

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD AT COUNTY HALL, LLANDRINDOD WELLS ON THURSDAY 11 JULY 2013**

**Present:** County Councillor A W Davies (Chair)  
County Councillors Mrs E R Davies, Mrs S C Davies, L R E Davies, L Fitzpatrick, E A Jones, Mrs F Jump, H Lewis, D Mayor, R H Mills, J G Morris, W J T Powell, D Thomas, R G Thomas, Col T J Van Rees, and Mr J Brautigam (Independent Member)

**In Attendance:** Messrs M Jones, C Davies, and Ms J Morgan WAO, County Councillor D Jones

<b>1.</b>	<b>APOLOGIES</b>	<b>A32 – 2013</b>
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Apologies for absence were received from County Councillors C Davies, W D Powell Mrs J Shearer and G P Vaughan

<b>2.</b>	<b>DECLARATIONS OF INTEREST</b>	<b>A33– 2013</b>
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County Councillors M J Jones, E A Jones and Col T J Van Rees declared interests as members of the Local Government Pension Scheme.

<b>3</b>	<b>DECLARATION OF PARTY WHIPS</b>	<b>A34 – 2013</b>
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There were no declarations of party whips.

<b>4.</b>	<b>MINUTES</b>	<b>A35– 2013</b>
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The Chair was authorised to sign the Minutes of the last meetings held on 21 March and 31 May 2013 as correct records subject to County Councillor E A Jones' attendance being recorded for the meeting on 21 March 2013.

<b>5.</b>	<b>JOINT CHAIRS STEERING GROUP</b>	<b>A36 – 2013</b>
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**Documents Considered:**

- Notes of meetings held on 22 March and 24 May 2013.

**Outcomes:**

- Noted
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<b>6.</b>	<b>DRAFT STATEMENT OF ACCOUNTS</b>	<b>A37 – 2013</b>
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**Documents Considered:**

- Draft Statement of Accounts

**Issues:**

- Draft Accounts signed off by 30 June
- Draft Accounts published and advertised
- Overall deficit £10M
- Assets exceed liabilities
- Pension liability has increased to £241M

- Redundancy/pension costs
- Reserves
- Cash outflows have increased by £20M
- Financing Activities have dropped from £21M to £8M
- Savings attributable to staff vacancies
- Head of Adult Services not listed as employee
- Monitoring of Prudential Indicators
- Teachers' pensions
- Three schools still have deficit budgets
- Capital budget – impact on regeneration
- Depreciation and Amortisation
- Proposed cuts and budgets stated in Accounts

### **Responses:**

- Following publication of the draft Statement of Accounts, any comments will be addressed prior to Audit Committee on 26 September at which time the Accounts will be signed off.
- A Member questioned why some officers were leaving the authority with large lump sums on redundancy and/or retirement. Such payments were made in accordance with the terms and conditions of that officer's employment. The Powys Scheme had been reviewed and, whilst terms were less favourable than they had been under the previous scheme, it was in line with other Welsh Authorities. Any redundancy was based on a business case with a payback of 3 years or less and it must be proven to be in the interest of the service. Members could revisit the Redundancy Policy at any time as long as the Scheme met the statutory minimum requirement.
- It was thought unlikely that the deficit in the Pension Fund could be eradicated through contributions. It was a national problem but contributions at the current rate would not close the gap. The investment portfolio remained static.
- Reserves were being used to supplement budgets. A report would be going to Cabinet within the week regarding reserves. There were instances where specific reserves had been held for some time and these were being looked at by Finance to ensure they were specific or would be recovered. The reserves were currently within the recommended range of 3% - 5%.
- The increase in cash flow had been noted and was attributed to pension figures – this would be amended in the Final Accounts.
- Financing Activities had fallen due to capital grants received and reduced trading activity over the previous year. The Strategic Director informed the Committee that letters had been circulating suggesting that 'English style' settlements would likely result in a 4% cut. Whilst England suffered heavier cuts in funding they aggregated all grants within their settlements. It was suggested that if this does happen in Wales, Members should lobby to include such grants within the settlement.
- The majority of vacancies were held in corporate service areas in anticipation of budget cuts and so avoid redundancy costs.
- The Draft Accounts contain reference to employees paid over £60K p.a. However the Head of Adult Services was not included as this post was filled by a consultant. Members thought that this should be noted in the Accounts.

