audit recommendations to improve schools' financial controls are not being implemented in a timely manner and the risk which this might pose, and it sought clarification of the actions being taken to rectify the situation. Mr John Fidoe said that there is a difficulty due to Head teachers not being able to access the 4Action system meaning that updates with regard to implementation are provided via the Education Service thus leading to a time lag between recommendations being issued and confirmation that they are being or have been implemented. There are also other issues that need to be addressed. Possible solutions to the schools problem have been discussed with the Director of Learning. However, an annual review of the outstanding internal audit recommendations relating to schools is carried out and a follow up report brought to the Committee.
- With reference to Partnerships Framework and the weaknesses which Internal Audit had identified in relation to aspects of internal control in respect of partnership working the Committee sought assurance that Management is taking ownership of this matter and is committed to moving the Partnership Framework forward in accordance with Internal Audit recommendations. The Interim Head of Resources and Section 151 Officer said that the Partnerships issue will now be taken up by the new Chief Executive and that issues around Partnerships are on the agenda of the Senior Leadership Team. Considerable work has already been undertaken in respect of the Authority's relationship with the Third Sector and a robust framework to that end is now being put in place.
- The Committee sought and was given assurance that the corporate issues listed at section 4.4 of the report as areas of ongoing concern to Internal Audit are covered by the 2015/16 Internal Audit Operational Plan. The Committee noted that it would need to keep these specific areas under regular review, and it was suggested and agreed that once the new Chief Executive is in post and is established, the Committee be provided with a progress report on the status of those areas listed as areas of continuing Internal Audit concern in order to be assured that steps are being, or have been taken to put in place appropriate governance and control processes for each of the areas noted. The Interim Head of Resources and Section 151 Officer said that whilst he believed there is movement on all of the areas outlined he would seek to raise the profile of these issues within the SLT and report back to the Audit Committee.

It was resolved to accept the Annual Report of the Internal Audit Service for 2014/15 and to note its contents.

ACTION ARISING: Interim Head of Resources and Section 151 Officer to report back to the Audit Committee in due course on progress on addressing the areas highlighted under section 4.4 of the Annual Report in line with Internal Audit recommendations.

4 INTERNAL AUDIT CHARTER - REVIEW AND UPDATE

The report of the Internal Audit Manager incorporating a revised Internal Audit Charter was presented for the Committee's consideration and approval. The Internal Audit Service is required by the Public Sector Internal Audit Standards (PSIAS) to produce and have approved by the Audit Committee an Internal Audit Charter which sets out the Internal Audit Service's activities, purpose authority and responsibility.

It was resolved to approve the revised Internal Audit Charter as presented.

NO FURTHER ACTION ARISING

5 INTERNAL AUDIT PROTOCOL - REVIEW AND UPDATE

The report of the Internal Audit Manager incorporating a revised Internal Audit Service Protocol was presented for the Committee's consideration. The Protocol sets out an agreed methodology and timescales for the planning, performance and communication of results from Internal Audit reviews

in line with PSIAS in terms of what is required from both the Internal Audit Service and its clients in order to best achieve the set audit objectives.

It was resolved to approve the revised Internal Audit Protocol as presented.

NO FURTHER ACTION ARISING

6 ANNUAL REPORT OF THE AUDIT COMMITTEE 2014-5

The report of the Chair of the Audit Committee documenting the activities of the Audit Committee for the 2014/15 municipal year was presented for Committee's consideration and endorsement.

It was resolved to endorse the Annual Report of the Audit Committee for 2014/15 for presentation to the full Council in May, 2015.

7 EXTERNAL AUDIT - PERFORMANCE WORK PROGRAMME UPDATE

Mr Andy Bruce, WAO updated the Committee on progress and the status of ongoing 2014/15 improvement and assessment work as well as reviews scheduled for 2015/16 and their likely timescales. In addition, a summary of the planned Local Government studies for 2015/16 was provided along with the likely date of issue for those 2014/15 studies nearing conclusion and the web link for those already completed. Appended to the update report was a list of recommendations arising from the Auditor General's report on Managing Early Departures across Welsh Public Bodies based on a general survey and data collection undertaken by the WAO rather than on any review of an individual organisation's arrangements.

The Committee noted the report and sought clarification of how the WAO's Performance Work Programme is determined and whether it is able to accommodate suggestions from external parties for specific reviews – in this context particular mention was made of the impact of the Bedroom Tax and the usefulness of examining the related data. Mr Andy Bruce explained that the majority of the Performance Work programme and especially the improvement aspects are set in legislation under the Local Government (Wales) Measure 2011; the specific Work Programme is set annually in consultation with public service bodies and relevant stakeholders. Mrs Lynn Pamment, PwC informed the Committee that the removal of the spare room subsidy as part of Central Government's Welfare reforms and their impact on Wales is covered in the WAO's report on Managing the Impact of Welfare Reform Changes on Social Housing Tenants in Wales issued in January, 2015.

