

## **CORPORATE GOVERNANCE COMMITTEE**

Minutes of a meeting of the Corporate Governance Committee held in Conference Room 1a, County Hall, Wynnstay Road, Ruthin on Wednesday, 28 March 2012 at 9.30 am.

### **PRESENT**

Councillors John Bellis (Chair), Jeanette Chamberlain-Jones, Meirick Davies and Barbara Smith (Vice-Chair)

### **ALSO PRESENT**

Head of Legal and Democratic Services (GW), Head of Finance and Assets (PM), Head of Internal Audit Services (IB), Audit Manager (BS), Audit Manager – Wales Audit Office (AV), Financial Audit Engagement Lead – Wales Audit Office (DO), Committee Administrator (SW) and Democratic Services Officer (RH).

#### **1 APOLOGIES**

Councillors Glyn Jones and Allan Pennington

#### **2 DECLARATION OF INTERESTS**

No interests prejudicial interests were declared

#### **3 URGENT MATTERS**

No items were raised which in the opinion of the Chair, should be considered at the meeting as a matter of urgency pursuant to Section 100B(4) of the Local Government Act, 1972.

#### **4 MINUTES**

The Minutes of a meeting of the Corporate Governance Committee held on Wednesday, 8<sup>th</sup> February, 2012 were submitted.

The resolution for Item 5 – Treasury Management Strategy was discussed and after clarification the Chair asked for the wording to be amended to reflect that the Committee 'received' the report rather than 'receives', to make it clear that a further report was not expected.

Councillor M.L. Davies was unable to be present from the start of the meeting but had relayed comments in anticipation of his absence. Councillor Davies had recalled that a future report had been recommended during the discussion of Item 6 – Regulation of Investigatory Procedures Act, but that this had not been included in the recommendation. The Head of Legal and Democratic Services said that he didn't recall a specific recommendation for a further report, but that an Item could be added to the Forward Work Programme for future consideration.

Following on from a query raised at the previous meeting by Councillor G.A. Jones, the Head of Internal Audit was able to confirm that security doors would unlock automatically in emergency situations.

**RESOLVED** – that, subject to the Committee’s observations, the Minutes be received and approved as a correct record.

## 5 ANNUAL FINANCIAL AUDIT OUTLINE

The Head of Finance and Assets introduced a report, circulated prior to the meeting, which delivered the Annual Financial Audit Outline prepared by the Wales Audit Office (WAO).

Mr Anthony Veale, Audit Manager from the WAO, explained that the Annual Financial Audit Outline was a requirement of the Public Audit (Wales) Act 2004 which examines and certifies that the Council’s accounts give a true and fair view of the Council’s financial position, comply with relevant legislative requirements and have been prepared in accordance with proper accounting practices. The approach of the WAO’s audit team was explained and the report gave details of perceived risks, a review of the use of resources and the methods for reporting on progress through the duration of the audit. The key milestones were given as follows:

- Annual Financial Audit Outline (January 2012 - March 2012)
- Audit of Financial Statements (ISA260) Report (June 2012 – September 2012)
- Audit Opinion on the 2011-12 financial statements (January 2012 – September 2012)
- Annual Audit Letter (October 2012 – November 2012)

The proposed fee for the audit work was placed at £165,802 (plus VAT) which would be payable between November 2011 and October 2012, and the total fee for grant work was estimated at being between £90k-100k.

The Chair noted that the estimated fee for grant work was very large and asked how it compared to previous years. Mr Veale responded that the fee was similar to last year but emphasised that the total could only be estimated and was liable to changes. The Chair relayed a question from Councillor M.L. Davies who had asked why the Council had to pay for additional work in handling queries. Mr Derwyn Owen, Financial Audit Engagement Lead from the WAO, explained that the queries arise from the general public and that the investigations can require significant additional work. Mr Owen further stated that that WAO are required to charge the County for additional work that arises out of such queries. Mr Veale stated that if a significant amount of additional work was necessary as a result of a query then this would be cleared with senior officers within Denbighshire County Council first, but that last year such extra work was minimal and the additional fee made up only a very small percentage of the overall fee.

Councillor J. Chamberlain-Jones asked why the cost of the audit was so much and requested a break down of the fees charged. The representatives of the WAO explained that the audit was a statutory requirement that involved a significant

amount of work over a long period of time. Due to the size of the Council and the extent of the work required during the audit Denbighshire's costs were said to be relatively low when compared to other local authorities.

The Head of Finance and Assets informed the Committee that the auditing of grants would account for a significant proportion of the fee charged, but that this was attributable to the level of detail specified by the Welsh Government and that the Council were bound to comply.

**RESOLVED** – *that the Committee receive and note the report detailing the Annual Financial Audit Outline from the Wales Audit Office.*

## **6 INTERNAL AUDIT REPORTS ISSUED**

The Head of Internal Audit (HoIA) presented a report, circulated prior to the meeting, which gave a final update for 2011/12 on the reports that the Internal Audit service had issued recently. It was explained that this information would normally form part of the regular progress report, but other progress was being reported in the Internal Audit Annual Report later in the meeting, so this report had been produced separately.

Details were given of a new reporting format based on the risk management process that uses colours to represent assurance rating (High Assurance – Green, Medium Assurance – Yellow, Low Assurance – Amber, No Assurance – Red) rather than the previous system of scoring categories 1-5. Figures were given from recent audits to illustrate the change in the scoring system, which would now concentrate on identifying issues that needed to be escalated.

Members questioned how the new scoring system would work in practice, particularly in regard to how a previously neutral score of '3' would now have to fall within either the Yellow or Amber category. The HoIA said that in such circumstances a decision would have to be made either way as no middle option existed but that the new conditions would give a more practical assessment of service assurance, and anticipated that there would be more instances of Green scoring compared to the high score of '5' under the previous model.

