

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD AT COUNCIL CHAMBER, COUNTY HALL - COUNTY HALL ON THURSDAY, 19 DECEMBER 2019

PRESENT

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

Cabinet Portfolio Holders In Attendance: A W Davies

Officers: Jane Thomas, Head of Finance, Dan Paley, Financial Reporting and Policy Accountant, Emma Palmer, Head of Transformation and Communication and Ness Young, Corporate Director, Resources and Transformation

Other Officers In Attendance: Messrs Ian Halstead and Dave Hill, SWAP, and Phil Pugh, WAO

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| 1. | APOLOGIES |
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Apologies for absence were received from County Councillors K Laurie-Parry, K Lewis and R G Thomas

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| 2. | DECLARATIONS OF INTEREST |
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There were no declarations of interest.

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| 3. | DISCLOSURE OF PARTY WHIPS |
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There were no disclosures of party whips.

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| 4. | MINUTES |
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Two errors in the minutes were noted. The WAO had suggested alternative wording which would be incorporated prior to the Chair signing the minutes. The Chair was authorised to sign the minutes of the previous meeting, held on 6 September 2019 once the two amendments had been made.

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| 5. | COMBINED IMPROVEMENT PLAN 2019-20 AND ANNUAL PERFORMANCE REPORT 2018-19 |
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Documents:

- WAO Audit Certificate combined Corporate Plan and Annual Improvement Report

Discussion:

- In line with the requirements of the Measure there is a requirement to publish the Corporate Plan and Annual Improvement Report
- The WAO have issued a certificate confirming that this has taken place
- The WAO Annual Improvement Report will be considered by Audit Committee at its February meeting

Outcomes:

- **Noted**

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| 6. REVIEW OF MISSTATEMENTS AND ERRORS |
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Documents:

- Guidance for those charged with governance when evaluating misstatements identified through the audit – report of the Head of Financial Services

Discussion:

- As part of the annual consideration of the Statement of Accounts, the Committee review and approve any uncorrected misstatements
- At the last meeting in September, the WAO informed the Committee that guidance had been produced to show the process which is followed if there is an uncorrected misstatement
- The Committee were provided with a summary of this guidance to aid their understanding of the process
- With earlier closing and tighter deadlines, it may not always be possible to amend misstatements. But this is a decision for the Committee, and they must consider the reasons provided by officers for not correcting the accounts including materiality and whether the clarity and understanding of the accounts is affected
- Audit Committee needs to understand what these misstatements are and why they have occurred. Challenge to the process is critical.

Outcomes:

- **Noted**

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| 7. RISK MANAGEMENT |
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Documents:

- 2019/20 Quarter 2 Performance Management Report
- Strategic Risk Register Report Quarter 2 2019/20
- Public Accountability Measures 2018/19 analysis

Discussion:

- The Q2 performance report to the end of September 2019 has been approved by Cabinet
- 88% of Corporate Improvement Plan measures are on track
- There has been a decrease in performance since Q1 due mainly to Education issues. The service is now being supported via the

