

Pwyllgor Archwilio

Man Cyfarfod
**Ystafell Bwyllgor A - Neuadd y Sir,
Llandrindod, Powys**

Dyddiad y Cyfarfod
Dydd Iau, 19 Rhagfyr 2019

Amser y Cyfarfod
10.00 am



Neuadd Y Sir
Llandrindod
Powys
LD1 5LG

I gael rhagor o wybodaeth cysylltwch â
Lisa Richards
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Dyddiad Cyhoeddi

Mae croeso i'r rhai sy'n cymryd rhan ddefnyddio'r Gymraeg. Os hoffech chi siarad Cymraeg yn y cyfarfod, gofynnwn i chi roi gwybod i ni erbyn hanner dydd ddau ddiwrnod cyn y cyfarfod

AGENDA

1.	YMDDIHEURIADAU
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Derbyn ymddiheuriadau am absenoldeb.

2.	DATGANIADAU O DDIDDORDEB
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Derbyn datganiadau o ddiddordeb gan Aelodau.

3.	DATGANIAD O CHWIPIAU PLAID
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Derbyn datganiadau ynglyn â gwaharddiad chwip plaid a gyflwynwyd i Aelod mewn perthynas â'r cyfarfod yn unol ag Adran 78 (3) Mesur Llywodraeth Leol 2001.

(D.S: atgoffir yr Aelodau, dan Adran 78, na all Aelodau sydd wedi derbyn gwaharddiad chwip plaid bleidleisio ar fater gerbron y Pwyllgor.

4.	COFNODION
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Awdurdodi'r Cadeirydd i lofnodi cofnodion y cyfarfod blaenorol.
(Tudalennau 1 - 10)

5.	TYSTYSGRIF ARCHWILIO SWYDDFA ARCHWILIO CYMRU – ADRODDIAD GWELLA BLYNYDDOL A'R CYNLLUN CORFFORAETHOL
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I ystyried Tystysgrif Archwilio Swyddfa Archwilio Cymru
([Tudalennau 11 - 12](#))

6.	ADOLYGU CAMDDYWEDIADAU A GWALLAU
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Ystyried adroddiad y Pennaeth Cyllid.
([Tudalennau 13 - 16](#))

7.	RHEOLI RISGIAU STRATEGOL
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Ystyried adroddiadau Perfformiad yr Ail Chwarter
[2019-20 Quarter 2 Performance Monitoring Report](#)
[Strategic Risk Register Report Quarter 2 2019-20](#)
[Public Accountability Measures 2018-19 analysis](#)

8.	ASESIADAU ECONOMAIDD AC ARIANNOL – ADOLYGU CYNNYDD
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Ystyried adroddiad y Pennaeth Cyllid.
([Tudalennau 17 - 26](#))

9.	TRAWSNEWID RHEOLI CONTRACTAU
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Ystyried adroddiad yr Arweinydd Proffesiynol Dros Dro – Gwasanaethau Masnachol.
([Tudalennau 27 - 34](#))

10.	MESUR LLYWODRAETH LEOL AC ETHOLIADAU (CYMRU) – PWYLLGORAU LLYWODRAETHU AC ARCHWILIO.
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Ystyried ymateb ar yr ymgynghoriad i'r Mesur Llywodraeth Leol ac Etholiadau (Cymru) – Pwyllgorau Llywodraethu ac Archwilio.
([Tudalennau 35 - 38](#))

11.	CAU'R CYFRIFON
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Ystyried adroddiad y Pennaeth Cyllid.
([Tudalennau 39 - 42](#))

12.	ARCHWILIO MEWNOL – MONITRO PERFFORMIAD YR AIL CHWARTER
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Ystyried adroddiad Partneriaeth Archwilio De-orllewin.

(Tudalennau 43 - 58)

13.	ARCHWILIO MEWNOL – CYNLLUN GWAITH 2019-20
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Ystyried Cynllun Gwaith Archwilio Mewnol ar gyfer 2019-20.

(To Follow)

14.	AROLWG O'R ARCHWILIAD MEWNOL
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Ystyried adroddiad y Cyfarwyddwr Corfforaethol – Adnoddau a Thrawsnewid.

(Tudalennau 59 - 60)

15.	ADRODDIADAU ARCHWILIO MEWNOL
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I nodi adroddiadau Archwilio Mewnol a Chynlluniau gwaith cysylltiedig.

(Tudalennau 61 - 94)

16.	RHAGLEN WAITH
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I ystyried y blaenraglen waith a ph'un ai i ychwanegu eitemau eraill.

(Tudalennau 95 - 96)

Mae'r dudalen hon wedi'i gadael yn wag yn fwriadol

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 (Chair), M J Jones, R G Thomas, T J Van-Rees, A Williams, J M Williams, R Williams Mr J Brautigam

Cabinet Portfolio Holders In Attendance: County Councillor A W Davies

Officers: Dan Paley, Financial Reporting and Policy Accountant, Jane Thomas, Head of Financial Services, Greg Thomas, Project Officer, Events and Civil Contingencies and Emma Palmer, Head of Transformation and Communication

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

1.	APOLOGIES
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Apologies for absence were received from County Councillors D R Jones, K Lewis, WD Powell and D A Thomas

2.	DECLARATIONS OF INTEREST
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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
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There were no declarations of party whips.

4.	MINUTES
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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
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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 related to the impact on liabilities of the McLeod judgement which refers to age discrimination within the pension scheme. This 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 are uncorrected need not be amended and 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
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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
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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
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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
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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
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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
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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
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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 (Chair)

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Cyfeirnod: 1547A2019-20

Dyddiad cyhoeddi: Hydref 2019

Archwiliad o gynllun gwella cyfunol Cyngor Sir Powys 2019-2020 ac adroddiad perfformiad blynyddol 2018-2019

Tystysgrif

Ardystiaf, yn dilyn cyhoeddiad ar 10 Hydref 2019, fy mod wedi archwilio cynllun gwella cyfunol Cyngor Sir Powys (y Cyngor) a'r adroddiad perfformiad blynyddol o'r enw 'Gweledigaeth 2025: Ein Cynllun Gwella Corfforaethol 2018-2023 (Diweddariad ac Adroddiad Blynyddol 2019)' yn unol ag adran 17 o Fesur Llywodraeth Leol (Cymru) 2009 (y Mesur) a'm Cod Ymarfer Archwilio.

O ganlyniad i'm harchwiliad, credaf fod y Cyngor wedi cyflawni ei ddyletswyddau o dan adrannau 15(2), (3) a 15(6) i (9) o'r Mesur ac wedi gweithredu'n unol â chanllawiau Llywodraeth Cymru yn ddigonol i gyflawni ei ddyletswyddau.

Priod gyfrifoldebau'r Cyngor a'r Archwilydd Cyffredinol

O dan y Mesur, mae'n ofynnol i'r Cyngor baratoi a chyhoeddi Cynllun Gwella, sy'n amlinellu ei gynlluniau i gyflawni ei ddyletswyddau:

- i wneud trefniadau i sicrhau gwelliant parhaus wrth gyflawni ei swyddogaethau;
- i wneud trefniadau i sicrhau bod ei amcanion gwella yn cael eu cyflawni; ac
- i wneud trefniadau i gyflawni ei swyddogaethau i fodloni unrhyw safonau perfformiad a bennir gan Weinidogion Cymru.

Mae'r Mesur yn ei gwneud yn ofynnol i'r Cyngor gyhoeddi ei Gynllun Gwella cyn gynted ag y bo hynny'n rhesymol ymarferol ar ôl dechrau'r flwyddyn ariannol y mae'r cynllun yn berthnasol iddi, neu ar ôl dyddiad arall a bennir dan orchymyn Gweinidogion Cymru.

Y Cyngor sy'n gyfrifol am baratoi'r Cynllun Gwella, yn ogystal â'r wybodaeth a nodir ynddo. Mae'r Mesur yn ei gwneud yn ofynnol i'r Cyngor ystyried canllawiau a gyhoeddir gan Weinidogion Cymru wrth baratoi a chyhoeddi ei gynllun.

Hefyd, o dan y Mesur, mae'n ofynnol i'r Cyngor baratoi a chyhoeddi Cynllun Gwella, sy'n amlinellu ei gynlluniau i gyflawni ei ddyletswyddau:

- wrth gyflawni ei ddyletswydd i wneud trefniadau i sicrhau gwelliant parhaus wrth arfer ei swyddogaethau;
- o ran cyflawni'r amcanion gwella y mae wedi'u pennu iddo'i hun;

- drwy gyfeirio at ddangosyddion perfformiad a nodir gan Weinidogion Cymru, a dangosyddion perfformiad hunanosodedig; ac
- o ran bodloni unrhyw safonau perfformiad a bennir gan Weinidogion Cymru, a safonau perfformiad hunanosodedig.

Mae'r Mesur yn ei gwneud yn ofynnol i'r Cyngor gyhoeddi ei Gynllun Gwella cyn 31 Hydref yn y flwyddyn ariannol y mae'r cynllun yn berthnasol iddi, neu ar ôl dyddiad arall a bennir dan orchymyn Gweinidogion Cymru. Mae'r Mesur yn ei gwneud yn ofynnol i'r Cyngor ystyried canllawiau a gyhoeddir gan Weinidogion Cymru wrth gyhoeddi ei asesiad.

O dan adrannau 17 ac 19 o'r Mesur, mae'n ofynnol i mi, archwilydd y Cyngor, gynnal archwiliad o'r Cynllun Gwella, ac archwiliad i benderfynu a yw'r Cyngor wedi cyflawni ei ddyletswydd i gyhoeddi asesiad o berfformiad, ardystio fy mod wedi gwneud hynny, ac adrodd a wyf o'r farn bod y Cyngor wedi cyflawni ei ddyletswyddau i baratoi a chyhoeddi Cynllun Gwella yn unol â'r gofynion statudol a nodir yn adran 15 a'r canllawiau statudol.

Cwmpas yr archwiliad o'r Cynllun Gwella

I ddibenion fy ngwaith archwilio, ac ar yr amod bod awdurdod wedi bodloni ei ofynion statudol, byddaf yn derbyn bod yr awdurdod wedi cydymffurfio'n ddigonol â chanllawiau statudol Llywodraeth Cymru i gyflawni ei ddyletswyddau.

Ar gyfer yr archwiliad hwn, nid yw'n ofynnol i mi lunio barn ar gyflawnder na chywirdeb yr wybodaeth, na ph'un a ellir cyflawni Cynllun Gwella'r Cyngor ai peidio. Bydd gwaith asesu arall y byddaf yn ymgymryd ag ef o dan adran 18 o'r Mesur yn archwilio'r materion hyn. Felly, roedd fy archwiliad o Gynllun Gwella'r Cyngor yn cynnwys adolygiad o'r cynllun i ganfod a oedd yn cynnwys elfennau a ragnodir mewn deddfwriaeth. Euthum ati hefyd i asesu a oedd y trefniadau ar gyfer cyhoeddi'r cynllun yn cydymffurfio â gofynion y ddeddfwriaeth, ac a oedd y Cyngor wedi ystyried y canllawiau statudol wrth baratoi a chyhoeddi ei gynllun.

Ni ellir dibynnu'n unig ar y gwaith a wnaed gennyf er mwyn llunio adroddiad a gwneud argymhellion yn unol ag adrannau 17 ac 19 o'r Mesur, i nodi'r holl wendidau neu gyfleoedd ar gyfer gwella.



Adrian Crompton

Archwilydd Cyffredinol Cymru

CC: Julie James – Y Gweinidog Tai a Llywodraeth Leol

Lisa Williams – Rheolwr Archwilio Perfformiad

Sara Leahy – Archwilydd Perfformiad

CYNGOR SIR POWYS COUNTY COUNCIL

AUDIT COMMITTEE

19th December 2019

REPORT AUTHOR: Jane Thomas, Head of Financial Services

SUBJECT: Guidance for those charged with governance when evaluating misstatements identified through the audit

REPORT FOR: Information

1. Introduction

- 1.1 On 6th September 2019 the Statement of Accounts were approved by Audit Committee. Within the Wales Audit Office (WAO) ISA260 report, it was stated that one misstatement had not been corrected. Committee questioned why the misstatement had not been corrected. This was answered verbally at the time and the Committee went on to approve the Accounts.
- 1.2 It was agreed that the guidance provided by the WAO ("Guidance for those charged with governance when evaluating misstatements identified through the audit") would be presented and discussed at a future Committee.
- 1.3 This report meets that request.