- Certain Prudential Indicators have to be reported through quarterly financial and treasury management reports. Members were concerned that these be checked to ensure savings claimed in budgets are actually made. Further information would be sought from the Capital Accountant.
- It could not be confirmed if teachers were in receipt of added years on early retirement. Clarification would be sought.
- The three schools with deficit budgets are in the process of being reviewed – a report will be submitted to Cabinet.
- The Capital Overview states that *much of its capital investment is spent with businesses within Powys or its near neighbours* and notes the impact this could have on regeneration within Powys. An analysis of what has been spent in Powys was requested. Newer contracts specify that a certain percentage of a project has to be spent on local goods and services. This appeared to be too subjective a statement to include in the Accounts. This must be monitored as the sums involved were considerable in comparison to funds allocated for regeneration directly.
- Depreciation is calculated over the life of a building. Members queried how *surplus* could be depreciated – this would be checked.
- It has been reported that Powys is likely to suffer cuts of £10M. The net budget in the Accounts is stated as £234M but in the Mid Term Financial Plan (MTFP) for 2015/16 is stated at £13M higher. The Leader responded that the Welsh Government had stated that Local Government would receive a global increase of .9%. This had been revised to -1 to -4%. Any global reduction will inevitably lead to winners and losers. The cut would be from the 2015/16 budget stated in the MTFP which currently shows the original predicted increase. Further clarification was awaited from the WG – if protection of schools and social care budgets continues the full £10 savings will fall to remaining services. Funding has not been provided for the council tax reduction scheme and leaders of Finance Sub Committee of the WLGA are not in a position to commit to fund this until such time as settlements are known.

County Councillor Van Rees left the meeting at 3pm.

**Outcomes:**

- The Capital Accountant to be asked to provide the detail of monitoring undertaken on Prudential Indicators.
- Information on added years to teachers’ pensions would be obtained.

The Chair paid tribute to the Strategic Director, Resources, who would be leaving the Authority shortly.

The Strategic Director asked that his thanks to his Finance Team be recorded, particularly to the Accountant (Resources) in delivering the Statement of Accounts for the first time.

<b>7.</b>	<b>ANNUAL IMPROVEMENT REPORT</b>	<b>A38 – 2013</b>
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**Documents Considered:**

- Annual Improvement Report (AIR)

**WAO:**

- A presentation on the improvement journey from the introduction of the Local Government Measure to the most recent AIR was given.
- The Authority was congratulated on being responsive
- The issues of delivering continuous improvement in the light of financial constraints was discussed – the Authority could deliver more for less, deliver the same for the same or might have to deliver less with less. It was the WAO's duty to report on how well the Council was delivering on its duties and highlight where the Council could do more.
- Preliminary Corporate Assessments were published for all authorities in 2010.
- Powys had remained unchanged and had demonstrated little progress at that time.
- New leadership and new strategies were in place and there had been an increase in engagement but some weaknesses remained.
- In 2011 the Council had engaged consultants and undertook a major engagement exercise which resulted in a fundamental revision to forward looking plans. WAO concerns at that time were the capacity and capability within the organisation to deliver these plans.
- In 2012 measures were clearer and the Authority was developing improved Programme Management arrangements. There was still a need to achieve improvements in key areas. Cultural changes were required and even though processes were being put in place for self evaluation there was a need for those involved in the process to be more rigorous. Scrutiny activity was much improved with the Powys Change Plan having been subjected to very effective scrutiny resulting in an improved Plan. Significant weaknesses in the performance management framework had been noted but work was in progress to improve. Although the Council was in an improved position the Plan was still not a reliable assessment and did not address how the Council intended to change.
- Audit Committee needed to ask the following questions:
  - Do we understand the nature and scale of Regulators' concerns about corporate arrangements and service under performance?
  - Do we understand the scope of the Council's response to those concerns and are we satisfied that the response is appropriate and likely to bring about the required improvement in the necessary time scale?
  - Do we know who is accountable to deliver those actions and to whom they are accountable?
  - Do we as Audit Committee members accept our roles and responsibilities in driving improvement?

