

AUDIT AND GOVERNANCE COMMITTEE

Minutes of the meeting held on 26 May 2016

- PRESENT:** Councillor R.Llewelyn Jones (Chair)
Councillor John Griffith (Vice-Chair)
- Councillors Jim Evans, Alun Mummery
- Lay Members: Mr Richard Barker and Mrs Sharon Warnes
- IN ATTENDANCE:** Head of Function (Resources) and Section 151 Officer
Head of Internal Audit (MH)
Internal Audit Manager (SP)
Grants Manager (JW) (for item 7)
Committee Officer (ATH)
- APOLOGIES:** Councillors Richard Owain Jones, Peter Rogers, Dafydd Thomas
H.Eifion Jones (Portfolio Member for Finance)
- ALSO PRESENT:** Councillor Llinos Medi Huws, Messrs Andy Bruce, Gwilym Bury (WAO), Mr Ian Howse (Deloitte)
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1 DECLARATION OF INTEREST

Mr Richard Barker and Mrs Sharon Warnes, Lay Members declared a prejudicial interest with regard to item 8 on the agenda and withdrew from the meeting during the discussion thereon.

2 MINUTES OF THE 15 MARCH, 2016 MEETING

The minutes of the previous meetings of the Audit and Governance Committee held on 15 March 2016 and 12 May 2016 (election of Chair/Vice-Chair) were presented and confirmed as correct.

Arising on the minutes of the 12 May, 2016 meeting –

Mr Richard Barker and Mrs Sharon Warnes confirmed that they as Lay Members had again not participated this year in the meeting to elect a Chair and Vice-Chair for the Audit and Governance Committee due to an outstanding issue in relation to the election process and their status as Lay Members within that process. Both Mr Barker and Mrs Warnes referred to correspondence dated 30 July 2015 which they had received from the Council's Monitoring Officer following the concerns which they had expressed last year regarding their role in the process for appointing this Committee's Chair and Vice-Chair. The correspondence makes reference to the Protocol as at paragraph 5.8.2 of the Constitution in respect of the appointment of councillors to Committee seats and of Chairs and Vice-Chairs. The correspondence also proposes a process by which the Audit and Governance Committee's Lay Members can have an input to the appointment of Chair and Vice-Chair and nominate a candidate for either or both posts as they wish.

Mr Barker and Mrs Warnes said that to their disappointment, the process outlined to them to enable them to present their views on the appointment of the Committee's Chair and Vice-Chair was not followed. Neither does the Protocol in making no reference to the Lay Members as voting members of the Committee accurately reflect the membership of the Committee. There remains an issue about how this Committee's Lay Members can be better involved in the process for determining the Chair and Vice-Chair especially in relation to the preparation for the election meeting. They would

wish to see the issue being resolved to ensure that for the future, any new and less experienced Lay Members subsequently appointed to the Committee receive appropriate support in this matter.

The Committee noted the continuing concerns expressed by Mr Richard Barker and Mrs Sharon Warnes about Lay Member inclusion in the process for appointing the Committee's Chair and Vice-Chair and agreed that it would be helpful for it to see the correspondence sent to Mr Barker and Mrs Warnes to obtain clarification of what was proposed to facilitate their involvement in the appointment of Chair and Vice-Chair.

3 LOGGING RECOMMENDATIONS

The report of the Head of Function (Resources) and Section 151 Officer in respect of logging recommendations was presented for the Committee's consideration and determination. The report outlined the current process whereby recommendations made by Internal Audit are logged and seen through to implementation via the 4 Action recommendation tracking system and other external audit recommendations are logged and reported to the Strategic Leadership via a spreadsheet.

The Head of Function (Resources) and Section 151 Officer said that the 4 Action system although serviceable is not user friendly and does not automatically prompt or remind officers that the system needs to be updated to confirm the implementation of recommendations. Moreover, using spreadsheets to monitor the implementation of external audit recommendations is not ideal, as a spreadsheet is not designed to maintain such a large amount of data. The Officer said that the ideal solution as proposed would be to acquire and implement an integrated business management system that would allow the Council to monitor and report on business planning, performance, project and risk management and the implementation of recommendations thereby providing a complete picture across service areas. Further work is required to determine the cost of such a system as well as how the cost might be funded by the Council.

