

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD AT COUNCIL CHAMBER, COUNTY HALL - COUNTY HALL ON FRIDAY, 6 SEPTEMBER 2019

PRESENT

PRESENT

County Councillors JG Morris (Chairman), Mr J Brautigam, M J Jones, R G Thomas, T J Van-Rees, A Williams, J M Williams and R Williams Mr J Brautigam

Cabinet Portfolio Holders In Attendance: County Councillor A W Davies

Officers: Ian Halstead, Dan Paley, Jane Thomas, G Thomas and Emma Palmer, Head of Transformation and Communication

Other Officers In Attendance: Messrs D Burrige and P Pugh, WAO, and Ian Halstead, Assistant Director, SWAP

1. APOLOGIES

Apologies for absence were received from County Councillors

2. DECLARATIONS OF INTEREST

County Councillor T J Van Rees declared a personal interest in item 11 as a Council appointed Trustee of Theatr Brycheiniog.

County Councillor R Williams declared a personal and prejudicial interest in item 11 as a Friend of Theatr Brycheiniog

3. DISCLOSURE OF PARTY WHIPS

There were no declarations of party whips.

4. MINUTES

The Chair was authorised to sign the minutes of the previous meeting, held on 7 August 2019, as a correct record.

5. STATEMENT OF ACCOUNTS AND ANNUAL GOVERNANCE STATEMENT

Documents:

- Report of the Head of Financial Services
- WAO Audit of Financial Statements Report – Powys County Council
- WAO Audit of Financial Statements Report – Powys Pension Fund
- Letter of Representations for Powys County Council
- Letter of Representations for the Powys Pension Fund
- Statement of Accounts 2018-19 – Powys County Council
- Statement of Accounts 2018 -19 – Powys Pension Fund

- Annual Governance Statement 2018-19

Discussion:

Report of the Head of Financial Services

- The Accounts had been submitted 2 weeks ahead of the deadline
- The Auditor General proposes to issue an unqualified opinion on both the Powys County Council and Pension Fund accounts
- If the Committee approve the Accounts today, the Chair and S151 Officer will have authority to sign the Accounts
- The Committee have had two seminars, one to consider the draft Accounts and one to consider the changes made to the final Accounts
- One misstatement had not been amended – this was for £374K and relates to Plant Property and Equipment
- The impact on liabilities of the McLeod judgement, which refers to age discrimination within the pension scheme, has resulted in an increased impact on liabilities of the County Council Accounts of £10.13M and £7.1M on the Pension Fund
- The process had been completed within a shorter timescale and had taken a project management approach
- Continual improvements are being made and are recognised – there are always further improvements that can be made
- Resources are under continued pressure and the S151 Officer needs to ensure that finance can be delivered as efficiently and effectively as possible
- No-one took up the opportunity for public inspection
- Training for staff is ongoing

WAO Audit of Financial Statements Report – Powys County Council

- The Auditor General's responsibilities were outlined
- Significant issues identified were corrected and therefore would not affect the Auditor General's opinion
- Post project learning has been analysed and discussed with Finance
- Tighter deadlines in future may mean more uncorrected amendments
- A revaluation of assets had been carried out on a different basis to previous years. The WAO were asked if the new basis was correct and whether that was common throughout Wales. The Audit ascertained that assets had been revalued in line with the CiPFA Code. Each authority appoints its own valuers. The WAO were satisfied that the revaluation had been appropriate and in line with professional criteria. There had been a change of valuer following a tendering exercise. The WAO would consider what steps the Authority had taken in challenging the revised valuation whether this had been an increase or decrease.
- It was suggested that an explanation of the misstatement of £374K could be explained in more user- friendly terms for those of the public who may wish to view the accounts
- The level of materiality has been defined – the level of materiality agreed by the WAO had been £4.97M which was deemed appropriate
- The WAO had published a report regarding errors and misstatements, and in what circumstances these need to be corrected – this would be considered at a future Audit Committee