#### **Responses:**

- Self evaluation did not necessarily mean criticism but on how things might be done differently to improve outcomes.
- The regulators would assess whether it was reasonable to achieve the stated outcomes within the resources available.

#### **Powys County Council:**

- The Authority had been good at writing plans but was not good at delivering those plans.
- The Authority had been trying to implement over 200 initiatives at any one time – resources were spread too thin.

- A critical Estyn report supported the need for greater self evaluation – standards within schools had appeared favourable but the Authority was not robust in challenging its own performance.
- The Hay Group have been appointed to address the culture and behaviour of the organisation and in encouraging officers to focus on what the Council can achieve and what will make a difference.
- Individual Performance Plans have been introduced for senior officers that will include what support they can expect from the organisation to achieve their goals. These plans will be monitored every 90 days and will include performance scorecards.
- Hay are also working with the Cabinet to ensure they challenge themselves more and to ensure that the information they receive is both correct and robust.
- The Job Evaluation process had identified large resources being used in the wrong place. It was essential that these resources were targeted on future needs.
- Information which has been given to Members has not always been reliable. There has been a tendency for some officers to disseminate only favourable information.
- Hay had identified that there were too many layers of managers – following a restructuring at senior level there are likely to be changes throughout the organisation at all levels.

County Councillor E A Jones left the meeting at 4pm.

- There is a need to improve the capacity for effective decision making. There are many disparate reports and support services which need to collaborate to achieve this.

County Councillor H Lewis left the meeting at 4.15pm

County Councillor R G Thomas left the meeting at 4.20pm.

- Joint Chairs Steering Group had scrutinized the Powys Change Plan but only 43% of their recommendations had been accepted – many of which were minor typographical corrections. Additional time spent with the Leader and Portfolio Holders may have improved this process. It was acknowledged that this was a 'live' document that would continue to be reviewed.
- The Chief Executive proposed that greater involvement in reviewing the Powys Change Plan at both Member and officer level, could lead to greater improvements. Inevitably there is a risk that an element of politics would intervene. However the work Hay is undertaking with the Cabinet in relation to self evaluation should result in further improvements.

<b>8.</b>	<b>CERTIFICATION OF GRANTS AND RETURNS</b>	<b>A39 – 2013</b>
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**Document:**

- Certification of Grants and Returns 2011-12

**Issues:**

- 39.1% of claims submitted late
- 6 were qualified (equivalent to 1:7 – Welsh average 1:4)

**Responses:**

- A protocol on joint working is being developed
- The Section 151 Officer was concerned that he was required to certify claims from third parties who have certified themselves that the process was carried out properly. The Welsh Government and EU ensure that those with accountability should also have the authority in how that money is spent.

<b>9.</b>	<b>TREASURY MANAGEMENT</b>	<b>A40 – 2013</b>
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**9.1 Treasury Management Review 2012/13****Documents Considered:**

- Report of the Portfolio Holder

**Issues:**

- Statutory review
- Continuing policy to run down cash assets rather than borrow
- Policy of the new Governor of the Bank of England regarding interest rates
- No borrowing in last 12 months and none anticipated in the near future
- Replacement income management system

**Responses:**

- The review was based on policies in place in 2012 when it had been considered that the bank rate would start to rise during Q1. No rise is expected now for two years. Investment returns will remain low. Borrowing rates are based on a number of factors, not just the bank rate.
- Tenders for the new income management system were to be awarded shortly after a slight delay. The system would be implemented over the summer.

**9.2 Treasury Management Quarterly Report****Documents Considered:**

- Report of the Portfolio Holder

**Issues:**

- Spend on Capital Budget
- Powys has one of the lowest average, if not the lowest, debt rate in Wales
- Powys is one of the quickest authorities in Wales to apply income to customers' accounts

**Responses:**

- There was a need for further co-operation with departments regarding capital spend to ensure efficient management of funds.