2 Evaluating misstatements identified through the audit

- 2.1 The guidance (see Appendix) shows the questions that need to be asked when considering a misstatement. The main one concerns materiality. The quantitative level at which WAO judge such misstatements to be material for the Council was £4.796 million in 2018/19. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity, these can include for example remuneration and related party disclosures.
- 2.2 WAO will list all uncorrected misstatements above trivial in their ISA260 report and will request management to confirm they believe the effects of the uncorrected misstatements are immaterial individually and in aggregate to the financial statements as a whole. Management must provide the Audit Committee with an explanation as to why the misstatement remains uncorrected and Committee must consider this and decide if it is appropriate and that they are happy to approve the accounts on that basis. This explanation is included in their Letter of Representation to the Auditor General, the content of which is considered in forming their audit opinion. The Letter of Representation is also presented to the Audit Committee alongside the audited accounts.

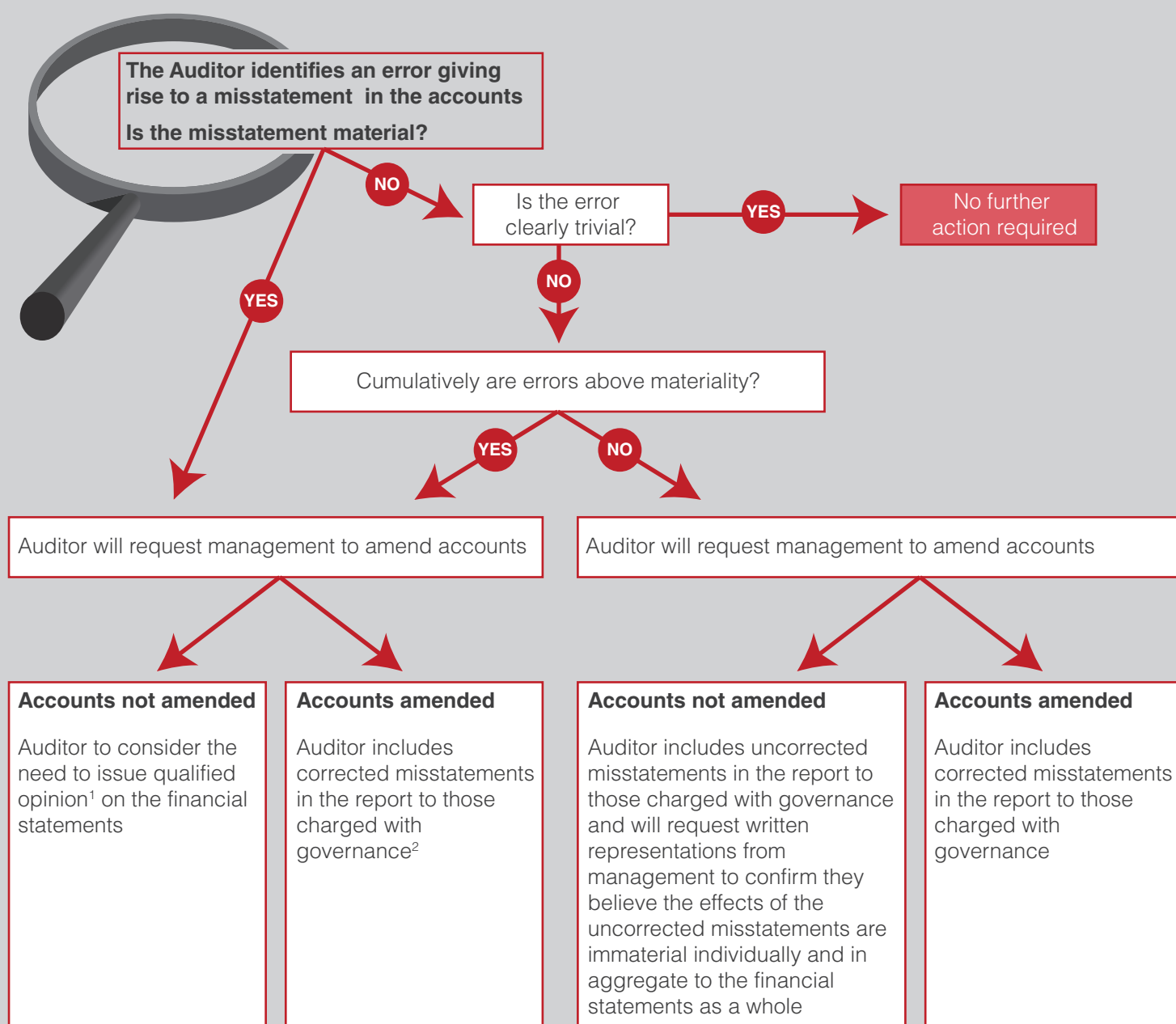
Recommendation:	Reason for Recommendation:
That Audit Committee notes the contents of the report.	To ensure that the Audit Committee is clear in their understanding of the guidance on uncorrected misstatements.

Contact Officer Name:	Tel:	Email:
Jane Thomas	01597 826341	jane.thomas@powys.gov.uk

Guidance for those charged with governance when evaluating misstatements identified during the audit

Prior to approving the financial statements you will receive a report from the Wales Audit Office on the financial statements that may talk about misstatements.

The flow chart sets out the implications of misstatements identified during the audit to help you understand their impact.



We will also report any significant deficiencies in control to those charged with governance relating to those errors for consideration.

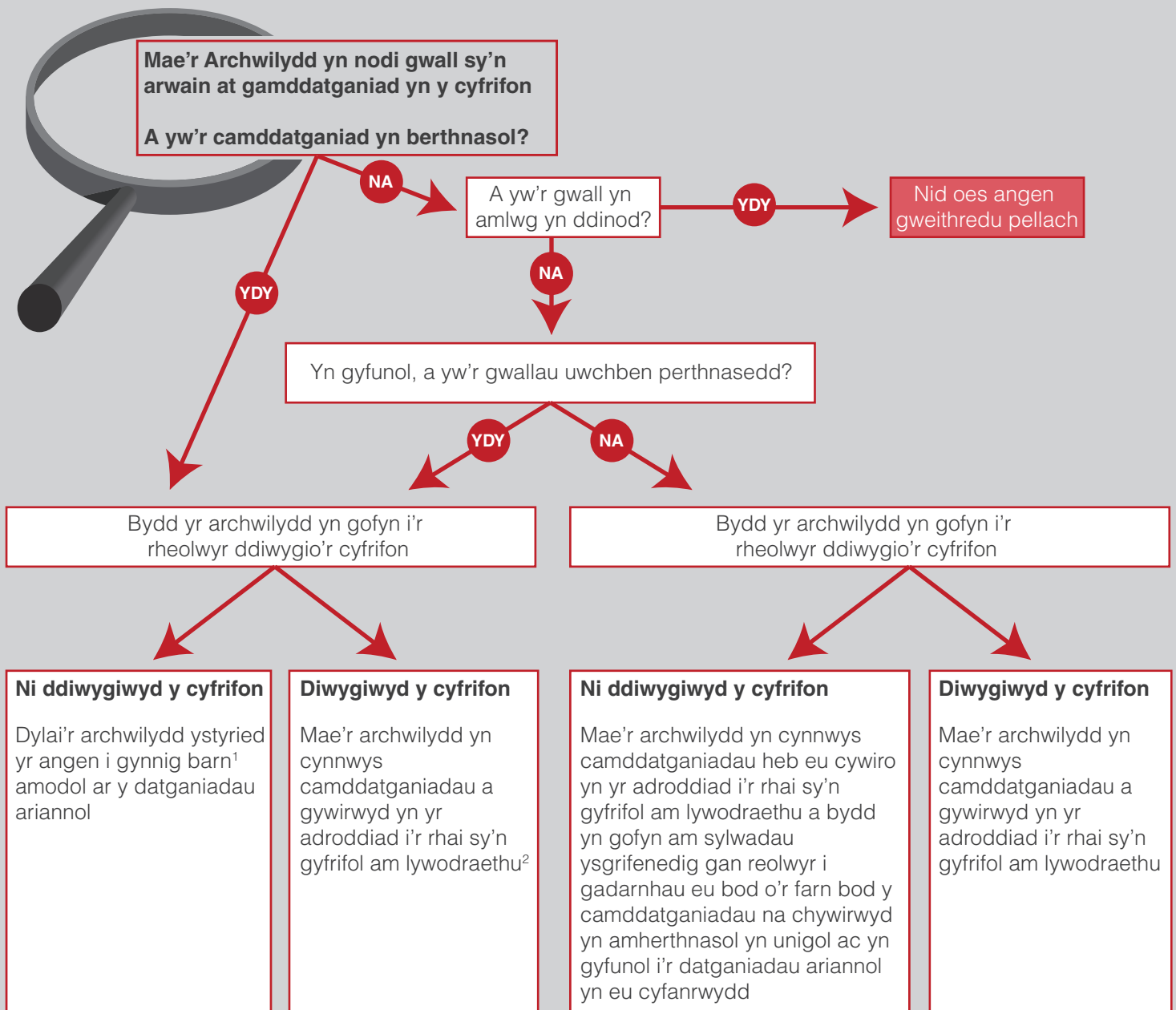
¹ The auditor is required to consider materiality by value and nature.

² Those charged with governance are defined as persons, such as an Audit Committee, with responsibility for the accountability of the entity including overseeing the financial reporting process.

Canllawiau i'r rhai sy'n gyfrifol am lywodraethu wrth werthuso camddatganiadau a nodwyd yn ystod yr archwiliad

Cyn cymeradwyo'r datganiadau ariannol, byddwch yn derbyn adroddiad gan Swyddfa Archwilio Cymru ar y datganiadau ariannol a allai drafod camddatganiadau.

Mae'r siart llif yn nodi goblygiadau camddatganiadau a nodir yn ystod yr archwiliad i'ch helpu i ddeall eu heffaith.



Byddwn hefyd yn adrodd i'r rhai sy'n gyfrifol am lywodraethu ar ddiffygion sylweddol mewn rheolaeth a ddaeth i'r amlwg drwy'r gwallau hynny, er mwyn eu hystyried.

¹ Mae'n ofynnol i'r archwilydd ystyried perthnasedd yn ôl gwerth a natur.

² Unigolion diffiniedig, fel Pwyllgor Archwilio, yw'r rhai sy'n gyfrifol am lywodraethu, sy'n gyfrifol am atebolrwydd y colff gan gynnwys goruchwyllo'r broses adrodd ariannol.

CYNGOR SIR POWYS COUNTY COUNCIL.

Audit Committee
19th December 2019

REPORT AUTHOR: Jane Thomas, Head of Finance

SUBJECT: Assessing the Economic and Financial Standing of Suppliers

REPORT FOR: Information

1. Purpose

- 1.1 To advise the Audit Committee on the extent to which the Council's current procedures are in line with the Government Commercial Function's Guidance Note "Assessing the Economic and Financial Standing of Suppliers" and to seek support for recommendations to improve the Council's processes.

2. Background

- 2.1 Assessing and monitoring the economic and financial standing of suppliers is about understanding the financial capacity of suppliers to perform a contract in order to safeguard the delivery of public services.
- 2.2 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 of Suppliers'.
- 2.3 The Guidance Note provides advice on how to:
- Assess the economic and financial standing (EFS) of bidders during a procurement;
 - Mitigate financial risks arising from the EFS of a bidder or changes to such standing; and
 - Monitor the ongoing EFS of suppliers during the life of a contract.
- 2.4 The Guidance Note is relevant to all Central Government Departments, their Executive Agencies and Non-Departmental Public Bodies and those bodies were asked to test the guidance and feedback any comments.
- 2.5 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.

