

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD AT COUNCIL CHAMBER, COUNTY HALL - COUNTY HALL ON THURSDAY, 9 MAY 2019**

**PRESENT**

County Councillors JG Morris (Chair), D R Jones, M J Jones, K Laurie-Parry, K Lewis, WD Powell, D A Thomas, R G Thomas, T J Van-Rees, A Williams, J M Williams and R Williams and Mr J Brautigam

Cabinet Portfolio Holders in Attendance: County Councillor A W Davies

County Councillors in Attendance: County Councillors L Corfield and G Williams

Officers: Nina Davies, Head of Housing and Community Development, Ann Owen, Treasury Manager, Dylan Owen, Head of Commissioning (Children and Adults), Emma Palmer, Head of Strategy, Performance and Transformation Programmes, Julian Preece, Private Sector Housing Team Leader, Wyn Richards, Scrutiny Manager and Jane Thomas, Head of Financial Services

Officers in Attendance: Messrs Evans and P Pugh, WAO, Ian Halstead, Assistant Director, SWAP and Caroline Turner, Chief Executive

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| <b>1.</b> | <b>APOLOGIES</b> |
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There were no apologies for absence.

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| <b>2.</b> | <b>DECLARATIONS OF INTEREST</b> |
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County Councillor R Williams declared a personal interest in item 8.3, Internal Audit Report - ECO2.

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| <b>3.</b> | <b>DISCLOSURE OF PARTY WHIPS</b> |
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There were no disclosures of party whips.

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| <b>4.</b> | <b>MINUTES</b> |
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The Chair was authorised to sign the minutes of the previous meeting, held on 14 February 2019, as a correct record.

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| <b>5.</b> | <b>WAO - ANNUAL AUDIT PLANS</b> |
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**Documents:**

- 2019 Audit Plan – Powys County Council
- 2019 Audit Plan – Powys Pension Fund

**Discussion:**

- The Committee was briefed on the approach the WAO would be taking

- A risk based approach would be taken and key risks were identified which included the revaluation of properties and senior officer remuneration levels
- The WAO explained that revaluation of properties was a risk as there was a significant level of estimation and there could be movement on the balance sheet. Assumptions have been made and the appropriateness will be checked. The Head of Finance responded to a question that either Council Valuers or external valuers are used depending on the volume of work and whether a disposal was being actively marketed or whether the Council's assets were being revalued.
- A Member raised the issue of the Nant Helen Open Cast Mine and the bond that is retained for restoration. If a bond is retained, there should be no risk? The WAO would consider whether the revised restoration plan was in compliance with the financial statements.
- The performance audit would be guided by the Wellbeing of Future Generations Acts and the Local Government Improvement Measure 2009. This would include certification of Improvement Plans and Annual Reports. There will be an examination of the sustainable development principle of individual projects including Vision 2025 and whether this is driving transformation. All authorities' financial sustainability will be examined.
- It had been thought that the Local Government Improvement Measure 2009 was to be removed. It is expected that the Measure will be repealed and incorporated into local government reform in due course. The Head of Finance referred to the implementation of the new finance system but that the process was currently on track. The WAO informed the Committee that some aspects of the audit had been brought forward and they too were content that the process was on track.
- A Member asked if a breakdown of WAO fees was provided to the Authority
- The WAO will liaise with the Auditors of the All Wales Pension Fund during the current transition period

**Outcome:**

- **The Audit Plans for 2019 were noted**

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| <b>6.</b> | <b>WAO - WELLBEING OF FUTURE GENERATIONS - AN EXAMINATION OF IMPROVE OUR SCHOOLS INFRASTRUCTURE</b> |
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**Documents:**

- Wellbeing of Future Generations: An Examination of 'Improve our Schools Infrastructure' – Powys County Council

**Discussion:**

- The audit found that Council had acted in accordance with the sustainable development principle and in using the five ways of working.
- Funding was not considered as part of the review – it was a longer term approach
- Members were of the opinion that the school in Welshpool had a greater capacity than that which was needed

- The Committee was informed by the Head of Strategy, Performance and Transformation Programmes that data was being collated across the range of services to assist in looking at the future way in which education was provided. The information would be available to the Senior Leadership Team in June 2019. The education offer must support existing learners but also be fit for future generations.
- The Committee noted that there was significant partnership working within education and questioned whether the WAO also looked at partner organisations. The report focussed on the Council. However as more collaborative working developed, and more ambitious projects were envisaged, the WAO would broaden its remit to assess how partners were held to account for wellbeing objectives. There was no remit to look at Public Service Boards.