Meeting adjourned until 2pm on Wednesday 17 July 2013

## MINUTES OF A RECONVENED MEETING OF THE AUDIT COMMITTEE HELD AT COUNTY HALL, LLANDRINDOD WELLS ON WEDNESDAY 17 JULY 2013

**Present:** County Councillor A W Davies (Chair)  
County Councillors Mrs E R Davies, Mrs F Jump, H Lewis, W J T Powell, Mrs J Shearer, D A Thomas, R G Thomas, Col T J Van Rees, and Mr J Brautigam (Independent Member)

### Apologies

Apologies for absence were received from County Councillors L R E Davies, Mrs S C Davies, E A Jones, D Mayor, and G P Vaughan

### Declarations of Interest

Councillors H Lewis and Col T J Van Rees declared personal interests in Item 11 in relation to the County Farms Estate.

A question regarding outstanding payments from the Local Health Board had been asked during the item on the Draft Statement of Accounts. It was reported that the current amount outstanding was £1.2M dated between July 2011 and June 2013. Members queried whether interest should be charged on these amounts. The Debt Recovery Unit actively chases debt. Caution was urged in amending the Debt Recovery Policy as the costs of retrieving some debts may outweigh the debt itself.

### **Outcome:**

- The Cabinet be asked to consider reviewing the Debt Collection Policy

<b>10.</b>	<b>INTERNAL AUDIT PLAN</b>	<b>A41– 2013</b>
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### **Documents Considered:**

- Internal Audit Plan 2013/14

### **Issues:**

- Fraud and corruption increasing
- Members' input in identifying areas for auditing would be welcomed
- Value for money
- Local expenditure

### **Responses:**

- The Plan has allocated 16% of time to addressing fraud and corruption. It was noted that during the previous year the time spent on fraud had exceeded 16% - this work was reactive and was difficult to predict.
- Concerns were expressed that value of money was not always evident. Large sums were often spent on minor works with budget holders having little or no control over the works or costs. The Internal Audit Working Group had concerns in relation to Housing Repairs and Maintenance and was monitoring this on an ongoing basis. The issue of the internal market offering value for money would be worth further investigation.
- The funds spent on repairs and maintenance of council buildings was considerable and could benefit regeneration if spent with local firms.

**Outcomes:**

- Internal Audit would schedule work around market testing.

11.	<b>OPINION ON INTERNAL CONTROL 2012/13</b>	<b>A42 – 2013</b>
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**Documents Considered:**

- Opinion on Internal Control 2012/13

**Issues:**

- Overall Satisfactory levels of control were recorded
- Six areas of weakness
  - Failure to demonstrate effective and transparent arrangements for the procurement of assets (vehicles and plant)
  - Failure to identify and monitor potential conflicts of interest by officers in procurement activities
  - Lack of business continuity arrangements for schools
  - Concern regarding control and support for school activities on the periphery of normal operations
  - Failure to clearly define roles and responsibilities in project teams and lack of engagement in some areas
  - Increases in the number of suspected fraud cases
- Ensuring managers take responsibility for ensuring actions are implemented
- Maximum return on Council assets

**Responses:**

- Internal Audit was generally satisfied with the levels of control.
- Some areas of weakness have resulted in fraud. The Internal Audit Working Group monitors those areas which have been identified as 'high risk' and discuss with managers how actions are being implemented.
- There was some concern that the Council did not maximise its returns on assets, for example, the County Farms Estate, Wyese Park and the Pavilion. It must be ensured that such assets were meeting the purpose for which they were originally intended and generating an appropriate return.

Councillors H Lewis and Col T J Van Rees declared personal interests and left the meeting during discussion of the County Farms Estate.

- The Internal Audit Working Group was concerned that there was no action plan to deal with debt levels in the County Farms Estate. The Environment, Infrastructure and Crime and Disorder Committee had a number of concerns in relation to the Estate and have established a Scrutiny Review Group to look into the matter. Given the levels of concern of the Internal Audit Working Group it was proposed that a Member of that Group join the Scrutiny Review. It was noted that Councillors R G Thomas and E A Jones had been appointed to the Scrutiny Review and were Members of both Committees.

**Outcomes:**

- Mr John Brautigam be appointed to the County Farms Estate Scrutiny Review Group.



