

## AUDIT AND GOVERNANCE COMMITTEE 19/7/18

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**Present:** Councillor R. Medwyn Hughes (Chairman)  
Councillor John Brynmor Hughes (Vice-chair)

**Councillors:** Alwyn Gruffydd, Aled Wyn Jones, Dewi Wyn Roberts, Paul Rowlinson, Angela Russell and Cemlyn Williams.

**Lay Member:** Sharon Warnes

**Others invited:** Peredur Jenkins (Cabinet Member for Finance)

**Also in Attendance:** Dafydd Edwards (Head of Finance), Dewi Morgan (Senior Revenue and Risk Manager), Luned Fôn Jones (Audit Manager), Caroline Roberts (Investment Manager - for Items 5 and 6 on the agenda) and Bethan Adams (Member Support Officer).

**Apologies:** Councillors Aled Ll. Evans, Berwyn Parry Jones, Charles Wyn Jones, Huw G. Wyn Jones, John Pughe Roberts and Gethin Glyn Williams.

### 1. DECLARATION OF PERSONAL INTEREST

No declarations of personal interest were received from any members present.

### 2. MINUTES

The Chair signed the minutes of the previous meeting of this Committee, held on 28 June 2018, as a true record.

### 3. GWYNEDD PENSION FUND STATEMENT OF ACCOUNTS 2017/18

The Head of Finance Department set out the background and context of the report. Attention was drawn to the fact that these were draft accounts, not yet audited, that were being submitted for information, and the final version would be submitted for the Committee's approval, in its 'governance' role, at its meeting on 27 September 2018. It was explained that the Pensions Committee had an executive role while the Pension Board scrutinised implementation in detail. It was reported that members of the Pensions Committee and the Pension Board had given detailed consideration to the statement at a joint meeting held on 16 July 2018.

The Investment Manager provided details of the Pension Fund's Statement of Accounts.

In response to an observation by a member that schools outside Gwynedd were active employers within the Pension Fund, the Head of Finance Department explained that administrative staff in specific schools contributed to the Fund, and the bodies that were part of the Fund followed the footprint of the former Gwynedd county which included Anglesey and Conwy. He elaborated that there were some employers from outside the boundary that were members of the Fund, and there were other bodies that had been approved to be part of the Fund with conditions.

A member noted that the situation in terms of the United Kingdom leaving the European Union was impossible to predict but that the Fund's position had improved. In response to the observation, the Head of Finance Department noted that the decision to leave the EU had affected the currency exchange rate. He explained that the Fund's assets in the United States of America had been valued in pound sterling, and with the value of the pound decreasing, the value of the Fund's assets were higher after converting from dollars to pounds. It was noted that uncertainty remained, but that the implementation and objectives of the Pension Fund were long-term issues, pension benefits were paid in the long-term after collecting contributions.

A member noted that not only was the Fund investing overseas, but most of the UK's major companies operated their business internationally and that business assets had increased, and contributed to the £300m increase, which was 20% of the Fund's value in 2017/18. He reiterated the observations of the Head of Finance Department, noting that the Fund made long-term investments with a three year valuation. In response to the above observations, the Head of Finance Department noted that 'Note 16b - Analysis of Investments' demonstrated a geographical breakdown of the Fund's overseas investments.

In response to a question by a member if there was a deficit in the Pension Fund as with other funds, the Head of Finance Department noted that the Fund's three year valuation had set out prudent assumptions, and the last valuation had noted that the Fund was meeting 92% of its future commitments, which was a much better situation than some funds that were funded around 60%. He explained that opinion can drive actuarial assumptions which identified whether there was a deficit, the Westminster Government's Actuary Department had completed a like for like comparison in 2017, and if the Government's Actuary's standard assumptions were used, the Fund would be funded 109%. He confirmed that the Fund, when comparing like for like in terms of actuarial assumptions, was within the top 10 of the 89 pension funds in England and Wales.

A member noted that this was her second opportunity to consider the Statement. She notified the Committee that the Pension Board had congratulated the Pension Fund for the work and that the Board had thoroughly scrutinised the Statement.

The Head of Finance Department noted his gratitude to the officers for succeeding to create the Statement in light of significant stress with staff absences. It was explained that changes were expected in light of an audit from Deloitte, but that the general picture in regards to the Fund's value at the end of 2017/18 would remain the same.

**RESOLVED to accept and note the 2017/18 Pension Fund Statement of Accounts (subject to audit).**

#### **4. 2017/18 TREASURY MANAGEMENT**

The Head of Finance Department set out the background and context of the report.