- Improvement and Assurance Board and additional resources are being discussed.
- Under performing are Children's Services, Delayed Transfers of Care and Homelessness
 - Improved performance is noted in supporting adults in their home, supporting migrants and fewer sickness absences
 - The Committee noted that the number of children's assessments had fallen from 94% to 51% despite increased funding. Detailed discussions are ongoing with the Improvement and Assurance Board and the Leader. The Corporate Director is receiving weekly updates. A new manager has been recruited and data is starting to improve. A more in-depth report should be considered by the relevant scrutiny committee.
 - Two risks have been identified and included on the Strategic Risk Register
 - The council will be unable to manage the school budget without additional resources and finance and this will affect every individual school in Powys that has a deficit budget
 - The council fails to make the necessary improvements in response to Estyn recommendations
 - All services have moved to JCAD except for Finance and Legal and Democratic Services
 - There are 11 risks associated with Brexit – plans are in place with the appropriate service leads. Members asked for greater details around these 11 risks and officers would be asked to provide this in the new year.
 - In response to a question, the Head of Finance outlined what would happen if a school's delegation was removed. The Authority would take over the financial management of the school and the Governing body would no longer take financial decisions although would continue with the day to day management of the school. An executive board could be put in place or other alternative interventions were available.
 - The Head of Transformation and Communications reminded Members that data had been shared with all members regarding the schools' position. Overall, there were sufficient funds to run Powys schools but the traditional infrastructure and the way in which money is distributed is causing issues. The need for transformational change was highlighted.
 - The Portfolio Holder noted that there were significant pressures in the schools' system which must be addressed. There was some mitigation in the current budget round to address these issues. There had been an extra £1M in each of the last three budgets for schools but this had not covered the pay and pension pressures entirely. Funding is delivered via the Funding Formula. The question remains as to how to move to a new schools' structure whilst continuing to meet current educational needs.
 - 19 of the 22 Public Accountability Measures were reported – three relating to social care data have not been broken down
 - Powys County Council is ranked 5th out of 22 authorities in Wales with 69% of measures improved or maintained
 - The Authority was ranked first for number of visits to sports and leisure facilities, third for working days lost due to sickness absence, and second for all repairs. However, the Authority was ranked 22nd for the number of empty units – a Voids Working Group has been established to address this issue.

Outcomes:

- **The report was noted**
- **Further detail regarding risks associated with Brexit would be provided in the new year**

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| 8. | ECONOMIC AND FINANCIAL ASSESSMENTS- REVIEW OF PROGRESS |
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Documents:

- Assessing the Economic and financial Standing of Suppliers

Discussion:

- In August 2019 the Audit Committee received a report on the Council's process of assessing the economic and financial standing of companies including the work undertaken when Dawnus Ltd and Jistcourt Ltd were assessed. At that time, Committee was informed of a new Policy Guidance Note that had been issued in July 2019 by the Government Commercial Function titled 'Assessing the Economic and Financial Standing (EFS) of Suppliers'.
- The Audit Committee recommended that the Council review its procedures against the Guidance Note with a view to improving the assessment and monitoring of the economic and financial standing of suppliers. This report responds to this recommendation.
- It was highlighted that assessments of bidders' EFS should be proportionate, flexible, contract specific and not overly risk averse, while ensuring protection of taxpayer value and safety and compliance with relevant procurement law. Every contract will be considered differently depending on the type of contract
- The report identified each point of guidance and highlighted what the Authority was doing against that guidance followed by recommendations for improvement.
- The Vice Chair noted the excellent guidance issued by the Welsh Government but further noted that the issues specific to both Dawnus and Jistcourt were that both companies had taken short term loans to cover cash flow problems which had been ignored.
- Disclosure clauses for financial events were noted but it was suggested that this should also include changes to senior management or directors
- Issues had also arisen as the processes undertaken at the time only looked at the company in question and not the entire group that they were part of
- Construction Line is used to assess all construction projects, Dunn and Bradstreet are used for all non-construction projects
- The same weighting had been given to all three previous years with insufficient emphasis on the last year
- It was acknowledged that implementing the guidance represented a significant improvement, but all processes must be approached with rigour
- The new guidance will cover all contracts not just construction contracts
- Executive Management Team will have responsibility to monitor the implementation

Outcomes:

- **Audit Committee supported the implementation of the new guidance and requested an update in June 2020**

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| 9. | TRANSFORMING CONTRACT MANAGEMENT |
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Documents:

- Transforming contract management in Powys – report by the Interim Professional Lead, Commercial Services

Discussion:

