
AUDIT AND GOVERNANCE COMMITTEE 13/7/17

Present: Councillor R. Medwyn Hughes (Chair)
Councillor John Brynmor Hughes (Vice-chair)

Councillors: Stephen Churchman, Aled Ll. Evans, Huw G. Wyn Jones, Dewi Wyn Roberts, John Pughe Roberts, Paul Rowlinson, Angela Russell, Cemlyn Williams and Gethin Glyn Williams.

Lay Member: Sharon Warnes

Others invited: Peredur Jenkins (Cabinet Member for Finance)

Also in Attendance: Dafydd Edwards (Head of Finance Department), Ffion Madog Evans (Senior Finance Manager - for Item 7 on the agenda), Caren Rees Jones (Principal Accountant - for Item 7 on the agenda), Clare Edge (Financial Audit Manager, Deloitte - for Item 7 on the agenda), Caroline Lesley Roberts (Investment Manager - for Item 8 on the agenda), Luned Fôn Jones (Audit Manager), Paul Goodlad (Performance Audit Leader, Wales Audit Office) and Bethan Adams (Member Support Officer).

Apologies: Councillors Dylan Fernley, Aled Wyn Jones, Berwyn Parry Jones, Charles Wyn Jones and Peter Read.

1. DECLARATION OF PERSONAL INTEREST

No declarations of personal interest were received from any members present.

2. MINUTES

The Chair signed the minutes of the previous meetings of this committee held on 6 June and 22 June 2017, as a true record.

3. THE WALES AUDIT OFFICE – GWYNEDD COUNCIL AUDIT PLAN 2017

The report was presented by the Financial Audit Manager (Deloitte) and the Performance Audit Leader (Wales Audit Office).

Members were guided through the report, which detailed the WAO's audit arrangements for 2017. The main audit risks and the work in relation to GwE's grant income and expenditure were highlighted. Attention was drawn to the performance audits carried out at a national level, and those that were specific to Gwynedd.

Members were given an opportunity to ask questions, and the following responses were provided by the officers:

- It was believed that the Council had received a repayment of a proportion of the WAO's 2015/16 performance audit work fee, and that a proportion of the fee for 2016/17 would be returned;
- The total fee for the financial and performance audits for 2017/18 was £417,987;
- The improvement audit and assessment work involved examining the Council's actions on previous recommendations. A short-list of possible recommendations would be discussed, before selecting those most relevant to the Council;
- In relation to the review from a service user perspective, there would be further progress on the work undertaken in the Local Government Study on addressing dependency and demand, and this project would test the interface for service users in each authority. It was noted that the selected groups would be ones which the

Council had already engaged with, and they would be chosen in relation to specific interests and age ranges;

- In future there might be an opportunity to examine the distribution of services in rural and urban areas. The review could include similar groups, such as 50+ groups, from across the County from the perspective of the service user. Agreement would be reached with the Council about the groups to be included.

The Financial Audit Manager (Deloitte) noted that the Pension Fund's audit plan had been drafted, but had not yet been translated, and the plan would be distributed once it was available bilingually. The main financial audit risks to be considered as part of the audit were highlighted, namely the risk that managers would ignore regulations, the triennial valuation held last year and the investments valuation. It was noted that the fee for this specific audit would be approximately £34,000.

The Head of Finance Department noted that the Pension Fund had been valued last year, and that Gwynedd's projections were among the most prudent on a Wales and British level, and that the Government's like-to-like comparisons had confirmed that there was no risk of over-stating the value of the Gwynedd Fund's assets. He drew attention to the increase in the audit fee for the GwE Joint Committee, and explained that the six councils had set their contributions for the year, and that GwE would have to fund the increase from within its budget.

RESOLVED to accept the report.

4. STATEMENT OF ACCOUNTS 2016/17

The Head of Finance Department set out the background and context of the report. Attention was drawn to the fact that unaudited draft accounts were being presented here for information, with the final version to be submitted for the Committee's approval at the meeting on 28 September 2017.

The Senior Finance Manager expanded upon their content and responded to members' general enquiries.

The Head of Finance Department explained that the £51 million movement in pensions was a movement on paper rather than a cash movement. He further explained that the discount rate had reduced from 3.5% to 2.6%. He explained interest rates were extremely low, and therefore as the true returns on bonds was low, the associated discount rate was also low. He noted that the discount rate was used to calculate the current value of the pensions to be paid out in future, and subsequently the value of the sum to be paid out appeared to be higher. He noted that regardless of the deficit, the Pension Fund's projections meant that the deficit would be recouped over 20 years by the employer. It was noted that it had been a good year for the Pension Fund; the assets had increased substantially by 22% in 2016/17, and the value of the Fund as at 31 March 2017 was £1.8 billion.