3. Assessing the Economic and Financial Standing of Bidders

3.1 Principles

What the guidance says

- 3.1.1 All 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. All bidders, whatever their size and constitution, should be treated fairly and with appropriate diligence during the assessment of their EFS. No SMEs (Small and Medium Sized Enterprises), public service mutuals or third sector organisations should be inadvertently disadvantaged.
- 3.1.2 EFS should only be considered as part of the overall selection criteria. It may not on its own reflect a bidder's ability to deliver.
- 3.1.3 Assessment of EFS must be transparent, objective and non-discriminatory. It should be based on a set of metrics and ratios appraised against pre-determined thresholds to provide a set of risk classifications for each bidder. Bidders should be able to see their risk classifications as they complete the financial assessment and, where relevant, be given the opportunity to explain why different risk classifications may be more appropriate.
- 3.1.4 In many cases the assessment can be based on a standardised set of metrics and ratios. For certain contracts, however, additional or alternative metrics and ratios may be appropriate, in particular for procurements of more critical, complex works and services or for longer periods. Minimum financial thresholds should be appropriate and proportionate to the contract being procured.
- 3.1.5 The assessment of a bidder's EFS should be conducted by staff with a financial background, calling on specialist in-house or external expertise as necessary.

What The Council Does

- 3.1.6 Powys already adopts much of the guidance in this section. The requirements for EFS assessments are included up front in any procurement process. This means that assessment and the criteria cannot be changed after receipt of tender.
- 3.1.7 Financial criteria required for assessment are published in a way that would enable companies to undertake their own assessment for their economic and financial status and position and disqualify themselves where they do not meet the criteria for a particular procurement.
- 3.1.8 Each supplier has the ability to read and replicate the scoring template and this ensures equal treatment for all bidders. The ratios used are the same for each contract, but the scoring factors in flexibility around the contract size.
- 3.1.9 The financial assessments are conducted by the finance team and are based on a series of standard financial ratios with various thresholds. The various metrics measure the risk of failure, from very low to high and financial strength, from unsound to strong.
- 3.1.10 Additional reliance has also been placed on credit scoring company reports for certain contracts. Alternative means of scoring for construction projects using ConstructionLine and for School projects, the South East & Mid Wales Collaborative Construction Framework. (SEWSCAP) framework, is also used.

3.2 Financial Testing

What the guidance says

- 3.2.1 The Note highlights the need to categorise potential contracts based on their criticality to determine the level of EFS required. The Cabinet Office has developed a Gold (most critical), Silver and Bronze (least critical) system based on the following questions:-
- What is the total contract value or expected contract value (including possible extensions)?
 - How complex is the delivery or the expected delivery of the service?
 - How quickly could the organisation switch suppliers or re-procure the contract?
 - What is the potential impact of contract/supplier failure?
 - Information Security Risk?
- 3.2.2 For those contracts deemed silver and gold the Financial Viability Assessment Tool is used to evaluate the financial criteria of the bidder.
- 3.2.3 The Tool should be monitored over a long procurement process to incorporate any updated information. Immediately prior to award the Contracting Authority should confirm if there has been any deterioration of the bidders EFS and whether it is significant enough to reconsider the award.

What the Council does

- 3.2.4 The Council currently sets minimum criteria for bidder progression based on an assessment of the capability to manage the contract amount awarded. There is no formal tiering policy.
- 3.2.5 At award stage the Council carries out due diligence to confirm the financial standing.

Recommendations

- 3.2.6 The contract tiering tool identified in the guidance note should be adopted prior to Pre-Qualification Questionnaire (PQQ) documentation by procurement and service officers.
- 3.2.7 This would involve using an off the shelf provider where the financial assessment has been identified as low risk (i.e. bronze) for example for construction projects the Council would use ConstructionLine who would conduct the evaluation and all bidders would be required to be registered with ConstructionLine. Dun and Bradstreet/Equifax would be used for non-construction contracts as the Welsh Government has a contract with Dun and Bradstreet available for the public sector which is free at the point of use. This would assist in reducing the amount of time assessing the financial information for low risk contracts. Over the last 6 months 106 financial appraisals have been undertaken, of which 52 relate to social care and 49 to construction contracts.
- 3.2.8 For more critical contracts (silver and gold) the Council will continue to use its existing scoring mechanism. The Financial Viability Tool used in the guidance is being trialled by Central Government, and due to the changes that would need to be made to PQQ templates and processes around gaining appropriate assurances from companies who have a high risk score, it is recommended that we await the outcome of the Government trial. The Councils process is provided in the flowchart below as Appendix 2.

Demonstrating economic and financial standing & Financial Information required from bidders

What the Guidance Says

- 3.3.1 Proof of a bidder's EFS may be provided by one or more of the following:

- appropriate statements from banks or, where appropriate, evidence of relevant professional risk indemnity insurance;
- financial statements or extracts from the financial statements, where appropriate (i.e. where publication of financial statements is required by law); and
- a statement of the bidder's overall turnover and, where appropriate, of turnover in the area covered by the contract for a maximum of the last 3 financial years available.

3.3.2 Where audited accounts are not available, other financial information that Contracting Authorities may use, in accordance with Regulation 60(7), to demonstrate a bidder's EFS includes but is not limited to:

- Parent or ultimate parent company audited accounts (if applicable);
- Guarantees and bonds;
- Bankers' statements and references;
- Management accounts;
- Financial projections (including cash flow forecasts) and order book pipeline
- Details and evidence of previous contracts, including contract values; and
- Other evidence of capital availability.

3.3.3 Management accounts and financial projections should be supported at the minimum by written representations from the Boards and/or Chief Financial Officers of bidders and ideally by independent assurance. The acceptability of different forms of information and assurance will depend on the criticality of the potential contract; where the procurement is for a 'Gold' contract the appraisal should be supported by audited financial statements or independent support of the bidder's EFS.

3.3.4 A Contracting Authority should specify in advance the thresholds at which it may eliminate a bidder from a procurement. Such thresholds may be linked to the risk rating on a single financial metric or ratio or to a combination of risk ratings across multiple financial metrics or ratios. Thresholds must be transparent, objective and proportionate to the requirement under procurement.

3.3.5 A Contracting Authority may allow bidders to proceed despite being classified overall as medium or high risk subject to agreeing a set of risk mitigations acceptable to the Contracting Authority. Such mitigations may include but should not be limited to: Enhanced contract management and financial monitoring procedures, which may include additional obligations or Financial Distress Events (see appendix 1); Restrictions on the bidder's business and/or its ability to make distributions or lend money to other group members if it wins the contract; or The provision of a collateralised cash deposit, guarantee or performance bond.

What the Council does

3.3.6 The Council requests copies of accounts for the previous two years, preferably audited. The threshold criteria are presented to the bidders at PQQ. The Council asks for performance bonds where there is a doubt on the EFS of the bidder. Where they are providing a guarantee Powys will require the submission of the Parent Company accounts.

Recommendations

3.3.7 In the cases where accounts cannot be obtained or more current information is required management accounts or financial projections should be required, supported by written representations from Boards or the Chief Financial Officer.

3.4 Framework Agreements

What the Guidance Says

- 3.4.1 A Contracting Authority entering into a call off contract under a framework agreement should undertake its own financial assessment of the bidders' financial capacity to deliver against the requirements specific to the call-off contract.

What the Council does

- 3.4.2 The SEWSCAP framework operates on behalf of certain local authorities in Wales and provides a flexible framework for appointment of school contractors according to the value of each school. The SEWSCAP3 framework requires Cardiff, the host Authority, to provide 6 monthly financial checks on the framework suppliers. Non-compliance with the financial standing criteria can result in the suspension of the contractor from the framework agreement and the exclusion from a selection procedure. The framework agreement affords a potential employer the ability to require a parent company guarantee or a performance bond on a contract-by-contract basis.

Recommendations

- 3.4.3 In addition to the above, the Council requests at any stage of a selection process additional information from suppliers to evidence that they continue to comply with the financial criteria. This should be done as and when required. The Council should consider requiring a bond or parent company guarantee, especially where, the contracts meet the financials standing criteria but there remains concerns about the contractor's financial position.

4 Mitigating Financial Risk

What the Guidance Says

- 4.1 The guidance note highlights the importance of formulating insurance intentions before commencing procurement. The levels of cover should be specific to the contract under procurement.
- 4.2 Guarantees and bonds, whether performance or financial should be sort where there are concerns of the supplier's capabilities for delivering the contract. When seeking a guarantee the Council must ensure that the Guarantor has adequate resources and is an entity of substance, an EFS will need to be performed on the guarantor. The Council should ensure that any guarantee will survive a change of control of the guarantor or that a mechanism exists to ensure that appropriate alternative arrangements are in place if necessary.
- 4.3 The Note also identifies conditional bonds, which can usually only be called on following a serious breach by the supplier (normally allowing termination of the contract) and on-demand bonds which include within their terms and conditions the trigger and mechanism for calling on them. On-demand bonds are often considered expensive and more onerous for the supplier. The note continues to say that professional advice should be sort to obtain the best choice and that they should be used proportionately.
- 4.4 The Note lists financial distress events (FDE) which can be identified in contracts to highlight areas of concern that require action or re-assurance from the supplier. The events identified should be specific to the contract and may arise from the procurement stage. Where requested, throughout the contract the supplier should notify the Authority if an FDE occurs.

It can be written into the contract that an annual update confirming that no FDEs have occurred.

What the Council does

- 4.5 For Powys construction projects the contractor is required to insure the works whilst in progress and to cover associated liabilities which may arise. The cost of this cover will form part of the overall contract sum and will be subject to the addition of overhead and profits. The main contractor will in turn usually employ sub-contractors and will seek to pass risk and insurance obligations down to the supply chain. This can introduce potential risk as insurance responsibilities may not be clearly understood and this may be exacerbated if contract conditions change.
- 4.6 Where there are concerns of the supplier's capabilities for delivering the contract Powys will seek a parent company bond. The Authority will usually seek a performance bond which can provide some compensation if the supplier is proven to have defaulted on its obligations. It is usually provided at contract award, for a specified percentage of the total contract value until its expiry date. A performance bond will not of itself ensure that contracts are carried out efficiently and to time, but it will be an additional incentive on the supplier to perform well.

Recommendations

- 4.7 An Owner Controlled Insurance Programme (OCIP) should be considered as an option for construction projects. An OCIP is an arrangement whereby the Council takes control of the arrangement and purchase of certain insurances in connection with the construction project. The cost of this type of insurance will be a factor in determining the benefit of such an arrangement and this will be assessed on an individual project basis. By taking control of certain insurances, the employer can mitigate many of the risk factors and can additionally insure against risks not catered for by the contractors' programmes, such as delay in completion and the insolvency of a contractor. An OCIP can be considered a risk management tool, and it is important to discuss the available options early in the process.
- 4.8 Where requested, throughout the contract the supplier should notify the Authority of any FDE. This will be written into the contract together with an annual update at which point the supplier will also have to confirm that no FDEs have occurred.

5 Monitoring the Economic and Financial Standing of Suppliers following Contract Award

What the Guidance says

- 5.1 Early recognition of a supplier's declining EFS or the risk of its failure may help the Council avert or be better prepared to deal with such underperformance or failure as it arises limiting the impact on potentially critical public works and services. Contracting Authorities should therefore monitor the EFS of their key suppliers.
- 5.2 Monitoring should reflect the criticality of the contract and, where appropriate, should cover not just the contractual FDEs (or their equivalent) but take a wider view of the supplier's business. The focus should primarily be on liquidity. Where no FDEs have been notified, boards of suppliers with critical contracts should provide formal annual confirmations that no FDE or any other matter which could cause a FDE has occurred.
- 5.3 Where monitoring and follow-up suggests a raised level of concern, contract managers should ensure their contingency plans are up-to-date and consider whether any further action or enhanced monitoring is required.

- 5.4 Critical suppliers' EFS should be monitored on an at least annual basis, this should coincide with the publication of the suppliers' annual accounts, these should be assessed by the finance department.
- 5.5 Credit scoring agencies should be used to provide updates/alerts of changes in their scoring of the Supplier.

What the Council does

- 5.6 There is currently no formal process undertaken to monitor EFS during the contract, but assessments and scoring agency scores are obtained when requested on an ad hoc basis, if no further formal accounts have been submitted during this time the scoring will not change.

Recommendations

- 5.7 Suppliers identified as critical should be reviewed at least annually and monitored against criteria specified in the contract. They should be required to self-notify if changes of circumstances occur during the year.
- 5.8 Dun and Bradstreet have recently introduced a facility which assesses the likelihood of a business continuing to trade in the next twelve months. Companies identified as critical would be added to this list and we would receive notifications from Dun and Bradstreet as soon as they are updated. Appendix 3 provides a flowchart of the process we will now undertake.