- Consideration had been given by Executive Management Team to understanding how contract management processes were undertaken
- A light touch review had been undertaken of current services particularly the top spending contracts and those relating to social care
- The review was undertaken under the National Audit Contract Management Framework and covered eleven areas including planning and governance arrangements
- The Interim Professional Lead met specific contract managers
- The procurement process must also satisfy the requirements of the Future Generations Act and Vision 2025
- Once a project is procured it is no longer the role of Commercial Services to monitor that contract, Contract management is the responsibility of the service.
- Members asked whether there was sufficient resource within the commercial services section. The Head of Finance reported that she undertaking a service review and the requirements would be considered as part of that
- Members asked if the number of complaints received were considered when contracts were renewed. The process does not permit past detriment to be considered. However, in looking for new contracts, issues are considered to build resilience into the contract.
- Specifications are developed in conjunction with service areas and so there should be ownership within the service as they have been involved throughout the procurement process.
- Public sector rules give guidance regarding the length of contract

Executive management team will monitor implementation of recommendations and success

Outcomes:

- **A progress report will be considered by Audit Committee in 6 months**

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| 10. | LOCAL GOVERNMENT AND ELECTIONS (WALES) BILL - GOVERNANCE AND AUDIT COMMITTEES |
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Documents:

- Report of the Head of Legal and Democratic Services

Discussion:

- One of the proposals within the Bill is to change Audit Committees to Governance and Audit Committees with one third of the membership

being lay members. A lay member would also be required to chair the new committee

- There is a deadline of 3 January for consultation responses
- The Council will respond to the Bill in its entirety, but Audit Committee were asked for their views on the relevant section
- Comments made by Members of the Audit Committee were:
 - Increased cost of additional lay members
 - Relationship with Democratic Services Committee needs further consideration
 - Would there be enough interest from appropriate candidates?
 - If there were to be one third lay members, consideration should be given to a rolling programme so that they did not all finish their terms of office at the same time
 - Does the Welsh Government believe that the change will make Audit Committees more efficient or more responsive to the public?
 - It was suggested that those candidates who had stood for local government election should be excluded
 - A regional or national pool of lay members should be considered to ensure there would be sufficient lay members available
- The Corporate Director, Resources and Transformation informed the Committee that the WLGA did not support the changes and thought that it should be left to local discretion
- Members supported the WLGA view

Outcomes:

- **The Audit Committee's comments would be reported to the Group Leaders meeting for consideration for inclusion in the overall response to the Bill**

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| 11. CLOSURE OF ACCOUNTS |
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Documents:

- Report of the Head of Financial Services

Discussion:

- The implementation of the new finance system at the beginning of the financial year created an added complication to the closure process but this impact would diminish for future years
- Closure and Audit timescales will continue to be shortened
- The Head of Finance would report regularly to Executive Management Team
- Accounting practices for leases will be changing which will impact upon the balance sheet

Outcomes:

- **Noted**

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| 12. INTERNAL AUDIT - PERFORMANCE MONITORING Q2 |
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Documents:

- Report of Internal Audit Activity – Progress at 30 September 2019/20

Discussion:

- The report covers activity for quarters one and two
- The report provides a regular update to Audit Committee including an opinion on the Authority's control environment
- 39% of the programme has been delivered
- Three full reports which only received partial opinions were attached later in the agenda. The Internal Audit Working Group had considered these reports in detail and officers had provided updated reports and attended to account for the action plans
 - Capital Accounting – there was often slippage in the capital programme. A Governance framework has been implemented but has not yet been fully rolled out. Business cases had not always been adequate. There was a clear linkage between failure to deliver effective business cases and delivery of the capital programme. Three key recommendations were made.
 - Project Benefits Realisation – this should deal with transformational activities but this could not be demonstrated in all cases. Clear business cases were not always evident, nor clear outcomes defined. Six recommendations had been made with three of these being classed as priority 1.
 - Software Licenses – there was no evidence to show whether the appropriate licenses were in place. There was assurance around Microsoft licenses. There were six recommendations, two of which were priority 1.
- Members expressed concern that in relation to the projects benefits realisation review, business cases had not been available to internal audit –The process has been strengthened and business cases are in place for all projects funded from the Transformation Fund.
- The Internal Audit Working Group provided a valuable element of challenge. They will continue to monitor implementation of the action plans, but each of the above will also be subject to a short follow up audit.
- SWAPis considering what action is required to ensure that 90% of the Plan is delivered by year end in line with the agreement
- Quality of work is exceeding the target
- The number of recommendations accepted during the period was also exceeding the target
- The Committee sought assurance that there were no longer blocks to Internal Audit completing their work. The Assistant Director confirmed that there was a greater willingness to work with Internal Audit but occasionally there were issues. He welcomed the planned review of Internal Audit and noted the need to respect each other as professionals and to understand the value of the internal audit service.