- The WAO were asked if it was possible to benchmark the Authority's financial performance against that of other local authorities and whether any other authority had failed to produce its Accounts. The WAO reported that there are some authorities whose accounts were signed off by the end of July, and others which still had to be signed off. The early closing agenda was progressing and on track. Further improvements were expected next year, and it was anticipated that the Authority should succeed in meeting the earlier deadline.
- The Head of Financial Services reported that the rest of the organisation did not always understand their role at a transactional level to deliver improvements
- A query was raised regarding the provision within the Accounts for falling land prices. All issues which impact on assets are reviewed as appropriate. Borrowing is not affected by the value of the asset but there may be an impact in the future.
- The Committee noted that it was part of the challenge for the Accounts. Is the Committee providing sufficient challenge, and should this be mentioned within the WAO report? The WAO had no criticism of the scrutiny of the Accounts. An effectiveness workshop was held last year which had been facilitated by the WAO. The Committee had been provided with a brief on the draft accounts and on any adjustments made to the final accounts thus having two opportunities to gain a better understanding and ask further questions.
- What is the formula to assess the Authorities contribution to the Pension Fund in light of the McLeod judgement? The Pension Fund is currently undergoing revaluation, and this will form part of that consideration. The MTFS addresses an additional provision to the Pension Fund. Any further adjustments will be considered once the Actuary's report has been received.
- Scrutiny now reviews financial aspects within their work, but this requires further development. It is essential that managers see this as their responsibility and not one solely for Finance. Finance Panel works with the monthly outturn reports. The Head of Financial Services reported that more detailed consideration of unit costs and linking performance and cost more easily were the way forward.

WAO Audit of Financial Statements Report – Pension Fund

- The report was similar in layout and content to that for Powys County Council
- The Auditor General is expected to issue an unqualified opinion
- The materiality threshold is £6.54M
- The accounts had been received ahead of the statutory deadline
- The one key issue is the McLeod judgement – this will have implications across the public sector
- No significant difficulties had been encountered
- The task is a huge challenge, and the WAO welcomed the help and co-operation of the Financial Reporting and Policy Accountant and his team
- The Committee queried why the figure quoted in both sets of accounts differed in respect of the McLeod judgement. The liability for the Authority was reported on the main Statement of Accounts, the Pension Fund was reported on the basis of active liabilities as at the last valuation in 2016.

Letters of Representation

- Detail within these letters had been reported in the Head of Financial Services report

Outcomes:

- **The 2018-19 Statement of Accounts were approved. The Chair and Section 151 Officer were authorised to formally sign the Statement of Accounts**
- **The Statement of Accounts to be published by the 15th September 2019.**
- **The 2018-19 Pension Fund Accounts were approved. The Chair and Section 151 Officer were authorised to formally sign the Pension Fund Statement of Accounts.**
- **The Pension Fund Accounts be published by the 15th September 2019.**
- **The 2018-19 Annual Governance Statement was approved for signing by The Leader of the Council and the Chief Executive.**
- **The Annual Governance Statement be published by the 15th September 2019.**

6. ANNUAL AUDIT OPINION

Documents:

- SWAP Annual Report and Opinion 2018-19

Discussion:

- Internal Audit are required to give an opinion on the adequacy and effectiveness of internal control
- As part of this process, there must be disclosure of any qualification and evidence of work undertaken in order to arrive at the opinion
- There should also be comment regarding whether improvements have been made following audit work
- Throughout the year there were no audits with no assurance but seven which had been given partial assurance
- Most weaknesses have been addressed
- The Internal Audit Working Group effectively monitors the work of Internal Audit
- One issue remains outstanding - Risk Management
- There were no material concerns regarding fraud
- Weaknesses were rated medium -there were no major weaknesses
- The Internal Auditor was therefore able to give an opinion of Reasonable Assurance
- The Committee asked who assesses Internal Audit. The Assistant Director, SWAP reported that they were covered by professional assessment and were subject to external assessment every five years to ensure compliance with standards
- The WAO informed the Committee that there were quality assurance arrangements in place and they too were bound by professional

standards. The WAO has an internal team and are also monitored externally by ICAW. Peer reviews were conducted internally.

