

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD AT TEAMS ON
TUESDAY, 29 SEPTEMBER 2020**

PRESENT

County Councillors J G Morris, Chair, K Laurie-Parry, D J Jones, M J Jones, D Meredith, W D Powell, D A Thomas, R G Thomas, J M Williams, R Williams and Mr J Brautigam

Cabinet Portfolio Holders In Attendance: County Councillor A W Davies

Officers: Gwilym Davies, Head of Property, Planning and Public Protection, Dan Paley, Policy and Reporting Accountant, Clive Pinney, Head of Legal and Democratic Services, Wyn Richards, Head of Democratic Services, Jane Thomas, Head of Finance and Ness Young, Corporate Director, Resources and Transformation

Other Officers In Attendance: Messrs P Pugh, D Burrridge and A Veale, Audit Wales, and D Hill and I Halstead, SWAP

1.	APOLOGIES
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Apologies for absence were received from County Councillors M Barnes and T J Van Rees.

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

3.	MINUTES
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Documents:

- Minutes of meetings held on 7 February, 4 June and 4 September 2020

Outcomes:

- **The Chair was authorised to sign the minutes of the three previous meetings as correct records**

The Chair informed Members that the Co-ordinating Committee had considered a paper outlining a new role for the Committee. The Committee would be renamed the Governance and Audit Committee and have a revised role. The proposals would be circulated to Members after the meeting and would be considered in depth at a future meeting.

4.	STATEMENT OF ACCOUNTS
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Documents:

- Report of the Head of Finance

- Audit Wales – Audit of Accounts Report
- Letter of Representation
- Statement of Accounts 2019/20
- Annual Governance Statement 2019/20

Discussion:

Overview

- The draft accounts for Powys County Council and the Pension Fund had been signed off on 15 June and audit work commenced shortly after
- The Covid 19 pandemic has had a significant impact and the Welsh Government made provision for a delay. This has resulted in the Pension Fund Accounts audit being delayed and a separate meeting of the Audit Committee will be convened to agree those accounts in the next few weeks.
- As usual, and in line with improving scrutiny, the Committee undertook two seminars, one on the draft statement of accounts and more recently on the final accounts
- One misstatement relating to a short-term debtor has remained as it is managements' view that this is appropriate
- Any other misstatements identified have been amended
- An Emphasis of Matter issue is identified with regard to the valuation of property assets due to the position regarding the pandemic and property values
- The statement of accounts was advertised but no representations have been made by members of the public
- The Authority continued to take a project management approach to finalizing the accounts to ensure year on year improvement
- In 2021, the accounts are expected to be prepared in much shorter timescales – draft accounts will be signed off by 31 May 2021 and the final accounts by 30 July 2021
- The Committee was asked to approve the sign off of the accounts by the Chair and S151 Officer and of the Annual Governance Statement by the Leader and Chief Executive

Audit Wales

- Audit Wales noted the unprecedented challenges during the year and recognised the significant achievement in preparing the Statement of Accounts. They thanked the S151 Officer, Policy and Reporting Accountant and the Finance Team for their help and co-operation.
- The issue of materiality was explained that the level at which misstatements was set so that the reader of the accounts was not mislead. This level had been set at £4.9M.
- Two potential conflicts of interest and the safeguards put in place were reconfirmed
- Work was substantially complete and the Auditor General was due to issue his opinion on 30 September 2020
- The main impacts of the pandemic had been on the timetable, use of technology and authorisation to use electronic signatures
- Audit Wales referred to the delay with the Pension Fund accounts but that the audit had now commenced

- It was noted that the deadlines for submission of accounts for 2021 had been delayed in England but there was no information regarding amending dates in Wales
- Audit Wales reiterated the misstatement as reported by the Head of Finance and drew Members attention to key issues within the document
- It was suggested that a £4.9M level for misstatements gave considerable leeway within the accounts. Audit Wales acknowledged that this was a regular question, but the sum was in line with that recommended by auditing and professional standards and was only 1% of income and expenditure.
- The Committee asked whether the number of misstatements was representative of the levels of misstatements in other authorities – each audit was different. The number of errors had been higher than previous audits and complex adjustments were needed but this could have been attributable to increased workloads because of the pandemic and changes to personnel. It was an issue for the Head of Finance to address.
- It was not anticipated that there would be a significant, if any, change to the fees charged as identified at the start of the audit
- The Chair highlighted that there were continuing overspends in some service areas and that the Committee were keen to see budgets being kept under control. The Head of Finance noted that the budget had been predicated on scenarios which recognised pressures and each service had been resourced on that position where appropriate – the pandemic had raised additional challenges. The Portfolio Holder highlighted the importance of both Audit Committee and scrutiny committees monitoring budgets.