Outcomes:

- **Update report provided to the Internal Audit Working Group would be circulated to Audit Committee Members**

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| 13. INTERNAL AUDIT - WORK PLAN 2019-20 |
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Documents:

- 2019/20 Powys Internal Audit Plan

Discussion:

- Quarter 1 had been approved by the Committee
- Quarter 2 had not been considered by the Committee but was based on cumulative knowledge and experience
- A full year Plan had recently been considered by both Executive Management Team and the Internal Audit Working Group
- The Plan had been substantially agreed but it was key that the Plan remained flexible
- There may still be changes to the Plan and Audit Committee were invited to comment on it to ensure they received assurance that all major areas were covered
- ICT will move to the next financial year. The proposed review of Adult Social Care Peer Reviews will be moved into 2020-21 as it is a new national initiative which has not yet started. Contract management is a new process and needs time to embed before an audit is carried out.
- Members commented that they were aware of regular emails identifying monies that had been paid into the Authority's account without supporting documentation and questioned whether the system itself was failing. The Head of Finance assured the Committee that the processes in place were adequate but not everyone was following those procedures. The finance transformation project continues to reinforce the 'right first time' and address the areas where issues and errors were occurring. It was noted that the most issues were arising from schools

Outcomes:

- **Noted**

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| 14. INTERNAL AUDIT REVIEW |
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Documents:

- Report of the Corporate Director Resources and Transformation

Discussion:

- In March 2017, the Authority became a member of the South West Audit Partnership (SWAP) for the provision of internal audit services
- It was now appropriate to review the arrangement to ensure that it reflects best practice and is appropriate to both Powys County Council and SWAP.
- The Corporate Director will lead the review which will take place in January 2020 – the aim was to have any improvements agreed in place for the 2020/21 Audit Plan
- It was suggested that the Audit Committee or a group of representatives could discuss the view of the Committee regarding working arrangements and where there may be opportunities for improvement
- The Chief Executive of SWAP informed Members that

- Powys had been the 14th partner but there were now 24 partners with another due to join in April
- Internal audit services were provided to other Welsh authorities on a contractual basis
- The SWAP Team is kept up to date with the latest techniques and also has access to greater resources and specialisms
- An audit management system has recently been introduced
- The latest technology is used to aid delivery
- There is a requirement under the Public Sector and Internal Audit Standards to undertake a self-assessment every five years – SWAP carry this out every three years
- SWAP welcomes the review

Outcomes:

- **The Audit Committee agreed that the Internal Audit Working Group would be used to assist with the review into internal audit arrangements**

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| 15. INTERNAL AUDIT REPORTS |
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Documents:

- Projects Benefits Realisation (Transformation)
- Capital Accounting
- Software Licensing

Discussion:

- These reports were received for information
- Discussion had been undertaken under the Internal Audit – Performance Monitoring Q2 report above

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| 16. WORK PROGRAMME |
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Documents:

- Forward work programme

Discussion:

- It was noted that there was an Audit seminar scheduled for 22 January. A formal meeting of the Committee would be convened that day to consider the SWAP report on the Theatr Brycheiniog payment in August 2018

County Councillor JG Morris (Chairman)