The Committee noted the clarification and suggested that it would be useful if there was a mechanism for apprising the Committee of the availability of regulatory reports/thematic studies which may be of interest or relevance to it as an Audit Committee but which may not necessarily be brought to Members' attention via the customary democratic channels. Mr Andy Bruce said that in instances where national reports have involved fieldwork at Anglesey, he would endeavour to extrapolate the relevant information for the Committee and would do so in the case of the Review of the Anglesey and Gwynedd Joint Local Service Board.

The Committee also sought to satisfy itself that the Authority is compliant with regard to the WAO's best practice recommendations for managing early departures and requested that it be provided with a report to that end.

It was resolved to note the update report on the WAO's Performance Work Programme.

ACTIONS ARISING: Interim Head of Resources and Section 151 Officer to provide the Committee with a report in respect of Management compliance with good practice principles in relation to the management and governance of early departures.

8 EXTERNAL AUDIT - ANNUAL AUDIT PLAN

It was resolved at the request of External Audit to defer consideration of this item to the next meeting to allow for the finalisation of the details of the Audit Plan.

9 INTERNAL AUDIT REVIEW - MARITIME DIESEL

The report of the Head of Economic and Community Regeneration on the response and actions undertaken following the Internal Audit Review (Maritime Diesel), November, 2014 was presented for the Committee's consideration

The Head of Economic and Community Regeneration informed the Committee of progress to date against the recommendations of Internal Audit following its review of the processes and procedures for the receipt, storage, issuing, invoicing and cash collection and receipting and recording of income on the Council's General Ledger relating to Maritime Diesel as documented in section 3 of the report. The Officer drew the Committee's attention to the fact that successfully completing the ongoing recommendations (i.e. part of recommendation 2 and recommendation 6 in the schedule under section 3) will be determined by cost and budget availability. The Officer elaborated on the likely costs involved for the extent of the upgrade work required and said that the short to medium term strategy for the sale of maritime fuel needs to be determined before a decision to invest is made.

The Committee considered the report, and in a detailed discussion, the following issues were raised –

- Whilst the Committee noted that the scope of the internal audit review was confined to assessing the adequacy of the systems, processes and procedures in place for the sale, billing and payment of maritime fuel, Members were also keen to learn more about the commercial aspects of the service and whether there are ways of enhancing the value for money dimension of the service including by alternative ways of provision e.g. outsourcing. The Officers confirmed that the service is commercially viable providing returns in the region of 20% to 30% and that it is a service that is worth providing. Procurement issues have been addressed and the service is competitive in terms of cost but the fundamental question in the long-term is whether the Authority wishes to continue with the supply of maritime fuel not necessarily for commercial interests but in support of the fishing industry.
- The Committee considered whether the compass of audit reviews should be widened beyond control and governance issues to address the value for money dimension of services where that applies and whether there is a way for the Committee to have an input into the scoping of reviews. The Committee suggested that internal audit reviews could be better linked to value for money considerations so that the Committee can place the issues raised by audit reviews in their wider context and better understand the broader considerations that may inform reviews. The Head of Economic and Community Regeneration confirmed that an independent evaluation of the maritime service has been undertaken beyond issues of governance and internal controls which has looked at the statutory and non-statutory aspects of the service as well as various models for its delivery. The Interim Internal Audit Manager advised the Committee that whilst professionally he did not advocate combining an assessment of system controls and value for money in a single review, it is not unusual for an allocation to be made within the IA Operational Plan for value for money reviews and that it is open to the Committee if it so wishes to approve the allocation of a proportion of resources specifically for value for money studies.
- The Committee noted from the Officers' verbal report that the Council had used the current supplier for maritime fuel for a number of years and it questioned whether this is common practice within other service areas in the Council of which the Committee should be aware. The Interim Head of Resources and Section 151 Officer confirmed that the practice is not unique to the supply of maritime diesel service. Internal Audit has in the past raised issues in relation to procurement and it has also been the subject of an independent review. A considerable amount of effort has since been put into improving the procurement function within the Authority in terms of increasing the capacity and enhancing the skills set of the procurement team and also by introducing corporate procurement processes and procedures. However, the practice whereby services keep to the same supplier for a length of time without testing the market is widespread and is being addressed.
- With reference to sundry debtors and invoices raised, the Committee sought clarification of the amounts involved. The Officers confirmed that financial records are now generated via the Civica Ledger system thus providing a clearer picture of billing and transactions. The service's financial processes have now been modernised and put on a corporate footing.
- The Committee noted the need to ensure that sundry debts are recouped; the Interim Head of Resources confirmed that progress on enforcing debt is being made.

It was resolved to accept the report of the Head of Economic and Community Regeneration and to note the progress made.