6 Summary

- 6.1 The Council's process for assessing the economic and financial standing of suppliers already adopts some of the approaches included in the guidance, but the addition of the recommendations identified throughout the report, will improve and add further rigour to our processes. It is proposed that the recommendations be employed for a 6 month period and then be reviewed again for their appropriateness in June 2020. The guidance itself may also have been reviewed and updated during this time and this can also be reconsidered.

Recommendation:	Reason for Recommendation:
That Audit Committee supports the recommendations in each of the sections of the report and that the changes are implemented with immediate effect.	To improve the assessment and monitoring of the economic and financial standing of suppliers, to better understand the financial capacity of suppliers to perform a contract in order to safeguard the delivery of public services.

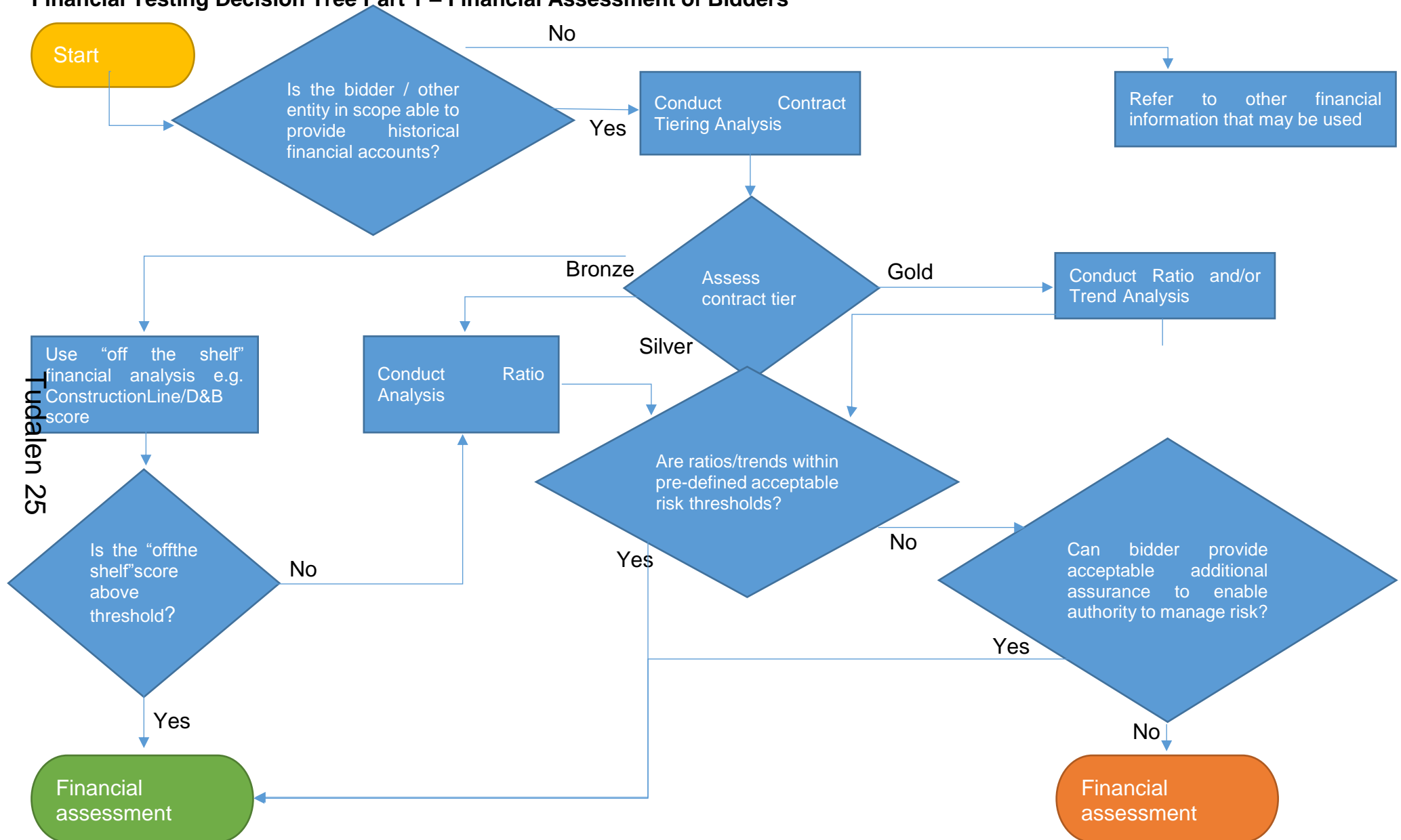
Appendix 1

Potential indicators of future financial distress

	Financial	Non-Financial
Business performance/Operating efficiency	<ul style="list-style-type: none"> ● Adverse changes in the market / market structure ● Declining revenues ● Declining profit margins ● Declining Return on Capital Employed ● Declining cash conversion ● Public profit warnings ● Increases in creditor days / Delayed payments to suppliers ● Decreases in debtor days ● Declining stock turnover 	<ul style="list-style-type: none"> ● Unexpected resignations of key management / High employee turnover ● Weak management or overly controlling CEO ● Delayed filing of statutory accounts / late provision of management information ● Competitor gossip / market intelligence ● Regulatory action ● Declining share price / Sudden share price falls / Significant shorting of shares ● Major adverse announcements (e.g. major litigation, large contract losses, etc)
Liquidity/ Solvency	<ul style="list-style-type: none"> ● High / Rising net debt to EBITDA ● Declining interest cover ● High / Rising gearing ● Deteriorating liquidity / Declining headroom ● Lending covenant breaches ● Increasing reliance on shortterm or uncommitted debt ● Use of non-standard financing markets ● Going concern qualifications in published accounts ● Requests for payments in advance ● Invoice discounting / Factoring / Other means of raising shortterm cash ● Rising pension deficits ● Rising contingent liabilities ● Cuts in / Cancelled dividends 	<ul style="list-style-type: none"> ● Poor or deteriorating relationship with Lenders ● Withdrawal of coverage of a supplier's debts by credit insurers ● Falls in or withdrawal of credit ratings (or announcements of credit watch with negative implications) by major credit agencies ● Company Watch H score falling below 25 / Dun and Bradstreet score falling below 10

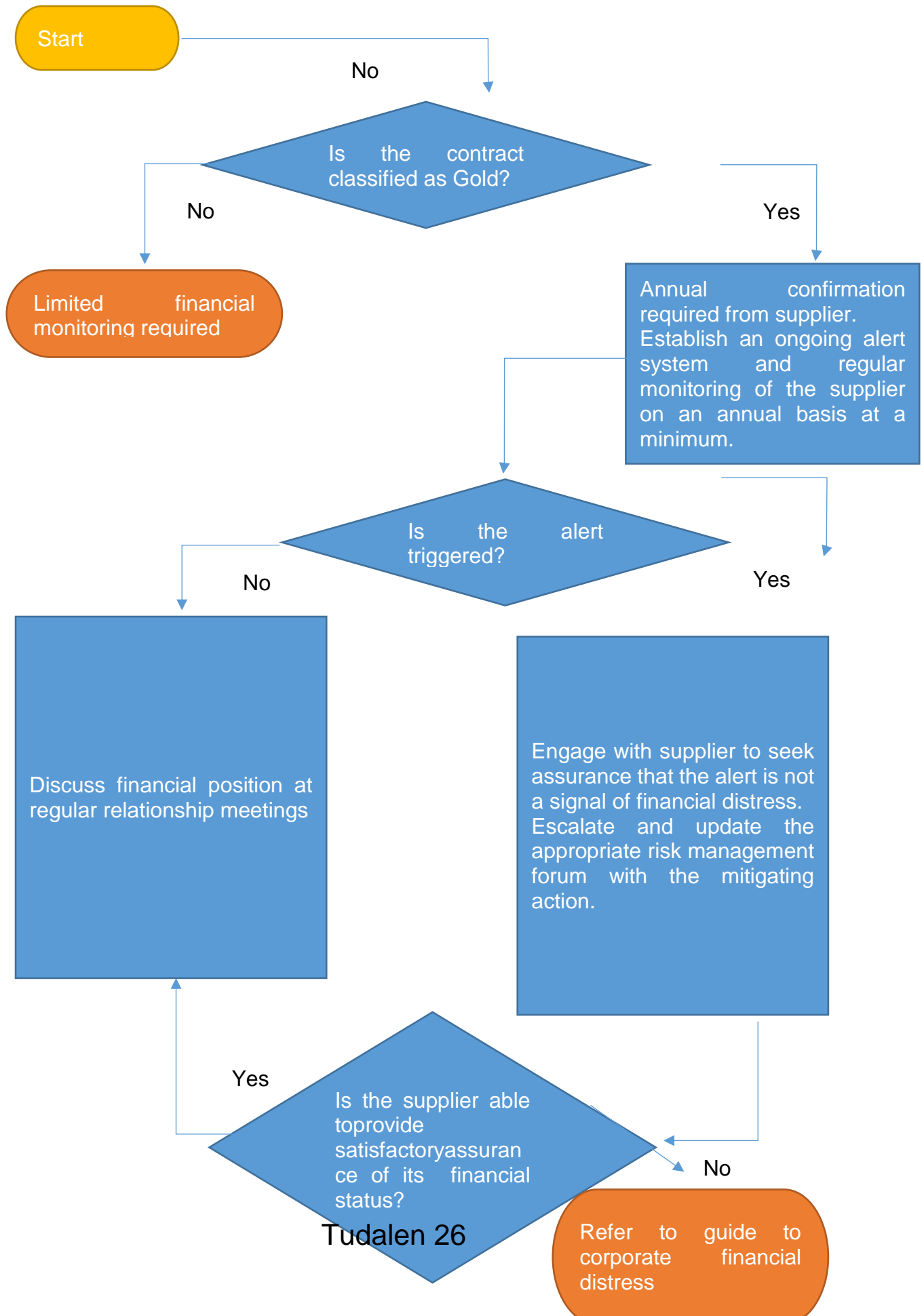
Appendix 2

Financial Testing Decision Tree Part 1 – Financial Assessment of Bidders



Appendix 3

Financial Testing Decision Tree Part 2 – In Contract Financial Monitoring



CYNGOR SIR POWYS COUNTY COUNCIL**Executive Management Team****Date: 20th November 2019****REPORT AUTHOR: Vince Hanly Interim Professional Lead Commercial Services****SUBJECT: Transforming Contract Management in Powys**

REPORT FOR: Decision / Discussion / Information

Summary

This report provides for the outcomes and recommendations of a review of current contract management processes used to manage contracts for works supplies and services for the Councils key contracts when set against best practice and the delivery of Vision 2025

Background

The Head of Service, Finance has commissioned a review of Contract Management (CM) following the Financial management capability review undertaken by CIPFA in April 2019 to cover the following:

- A Light Touch review of current practice across the Service Areas focusing on larger contracts undertaken for delivery of its services
- Review of current accepted and emerging best practice in contract management
- Consider how good contract management can help to deliver the Councils Vision 2025, and value for money.
- Provide recommendations that the Council services and directorates can use to to achieve benefits across the services and provide assurances to the Council that contract management is being conducted in accordance with best practice.

Methodology

The top 10 contract by value were selected and a questionnaire derived from the National Audit Office's 'A framework for Contract Management' and interviews conducted with key designated contract managers. All interviewees were told that any information will not be attributed directly to them.

Summary of Findings

- Contract management (CM) was in place for each of the contracts reviewed with designated responsibilities
- Commercial Services have a little or no involvement in ongoing contract management once contracts have been let
- In most cases CM was carried out using processes developed by individuals across the organisation which seem to work for the specific contract though it was not clear whether this was done consistently and efficiently across the broad range of

contracts. Training had not been provided at the levels required of the contracts managed. Data did not seem to be reported systematically for all of the top contracts assessed and there was little visibility of the information across the organisation.

- Some Contract Managers were able to demonstrate some improvements over time and one contract observed was able to include new 'value added' elements and reduced contract values over the term
- EMT may decide that it also requires the regular reporting of KPI's, for performance and value for money reports to ensure that value for money and return on investment was achieved.
- EMT may consider whether a digital/electronic system is made available to manage its contracts across the organisation which would provide visibility and the ease of reporting needed to provide the necessary assurance.

Why is contract management so important?

Powys Councils spends £200million per year with private and voluntary sector supplier. These suppliers play a significant role across the County in delivery of quality services and achievement of its statutory obligations but also in contributing to the Council's Vision 2025.