The Investment Manager submitted the report on the Council's actual Treasury Management results during 2017/18, compared with the strategy established for that financial year. She noted that the Council's borrowing activity was within the limits that had originally been set. She noted that no bank that the Council deposited money with had defaulted, and that £211,000 of interest had been received on investments, which was higher than the interest target of £172,750 within the 2017/18 budget. Details were provided on the borrowing activities, investment activities and compliance with prudential indicators.

**RESOLVED to accept the report for information.**

#### **5. RISK MANAGEMENT ARRANGEMENTS**

Submitted - the report of the Senior Revenue and Risk Manager who provided an update to the Committee on developments to the risk management arrangements after submitting a report to the Committee's meeting on 9 February 2017, which had included the Council's response to improvement proposals that had been noted in a letter from the Wales Audit Office to the Chief Executive.

It was explained that the Corporate Risk Register would be transferred to the Sharepoint lists facility within the Council's iGwynedd system. It was noted that it was aimed for the provision to go live to all Council officers by September 2018. It was emphasised that it was intended for the risk register to be used as a prioritisation tool.

During the ensuing discussion the Senior Revenue and Risk Manager responded to the members' observations as follows:

- There was not much variation in terms of scores systems within risk registers nationally but there were possibly differences in terms of their descriptions;
- Before starting on a project there was a need to establish what the project was trying to achieve – does it respond to a specific risk which has been identified through the project management procedure. He was willing to discuss with the Staff Development Module project team to see whether it would be possible to modify the descriptions in order to make them more suitable for project risks. The Corporate Risk Register was seen as a tool to prioritise and identify where a specific project was needed;
- There was a need for a change in culture in order for risk management arrangements to be successful, as part of the Ffordd Gwynedd culture, obstacles beyond the control of specific services would be identified on the risk register;
- Officers' access to the risk register could be managed per Department and officers such as the Internal Audit Service would have a higher level of access. There was an expectation on every post holder to manage risk to some degree;
- That it was a health and safety risk assessment matter to relocate the Children's Service's case conferences from Frondeg, Pwllheli to Ffordd y Cob, Pwllheli. An annual health and safety report was submitted to the Cabinet.
- The Corporate Risk Register included governance risks;
- That part of his duties and the Insurance and Risk Service was to coordinate and keep an eye on the impact services had on other services within the Council;
- That internal audit work would link in with risk management arrangements. Departments would carry out self-assessments with the Internal Audit Service looking at the scores and assessing them in order to establish if they are a reasonable reflection of the situation.

**RESOLVED to accept the report as an update on the steps the Council is taking to benefit from the opportunities to improve as outlined in the Wales Audit Office's letter.**

## 6. AUDIT ASSURANCE LEVELS AND RISK SCORING ARRANGEMENTS

Submitted - the Audit Manager's report detailing the proposed arrangements of providing audit assurance levels to reflect the Authority's method of assessing and measuring its risks. She explained that the risk score provided would be based on the Auditor's opinion in consultation with the relevant Audit Leader and the Audit Manager, and would fall into one of four categories/risk levels, namely - Very High (20-25), High (12-16), Medium (6-10) and Low (1-5).

She noted that historically audits had been given opinion categories ranging from 'A' to 'Ch'. She explained that under the proposed procedure each audit would be allocated an assurance level. She elaborated that the assurance level awarded would be based on an evaluation of the internal management environment and the number of risks identified along with their risk score. She noted that the general assurance levels of audits would fall into one of four categories:

<b>HIGH</b>	Certainty of propriety can be stated as internal controls can be relied upon to achieve objectives.
<b>SATISFACTORY</b>	Controls are in place to achieve their objectives but there are aspects of the arrangements that need tightening to further mitigate the risks.
<b>LIMITED</b>	Although controls are in place, compliance with the controls needs to be improved and / or introduces new controls to reduce the risks to which the service is exposed.
<b>NO ASSURANCE</b>	Controls in place are considered to be inadequate, with objectives failing to be achieved.