Annual Governance Statement

- The Corporate Director, Resources and Transformation had lead work in preparing the AGS
- Increased content and a changed format were noted
- The report highlights the activities, effectiveness and action points for the Authority
- There has been significant input by the Senior Leadership Team
- The impact of the pandemic is also reflected within the document
- SWAP have not raised any significant issues for inclusion

Letter of Representation

- The contents were noted

Outcomes:

- **The 2019-20 Statement of Accounts were approved and the Chair authorised to formally sign the Statement of Accounts with the Section 151 Officer.**
- **The Statement of Accounts be published as soon as possible but no later than 30 November 2020.**
- **The 2019-20 Annual Governance Statement be approved for formal signing by The Leader of the Council and the Chief Executive.**
- **The Annual Governance Statement be published as soon as possible but no later than 30 November 2020.**

The Portfolio Holder for Finance thanked Audit Wales and the Head of Finance and her team for their work in completing the Statement of Accounts

5.	CAPITALISATION DIRECTION
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Documents:

- Report of the Head of Finance

Discussion:

- The report fulfils a requirement to report on the use of funds under the capital directive
- Transformation is critical in providing a level of service that is cost effective and achieves the outcomes detailed in Vision 2025
- £3M of capital receipts have been used to fund activity in the Transformation Programme
- Clear guidance is given for qualifying expenditure – it should either deliver ongoing revenue savings or mitigate ongoing pressures
- All items met these requirements
- The budget was slightly underspent by £460K but this will be carried forward to 2021/22
- Some items are not yet recording savings but are expected to in the longer term
- Members questioned how they could be assured that value for money was being achieved. The Head of Finance confirmed that updates would be provided in future reports.

Outcomes:

The report was noted

6.	CAPITAL PAYMENT TO THEATR BRYCHEINIOG
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Documents:

- Report of the Corporate Director, Resources and Transformation
- SWAP Final report – One Off Capital Payment Diligence Report and Appendices
- Portfolio Holder decision report

Discussion:

- SWAP had undertaken a review to ensure effective governance had been applied during the decision to make a one-off capital payment to Theatr Brycheiniog in August 2018
- There were 14 recommendations made – three priority 1, nine priority 2 and two priority 3
- There were nine key areas noted in the conclusions:
 - Outcome – concerns were raised regarding the Council's diligence in the process. Theatr Brycheiniog had not been under scrutiny. Whilst the payment aided recovery, it was unlikely to affect whether or not the Theatr was an on-going concern
 - Transparency – there was a lack of documentary evidence and audit trail with inadequate records to support the decision

- Property – the building belongs to the Council but the lack of clarity regarding responsibility for maintenance had led to conflict. Two services had been independently involved with the Theatr leading to an uncoordinated response. Lines of responsibility were now in place and a more joined up approach is being taken.
- Constitutional Framework – very few urgent decisions are taken but a framework is in place to accommodate such requirements. There is no evidence of wrongdoing, but improvements should be made. There should be a segregation of duties to enhance decision making.
- Due Diligence – the decision had been complex, and circumstances had rapidly changed. The urgent nature of the decision affected diligence. Due diligence had been carried out when it had been expected that a loan would be made to the Theatre, however this was not followed when the decision was made to make a one-off payment. The process was not well formalised. The risk to the Council of a loan was much less and records should have been kept to ensure the Authority was not investing in an unsustainable organisation.
- Urgency – a loan had been requested and a decision had been deferred until such time as it became urgent. The Authority had contributed to this urgency and the decision taken bypassed the scrutiny function. Earlier action would have allowed for increased scrutiny.
- Cabinet Decision – the decision was made on 26 August 2018 with minimal information to support the decision. The decision should have been subject to further review.
- Decision – the decision bypassed scrutiny and was called in to Audit Committee. The Committee was not given a genuine opportunity to scrutinize the issue – there was a lack of transparency and information. The decision complied with constitutional procedures but scrutiny by the Audit Committee could not be meaningful
- Payment - £189K was not dictated by Theatr Brycheiniog but determined by the Council. The Authority should have considered payments from other bodies. It cannot categorially be stated that it was legitimate capital expenditure to improve the asset.
- The Committee recognised the need to learn from the circumstances surrounding the award of this payment and the need to be more open throughout the process.
- The public need to know that their money is being well spent
- There was no evidence that the Theatr was in a better position for having had the grant
- Members are frequently told that local authorities are not commercial entities but checks and balances must be in place – there were no minutes of meetings throughout the process and only lip service was paid to scrutiny.
- It was not clear whether Arts Council Wales additional grant funding had been considered as part of the decision
- It was unacceptable that the positions Acting Chief Executive and S151 Officer were vested in one person at the time the decision was made leading to a loss of rigour in the process