**Documents Considered:**

- Risk Management report and register

**Issues:**

- Change in staffing arrangements have led to Risk Management being the responsibility of the Internal Audit Manager
- Work would be re-evaluated
- Financial regulations require Risk Management to be undertaken
- Capacity within Internal Audit to take on Risk Management
- Adult Social Care – overspends/demographics
- Culture change required
- Failure to spend capital

**Responses:**

- The same methodology has been applied to the current plan as in previous years. This may be subject to review once resourcing issues have been resolved.
- The Risk Register contains service areas' opinion to risk. At the present time this is un-moderated but in the next few weeks the Internal Audit Manager will challenge each service area to evidence their risks and whether mitigating actions have been put in place.
- Adult Social Care continued to cite demographics as the reason for budget overspends. This had not been proven and was thought to be as a result of poor management control and a disconnection between the service and Finance. It may be that the service sees the Risk Register as a means of achieving additional funding.

County Councillor Mrs E R Davies left the meeting at 16.10.

- The Authority must develop a culture of openness and honesty. Risks should be acknowledged along with how those risks will be dealt with.

County Councillor Mrs J Shearer left the meeting at 16.15.

- Discussions were still ongoing as to how Risk Management would be resourced. Efficiency savings have to be made but Risk Management must be addressed effectively. Failure to undertake Risk Management is a risk in itself.
- A Capital Budget is agreed at the start of the year and a working budget develops as projects progress or not. This is a cause of concern across all authorities and could lead to difficulties in cash flow for authorities.

**Outcomes:**

- The issue of capital spend to be considered by the Finance and Performance Working Group.

13.	WAO JOINT REVIEW – WELSHPOOL REDEVELOPMENT	A44 – 2013
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**Documents Considered:**

- Scrutiny Summary Report

**Issues:**

- WAO review completed but some outstanding questions from Local Members

**Responses:**

- A further meeting was held between Local Members, WAO and officers to resolve outstanding issues

**Outcomes:**

- The review is complete

14.	WORKING GROUPS	A45 – 2013
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14.1 **Finance and Performance**

**Documents Considered:**

- Progress report

**Issues:**

- Working Group now meeting regularly
- Feedback from the Group is informing the Improved Governance Project
- Tracker of Efficiency Savings to be considered regularly
- Service areas holding reserves of over 5% of budget had those funds recovered to the centre
- Service areas will be interviewed at future meetings.

14.2 **Internal Audit**

**Documents Considered:**

- Progress report

**Issues:**

- County Farms Estate
- Additional meeting held on 8 July and considered Zipporah (Leisure Services cash handling system) Fair Funding Formula and After School Clubs
- School banking arrangements/cash handling.

**Responses:**

- County Farms Estate had been dealt with earlier in the agenda.
- Issues with record keeping and cash handling had been discovered in an After School Club. There were concerns that these issues might be widespread across other such clubs attached to schools where governance arrangements were not satisfactory and lines of accountability were not clear.
- Finance are concerned at the number of bank accounts some schools are holding over which Finance have no information. Head teachers do not

always engage and such accounts can lead to major issues in the accounting of VAT, debtors etc. Further concerns were raised regarding the International Reporting Standards relating to lease and rental agreements. It is a breach of financial regulations for a Head Teacher to enter into a lease agreement without having first discussed this with Finance. Members were reminded that, as Governors, they too had to assume responsibility for these issues.

**Outcomes:**

- The issues of school clubs and bank accounts be dealt with by the Internal Audit Working Group at its next meeting – the Senior Manager, Central Support Services and Accountancy Manager to be invited to discuss this and the Fair Funding Formula

**14.3 Schools ICT – Ystradgynlais**

**Documents Considered:**

- Progress report

**Outcomes:**

- The ICT Working Group would meet the Project Group overseeing projects at a future date to assess whether recommendations were being implemented.

<b>15.</b>	<b>WORK PROGRAMME</b>	<b>A46 – 2013</b>
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**Documents Considered:**

- Work Programme

**Outcomes:**

- Noted

<b>16.</b>	<b>CORRESPONDENCE</b>	<b>A47 – 2013</b>
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There was no correspondence.

A W DAVIES  
CHAIR