The Committee considered the matter and was supportive of the proposed acquisition of a more advanced, fit for purpose system subject to the following provisos -

- That officers endeavour to ensure the best use of resources in procuring a new system
- That officers investigate the systems used by other councils in order to establish the effectiveness of those systems and how well they meet the requirements
- That officers endeavour to ensure that any new system acquired is flexible and is responsive to the particular needs of Anglesey.

The Officer confirmed that the further work referred to would involve looking into the systems in use by other authorities and their functionality and subsequently creating a business case for a preferred system based on the evidence gathered.

It was resolved to support further exploration by officers of a corporate business management system with a view to its acquisition and implementation during 2016/17 subject to a viable business case being agreed by the SLT and to request an interim report on progress to this Committee including cost implications.

ACTION ARISING: Head of Function (Resources) and Section 151 Officer to report back to the Committee in July/September on the course of the exploration work on potential systems and any issues arising.

4 INTERNAL AUDIT ANNUAL REPORT 2015/16

The Annual Report of the Internal Audit Service for 2015/16 was presented for the Committee's consideration and endorsement in accordance with the requirements of the UK Public Sector Internal Audit Standards and the CIPFA UK Standards which came into force on 1 April, 2014 whereby the Head of Internal Audit Service is required to provide this Committee with assurance on the whole system of internal control. The report provided an analysis of the performance of the Internal Audit Service for 2015/16 and was supported by Appendices A to H which detailed the progress against performance targets for the year along with slippage during the year.

The Internal Audit Manager reported on the Service's performance during the period from 1 April 2015 to 31 March 2016 and the factors which had impacted thereon. The Officer confirmed that the Service achieved 60.32% of the Annual Plan against a target of 80% and an all Wales average performance indicator of 83%. However, there are four audits which constitute work in progress at the year-end and will demonstrate on their completion that 67% of the Annual Plan has been achieved.

All of the audits performed during the year (Appendix C) have resulted in positive levels of assurance with the exception of ICT Disaster recovery which was assessed as providing Minimal Assurance and five other areas as noted in paragraph 4.2.2. which were assessed as providing Limited Assurance. The overall outcome of the Internal Audit work identified that 73% of reviews resulted in positive opinions (Substantial or Reasonable) and 27% resulted in negative assurance opinions. The 27% of reports receiving negative assurance opinions was made up of 6 reports – the one aforementioned minimal and 5 limited assurance audits.

Recommendations are currently ranked as high, medium or low according to the perceived risk as outlined in Appendix F. Those rated as low are not subject to formal follow up by internal audit are not included in the analysis. The percentage implementation rate as at 31 March 2016 was 74% of high and medium recommendations having been recorded as implemented.

The Officer drew attention to areas where significant weaknesses in control had been identified and which will continue to be a concern for Internal Audit until all significant recommendations have been implemented and assurance can be provided that the appropriate frameworks and systems are in place. An update on the position with regard to these particular areas was provided in paragraph 6.5 of the report.

The Officer confirmed that notwithstanding the Audit Plan was not completed in full, she was satisfied that the work undertaken during the year allowed her to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's control processes for those areas reviewed. She was also able to say that she was satisfied that the work of the external regulators together with the Authority's service performance reviews allowed her to draw a reasonable conclusion that for the 12 months ended 31 March, 2016, Anglesey County Council has satisfactory internal control, risk management and corporate governance processes to manage the achievement of the organisation's objectives.

The Committee considered the Annual Report and the information provided and, given the concern expressed at its previous meeting regarding the capability of the Internal Audit service to deliver the plan because of issues around resources, it welcomed the eventual out-turn which when the four audits in progress have been completed, will have resulted in 67% of the Plan being accomplished as testament to both a commendable performance and to the effort put in by the service. The Committee also noted the following matters:

- That the broad picture is a positive one and that from the areas covered by it during the year, the Internal Audit Service is able to provide a reasonable conclusion as to the general effectiveness of the Council's system of internal controls and governance and risk management arrangements.
- The Committee noted those areas which were assessed as providing minimal or limited assurance due to the identification of more significant control failings and it requested an update report at its next meeting on the progress of the actions being taken to address the weaknesses in relation to ICT Disaster Recovery the audit of which had resulted in a minimal assurance opinion. The Internal Audit Manager confirmed that a follow-up audit of this area has since led to the assurance level being re-assessed as reasonable.
- The Committee noted that although an audit of Payroll key controls resulted in a reasonable audit opinion, it was aware of an issue arising with regard to Payroll recently regarding which it sought clarification. The Head of Resources and Section 151 Officer reported on a malfunction that had affected the Payroll system for a short period of time recently, the contingency actions taken to meet immediate needs, the steps taken to resolve the matter and also to ensure that once the system had been successfully updated, there would be safeguards to reduce the risk of the problem reoccurring.