Contractors and suppliers undertake complex projects, provide support for back office and deliver front line services in Social Care, Transport, Education, Waste and Highways. They can play a vital part in transforming and redesigning services and in many cases, this would simply not happen without them.

Contract management is the process that enables both parties of a contract to meet their obligations in order to deliver the objectives required from the contract. But it also involves building a good working relationship between customer and provider so that changes and challenges and transformation can be developed with their expertise, partnership and innovation. This should continue throughout the life of a contract and involves managing proactively to anticipate future needs, as well as reacting to situations as they arise.

Commercial Services often see their work as complete once a contract is awarded. Their activities around sourcing strategy, supplier selection, prequalification and capability assessment, contract development and tendering/negotiation are central to their responsibility. However, once the contract is signed, procurement/commissioners may step away and handover to budget holders and service managers. This is generally the case in Powys Council with some exceptions though Commercial services or Legal Services are consulted when services experience difficulties with a contract or require interpretation of the terms of the contract.

Commercial capability should increasingly feature in Contract Management arrangements in order that the client is able to effectively negotiate and re-negotiate contract terms so that the best value is obtained throughout the life of the contract. Contracts are not static; they need to be developed in line with service demands and user needs. Failure to do so could result in significant failures or damage to reputation or even increasing costs.

Some of our contracts are long term and so the relationship aspect of the transaction is all the more important, With strong CM transformational change and opportunities to reduce cost can be grasped and agreed. Economic and Financial Assessments should also be maintained to manage risk in our supply chain particularly in some sectors which are more volatile and riskier, such as construction.

Implementation of Vision 2025 and the Well Being of Future Generations Act will depend on good contract management for services delivered externally particularly for longer term contracts and contracts which have some time before re-procurement.

However everything that happens post-award, contract management is all the more important to ensure that a the procurement phase is successfully delivered.

Great procurement can be undone by weak contract management but even when a less successful procurement is put in place the contract can be recovered through effective contract management

The ideal is that an effective sourcing process and strategy for each contract should take full account of how the contract is to be managed. This would include terms embedded into the contract such as critical KPI's and incentives for improving performance over the term including efficiencies and promoting innovative options for delivery. Early engagement with suppliers, even before the tender process commences, will help to foster relationships with suppliers and provide options for long term delivery of the services. Good contract management can also help develop smaller companies by the demand for high performance and quality standards of performance and ongoing development

Monitoring of Contracts

All of the Councils contracts should be monitored in the same way as we measure our own performance and therefore reported in a similar way but also that these relationships are maximised and challenged to deliver our services in new innovative ways. The level of contract management should be at 'expert' levels for some contracts because of the risk and high value associated with the service and spend.

A light touch review has been undertaken of current practice when measured against the National Audit Office's publication 'A Framework for Contract Management' (see Appendix 1) which was developed to assist government departments to improve their CM processes. This review measured current practices, against the categories set out in the document including governance, arrangements, performance, training, ongoing review and the processes adopted for undertaking CM within services.. Questions were asked around these areas and how they were managed for each of the contracts

The Councils larger contracts include:

- Waste and Recycling,
- Social Care (Residential Care, Domiciliary Care and Learning Disabilities)
- School Build Programmes
- ICT
- House Build programme,
- Joint Venture with HOWPS
- Home to School and Public Transport
- Fleet Purchase
- Temporary Workers
- Leisure Contract

The Powys spend also contributes to the economy and approximately 31% (2018/19) of spend is with companies based in Powys, though a considerably larger proportion deliver

benefits to the Powys economy even from those companies based outside of Powys e.g. private residential care homes based in Powys.

The above categories account for approximately 64% of the Councils non-pay spend (£134m) with the total number of companies being managed of 741.

Findings

Governance Processes

Generally, the majority of respondents did not receive a formal handover from Commercial Services but were involved in the original tender process so understood the requirements of the contract. However, this wasn't always the case and where this didn't occur individuals had to develop the contract management processes themselves though some were helped and supported by their line managers. However, no formal training was provided to existing and new staff except for an introductory course provided corporately in September 2017 and delivered by APSE. The function of contract management is included in some job descriptions but not all.

The contract documentation was available to all interviewees for reference and use during the terms of the contract.

All respondents knew who their contacts were for each supplier or contract that they managed and regular meetings were conducted with the contractor (monthly or quarterly). Respondents/interviewees were confident that contracts were performing to the required outputs. There were some very good examples where practice was used effectively not only to monitor performance but to consider longer term and more innovative or different options for service delivery by working collaboratively with the provider. The Leisure contract for instance had consistently delivered improvements during its term including significant service developments and efficiencies to the Council and continues to improve.

Responsibility for contract management was clear in many contracts though it was observed that in some areas particularly social care this seemed to be under resourced relying on few staff to undertake the necessary contract management process. This requires a more in-depth review of contract management in these services to be undertaken with the Head of Services and appropriate staff.

There appears little performance information produced for data reporting to management teams other than the necessary statutory KPI's for such requirements as waste to landfill, recycling. Any other information produced is held within the team unless there are serious known performance issues with the delivery of the contract and these are addressed. Whilst there were some able to produce KPI's quickly others were unable to easily supply information on the performance of their suppliers.

There is currently no central resource for activity for contract management though support is provided within Commercial Services and Legal Services when contractual issues arise.

Training

There has been little training and development of specific competencies in this area. These would include but are not limited to negotiation, contract performance and administration in operation, commercial and business skills. Association of Public Service Excellence (APSE) were commissioned to deliver two course some 2 years ago but nothing further had been developed for this purpose. CIPFA provide an accredited training and development for contract management and also some foundation/introductory courses. CIPFA have developed a professional standard for contract management issued in July this year which sets out the roles and competencies of CM's and also Senior Responsible Owners in the process. The Council may wish to consider developing this aspect for contract managers particularly those high risk or high value contracts so that these officers are operating so that they are at 'expert' levels

Many respondents also felt that it would be advantageous to develop a Contract Management forum for this activity meeting perhaps twice or 4 times annually so that experiences could be shared and best practice developed.

Processes

The process of contract management would include the processes used for management of performance, templates, monitoring of service levels, capturing performance information, reporting, corrective action and escalation processes, improvement notices, variations service credits, price increases, and managing payments and credits to and from the supplier and ongoing continuous improvement and development.

It would also include a requirement for economic and financial checks. Even though these would have been undertaken at the point of procurement there is not any subsequent process to monitor or undertake reviews of company standing at anniversary points in the contract where there should be for key contracts. These may be best monitored centrally where current expertise in this area lies but using possible electronic monitoring portals to do so.

Review Outcomes and Summary

1. All Contract Managers (CM) in Directorates were using their own processes for contract management which had been developed locally and independently from other CM's in the Council. These processes were not reviewed but clearly a more consistent approach would provide more assurance to the Council and also assist the managers in carrying out these duties. CM were generally unaware of best practice other than their knowledge of practice in some local authorities through the forums they attend.
2. The administration of some contracts is generally undertaken via email and some maintained on the contract notices and correspondence held on directorate drives etc. This could be an issue if staff leave or are not in work and if a contract issue were to arise at the same time
3. The Council consider further work within social services to consider resources and approach to contract management set against best practice
4. The Council or management team were not receiving any reports on the performance in a systematic way to assure them of the performance of suppliers and contractors and value for money and to provide a challenge on the contract operation.
5. It wasn't clear whether the requirements of Vision 2025 and the Well Being of Future Generation Act 2015 were being built into all of our contracts particularly

those of top 20% suppliers and contractors affecting approximately 80% of spend.

6. Generally, contract management was being undertaken for all the contracts across the Council but not necessarily in a consistent way and to varying degrees of intensity. Whilst some KPI's were directed at the actual performance of the suppliers, others were collected for statutory reason (e.g. volumetric, service availability etc). There was no evidence of any specialist software or software adapted to provide ease of administrative data, corrective actions and management of variations/price increases or other information.
 - a. There was some evidence where service credits, liquidated damages or penalties were built into contracts for non-performance, but this was not always the case. For construction contracts these are generally built in to the standard forms such JCT or the NEC form of construction contract.
 - b. There were some good examples of contract escalation processes particularly for care contracts and where safeguarding or serious service issues arise, and strong governance arrangement were in place where this was the case.
 - c. There were some excellent examples where contract management was deemed to be good or excellent particularly for Leisure Services where reduction in costs to the Council and ideas for efficiency are regularly traded. The monitoring of the HOWPS contract had also produced some improvements in data collected and being monitored through the Board.

The Contract management of HOWPS Property Joint Venture also had similar escalation processes including a process for the service to be run in house for a time should performance dip well below required standards though there didn't seem to be a penalty where this occurred . There was also some value for money concerns raised in particular areas of their activity and this need to clarified, understood and addressed.

In that particular contract/JV a valuable forum has been set up so that users of the service can meet with contract managers to develop the services or raise performance issues which This is good practice particularly where a contract is providing to a number of clients across different services. are then considered at Board level.

However, there is still some evidence of disgruntled clients who feel that services have not improved despite the process and this needs to be carefully considered.

Support for Contract Management

Generally, no specific support is available for contract management centrally or otherwise other than through general line management or when contractual issues or enquiries arise and Commercial Services or Legal Services are consulted

The Council should consider whether a central resource to provide corporate assurance that contracts are:

- delivered to specification,
- that value for money for being achieved,
- that KPI's were improving and are good or excellent for the service
- that Vision 2025 imperatives are being incorporated into the contract,
- That exceptions are reported to EMT for consideration

Recommendations

- A. The Council (and therefore) Commercial Services could develop these handover processes once procurement or commissioning is complete so that any Contract Managers (or subsequent staff changes) can fully understand the requirement of the specification and terms and conditions and the role of contract management
- B. The Council may wish to decide the level of appropriate training is put in place for contract management across the organisation and in particular for it high risk and key contracts. This could include an accredited contract management course be provided to those with contract management responsibility for high value or high risk contracts. This is available through organisations such as CIPFA..
- C. The Council may wish to trial the development of a forum to help contract managers share issues and experiences and consider best practice
- D. Executive Management Team may wish to consider how the performance of its key suppliers and contracts can be incorporated into performance reports for the whole organisation and provide the transparency and assurance that the Council is receiving value for money, that it is in control of its suppliers and that they are receiving the appropriate return on investment as well as alignment with the Vision 2025 or any new legislative requirements.
- E. The development of contract management guidance using best practice in Wales and UK to assist contract managers and to provide assurance that the activity is being undertaken consistently across the authority but also to build in consistency and assurance of contract management process across the Council
- F. EMT may also wish to trail the periodical reviews of each of its high value or high risk contracts to assure that performance and requirements are being met, that Vision 2025 and the Well Being of Future Generations Act 2015 are being incorporated into its contracts and that value for money is being achieved.
- G. That clear KPI's are developed for defined contracts and are reported upon systematically
- H. The Council consider a further in-depth review of contract management processes within social care services against the best practice guidance
- I. Consider use of the e-tender system or other software to help support systematic contract management and collation of necessary monitoring improvement data

Conclusion

This review has highlighted some particular improvements which could go a long way to transforming the way contract managements if conducted across the authority but also building into contracts delivery of Vision 2025 and Future Generations requirements into the way these services and contracts are delivered. It will also provide for data and information about our circa £200m worth of spend for EMT and surety that contracts are being delivered in accordance with specification, tenders submissions and terms and conditions and value for money is being achieved.

Mae'r dudalen hon wedi'i gadael yn wag yn fwriadol

- (f) section 23 (coordination of audit);
- (g) section 25(4)(d) (statement of practice by the Auditor General for Wales).

113 Amendment of Well-being of Future Generations (Wales) Act 2015

In paragraph 1 of Schedule 1 to the Well-being of Future Generations (Wales) Act 2015 (anaw 2), after sub-paragraph (2) insert—

“(2A) In respect of any financial year, a local authority may publish its report under this paragraph and its report under section 90(1) of the Local Government and Elections (Wales) Act 2020 (self-assessment of performance) in the same document.”