A member noted that a table on page 51 of the agenda showed a substantial decrease in the capital receipts in 2016/17 compared to 2015/16. In response, the Head of Finance Department noted that the figure was based on how much property had been sold during the year. He emphasised that this signified the timing of the disposal of property, rather than less effective performance.

In response to an observation by a member about the reduction in the mortality assumptions in relation to the pension costs, the Head of Finance Department noted that the actuary had undertaken detailed research into the assumptions, and that the Council accepted the information. A member added that this was contrary to what was heard about individuals' life spans, and asked how frequently the assumptions were reviewed. In

response, the Head of Finance Department noted that the assumptions were reviewed as part of the triennial actuarial valuation.

A member enquired about the impact of changing the pension age to 67. The Head of Finance Department confirmed that the implications of the change to the pension age had been included in the plan and the relevant assumptions when estimating the value of the commitments.

RESOLVED to accept and note the 2016/17 Statement of the Council's Accounts (subject to an audit).

5. TREASURY MANAGEMENT 2016/17

The background and context of the report was presented by the Investment Manager, in relation to the actual results of the Council's Treasury Management during 2016/17, compared with the strategy established for that financial year. Details were provided on the economic background, the borrowing requirements and debt management, investment activity and compliance with prudential indicators.

The Head of Finance Department noted that a briefing meeting would be held for committee members on 24 January by Arlingclose, the Council's Treasury Management Consultants, to discuss and explain the Council's Treasury Management Strategy Statement for 2018/19. He explained that the Committee, in its meeting on 8 February 2018, would make a recommendation to the Full Council in relation to the Council's Treasury Management Strategy Statement for 2018/19. A similar decision had been made in February/March 2016 in relation to the 2016/17 strategy, which was the subject of this paper.

In response to a question from a member regarding interim borrowing, the Investment Manager noted that interim borrowing occurred only in exceptional circumstances for a bridging period before money was received, and that the loan would only be for a very short term. She further explained that it could occasionally be cheaper, due to low interest rates, to borrow money for a short period rather than using an overdraft.

A member asked whether it would be more prudent to use reserves than borrow money. In response, the Head of Finance Department noted that the Council "self-borrowed", rather than borrowing to serve assets, and that decisions about borrowing were closer to the daily cash flow situation. He explained that the situation in relation to the reserves was different, and that long term loans were avoided.

In response to an observation by a member on the first sentence on page 158 of the agenda in the context of the Council's Capital Financing Requirement (CFR), the Head of Finance Department noted that the sentence should note that the need to invest was increasing, and that borrowings were not sufficiently decreasing to address the CFR.

In response to queries about setting prudential indicators, the Head of Finance Department noted that organisations produced indicators which were particular to their circumstances, and that organisations had differing levels of expectations and restrictions. It was confirmed that the Council's indicators were in accordance with the CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice on Treasury Management.

RESOLVED to accept the report for information.

6. WALES AUDIT OFFICE REPORT - GOOD GOVERNANCE WHEN DETERMINING SIGNIFICANT SERVICE CHANGES

The report was presented by the Performance Audit Leader (Wales Audit Office). He noted that the report, examining the situation in Gwynedd in relation to governance when

determining significant service changes, was generally positive. He explained that there had been a delay before the submission of the report to the committee due to the local and general election periods. He noted that a report on the national situation would be published before the autumn.

He drew attention to the conclusion that "...Gwynedd Council's governance arrangements for service change are sound and improving, better supporting effective decision-making." He highlighted the proposal for improvement, in order to reinforce the Council's governance arrangements: "Scrutiny committees having the opportunity to review and challenge service change business cases in a timely manner before a final decision is made by Cabinet." He noted that the Council had already expanded the role of scrutiny members with two scrutiny members attending the Cabinet Members' performance challenge meetings.

A member referred to the Scrutiny Review Sub-group and asked whether the Sub-group could consider the progress made in responding to the proposal for improvement. The Head of Finance Department noted that the Council was acting on the proposal for improvement and that he would confirm the situation regarding the Sub-group, and inform the member.

In response to an observation by a member regarding monitoring good scrutiny, the Performance Audit Leader (Wales Audit Office) noted that CIPFA provided guidance, and that the Committee's remit and the Council's Constitution would be considered. It was further explained that how scrutiny was evidenced would be monitored, by examining Scrutiny Committee meetings to see the elements of challenging that took place, the evidence submitted and the decision.