- The Committee noted that resourcing the Internal Audit Service remains an issue which it believed needs to be kept under review and it sought assurance that any shortfall impacting on the service's ability to discharge its responsibilities would be brought to its attention. The Committee noted that the issue was to have been highlighted with the Strategic Leadership Team and it requested that this be followed up. The Head of Internal Audit said that the critical issue is whether the level of internal audit activity can provide an adequate level of assurance at the year's end and the annual report testifies to that being the case. The Head of Function (Resources) and Section 151 Officer confirmed that the situation is being monitored and that he was satisfied that the coverage provided is adequate at present and that prioritisation is achieved through the planning process so that the Audit Plan covers the right areas in terms of risk.
- The Committee sought clarification of the role of the Corporate Fraud Officer and the potential for enhancing the function of the post to deliver more extensive benefits than those referred to under paragraph 4.5.2 of the report. The Head of Function (Resources) and Section 151 Officer said that there is scope to review the role as regards delivery as well as the approach taken to fraud prevention work and how that is undertaken. The Internal Audit Manager said that the Officer has also been a contributor as regards the special investigation work set out in Appendix H to the report.
- The Committee noted that it would like to be provided with regular summary updates on the status and progress of actions in relation to specific areas of concern where the assurance level has been limited or minimal on a by whom, by when basis until such point as it can be satisfied that the associated risks have been reduced or eliminated and that the ongoing processes for managing them are appropriate.

It was resolved that the Audit and Governance Committee is assured that for the 12 months ended 31 March, 2016, Anglesey County Council had satisfactory internal control, risk management and corporate governance processes in place to manage and support the achievement of the Authority's objectives.

ACTIONS ARISING:

- **ICT Business Continuity and Support Manager to provide the Committee with an update on progress in respect of addressing issues in relation to ICT Disaster Recovery.**
- **Head of Function (Resources) and Section 151 Officer to follow up with the Senior Leadership Team the Committee's concerns regarding the adequate resourcing of the Internal Audit Service.**
- **Head of Function (Resources) and Section 151 Officer/Internal Audit Manager to incorporate within the quarterly reporting process to Committee a summary update on specific areas of concern to include the status of actions, the responsible officers and the timeline for completion.**

5 EXTERNAL AUDIT - PERFORMANCE WORK PROGRAMME UPDATE

A report on the External Audit Performance Work Programme was presented for the Committee's information.

Mr Andy Bruce, WAO Performance Audit Manager updated the Committee on the status of the local government studies commenced in 2015/16 and the projected dates for their finalisation along with those agreed for 2016/17 as well as three planned surveys as part of the 2018/19 studies. The Officer referred to a change in how local performance work is delivered at councils subsequent to the reform programme set out in the draft Local Government (Wales) Bill which places a new duty on councils to adopt the sustainable development principle from April 2016. There will be a shift away from work that focuses on improvement planning and onto work that focuses on councils' capacity and capability to effect change whilst maintaining good governance and to this end, three thematic reviews have been agreed around financial resilience, governance arrangements and the approach to transformational change. The Officer confirmed that there were currently no changes to report as regards the Value for Money studies.

The Committee was given the opportunity to question and to seek clarification of the Officer with regard to aspects of the Performance Work Programme, what they entailed and how they might apply or hold value for Anglesey.

It was resolved to note the information.

NO FURTHER ACTION ARISING

6 EXTERNAL AUDIT - 2016 AUDIT PLAN

The 2016 Financial Audit Plan for the Isle of Anglesey County Council was presented for the Committee's consideration.