- The report indicates that some key leaders or managers were unavailable which has led to delays with some audits. Although it was acknowledged that there had been a period of transition and vacancies at senior level, this was not acceptable. The new senior management team was now in place and stability should no longer be an issue. The Chair agreed to draw these comments to the attention of the Executive Management team

Outcomes:

- **The Opinion was noted**
- **The Chair would report concerns regarding unavailability of senior Managers to the Executive Management Team**

7. INTERNAL AUDIT - PERFORMANCE MONITORING

Documents:

- Report of Internal Audit Activity – Q1

Discussion:

- The agreed work programme was not on track due to staff absence
- Additional resources were being accessed to ensure the programme is brought back on track, but this was unlikely to happen until the second half of the year
- There were two key areas of concern:
 - Risk Management: there had been delays in the roll out of the new system. Some areas have been addressed and others still need to be. The Head of Transformation and Communication had assumed responsibility for Risk Management in April 2019. The framework has been reviewed and training materials developed. Timescales have also been put in place. Risk Champions for each service area will be confirmed by 15 September 2019. Delivery of recommendations was on track.
 - Software Licenses: Microsoft Licenses were well managed, but others were not so clear. It had not been possible to reconcile licenses used against licenses paid for. This has been an issue and is ongoing.
- It was noted that the audit of Crickhowell High School had been reassigned on the request of management. The Committee did not believe this was acceptable. The Head of Financial Services clarified that it was not the school that had requested the delay, but Executive Management Team had requested that this be done in the Autumn term. It was a follow up audit rather than a full review.

Outcomes:

- **The report was noted**

8. BUSINESS CONTINUITY

Documents:

- Report of the Project Officer (Events and Civil Contingencies)

Discussion:

- The Authority was classed as a Category 1 Responder under the Civil Contingencies Act 2004.
- The annual refresh had been postponed due to the organisational restructure
- A recent Internal Audit gave the service substantial assurance
- Service level plans are updated, and all are due to be completed imminently
- These plans will feed through into the Corporate Business Continuity Plan which is due to be considered by Audit Committee at its December meeting.
- Members noted that they no longer have seminars or updates regarding civil contingencies and requested a seminar
- The WLGA have recently provided guidance and it was suggested that a seminar be provided based on this information

Outcomes:

- **The report was noted**
- **A seminar regarding civil contingencies be arranged**

9. STRATEGIC RISK MANAGEMENT

Documents:

- Report of the Head of Strategy, Performance and Transformation Programmes
- Risk Register
- Heat Map
- Alignment of Powys County Council Risk Matrix to Powys Teaching Health Board Risk Matrix

Discussion:

- Nine risks are unchanged
- There had been a recommendation to include the Mid Wales Growth Deal and long-term financial planning within the register. The risks within the Mid Wales Growth Deal were managed via that programme.
- 12 services are using the system. All services and programmes under Vision 2025 will use the system by October 2019.
- The Authority is to adopt the PtHB matrix
- By the time Q2 is reported, all risks will have been reviewed and recorded under the revised policy
- It was noted that a previous risk which had a residual risk rating of catastrophic had now been reduced to high risk following mitigation
- A risk regarding non-compliance with data protection legislation had been elevated from a departmental to corporate risk and was not a new addition
- The Portfolio Holder and Corporate Director were ultimately responsible for individual risks
- Mitigation is provided but the Committee needs assurance that the actions are being progressed. This is now tracked under the new JCAD system.