ACTION ARISING: Head of Economic and Community Regeneration to provide the Committee for information purposes with the Balance Sheet for the Maritime Diesel Service for the past five years.

10 GRANTS AVAILABILITY AND MAXIMISATION

The report of the Interim Head of Resources and Section 151 Officer setting out the main sources of grant funding which have been available to the Authority during 2014/15 and the ways that grant income can be maximised over the coming years was presented for the Committee's consideration.

The Committee noted the report and made the following points –

- That it deemed the grants process in its totality to be an unsatisfactory way of making funds available to local authorities and that it would be fairer, would facilitate service planning to a greater degree and would assist the Council in obtaining a clearer picture of its financial position if grant income was incorporated within the RSG. Mr Andy Bruce, WAO said that grant funding can be complex and at times is based on short-termism. Part of the WAO's study of the effectiveness of local community safety partnerships will involve examining funding streams and recommendations will be made if found to be necessary.
- Given that many grants are awarded on a short-term basis, the Committee sought clarification whether the Authority has in place arrangements to determine which services which are grant funded for a specific period should then be incorporated within the mainstream. The Grants Co-ordinator said that an exit strategy should form an element of the overall project management within the service with consideration being given to what needs to be continued when the funding ceases along with the staff implications.
- The Committee sought confirmation whether the Authority is maximising the grant funding opportunities available to it. The Grants-Co-ordinator informed the Committee that whilst officers will as part of their day to day roles seek out sources of external funding, the Authority does not have a dedicated "funder finder" to scour the plethora of funding streams available i.e. a grant finding officer who subscribes to grant databases to actively search out funding sources which is viewed as good practice in England.
- The Committee suggested that consideration be given to the capital project priority list to projects which have not been allocated funding as part of the capital programme but which are ready to incur expenditure if grant funding becomes available at short notice and if they fit the criteria.

It was resolved to accept and to note the report.

NO FURTHER ACTION ARISING

11 RISK MANAGEMENT

The report of the Risk and Insurance Manager setting out progress on implementing the revised corporate risk register/matrix and associated risk guidance documentation was presented for the Committee's consideration. Copies of the new draft Risk Management Policy, risk assessment criteria and the new Risk Register format were appended to the report.

The Risk and Insurance Manager elaborated on the progress made as at para. 2 of the report and confirmed that the risk documentation will be presented to the Executive meeting in May and the Corporate Risk Register brought back to the Audit Committee thereafter.

The Committee sought clarification of certain points in relation to the new risk assessment criteria and risk register format and suggested that it would be helpful if the risk register was made available to all services electronically for the purpose of sharing risk logs. The Interim Head of Resources and Section 151 Officer advised that the production of a Corporate Risk Register is not in itself the end objective, but rather the delivery of the Risk Mitigation Action Plan. It is the Audit Committee's responsibility to ensure and to satisfy itself that the Action Plan is being implemented.

It was resolved to accept the report along with the related Risk Management documentation.

ACTION ARISING: The Committee to be provided with updates on the implementation of the Risk Mitigation Action Plan.

12 EXCLUSION OF THE PRESS AND PUBLIC

It was resolved under Section 100(A)(4) of the Local Government Act 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.

13 INTERNAL AUDIT MANAGEMENT SERVICE CONTRACT

The Interim Head of Resources and Section 151 Officer reported that the contract held by Baker-Tilly for the provision of the management of the in-house Internal Audit Service team expired on the 31 March, 2015 and an Interim Internal Audit Manager has since been appointed and will remain in post until the end of July, 2015. It is intended that a report on the future model for the delivery of the Internal Audit Service will be brought to the Committee's next meeting. It was reported to the Committee's previous meeting that certain options were being considered and that initial discussions for the provision of the service had taken place with the NHS Shared Service Partnership and with another local authority; those for different reasons have since fallen through. The Authority is now looking at entering into a partnership with Conwy County Borough Council for the management of the Internal Audit service which, if it comes to fruition, will mean a shared management arrangement for the Internal Audit Service but on a wholly public sector basis this time.

The Interim Internal Audit Manager said that the proposed arrangement would entail a commitment on the part of Conwy County Borough Council to provide the service for a number of years if and until such time as local government in Wales is reorganised, and will involve an agreement whereby Conwy Council will provide Anglesey Council with an agreed amount of days for an agreed cost for the management of the Internal Audit Service only, involving day to day management and quality control around the Internal Audit team and around the production of audit reports.

It was resolved to note the information.

NO FURTHER ACTION ARISING

14 NEXT SCHEDULED MEETING

Noted as scheduled for Monday, 27 July, 2015 at 2:00 p.m. The Chair informed the Committee that additionally, an extraordinary meeting of the Audit Committee is to be held at 10:30 a.m. on Thursday, 4th June, 2015, to consider the draft Statement of Accounts for 2014/15.

**Councillor Trefor Lloyd Hughes
Chair**