Mr Ian Howse, Engagement Lead for the Financial Audit reported specifically on the approach to and scope of the financial audit, the financial audit risks identified and the proposed response as well as the planned level of materiality and reporting timetable. In response to a query by the Committee with regard to the level of audit fees, the Officer confirmed that the Auditor General is looking at ways in which the Wales Audit Office can become more efficient. The Officer also explained in the context of Performance audit, what adopting the sustainable development principle will mean for councils in practice in having to have regard to what impact their decisions across all those areas for which they have responsibility is likely to have on future generations, and to plan on that basis.

It was resolved to accept and to note the report.

NO FURTHER ACTION ARISING

7 EXTERNAL AUDIT - CERTIFICATION OF GRANTS AND RETURNS

The External Audit report by PwC summarising the results of work on the certification of the Authority's 2013/14 and 2014/15 grant claims and returns was presented for the Committee's consideration. The report set out the key outcomes from the certification work including where audit amendments were made as a result of the work undertaken or where the audit certificate was qualified.

The report found that for 2013/14, a total of 22 grants and returns were certified of which 7 were unqualified with no amendment; 7 were unqualified but required some amendment to the final figures; 4 required a qualification to the audit certificate and 4 were qualified and required some amendment to the final figures.

For 2014/15, a total of 15 grants and returns were certified of which 11 were qualified with no amendment; 3 were qualified and required some amendment to the final figures and audit certification remains ongoing for 1 grant received for audit.

The report concluded that whilst the Authority had generally adequate arrangements in place for the production and submission of both its 2013/14 and 2014/15 grant claims, there is scope for improvement and to that end, the report makes four recommendations for improving the processes whereby the Authority produces and submits its grant claims.

The Committee noted that the number of qualifications has reduced on that in previous years and it welcomed the improving performance which that trend reflects.

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

- The report of the Head of Function (Resources) and Section 151 Officer outlining how the recommendations made by PwC in its grant certification report above will be achieved was presented for the Committee's information.

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

NO FURTHER ACTION ARISING

8 REVIEW OF LAY MEMBER APPOINTMENTS

The report of the Head of Function (Resources) and Section 151 Officer in respect of the Lay Member appointments to the Audit and Governance Committee was presented for the Committee's consideration. The report summarised the background to the appointment of the Committee's current Lay Members whose term of office comes to an end in July 2016 as well as outlining the options for moving forwards and the considerations pertaining thereto.

Having declared a prejudicial interest in this matter, Mr Richard Barker and Mrs Sharon Warnes withdrew from the meeting for the discussion and determination of this matter.

The Head of Function (Resources) and Section 151 Officer provided the Committee with his professional view as regards the preferred course.

It was resolved –

- **To extend the appointment of the two existing Lay Members of the Audit and Governance Committee to May 2017.**
- **That as from May, 2017, the period of appointment for Lay Members appointed to the Committee be fixed at 5 years to coincide with the length of time between the Council's elections and that members so appointed are able to serve more than one term either consecutively or at any time.**

NO FURTHER ACTION ARISING

9 EXCLUSION OF PRESS AND PUBLIC

It was considered and resolved that under Section 100 (A) (4) of the Local Government Act 1972 the Press and Public be excluded from the meeting for the discussion on the following item on the grounds that it involved the disclosure of exempt information as defined in Schedule 12 A of the said Act and in the Public Interest Test as presented.

10 CORPORATE RISK REGISTER

The report of the Head of Function (Resources) and Section 151 Officer incorporating the Corporate Risk Register updated as at 17th May 2016 by the Strategic Leadership Team was presented for the Committee's consideration.

The Risk and Insurance Manager reported on those risks currently identified as the main risks to the Council as at this time and she accounted for the movement of risks within, and in an out of the Register including the reasons for the escalation of specific risks and the de-escalation of others.

The Officer clarified the process by which the Corporate Risk Register is managed and she confirmed that although more work is required in relation to managing service risks and as regards incorporating the risks now identified with partnership working, progress is being made in the right direction.

It was resolved to accept the report and to note its contents and that the Committee takes assurance that the risks to the Council's aims and objectives are being recognised and managed by the Strategic Leadership Team.

NO FURTHER ACTION ARISING

11 NEXT SCHEDULED MEETING

Noted as Monday, 27 June, 2016 at 2:00 p.m.

**Councillor R. Llewelyn Jones
Chair**