- The Corporate Director, Resources and Transformation assured the Committee that there had been significant progress since 2018 in strengthening governance. Additional training had been provided for officers and scrutiny arrangements were being improved. Impact Assessments have also been improved. The structure of reports has been changed to improve the level of detail and information provided. Senior Management Team and the Executive Management Team meet more frequently to identify issues.
- Although there had been insufficient time to involve scrutiny in the process, there had been time to consult with local members
- It was clear that there were concerns in January 2019 and that any urgency could have been identified at that time. It had not been necessary for an urgent decision.
- Members noted that other Theatres in the area were frustrated or angry that one venue should have received additional support
- The Monitoring Officer confirmed that there had been a separation of function of the Chief Executive and S151 Officer. New processes will be put in place to enhance transparency. Information will be provided in one location on sharepoint to ensure this is easily accessible.
- The Head of Service, Property and Planning confirmed that the Corporate Landlord function was being implemented. Assets will be dealt with by Strategic Property – work will continue to deal with services more closely. Inspections of properties will be undertaken.
- The Head of Finance stressed that all decisions should be subject to due diligence, not just urgent ones
- The Committee were concerned regarding responsibility for delegated decisions and whether sufficient information is available to enable such decisions to be made

Outcomes:

- **A follow up audit to ensure all actions for improvement have been implemented will be carried out**

7.	REVIEW OF INTERNAL AUDIT SERVICE
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The Corporate Director, Resources and Transformation gave a presentation on the review of Internal Audit arrangements which had been carried out as the contract with SWAP approached the end of its third year. Audit Committee had been advised of the process and had contributed to an assessment of the function.

- Compliance was appropriate but improvements could be made. There is greater flexibility and the structure framework has been strengthened.
- SWAP have a good understanding of Council business, but this can be enhanced with greater communication. Internal Audit has had, and continues to have, a positive impact on the organisation.
- Members asked if SWAP could undertake preliminary research into issues – the Internal Audit Plan was sufficiently flexible to accommodate additional work but that the Executive Management Team would manage such requests.

The Chief Executive of SWAP gave a presentation on the new way in which SWAP worked. He welcomed any review to ensure continuous improvement. Mr Hill gave a detailed presentation – a copy of which would be circulated to Members after the meeting.

Outcomes:

- **The SWAP slides would be circulated for information**
- **SWAP would be invited to make the same presentation to all Members as part of a Member Development Session**

8.	INTERNAL AUDIT UPDATE
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Documents:

- Internal Audit Update, Q1 and 2

Discussion:

- The Internal Audit service had worked throughout lockdown
- Not all audits could be progressed due to business continuity
- SWAP have supported the Council's finance function
- There has been less work and therefore the opinion has less assurance
- Work on Y Gaer had started as a desk top exercise

Outcomes:

- **The report was noted**

9.	INTERNAL AUDIT - HOWPS
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Documents:

- Internal Audit Report on management of HOWPS contract

Discussion:

- Four key areas had been identified
 - Lack of continuity in the event of supplier failure – this posed an increased risk and should be monitored
 - There was a disconnect between KPIs and actual performance and the true position was not being measured. A more rounded approach was needed.
 - Perceived conflict for those officers and Members with joint responsibility. An independent scrutiny body should be considered
 - Elements of essential services were not included in the contract and it was recommended that the contract be strengthened
- Contingency plans are in place
- a business continuity and exit plan are in place and will be reviewed annually
- The Chair and Vice Chair had met with the Senior Management Team and Kier Directors where a clear commitment to HOWPS was given
- HOWPS was also entered onto the Strategic Risk Register and this should be reviewed

- It was agreed that Internal Audit need no longer be involved as a number of other Boards were in place. A scrutiny working group had also been established

Outcomes:

- **The report was noted**
- **No further action would be taken by Internal Audit**

County Councillor JG Morris (Chair)