Governance and audit committees of principal councils

114 New name and functions of audit committees

- (1) Section 81 of the 2011 Measure (local authorities to appoint audit committees) is amended as follows.
- (2) In subsection (1), for “(an “audit committee”)” substitute “(a “governance and audit committee”)”.
- (3) In paragraph (c) of subsection (1), after “internal control” insert “, performance assessment”.
- (4) After paragraph (d) of subsection (1) insert—
 - “(da) review and assess the authority’s ability to handle complaints effectively,
 - (db) make reports and recommendations in relation to the authority’s ability to handle complaints effectively,”.
- (5) After subsection (1) insert—

“(1A) See Chapter 1 of Part 6 of the Local Government and Elections (Wales) Act 2020 (performance and governance of principal councils) for further functions of governance and audit committees.
- (6) Schedule 9 makes consequential amendments.

CHAPTER 2

GOVERNANCE AND AUDIT COMMITTEES: MEMBERSHIP AND PROCEEDINGS

115 Membership of governance and audit committee

- (1) Section 82 of the 2011 Measure (membership) is amended as follows.
- (2) In subsection (2)—
 - (a) in paragraph (a) omit the words “at least”;
 - (b) for paragraph (b) substitute—

“(b) one-third of the members of that committee are lay persons;”.

(3) After subsection (5) insert—

“(5A) A governance and audit committee is to appoint—

- (a) a member of the committee as its chair (“the committee chair”),
- and
- (b) a member of the committee as the deputy to the committee chair (“the deputy chair”).

(5B) The member appointed as the committee chair must be a lay person.

(5C) The member appointed as the deputy chair must not be a member of the local authority’s executive or an assistant to its executive.”

(4) Omit subsection (6).

(5) In Schedule 9 to this Act (consequential amendments relating to governance and audit committees), omit paragraph 4(b)(ii) and (f).

116 Meaning of lay person

In section 87 of the 2011 Measure (interpretation), in subsection (2) omit the definition of “lay member” and insert—

““lay person” (“lleygwr”) means a person who—

- (a) is not a member or an officer of any local authority,
- (b) has not at any time in the period of twelve months ending with the date of that person’s appointment been a member or an officer of any local authority, and
- (c) is not the spouse or civil partner of a member or an officer of any local authority;”.

117 Proceedings etc.

(1) Section 83 of the 2011 Measure (proceedings) is amended as follows.

(2) For subsections (1) and (2) substitute—

“(1) A meeting of a governance and audit committee is to be chaired—

- (a) by the committee chair, or
- (b) if the committee chair is absent, by the deputy chair.

(2) If both the committee chair and the deputy chair are absent the committee may appoint a member of the committee who is not a member of the local authority’s executive, or an assistant to its executive, to chair the meeting.”

(3) Omit subsection (8).

(4) In Schedule 6 to this Act (assistants to executives), omit paragraph 6(5).

- (5) In Schedule 9 to this Act (consequential amendments relating to governance and audit committees), omit paragraph 5(a) and (b).

CHAPTER 3

COORDINATION BETWEEN REGULATORS

5 118 **Coordination between regulators**

- (1) The Auditor General for Wales and the relevant regulators must have regard to the need for coordination in the exercise of their relevant functions.
- (2) In respect of each financial year the Auditor General for Wales must produce a timetable in relation to each principal council which sets out the Auditor General's opinion as to the dates or periods in that year on or during which—
 - (a) the relevant regulators should exercise their relevant functions in relation to the council, and
 - (b) the Auditor General should exercise the Auditor General's relevant functions in relation to that council.
- (3) Before producing a timetable under subsection (2) the Auditor General for Wales must consult the relevant regulators.
- (4) The duty under subsection (2) may be discharged by the production of a timetable which relates to more than one financial year.
- (5) The Auditor General for Wales and the relevant regulators, in exercising their relevant functions in relation to a principal council, must take all reasonable steps to adhere to the timetable produced in relation to that council under subsection (2).
- (6) The Auditor General for Wales must assist the relevant regulators to comply with their duties under subsections (1) and (5).
- (7) In this section, "relevant regulators" and "relevant functions" have the meaning given in section 119.

119 **"Relevant regulators" and "relevant functions"**

- (1) For the purposes of section 118 the relevant functions of the Auditor General for Wales are—
 - (a) auditing the accounts of a principal council under Chapter 1 of Part 2 of the Public Audit (Wales) Act 2004 (c. 23);
 - (b) undertaking a study under Chapter 2 of Part 2 of the Public Audit (Wales) Act 2004 in relation to a principal council;
 - (c) carrying out an examination of a principal council under section 15 of the Well-being of Future Generations (Wales) Act 2015 (anaw 2).
- (2) For the purposes of section 118, a relevant regulator is a person mentioned in the first column of table 1 and their relevant functions are the functions specified in the second column.

Mae'r dudalen hon wedi'i gadael yn wag yn fwriadol

CYNGOR SIR POWYS COUNTY COUNCIL

AUDIT COMMITTEE
19th December 2019

REPORT AUTHOR: Jane Thomas, Head of Financial Services

SUBJECT: Closure of Accounts

REPORT FOR: Information

1. Introduction

- 1.1 Committee will be aware that the Statement of Accounts for 2018/19 were issued an unqualified audit opinion by the Auditor General and approved by the Audit Committee on the 6th September. The accounts were then published on the public website before the statutory deadline of 15th September 2019.
- 1.2 The closure of accounts process and completion of the Statement of Accounts for 2018/19 was again delivered under a project management approach. The approach has been adopted for 5 years and has led to continued improvements both to the quality of the draft financial statements and the information available to support them. This was recognised within the ISA260 report presented by Wales Audit Office to Committee on 6th September 2019.
- 1.3 The project management approach will continue for the 2019-20 closure of accounts.

2 Project Update

- 2.1 Discussions have taken place internally and also with Wales Audit Office to identify areas of improvement and what worked well in 2018/19. The Statement of Accounts Memorandum has been received and its recommendations will be built into the project plan. The audit deliverables template is being worked upon before the final version is agreed.
- 2.2 In 2019-20 the Statutory deadline for both the draft and final set of accounts will be the same as in 2018-19. In 2020-21 those deadlines will be brought forward as shown in the table below.

Statutory dates for the Statement of Accounts

	2019-20	2020-21
Draft Version	15 June 20	31 May 21
Published Version	15 Sept 20	31 July 21

- 2.3 The project plan will aim for the draft to be completed by 31 May 2020 and WAO will aim to substantially complete their audit by 31 July 2020 so that obstacles to earlier closing can be identified and resolved this year.
- 2.4 An initial meeting has been held with officers from WAO and regular meetings will be held during the next few months to prepare for next year's audit, we will explore what work can be undertaken throughout the year to assist in the audit and how future workshops can be utilised to further improve the process. A clear audit plan will be provided that outlines the audit approach, the audit deliverables and timescales.
- 2.5 In April 2019 the new finance system become operational. The 2018/19 accounts were produced from the old ledger. 2019-20 templates and workings will be changed to adopt the new coding structure.
- 2.6 The Head of Financial Services will provide regular updates, report on progress, and identify issues through the Senior Leadership Team. This will reinforce to Heads of Service that the whole organisation has responsibility in the maintenance and annual closing of the Councils' accounts. Service managers will be required to provide information and evidence to support the closing process and the production of the Statement of Accounts. Regular update reports will also be submitted to Audit Committee.
- 2.7 In January and February, officers will attend CIPFA hosted accounting workshops focused on closing the Authority and Pension Fund accounts. The focus of these days is to emphasise any Code changes and to provide a forum for issues raised around the country by the various audit teams and practitioners as well as highlighting good practice.

3 IFRS16 Leases

- 3.1 Although there is no requirement for the 2019/20 accounts, with effect from 1st April 2020, the Council will be required to record leases in on the balance sheet. This is a significant change to the previous accounting standard where a distinction had to be made between operating leases (no balance sheet requirement) and finance leases (asset and liability recorded in the balance sheet).
- 3.2 There are two exceptions, one is low value leases the other short term (less than 12 months) leases, which will continue to be recorded as an expense in the income and expenditure account.
- 3.3 Heads of Service have been requested to provide details of arrangements where they are the lessee. This will feed in to the current finance database to gain completeness of records.

Recommendation:	Reason for Recommendation:
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That Audit Committee notes the contents of the report and supports the approach being taken.	To ensure that the Council successfully completes the preparation and approval of the Annual Statement of Accounts for 2019/20 in order to receive an un-qualified audit opinion.
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Mae'r dudalen hon wedi'i gadael yn wag yn fwriadol

Powys County Council

Report of Internal Audit Activity

Progress as at 30th September 2019/2020

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Appendix B – Summary of Work Activity Q2 2019/20

BACKGROUND

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The Internal Audit planning process considers the objectives of the Council and the risks that it faces in not achieving those objectives.

The coverage of the audit plan will enable the Head of Internal Audit to form an opinion on the overall control environment.



Role of Internal Audit

The Internal Audit Service for Powys County Council is provided by the South West Audit Partnership (SWAP). SWAP has adopted and works to the Standards of the Institute of Internal Auditors and is also guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS). The work of the Partnership is also guided by the 'Internal Audit Charter' that was approved in May 2019.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work is driven by the risks the Council faces of not delivering front line and Support services to achieve the objectives outlined in "Vision 2025".

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes:

- Operational Audit Reviews
- Cross Cutting School Themes
- Governance Audits
- Annual Review of Key Financial System Controls
- IT Audits
- Grants
- Schools
- Follow-up Audits
- Other Special or Responsive Reviews

Summary of Work 2019/20

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Audit Plan Progress 2019/20 @ Q2:

Assignment Status	No.
Completed	13
Draft	8
Work in Progress	16
In Prep/ Planned	3
Not Started*	13

*An estimate of those Jobs that have not been started after additional jobs have been deducted

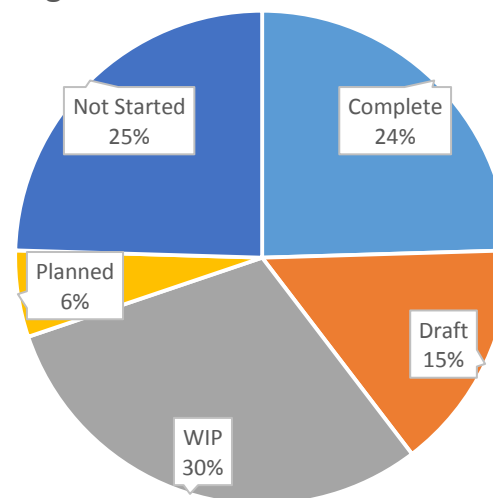


Internal Audit Activity

The schedule provided at Appendix B contains a list of all audits for 2019/20 that have some form of audit Activity. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan.

Each completed assignment includes its respective “assurance opinion” rating together with the number and relative ranking of recommendations that have been raised with management. In such cases, the Committee can take assurance that improvement actions have been agreed with management to address these. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as detailed at Appendix A of this document.

Progress of Audit Plan as at Oct 2019



Added Value

'Extra feature(s) of an item of interest that go beyond the standard expectations and provide something more whilst adding little or nothing to its cost'

To assist the Committee in its important monitoring and scrutiny role, in those cases where weaknesses have been identified in service/function reviews that are considered to represent significant service risks, a summary of the key audit findings that have resulted in them receiving a 'Partial Assurance Opinion' is given as part of this report.

Primarily, Internal Audit is an assurance function and will remain as such. However, as we complete our audit reviews and through our governance audit programmes across SWAP, we seek to bring information and best practice to managers to help support their systems of risk management and control.

During this year, SWAP has added value through the circulation of industry bulletins and fraud prevention alerts wherever possible. We also share the outcomes of any benchmarking undertaken across our partner base. SWAP also aims to share the results of emerging areas of risk, or findings from relevant audit reviews undertaken at our Partners.

Summary of Audit Work 2019/20

Summary of Partial Opinions

Summary of Partial Opinions

- These are areas that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.

Significant findings from the audits that have been awarded partial assurance are summarised below:

Capital Accounting (Sept 19)

The Capital Programme Governance Handbook, which should provide an overview of governance procedures for the capital programme had been written, but yet to be adopted. The procedures include a corporate standard for business case development. The full adoption of the Handbook is an important step towards addressing current audit concerns regarding governance around the setting and monitoring of the capital programme.

Audit testing on the 2018/19 Capital Programme, noted that a significant proportion of projects had limited or no supporting documentation, whilst two projects reviewed that utilised the new business case templates, were found to represent a significant improvement as regard establishing the business case and the provision of supporting documentation. The introduction of these procedures should help address the long-standing issue, evident in previous audit reviews, of inadequate documentary evidence to demonstrate relevant authorisation and the business case behind projects on the capital programme.