- Services have the opportunity to update the system daily if they wish but reporting will remain quarterly. The system is flexible and integrated with the business planning process.
- An officer will discuss with a service whether a risk should be escalated
- Significant challenge will be provided by Head of Performance, Transformation and Strategy or her team
- Audit Committee were asked to comment regarding the pace of change
- It was suggested that mitigation was not sufficiently robust regarding Brexit. Daily bulletins were received from the WLGA. A working group was in place. The weighting may change by the time Q2 is reported. The WAO informed the Committee that the Auditor General has published a report regarding the preparedness of public bodies for Brexit. It is likely that there will be some follow up work in the autumn regarding what work has been done and scrutiny that has been undertaken. It was suggested that Brexit be used as a test for the system and as training exercise for the Committee.

Outcomes:

- **The report was noted**

10. CORPORATE ANTI FRAUD AND ERROR TEAM
--

Documents:

- Details of work/cases/review and results for Powys County Council 1 April to 30 August 2019

Discussion:

- This report was the first to be considered by Audit Committee – this would be considered quarterly in future
- The Committee were given a brief explanation of the different types of cases that occurred during the period including council tax on holiday homes, single person discount and employee fraud.
- Intelligence and analytics were used
- The WAO noted that the National Fraud Initiative participated with Councils and data across many agencies could be accessed
- Members commented that some advice on the Councils website was contradictory in some instances
- The Auditor General has issued a report 'Effectiveness of Counter Fraud Arrangements' and further work will be conducted over the next 18 months regarding actual arrangements in place

Outcomes:

- **The report was noted**

11. THEATR BRYCHEINIOG

Documents:

- Report of the Chair and Vice Chair of Audit Committee

Outcome:

- **The report was deferred pending further review by SWAP**

12. UPDATE ON JISTCOURT AND DAWNUS

Documents:

- Due Diligence – Additional Concerns
- Extract Companies House Trackers for both Jistcourt and Dawnus

Discussion:

- It was acknowledged that the document Assessing and Monitoring Economic and Financial Standing of Suppliers will solve many of the issues raised at the previous Committee
- Since the last meeting, further information has been published by Companies House
- There appear to be similarities between the two companies:
 - Overstated assets, particularly work in progress
 - Restating of their accounts
 - work in progress had been written down
 - Cash flow problems (known by both companies prior to contracts being signed)
 - Rapid decline in profits
 - Secured loans taken out
 - Group considerations which confused analysis
 - Significant churn of directors in the period leading up to the award of the contracts
- The new guidance provides a matrix together with benchmarking and assessment of non-financial matters. A Model Services Contract is also provided which imposes a duty for potential and current contractors to declare events of financial distress either before a contract is signed or during the life of the contract.
- It was confirmed that there was no current liability to either of the companies by the Authority
- There was concern regarding the way in which this had been handled by the Welsh Government and their lack of responsibility for the fixed and floating charge – it was considered that no government body should be lending on that basis
- The Head of Financial Services welcomed the new guidance. A peer review of processes would be complete by the end of September. The service was now working towards implementation and it was expected that this would be complete by the end of November. Caution was urged that whatever process was used, there was no guarantee that a company would not fail. Service areas must be clear on what contracts are being asked to deliver. Furthermore, processes should not be so onerous as to limit competition. Consideration of the risk and type of contract is essential.
- Procedures were now in place which were welcomed. However it was suggested that the Committee should ask the Executive Management Team to comment to Welsh Government that the Authority would not be in this position if greater financial discipline had been exercised by them. There was both reputational damage to the Council and additional costs of

retendering contracts. The Chair agreed to have the discussion with The Executive Management Team.

- The matter had been considered by the Public Accounts Committee and wider conversations have been had

Outcomes:

- **The Chair would discuss the issue of communication with the Executive Management Team**

13. WORK PROGRAMME

Documents:

- Scrutiny Work Programme

Outcomes:

- **The report was noted and items raised during the meeting would be added to the December meeting of Audit Committee**

County Councillor JG Morris (Chairman)