Councillor B.A. Smith observed that the audit of Commissioning and Contracting had flagged three Moderate 'Yellow' risks, but was considered to be 'Green' overall. The HoIA explained that this was a legitimate score if the auditor felt that overall service was being handled well but emphasised that the Internal Audit department had its own quality control mechanisms to ensure a consistent approach to the assurance rating process.

**RESOLVED** – *that the Committee receive the reports recently issued and note the new process for assessing risk assurance.*

## **7 DRAFT INTERNAL AUDIT ANNUAL REPORT 2011/12**

The HoIA introduced a draft copy of the Internal Audit Annual Report 2011/12, circulated prior to the meeting, which summarised the audit work undertaken in the

previous 12 months, highlighted issues relevant to the annual governance report, and gave an overall assessment of the effectiveness of the Council's internal control environment. The Chartered Institute of Public Finance and Accounting (CIPFA) required an annual report to be submitted to the Corporate Governance Committee in June 2012, but as the Committee was sitting in its present composition for the final time the report was submitted in draft form prior to the end of the financial year.

The report gave details of the performance of Internal Audit against a number of measures, for which all targets had been met. This included a 58% improvement in time taken to complete projects and a 93% improvement in time taken for services to implement follow-up recommendations from audit reports. Using the new assessment criteria the performance of the Council overall was placed in the Yellow 'Medium Assurance' category.

The Chair asked how the Internal Audit department dealt with negative feedback and was told that any criticism was discussed with the team in order to identify how service can be improved. It was noted that the role of an auditor will naturally draw resistance so a small amount of negativity would not necessarily be an indicator of poor performance.

The Committee also observed that the overall total for 'actual' days spent auditing was lower than the original planned days. It was explained that estimated timeframes had been used when planning and that, during the year, there had been staffing changes and maternity leave. Also, the actual time was not fully up to date at the time of writing the report, as the year had not yet finished. The length of time spent auditing St Brigid's School had been considerably longer than anticipated, but this was said to have been necessary in response to problems encountered, and also presented an example of how original planned days only serve as an estimate of how long an audit will take.

**RESOLVED** – *that the Committee notes the draft Internal Audit Annual Report 2011/12 prior to submission of the final report to the Corporate Governance Committee in its new form following the local authority election.*

## **8 INTERNAL AUDIT STRATEGY 2012/13**

The HoIA introduced a report, circulated prior to the meeting, which presented the Internal Audit Strategy 2012-13 as required by the Corporate Governance Committee's terms of reference. The strategy set out the number of days allocated for each area of review, gave details of the service's budgetary considerations, and established performance measures for the coming year.

Councillor M.L. Davies asked why contracts to carry out audit work for the Countryside Council for Wales (CCW) and the North Wales Police Authority had been deemed to be at risk. The HoIA explained that these contracts were due to end in 2013 and 2014 respectively, at which point the Council would hopefully be invited to tender for the contracts. The tendering process meant that an extension of the contract could not be guaranteed, and that the Council would have to react to the situations as it was not possible to predict the outcome of a tender. Mr Owen

from the WAO clarified that the creation of a single body to undertake the function of CCW, the Forestry Commission Wales and the Environment Agency Wales was currently only in the consultation stage and had not been finalised.

Councillor B.A. Smith questioned why the Rhyl-based financial systems were being audited by the Internal Audit team if the WAO was already undertaking this function. The HoIA confirmed that the two teams were working together but looking at different aspects of the overall service. For the WAO to take on the work that the Internal Audit team were handling would require a significant amount of additional time, which would necessarily increase the fee payable to the WAO.

**RESOLVED** – *that the Committee notes and supports the Internal Audit Strategy 2012/13.*

## **9 COMMITTEE FORWARD WORK PROGRAMME 2012/13**

The Head of Legal and Democratic Services (HLDS) presented the Corporate Governance Committee's Forward Work Programme and gave an update of recent developments.

The Committee were notified that the Code of Conduct training for Members had been made mandatory, with training scheduled for 9th May with a refresher session in October. Those unable to attend the sessions would be given access to electronic training documents to ensure that all Members of the Council are familiar with the Code of Conduct. All candidates for election were to be sent a training schedule and the Welsh Local Government Association would also be producing guidance for Councillors.

Councillor B.A. Smith asked whether the mandatory training would apply to Community and Town Councils and the HLDS responded that the Standards Committee had recommended that the Community and Town Councils receive the proposals, but be able to make a decision on compelling attendance at training themselves.

Mr Owen requested that an external report giving the final Audit Opinion on the 2011-12 Financial Statements, scheduled for the Corporate Governance Committee's meeting on 5th September 2012, be postponed until later that month. The Committee agreed and decided that a special meeting would have to be arranged to consider the report at a future date to be confirmed.

The HLDS gave an update on the guidance for the Local Government (Wales) Measure 2011, which was due to be published in April to be implemented in May, and raised a number of issues with the Committee. The draft guidance that had been received stated that an Audit Committee would need to be established which would take on some of the functions of the present Corporate Governance Committee. The HLDS suggested that, given the cross-over, the Corporate Governance Committee could continue in its present capacity but also sit as the 'Audit Committee' as required. The Audit Committee would also require a lay member, but the opportunity could not be advertised until the Measure is implemented. It was also noted that the Chairs of Scrutiny Committees would be

voted in by the whole of the Council rather than by the Scrutiny Committees themselves, with regard being had to regulations on political balance.

Councillor Smith proposed that a report on the review of the Constitution be added to the Forward Work Programme, and the Committee agreed that the item would be considered in April 2013.

***RESOLVED*** – *that, subject to the above amendments, the Committee approved the Forward Work Programme.*