Summary details of the actual progress of the 2018/19 Capital Programme expenditure against budget was as follow:

	31 st May 2018 £,000	31 st August 2018 £,000	30 th November 2018 £,000	28 th February 2019 £,000
Actual spend to date	3,712	17,897	37,960	57,292
Further Committed expenditure	39,073	36,356	35,555	29,380
Remaining uncommitted budget	63,568	69,987	41,010	9,575
% remaining uncommitted budget	59.8%	56.3%	35.8%	9.9%
Revised working budget after virements	106,353	124,240	114,525	96,247

The above pattern of underspending was also evident in the 2017/18 Capital Programme where there was an underspend of £20.598 million i.e.25% of the revised working budget. Such underspends create the need for significant virements and fluctuating revised working budgets. Although there are many factors that could have contributed to the underspends, there is nevertheless


Summary of Work 2019/20

SWAP Performance - Summary of Partial Opinions (Cont'd)

- These are areas that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.

a probable link between the failure to deliver projects, within budget and on a timely basis, and poorly defined inadequately supported business cases.

A delay with the reconciliation of the Asset Register to the General Ledger for 2017/18 due to staffing issues was an issue for concern. Continuity arrangements need to be in place to ensure the reconciliation takes place on a timely basis.

Audit Opinion		Recommendation Summary	
	Partial In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.	Priority	Number
		Priority 1	1
		Priority 2	2
		Priority 3	0
		Total	3

Projects Benefits Realisation (Transformation) – Oct 19

The stated aim of the Management of Change budget is to fund the cost of transformational projects. Findings indicate that in practice the budget was used primarily to fund the staffing costs of specific projects, redundancy costs and temporary senior posts within the Authority. The transformational nature of much that was funded in 2018/19 is unclear.

From an audit sample of five projects funded in 2018/19 by the Management of Change budget, two instances were found where business cases were not made available for audit purposes. Where businesses cases were made available, it was noted that details of how specified benefits will be measured, monitored and reported upon were not included for every project. A comprehensive business case is the key document for the identification of benefits and for ensuring that they are realised within the planned timeframe.


Funding from the Management of Change budget is approved by EMT, but the approval is not clearly recorded. Despite authorising funding, the EMT does not receive any reports/information setting out the progress of projects and on the monitoring and attainment of the stated benefits.

Summary of Work 2019/20

These Partial Opinion audits will be referred to the next Internal Audit Sub Committee where officers will be in attendance to outline their plans to improve performance in these areas.

There was no evidence that on completion of projects, a post implementation review and analysis of benefits against those identified within the original business case are undertaken.

The management response to this report gave assurances that changes have been implemented to create more formal processes surrounding project benefit realisation and to ensure that Management of Change funding contributes to Vision 2025 transformational activity.

Audit Opinion		Recommendation Summary	
	<h3>Partial</h3> <p>In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.</p>	Priority	Number
		Priority 1	3
		Priority 2	2
		Priority 3	1
		Total	6

Software Licensing (March 19)

In principle, Powys County Council have the necessary tools to monitor all installs on all devices that connect to their networks. Data is collected weekly but not analysed by anyone. ICT use an application called SCCM which is a Microsoft product to collate all the data. Licence details are not held alongside the individual's machine or recorded against the specific software installation. This is also the case for any terms and conditions of the install t are not recorded. As a result of the this, it is not easy to ascertain if there are too few, just enough or an excess of licenses for installed software.


The SCCM system allows for a snapshot of the current Microsoft position, but this does not appear to be used in any capacity, although Microsoft adopt a 'true up/down' procedure where the final invoice is adjusted according to actual use. Although when requested from the ICT Service, no evidence that this takes place was provided. For all other applications used, it is not possible to

determine if Powys County Council has enough or in fact too many licenses for the software it uses as no accurate records were provided.

Due to lack of supporting evidence, it is not possible to determine when the last software reconciliation had taken place, or if in fact one has ever been completed.

From a review of software installed on devices, a sample of 23 installations that were not typical Powys County Council installations were selected for review, it could be seen that in 20 (87%) of these cases official approval from ICT Governance Group had not been sought, in 5 cases ICT staff had made the decision to obtain the software themselves. It was seen that there were 18 instances of software which had been installed without a license being purchased as it was determined to be free. Upon investigation it was free for personal use, business use required a licence to be purchased. It was stated by the ICT Senior Field Service Engineer that he was going to push out a script to remove these installations.

The inability to effectively reconcile and manage the software licenses used could result in oversubscribing and paying too much or undersubscribing and risk potential litigation and fines. Therefore, The ICT Team need to ensure there are processes in place, preferably automated, that can give simple assurance that the licenses the Council pay for match the licences installed. Furthermore, this information can then be used to question the need for the actual software in the first place and may indicate opportunities for future savings.

Audit Opinion		Recommendation Summary	
	In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.	Priority	Number
		Priority 1	2
		Priority 2	2
		Priority 3	2
		Total	6

This is the third report in succession that has highlighted the potential issues surrounding software licensing and its management. Despite several recommendations in previous reports, the process has not improved and remains a cause for concern.

We keep our audit plans under regular review to ensure that we audit the right things at the right time.

The Audit Committee should be made aware of those issues that hinder the effective operation of the Internal Audit Service.



Changes to the Plan

Internal Audit Plans have been developed using a risk-based approach which utilizes the Council's risk register as a focus of activity together with engagement with the Council's Executive and Service Managers.

Internal Audit embraced an agile approach to audit planning i.e. shorter term to ensure there was flexibility around the plan to allow the focus on ever changing needs and priorities.

A quarter 1 plan was agreed by Executive Management and approved by the Committee

A quarter 2 plan was not agreed and therefore the Head of Internal Audit selected the work programme using his cumulative knowledge and experience

Quarters 3 & 4 were presented to Executive Management Team on the 7th October. A response to the Plan was received on the 10th November and the response plus additional narrative was considered by the Internal Audit Working Group on the 6th December. A revised plan will be submitted for approval at the Audit Committee meeting on the 19th December 2019.

Internal Audit will need to have a defined work plan to enable the delivery of the audit service.



Performance

Performance Measure	Performance Target	Actual	Commentary
<u>Delivery of Annual Internal Audit Plan</u> Completed at Year End*	>90%	Q2 Actual 40 % Complete or in Draft	Difficult to estimate as the work Programme has not been agreed. However, planned target for year- end > 90% is achievable

Quality of Audit Work Overall Client Satisfaction <i>(did our audit work meet or exceed expectations, when looking at our Communication, Auditor Professionalism and Competence, and Value to the Organisation)</i>	>90%	93.2% Satisfied	
Outcomes from Audit Work Recommendations Accepted by the Client <i>(did the Client accept that the Internal Audit work added value)</i>	>90%	97.5% Accepted	118 Recommends Made 3 Not Accepted

*Based on provisional plan submitted to EMT



Conclusion

The delivery of the Internal Audit programme is behind the expected position for this point in the year. However, SWAP will bring in additional resources to boost the plan delivery therefore ensuring that a sufficient body of work is completed in Powys to be able to give an annual audit opinion. The approval of the internal audit work programme is key to the delivery of future work.

Members are asked to note the issues identified in the partial opinion reports and be assured that they are being tracked by the Internal Audit Working Group. Follow-up reports will be undertaken in each area by SWAP.

Performance in terms of the Quality and outcomes of work are on track.

At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;

- Substantial
- Reasonable
- Partial
- None



Audit Framework Definitions

Control Assurance Definitions

Substantial	▲ ★ ★ ★	I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
Reasonable	▲ ★ ★ ★	I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	▲ ★ ★ ★	I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
None	▲ ★ ★ ★	I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Categorisation of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors; however, the definitions imply the importance.

Directorate/Service	Audit Type	Audit Name	Quarter	Status	Opinion	No. of recs	Recommendations		
							1	2	3
*Adult care services	Operational	Safer Recruitment 19/20	April 2019	Work in Progress	-	0	0	0	0
* Healthy Organisation	Strategic	Healthy Organisation	April 2019	Cancelled- already covered by WAO	-	0	0	0	0
*Adult care services	Operational	D.O.L.S	May 2019	Work in Progress	-	2	0	1	1
*Children and families services	Operational / Investigation	Standby Payments	May 2019	Final	Advisory	0	0	0	0
*Community safety and emergencies	Operational	Crisis Management 19/20	April 2019	Final	Substantial	2	0	0	2
*Education and skills	Operational	Ysgol Bro Tawe 19/20	June 2019	Draft	-	0	0	0	0
*Information and communication technology	Operational	Patch Management 19/20	June 2019	Final	Partial	6	0	3	3
*Education and skills	Operational	Ysgol Golwg y Cwm 19/20	May 2019	Draft	-	0	0	0	0
*Education and skills	Operational	Ysgol Gymraeg Dyffryn 19/20	May 2019	Work in Progress	-	0	0	0	0
*Education and skills	Follow-up Audit	Crickhowell High School 19/20	May 2019	Work in Progress	-	0	0	0	0
*Finance	Grant	NTSB Grant Certification 19/20	May 2019	Final	Certified	0	0	0	0

Directorate/Service	Audit Type	Audit Name	Quarter	Status	Opinion	No. of recs	Recommendations		
							1	2	3
Finance	Grant	Welsh Gov Education Grant EIG/ PDG 17/18	May 2019	Final	Certified	0	0	0	0
Finance	Grant	Welsh Gov Education Grant EIG /PDG 18/19	Sept 2019	Work in Progress					
*Finance	Operational	Budgeting 19/20	April 2019	Final	Reasonable	5	0	4	1
*Finance	Operational	Capital (carried forward)	April 2019	Final	Partial	3	1	2	0
*Finance	Fraud	National Fraud Initiative 19/20	April 2019	Work in Progress	-	0	0	0	0
*Finance	Operational	Council Tax / NNDR Refunds	May 2019	Work in Progress	-	0	0	0	0
*Housing	Special Investigation	ECO2t	April 2019	Final	Advisory	9	8	1	0
*Health and safety	Operational	Health and Safety 19/20	June 2019	Draft	Reasonable	4	0	2	2
*Housing	Operational	HOWPS 19/20	April 2019	Draft	-	0	0	0	0
*Finance	Operational	Debt Management	June 2019	Draft	-	1	0	0	1
*Finance	Operational	Benefit Realisation (transformation)	April 2019	Final	Partial	6	3	2	1

*Public Health	Special Investigation	Missing Cash for Taxi Licence	May 2019	Final	Advisory	0	0	0	0
Directorate/Service	Audit Type	Audit Name	Quarter	Status	Opinion	No. of recs	Recommendations		
							1	2	3
*Democracy	Operational	Members Expenses 19/20	May 2019	Final	Advisory	0	0	0	0
*Education and skills	Cross Cutting	School Theme - Financial Review Presentations to Schools	April 2019	Final	Advisory	0	0	0	0
*Housing	External Client Consulting Work	Smoke Alarm Compliance (External)	June 2019	Draft	No Opinion	0	0	0	0
*Housing	Grant	Supporting People	Sept 2019	Work in Progress					
*Education and skills	Non Opinion	Information for Estyn Inspection	July 2019	Final	Advisory	0	0	0	0
*Leisure and Recreation	Special Investigation	Theatr Brychieniog – Capital Payment	Sept 2019	Work in Progress	Special Investigation				
*Information and Communication Technology	Strategic	GDPR	Sept 2019	Work in Progress					
*Democracy	Cross Cutting	Conflict of Interest	Sept 2019	Work in Progress					
*Finance	System	Main Accounting	April 2019	Work in progress					
*Finance	System	Pensions Administration	Sept 2019	Work in Progress					
*Finance	Operational	Insurance	July 2019	Work in progress					
*Education and Skills	Cross Cutting	School Procurement	Sept 2019	Audit Planned					

*Information and Communication Technology	Strategic	ICT Strategy	Sept 2019	Audit in Preparation					
*Human Resources	Strategic	Employee Review & Development	Sept 2019	Audit Planned					
*Finance	Operational	Reserves	Sept 2019	Audit in Preparation					
*Finance	Strategic	Supplier Resilience	Sept 2019	Audit in Preparation					

CYNGOR SIR POWYS COUNTY COUNCIL.