**Outcome:**

- **The report was noted**

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| <b>7. ANNUAL GOVERNANCE STATEMENT</b> |
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**Documents:**

- Draft Annual Governance Statement (AGS)

**Discussion:**

- An early draft of the AGS was being provided to Audit Committee to enable Members to input at an earlier stage. The AGS has always been available as part of the statement of accounts but Members had thought that this had been overlooked when considering the statement of accounts.
- The Senior Leadership Team will consider the documents on 22 May and determine the level of assurance it should be given
- The report covers the 2018/19 financial year – events which have happened in the current year are not included
- The AGS is compiled around seven core principles and is in a format established by CIPFA guidance
- The Audit Committee were asked to assess if the AGS reflected an accurate position and was there sufficient evidence provided
- The Committee noted that a new Funding Formula had been successfully implemented – this is not a comment on whether the Funding Formula itself was successful
- It was also stated that Impact Assessments had been embedded successfully – the Committee challenged this as the IAs had been either late or not adequately completed. It was further noted that the savings which had failed to be achieved had impact assessments which identified them as high or medium risk.
- The budget was described as transformational – this was not the case
- The Portfolio Holder for Finance recognised that the IAs had been of variable quality but referred Members to the proposals for budget development that had been considered at a Council seminar

- The AGS was a statutory requirement and reflects risk and assurance, both of which are core functions of the Audit Committee

**Outcomes:**

- **Members would consider the AGS in greater detail and submit their comments to the Chair or Scrutiny Officer by 31 May 2019**

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| <b>8.</b> | <b>INTERNAL AUDIT</b> |
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| <b>9.</b> | <b>INTERNAL AUDIT ANNUAL PLAN</b> |
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**Documents:**

- Internal Audit Annual Plan

**Discussion:**

- An agile approach to planning was being taken given the rapidly changing nature of the Authority under new senior management
- A three month plan was being proposed but it was acknowledged that this lacked visibility regarding future work. Following discussion, it was agreed that a six month rolling plan be provided. Any changes to the plan would be notified to the Chair and Vice Chair of Audit Committee.
- Work in the forthcoming year will focus on corporate plans, risk registers and key risk areas
- The Internal Audit Charter was also provided as required under Accounting Standards
- The Assistant Director was asked if monitoring of previous reports was undertaken – follow up work is carried out and evidence is required that actions have been delivered
- It was suggested that there needed to be coverage of procurement and contracts. Contract management is a significant risk within the Authority in terms of skills.
- The Assistant Director will take input from the Senior Leadership Team and Committee but must produce an independent Plan

**Outcome:**

- **The Internal Audit Plan was accepted**

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| <b>10.</b> | <b>EXEMPT ITEM</b> |
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The Monitoring Officer had agreed that the following item need no longer be exempt.

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| <b>11.</b> | <b>INTERNAL AUDIT REPORT - ECO 2</b> |
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**Documents:**

- Internal Audit Report – ECO2

**Discussion:**

- The report refers to the Energy Company Obligation which is funded by large energy companies to encourage energy efficiency and reduce carbon emissions
- It offers replacement boilers or insulation to those on low incomes and whose homes have an F or lower EPC rating
- ECO2 ran between 1 April and 30 September 2018
- Powys County Council undertook the vetting process and the Internal Audit report considers whether it acted responsibly and had adequate vetting procedures
- A Statement of Intent had been produced and was in accordance with BEIS and Ofgem guidance.
- The Authority was also compliant in defining the qualifying criteria
- 15,500 measures were delivered across the UK with 2048 being within Powys. This is a high proportion but had been explained by the large volume of off-gas properties in the area.
- The Authority was required to process self-assessed claim forms – a client was required to tick a box indicating that they were in fuel poverty and that the property was inefficient. The client was required to sign a declaration that the claim had been completed honestly and correctly.
- An allegation was made by the Powys Plumbing Group that there was widespread fraud although no evidence was forthcoming of fraudulent applications
- The authority was not responsible for the actions of applicants but could be considered as having a moral responsibility as a steward of the funds
- A charge of £150 was made by the Authority for the checking of the claim forms which included a check of the EPC rating. No check of financial criteria or fuel poverty was made.
- The audit found that there was not a robust process in place to check eligibility and the process did not protect the Council against fraud. Records maintained were minimal. A sample was undertaken and 21% of the sample did not meet the criteria. Housing undertook a more extensive sample and found that 12% did not meet the criteria.
- The Approved Agents list was also checked with 18 of the 19 being approved, registered installers. The selection of these agents lacked transparency
- The Council has objectives to develop the local economy. Only one local agent met the qualifying criteria although a number of local companies were used as sub-contractors.
- The scheme generated income for the Council of £231K. Fees were paid by the agents, not the clients.
- Invoicing may not have taken place on completion of the measure if the agent did not advise completion. The report found 162 measures had not been invoiced. A suggestion was made that an invoice should be raised at the start of the process for future schemes.
- There was no evidence of fraud within the Council processes. If fraud has occurred, it has happened between the client and the agent, which is outside the jurisdiction of the County Council.
- Members suggested that the system selection was weak. In addition there was a lack of guidance to support the scheme. The volume of

applications was also much larger than anticipated. Guidance for ECO 3 is much more prescriptive.