RESOLVED to note and accept the report.

7. REPORT FROM THE CONTROLS IMPROVEMENT WORKING GROUP

Submitted – the report of Councillor Angela Russell on a meeting of the above-mentioned working group held on 9 March 2017 to consider the audits that had received a category C opinion, namely -

- a) Support Workers (Derwen)
- b) Sales of Diesel
- c) YGC Overtime
- ch) Plas Gwilym

Officers had been invited to attend the meeting in order to discuss the matters that had arisen from the audits and the work undertaken since the audit reports were published in order to strengthen the internal regulations in question. It was noted that no officers had been present in the working group's meeting to discuss the 'Plas Gwilym' audit. It was explained that the Area Manager, North - Residential and Day-care, and Plas Gwilym's Manager were unable to attend the Working Group meeting as they were holding interviews that could not be re-arranged. It was noted that the officers had sent a written summary of the steps taken to reduce the risks that had been highlighted in the report, and that they received the Working Group's attention, in addition to the evidence received from Plas Gwilym's Manager.

In relation to the sales of diesel, a member asked whether it would be a good idea to change the payment method to be card-only, in order to reduce the risk. In response, the Audit Manager noted that customers paid with cash and that some were invoiced, that receiving card payments would improve cash flow but that this was a matter for the service. In response to a further observation, the Audit Manager noted that the follow-up review would examine the usage level of the new arrangements for card payments.

A member noted that she had raised a matter in the Local Joint Consultative Committee on 7 July 2017 on the need for contact between the officers that were presenting the

information to the Joint Committee and the internal audit officers where matters of concern arose. In response, the Audit Manager said that she would welcome the opportunity to hold discussions with the officers if any matters of concern arose when preparing the Internal Audit Plan for the year.

Members expressed their concerns regarding staff turnover levels in residential homes and recruitment problems in the field of care. It was proposed and seconded to ask the Care Scrutiny Committee to consider the matter for scrutiny.

RESOLVED:

- (i) to accept the report;**
- (ii) to ask the Care Scrutiny Committee to consider scrutinising the levels of staff turnover in residential homes and recruitment problems in the field of care.**

8. INTERNAL AUDIT OUTPUT 1/4/17 – 30/6/17

Submitted - the report of the Audit Manager outlining Internal Audit's work for the period. It was noted that two reports on audits from the operational plan had been completed, two reports on audits from the 2016/17 Audit Plan and one grant audit.

Each individual report was considered and, during the discussion, reference was made to the following matters –

Workers' Awareness of the Whistle-blowing Policy

In response to a member's question, the Audit Manager explained that the questionnaire had been sent to all Council office workers.

The lay member noted that consideration should be given to the whistle-blowing arrangements being administered by an external company.

The lay member asked about the whistle-blowing arrangements in schools and for volunteers. In response, the Audit Manager noted that there was an individual policy for each school and that there would be a separate audit. She noted that the Education Department had a central policy that schools could amend for their use, and that there were arrangements for reviewing the central policy. In relation to volunteers, they were expected to be aware of the policy and they could be included if an audit was held on field workers' awareness of the policy.

In response to a question from the lay member on the Whistle-blowing Contact Card as part of the induction pack, the Audit Manager explained that the number of individuals who had received the card had decreased since the previous audit and that it was a matter for the Corporate Support Department to consider in relation to the promotion of the policy. It was noted that the number of whistle-blowing cases was very low, which could either be a positive or a negative reflection.

Hafan's Direct Debits

In response to a member's observation about the fact that the audit had not received an opinion category, the Audit Manager noted that this was because a review of Hafan's management was due to be carried out. She drew attention to the fact that the service had committed to acting on the review of business contingency arrangements to mitigate the risks that had been highlighted during the audit.

RESOLVED:

- (i) to accept the report on the work of Internal Audit for the period from 1 April 2017 to 30 June 2017 and to support the agreed actions that had already been submitted to the managers of the relevant services;**

- (ii) that the members appointed to serve on the Controls Improvement Working Group at the meeting of the Committee on 6 June to also consider the audits that have received a category 'C' opinion in this period;
- (iii) that it was the responsibility of any member unable to attend the Working Group to arrange a substitute.

9. INTERNAL AUDIT PLAN 2017/18

The report of the Audit Manager was submitted, providing an update on the current situation in terms of completing the 2017/18 internal audit plan.