During the ensuing discussion, the following main observations were noted by members:

- The proposed arrangements would provide members with more information and it was a valuable step forward;
- Was there a figure attached to what was noted in the definition of impact as 'on many residents'?
- Of the opinion that it was a positive step forward. Would the Committee receive a summary in terms of what had been done?
- Would the audit risk scores be discussed with the relevant officers at the Departments before the report was submitted to Committee?
- Would the timeline in terms of historical information and milestones be noted in the reports?
- A culture was needed that meant that auditors did not have to defend the score given to an audit. It was hoped that officers could view an audit as something positive and not negative;
- How much notice did services receive in terms of conducting an audit?
- What was the situation regarding leisure centre audits in light of establishing the new leisure company?

In response to the observations, the officers noted:

- That it was approximately estimated that between thousands and tens of thousands of residents would be considered to be 'many residents'. Nevertheless, it was emphasised that a risk which was awarded a '5- Catastrophic' impact would be defined as having a catastrophic impact on any resident;
- The Committee would receive a summary of the audit reports and the audit's level of assurance would be noted. It was felt that the risk score, as opposed to an opinion category, would be more useful for officers;
- The relevant officers within the Departments were given an opportunity to respond to the draft audit report. Should the officers not agree with the internal audit officers, the auditor would have to be firm and defend the score awarded to the audit;
- That the Internal Audit Plan was different every year therefore it was not possible to make a year on year comparison. Follow up work was undertaken on every action rather than the historical procedure of only following up on 'C' opinion category reports;
- It was a matter for the Department to determine whether specific risk scores were acceptable to them or whether they needed to act to reduce the risk;
- Audits had been identified in the Internal Audit Plan for the year. In some cases a discussion was needed prior to the audit with relevant officers to receive information on the background to prepare a briefing note. The only exception in terms of unplanned audits was leisure centre audits, and that was at the request of the Economy and Community Department.
- It was noted in the contract for establishing the new leisure company 'Byw'n Iach Cyf' that it was expected for the company to award contracts for providing specific support to the Council but that the company also had the right to outsource contracts. There would be a Service Level Agreement between the Internal Audit Service and Byw'n Iach Cyf.

**RESOLVED to accept the report.**

## **7. SELF-ASSESSMENT OF THE EFFECTIVENESS OF THE AUDIT COMMITTEE**

Submitted - the report of the Senior Manager - Revenue and Risk in relation to carrying out a self-assessment of the effectiveness of the Audit Committee, using CIPFA assessment guidelines.

**RESOLVED to hold a workshop during September or October 2018 in Penrhyndeudraeth to conduct a self-assessment of the Committee's effectiveness.**

## 8. REPORT OF THE CONTROLS IMPROVEMENT WORKING GROUP

Submitted – the report of the Chair of the Committee on a meeting of the above-mentioned working group held on 19 June 2018 to consider the 'Frondeg' and 'Schools Schemes - Ysgol Glancegin' audits along with audits that had received a category C and CH rating, namely -

- a) Supported Housing
- b) Staff Development Module
- c) Obtaining References, Proof of Identity and Evidence of Qualifications
- ch) Safeguarding Arrangements for Children and Adults - Field Workers' Awareness of Policy
- d) Smallholdings

Officers had been invited to attend the meeting to discuss the matters that had arisen from the audits and the work undertaken since the audit reports had been published in order to reinforce the internal controls in question.

The Chairman noted his gratitude to the members who had been present at the Working Group meeting.

The Audit Manager submitted an update on developments following the meeting of the Working Group. She noted that usually, follow up audits would be held, but in the case of 'Y Frondeg', a full audit would be carried out at the request of the Head of Adults, Health and Well-being Department.

In response to a member's question about the Committee receiving an update on progress against the actions, the Audit Manager noted that numbers would be noted rather than individual details, due to the number of actions. She explained that unacceptable progress would in future be reported to the Committee.

A member noted that the Working Group's meetings were valuable with the members taking an objective approach to the audits.

In response to members' observations on the full audit held for 'Frondeg', the Audit Manager noted that the situation was unique and she was pleased that the Department had asked for a full audit as they needed guidance on some matters in order to put an action plan in place for the new manager.

A member noted there was a tendency for officers to be defensive at Working Group meetings, the members were adopting the role of a critical friend and tried to contribute towards improving services.

In response to observations from a member in relation to important themes in audits on Residential Homes, the Audit Manager reported that the Working Group, at its meeting on 23 October 2017, had discussed a summary of the themes highlighted in audits on Residential Homes with the Cabinet Member for Adults, Health and Well-being and the Head of the Adults, Health and Well-being Department. She added that it was worrying that lessons were not being learnt.

**RESOLVED to accept the report.**

The meeting commenced at 10.00am and concluded at 11.45am.

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**CHAIR**