- Members had been concerned given the level of activity within their wards. However, it was reiterated that no fraud was identified within the Council.
- Members also questioned how many Powys staff had taken up the scheme. The Assistant Director, SWAP would look into the matter.
- The Committee were concerned regarding the reputational damage to the Council – on many occasions, canvassers were giving the impression that this was a County Council scheme. The Authority had charged for checking and whilst it may not be fraud, it could be considered mismanagement.
- Members asked whether a recharge of officer time had been considered and whether it was 'known' or 'approved' contractors that had been used – Powys had adopted Green Deal approved providers/installers. No review of recharges had been undertaken
- Other local authorities Statements of Intent mirrored that used by the Authority although a few had more detailed documentation. No response has been received regarding vetting processes.
- It was thought that the scheme was a good one but that improvements needed to be made for future schemes to avoid similar issues
- Members asked what vetting was undertaken by the Authority – if a resident was in fuel poverty it was likely that they would appear on other claimant lists
- The Portfolio Holder for Corporate Governance, Housing and Public Protection had not been portfolio holder when the scheme came into being and only became aware of the issues when residents contacted him. Following a meeting at County Hall a request was made to SWAP to consider the position. Lessons have been learned and Income and Awards and the Robert Owen Bank will process applications for ECO3.
- A Member in attendance, informed the Committee that the Powys Plumbing Group had evidence of fraud but were not able to share that information with the Council as it would identify their customers
- The Head of Service assured the Committee that lessons have been learned. A working group has been set up which includes officers from Finance, Legal and Procurement to ensure the process is more robust going forward. The timescales and volume of applications had been unexpected. All recommendations have been taken on board for ECO 3 – different guidance and criteria are also in place.
- Those clients who were unsuccessful at ECO 2 will have to reapply for ECO 3

**Outcomes:**

- **All recommendations contained within the report will be applied prior to commencement of ECO 3**
- **The Economy, Residents, Community and Governance Scrutiny Committee will consider the SWAP report prior to scrutinizing proposals for ECO 3**
- **The Internal Audit Working Group would monitor the actions within the report**

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| <b>12. TREASURY MANAGEMENT - Q4</b> |
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**Documents:**

- Report of the Portfolio Holder for Finance
- Credit Rating List (confidential)

**Discussion:**

- It remained difficult to manage cash flow when the capital programme slipped
- The Authority is now in a need to borrow position – there is a cost to this. Unnecessary borrowing occurred last year. A balance needs to be achieved between borrowing when rates are beneficial and when the funds are needed
- An underspend on Capital at year end is not uncommon. Financial planning and a new regime will ensure that the capital programme is reviewed to ensure it remains appropriate.
- Despite training the VAT position has worsened and money continues to be lost. The systems in place are not at fault but evidence to recover VAT is not being provided. The Committee suggested that authority to make payments should be removed from regular offenders.
- Making Tax Digital will be implemented for local authorities from October 2019

**Outcomes:**

- The report was noted

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| <b>13. CLOSURE OF ACCOUNTS</b> |
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**Documents:**

- Report of the Head of Financial Services

**Discussion:**

- Notes to accounts have been streamlined to remove any notes that are no longer required
- Meetings with the WAO are ongoing
- The closure is on track at the moment
- An Audit Seminar to review the accounts is scheduled to take place on 10 June 2019

**Outcome:**

- The report was noted

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| <b>14. CIPFA ASSESSMENT</b> |
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The Head of Financial Services reported that CIPFA had undertaken a review of the Financial Management Model of the Authority. The WLGA had assisted with funding.

The Authority was assessed between May and October 2018. The final report will be considered by the Audit Committee. The draft report identifies the whole organisation's attitude to financial management. There is an undue level of dependency on Finance and there is room for improvement particularly in relation to developing budget holders.

The Actions identified have been accepted by the Senior Leadership Team. In response to a question, the Head of Financial Services indicated there were no headcount implications but there may be a need for a different skill set to offer added value going forward.

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| <b>15.</b> | <b>IMPLEMENTATION OF FINANCE SYSTEM</b> |
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The new finance system was implemented on 1 April 2019. Some further development work is needed but overall the system has been welcomed.