It was reported that up to 30 June 2017 the Internal Audit Unit had completed 3.33% of the plan, and that 2 of the 60 audits in the 2017/18 plan had been released in a finalised version. It was explained that one reason for the lower performance than the quarterly target was due to staff recruitment difficulties. The staffing level throughout the quarter had reduced by a level that corresponded to two full-time auditors. It was added that two new staff members had started during April and had been receiving their necessary training during this period. It was noted that there were steps in place to resolve the situation and that specific audits had been designated to the auditors.

In response to an enquiry by a member regarding the reasons for the recruitment difficulties, the Audit Manager noted that one of the reasons was the Senior Auditor salary scale, with nearby councils designating a higher salary for the post. She added that she was of the view that the salary did not reflect the duties and responsibilities of the post.

The lay member noted that the Senior Auditor's salary scale should be reviewed. She added that the staffing levels to deliver the internal auditing work was a cause for concern in other councils in the area, with some councils purchasing staff hours from other councils.

Members expressed their concerns in relation to the risk of not delivering the internal auditing work in accordance with the 2017/18 plan, and the need to review the Senior Auditor's salary scale. In response, the Head of Finance Department noted that he would arrange an assessment to examine whether the salary scale was fit for purpose, and would ask the Audit Manager to review the job description, and ask the Corporate Support Department to re-evaluate the salary scale.

RESOLVED to accept and note the contents of the report as an update of progress against the 2017/18 audit plan.

10. INTERNAL AUDIT CHARTER

The Head of Internal Audit presented the Internal Audit Charter to the Committee, which had been produced in accordance with the requirements of the Public Sector Internal Audit Standards 2013 (amended April 2017). Members were guided through the Charter, and their attention was drawn to the purpose of the Internal Audit Service:

"To give confidence to the citizen and the Council on the Council's control environment and governance arrangements through independent and objective reporting to the Head of Finance and the Audit and Governance Committee."

She explained that, the Audit and Governance Committee was referred to as the "Board" and "Audit Committee" in the document and that she as the Audit Manager acted as the "Chief Audit Executive" in accordance with the terminology in the Standards.

She highlighted that one of the major changes in the Charter was that the Audit Manager reported directly to the Senior Revenue and Risk Manager, who was accountable to the Head of Finance Department. The change reflected the working arrangements.

She drew attention to the fact that Internal Audit, after an appropriate period, would conduct follow-up testing to ensure that what was agreed with the Services was acted upon, regardless of the audit's opinion category. This reflected the move towards encouraging managers' ownership of the agreed steps.

The Head of Finance Department noted that the move towards encouraging managers' and officers' ownership of the steps had been welcomed and praised by himself and the Chief Executive.

A member noted that the Charter was clear and commendable. The member asked how the Audit Manager would report if it was considered that there was a lack of resources to complete the work. In response, the Audit Manager noted that any lack of resources would be highlighted in the progress reports submitted to the Committee. She added that if action was required, she would hold discussions with the Senior Revenue and Risk Manager and the Head of Finance Department.

The lay Member referred to paragraph 10.1 under the heading 'Internal Audit Resource Requirements', and the need to strengthen the paragraph. In response, the Audit Manager noted that she would add a clause stating that in the event of insufficient resources the matter would be referred to the Committee.

A member noted that he appreciated the process of discussing and agreeing upon actions with managers to encourage their ownership of the solutions.

RESOLVED to approve the Internal Audit Charter.

11. INTERNAL AUDIT QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

The Head of Internal Audit presented the report, and noted that the Public Sector Internal Audit Standards, and associated CIPFA Local Government Application Note, required the Audit Manager (the "chief audit executive" in the Standard's terminology) to develop and maintain a quality assurance and improvement programme to encompass all aspects of internal audit activities.

She noted that she had conducted an internal self-assessment and had discussed the outcomes with the Senior Revenue and Risk Manager, and had agreed upon the actions to be included in the Quality Assurance and Improvement Programme where there were instances of partial compliance or non-compliance with the Standards. Attention was drawn to the Quality Assurance and Improvement Programme included as an appendix to the report.

It was explained that the external assessment of Gwynedd Council's Internal Audit Service had been planned to be conducted in autumn 2017 by Carmarthenshire County Council's chief audit executive and that the results of the external assessment would be submitted to the Committee. The Audit Manager informed the Committee that she would be undertaking Denbighshire County Council's external assessment in spring 2018.

RESOLVED to approve the Internal Audit Quality Assurance and Improvement Programme.

The meeting commenced at 10.05am and concluded at 12.30pm.

CHAIR