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| <b>16.</b> | <b>STRATEGIC RISK REGISTER</b> |
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**Documents:**

- Report of the Leader and Portfolio Holder for Risk Management
- Strategic Risk Register
- Response to Audit Committee query

**Discussion:**

- The report covers the period to the end of quarter 3
- It has been recognised that there is a need to report more swiftly and quarter 4 is already being processed.
- There is little change from quarter 2
- A new system is in place (JCAD) and a new approach is being taken with all strategic risks being taken to the Senior Leadership Team for challenge
- Discussions are ongoing with the Health Authority regarding using their framework which will assist with working on integrated projects
- The quarter 4 report will include a recommendation to Cabinet that a risk register for all projects and programmes be established
- The Committee have been concerned for some time that risk ASC19 has been categorised as 'catastrophic' for some time and the next item will deal with this specifically

**Outcome;**

- **The report was noted**

16.1. 12.30 Social Care

The Group received a presentation by the Head of Service, Commissioning (Childrens and Adults)

**Discussion:**

- The risk reflects that the population in Powys will continue to fall for the next 15 to 20 years but that there will be an increase in the older population. There will be a corresponding decrease in the population of



working age people and this could have a significant effect on the workforce.

- This is a county wide issue and ownership of the risk will be moved to a corporate level
- From 2035 onwards, the Office of National Statistics predicts there will be an improvement
- The issue is already affecting recruitment and retention in domiciliary care and is causing delays
- Alternative delivery options are being considered but the Authority successfully delivers 12000 hours a week domiciliary care. In addition, the existing workforce is ageing. There are currently 26 clients waiting for care.
- This is a nationwide problem and is also affecting the Health Board
- The Head of Strategy, Performance and Transformation Programmes reported that half of the Council's workforce was over 50. A Joint Workforce Planning Officer has been appointed and funded through ICF monies. A profile is being pulled together. A Rural Academy is being considered to 'grow our own' and further work is being undertaken with schools and FE colleges to retain younger people in County. Whilst the pinch point is currently within Adult Social Care, this issue will impact upon other services and partners.
- Additional funding has been provided for the social care sector – the funding is not recurring
- The Authority's budget is stressed. The expansion of Adult Social Care is being squeezed and there is no inflationary element for providers in the current year. However, the Authority pays 20% more in total per head of population, but this is skewed in favour of children's services.
- Members asked how dependent on EU workers the service was – it is lower than 2% for main providers
- The Portfolio Holder for Corporate Governance, Housing and Public Protection stressed the importance of young people. The work fits around Vision 2025 and links to a strong economy, housing allocations, education, communications, etc to develop what is needed for the future. Telecare and digital transformation will enable residents to help themselves. Austerity has seen the Council's workforce reduce and the issue will now be addressed corporately.

**Outcome:**

- **The presentation and discussion were noted**

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| <b>17.</b> | <b>THEATR BRYCHEINIOG</b> |
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The Chair reported that the review was nearing completion and would be available for the next Audit Committee.

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| <b>18.</b> | <b>DAWNUS</b> |
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**Documents:**

- Report of the Vice Chair of the Audit Committee
- Responses from the Welsh Government

**Discussion:**

- The Vice Chair took the Committee through the timeline of events leading to Dawnus going into administration. It was noted that the Dawnus Group comprised 20 companies and not all had gone into administration.
- Financial analysis work was undertaken by the Authority in February 2017 – the 2017 accounts would not have been available at that time.
- It is not known if there were disclosure clauses
- The Vice Chair had discussed the matter with his AM who is also Shadow Minister for the Economy
- The matter is to be taken forward by the Public Accounts Committee
- No information had been passed to local authorities by the Welsh Government
- As a result of the collapse of Dawnus, there are 1500 creditors ranging from £10 to £750K.
- It is not clear what information our assessor had access to nor if any information had been withheld or false information given
- The issue was larger than just Powys County Council but the Committee sought assurance that future contracts would be more secure
- The Committee questioned what action was being taken by the Council's legal team. The Chair has written to the Chief Executive and will keep the Committee informed
- The Portfolio Holder informed the Committee that the Authority had only paid for what has been delivered to date
- Weekly meetings are taking place regarding the future of the projects started by Dawnus. Unfortunately the cost of the projects is likely to increase

**Outcomes:**

- **The Chair would keep the Committee informed of developments**

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| <b>19.</b> | <b>WORKING GROUPS</b> |
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**Documents:**

- Scrutiny Summary Report

**Discussion:**

- Following the recent review of scrutiny, the Internal Audit Working group has been reinstated
- The Group had considered reports on Members Expenses, Section 33 Agreements and Clearance of Void properties
- The WAO noted that their grant certification work had highlighted the lack of Section 33 Agreements being completed on time.

**Outcome:**

- **The report was noted**

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| <b>20.</b> | <b>WORK PROGRAMME</b> |
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**Documents:**

- Scrutiny Work Programme

**Outcome:**

- **The Work Programme was noted**

**County Councillor JG Morris (Chairman)**