AUDIT COMMITTEE
19 December 2019

REPORT AUTHOR: Ness Young
Corporate Director Resources and Transformation

REPORT TITLE: Review of Internal Audit Arrangements

REPORT FOR: Decision

1. Purpose

- 1.1 To brief the Audit Committee on a review being undertaken of the Council's internal audit arrangements and to seek agreement to engage in that process.

2. Background

- 2.1 In March 2017 the Council became a member of the South West Audit Partnership Limited (SWAP) and entered into a contract with the company for the provision of internal audit services. SWAP is a company limited by guarantee and wholly owned and controlled, as an in-house company, by its members. The Council can terminate its membership of SWAP with twelve months written notice under the terms of a Membership Agreement.
- 2.2 Given the arrangement has now been in place for two years it is an appropriate time and good practice to review the current arrangements to ensure the Council and the Audit Committee is receiving an effective and economical service from SWAP.

3. Advice

- 3.1 Against the above background, it is proposed that the scope of the review should be:
- Compliance with the contractual obligations of SWAP and the Council;
 - The process by which the Internal Audit Plan is developed and agreed;
 - The number of days per annum and how they are deployed, including consideration of benchmark data;
 - The cost of the contract, including consideration of benchmark data where available;
 - The working arrangements between the Audit Committee, SWAP and the Council;

- The working arrangements between SWAP and the Wales Audit Office; and
 - Quality assurance processes within SWAP in respect of audit reports
- 3.2 The review will be led by the Corporate Director Resources and Transformation and will involve the assessment of the process used and documentation produced during the current financial year, including the 2019-20 Internal Audit plan, performance reports and a sample of internal audit reports. It will also involve interviews with SWAP officers, the Section 151 Officer (who manages the contract), WAO officers and, if agreeable, representatives from the Audit Committee.
- 3.3 The fieldwork for review has already commenced and in order that the findings and any recommendations can be reflected in the 2020-21 arrangements and plans it is proposed that the review should be completed during January 2020 and a draft report to be presented to the Audit Committee on the findings and any recommendations on 7 February 2020.

4. Recommendation

- 4.1 The Audit Committee is invited to comment on the content of the report and is asked to consider how Committee members would like to be involved in the review.

Contact Officer: Ness Young Tel: 07527 507356 Email: ness.young@powys.gov.uk


Projects Benefits Realisation (Transformation)

2019/20

Final Report

Issue Date: 3rd October 2019

Executive Summary

Audit Opinion		Recommendation Summary	
	<div>Partial</div> <p>In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.</p>	Priority	Number
		Priority 1	3
		Priority 2	2
		Priority 3	1
		Total	6

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Audit Conclusion

The stated aim of the Management of Change budget is to fund the cost of transformational projects. Findings indicate that in practice the budget was used primarily to fund the staffing costs of specific projects, redundancy costs and temporary senior posts within the Authority. The transformational nature of much that was funded in 2018/19 is questionable. This issue has been acknowledged by the Head of Finance and work has been carried out by the EMT and Corporate Director - Transformation to address the issue as regard projects funded in 2019/20, to ensure that Management of Change funding contributes to Vision 2025 transformational activity.

From an audit sample of five projects funded in 2018/19 by the Management of Change budget, in two instances business cases were not made available for audit purposes. A business case should set out the benefits of a project and the process to measure, monitor and report on those benefits. A comprehensive business case is therefore the key document for the identification of benefits and for ensuring that they are realised within the planned timeframe. If benefits are not established and monitored there is a risk that the project will not deliver its objectives.

Funding from the Management of Change budget is approved by EMT, but the approval is not clearly recorded. Despite authorising funding, the EMT does not receive any reports/information setting out the progress of projects and on the monitoring and attainment of the stated benefits.

The management response to this report gave assurances that changes have been implemented to create more formal processes surrounding project benefit realisation, where applicable, management comments have been included below in the Agreed Action sections. The management response included the following comment:

“The monthly budget report to senior leadership team and cabinet sets out the delivery of the savings plan, and those savings equate to the benefits underpinning the use of the Transformation funding. New monitoring paperwork on the Transformation spend is also in place, and business cases requesting funding are also formalised and require approval. In essence all recommendations in this report have been accepted and implemented.”

Background

This review focused on projects funded by the Management of Change budget only and not on other corporate projects funded by different means. The Management of Change budget has been in place since 2014/15 and aims to fund transformational activity/ projects within the Authority.

A sum of £2,000,000 was included in the 2018/19 FRM to fund the Management of Change. The budget was held centrally under the Growth & Savings cost centre and is the responsibility of the Head of Finance (Section 151) and EMT. In 2019/20 there was a change in the method of funding, with transformational costs now being funded by the Capitalisation Directive i.e. by capital receipts.

Corporate Risk Assessment

Objective

To ensure that the benefits identified in the programme or project business case, funded by the Management of Change budget, are realised within the planned timeframe.

Risk	Inherent Risk Assessment	Manager's Initial Assessment	Auditor's Assessment
The expected programme or project benefits are not realised, resulting in failure to deliver objectives and potential missed opportunities.	High	Medium	High

Scope

The review looked at a sample of projects/ programmes that are ongoing or recently completed, they are considered transformational in nature and receive funding from the Management of Change budget. The following aspects of each project/programme was examined:

- The benefits of the project/programme as set out in the business case.
- The process to measure, monitor and report on the benefits.
- The post implementation review of the realisation of benefits.

Findings and Outcomes

Summary of Control Framework

Comprehensive business cases linked to corporate aims and objectives, setting out the expected benefits and how these will be realised, measured, monitored and reported are not prepared for every project.

Processes are not always in place to ensure project benefits are measured, monitored and reported within the service area. No arrangements are in place for periodic reporting to the EMT on the progress of projects.

There was no evidence that on completion of projects, a post implementation review and analysis of benefits against those identified within the original business case are undertaken.

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1.	The expected programme or project benefits are not realised, resulting in failure to deliver objectives and potential missed opportunities.	High
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1.1	Finding and Action	
Issue	Risk	
Unavailability of business cases to support funding.	Inappropriate funding of projects from the Management of Change budget.	
Findings	<p>From an Audit sample of five projects funded in 18/19 by the Management of Change fund, in two instances business cases were not made available for audit purposes and therefore there was no evidence of the existence of an approved business case. Responsibility for the approval of business cases lies with the individual service areas and typically with the respective Head of Service. Without a business case, there is no evidence of the transformational nature of a project which is a requirement for funding from the Management of Change budget.</p>	
Recommendation	<p>We recommend that Management of Change funding should only be considered upon receipt of a business case, formally approved by the relevant Head of Service (or as appropriate). A copy of the business case should be retained as supporting documentation for the purposes of Management of Change Funding.</p>	
Agreed Action	Priority Score	1
	Timescale	Implemented
A business case is now always completed for a funding request - this sets out what will be delivered as a benefit i.e. a saving delivered through transformation / change. It requires formal approval through the Transformation Director.	Responsible Officer	Corporate Director Transformation

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1.2 Finding and Action		
Issue		Risk
Approval by EMT of individual projects is not evident.		Inappropriate funding of projects from the Management of Change budget.
Findings		
Projects funded by the Management of Change Fund are recorded on a spreadsheet by the Finance Business Partner. Although this spreadsheet is made available to EMT who are responsible for approving funding for the projects, the approval for individual projects does not appear in the minutes of EMT.		
Recommendation		
We recommend that approval by the EMT for the funding of individual projects by the Management of Change Fund is clearly recorded.	Priority Score	3
Agreed Action	Timescale	Implemented
The business case has formal sign off with the Transformation Director and then added into the monitoring table, when she is confident about the strength of that case and its delivery.	Responsible Officer	Corporate Director Transformation

1.3 Finding and Action		
Issue	Risk	
Business cases not setting out details of how benefits will be measured and monitored.	Project benefits not realised and failure to deliver objectives of the project.	
Findings		
Included in the contents of the three business cases that were made available for audit purposes was the majority of expected standard information. The information included within two of these business cases, together with supporting information provided, was comprehensive. Within the third business case reviewed, no details regarding how the benefits will be measured or monitored are set out.		
Recommendation		
We recommend that all business cases should provide details of how specified benefits will be measured, monitored and reported upon.	Priority Score	1
Agreed Action	Timescale	Implemented
The business case has a level of detail that links back into the Services savings plan and delivery of these savings evidences the benefit realisation. The savings are monitored through the monthly report to Cabinet and Senior Leadership Team. The Transformation fund is monitored each month for spend and slippage, again this is monitored through the monthly report.	Responsible Officer	Head of Finance

1.4 Finding and Action		
Issue	Risk	
No arrangement within service area for monitoring of projects.	Project benefits not realised and failure to deliver objectives of the project.	
Findings		
Of the sample selected for review, only two projects were found to have arrangements in place within the service area, for measuring, monitoring and reporting on the stated benefits. In the remaining three projects there was no evidence that the service area was monitoring and reporting on the progress of the projects.		
Recommendation		
We recommend that all business cases and/or supporting documentation should set out the arrangements in place within the service area, for the measurement, monitoring and reporting of the stated benefits of the project.	Priority Score	2
Agreed Action	Timescale	Ongoing
As per previous actions, and we have a savings tracker that is monitored each month as part of the finance report to SLT and cabinet – this sets out the achievement of savings and where there are risks, these are challenged with the aim to get back on track even if at a slower pace. These are then summarised at year end and where the full anticipated savings are undelivered the balance is rolled forward into the following year and monitored for achievement.	Responsible Officer	Heads of Service Head of Finance
It is expected that benefits / savings are delivered in full, even if their delivery time slips.		

1.5 Finding and Action		
Issue		Risk
No periodic monitoring information received by EMT.		Project benefits not realised and failure to deliver objectives of the project.
Findings		
Despite authorising funding from the Management of Change Fund, the EMT does not receive any reports/information setting out the progress of projects and on the monitoring of the stated benefits. The Head of Finance confirmed that a full benefit realisation exercise supported by documentation was not carried out as part of the recent review carried out by EMT. No arrangements are in place for the EMT to monitor projects funded by the Management of Change budget as regard the realisation of benefits.		
Recommendation		
We recommend the introduction of periodic reporting to the EMT, on projects funded by the Management of Change Fund, on the progress of projects and the attainment of stated benefits.		Priority Score
		1
Agreed Action		Timescale
We also monitor the spend of the Transformation pot and ensure it is used appropriately. We can see where there is slippage that can be reallocated, or the profiling needs to be flexed over more than one year. And this summary is also monitored through the monthly report and at year end.		Responsible Officer
		Head of Finance

1.6 Finding and Action		
Issue		Risk
No evidence of the carrying out of post implementation benefit realisation reviews.		Project benefits not realised and failure to deliver objectives of the project.
Findings		
It is understood that three of the projects included in the audit sample are complete. No information on post project review on the realisation of benefits was made available at the time of the audit review. Recent changes in the Authority's management structure and the high number of senior officers who left the Authority, was found to be a factor in the unavailability of information on post implementation reviews of project benefits.		
Recommendation		
We recommend that a post implementation benefit realisation review takes place upon the completion of every project. Where applicable, continuity arrangements need to be put in place to ensure a review takes place despite changes such as the restructuring of service areas.		<div>Priority Score</div> <div>2</div>
Agreed Action		Timescale
Noting the savings delivered equate to the benefit realisation, the review that takes place is ongoing through the year, and under delivery sees the shortfall being rolled forward into the next year for that service. Where the service wants to offer up an alternative proposal for that shortfall, they have to provide evidence and equality impact assessments before approval is given to change the savings plan.		<div>Responsible Officer</div>

Audit Framework and Definitions

Assurance Definitions

None	The areas reviewed were found to be inadequately controlled. Risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Reasonable	Most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed, but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Substantial	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

Definition of Corporate Risks

Risk	Reporting Implications
High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
Medium	Issues which should be addressed by management in their areas of responsibility.
Low	Issues of a minor nature or best practice where some improvement can be made.

Categorisation of Recommendations

In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions:

Priority 1	Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management.
Priority 3	Finding that requires attention.

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Authors and Distribution

Please note that this report has been prepared and distributed in accordance with the agreed Audit Charter and procedures. The report has been prepared for the sole use of the Partnership. No responsibility is assumed by us to any other person or organisation.



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Capital Accounting 2018/19

Final Report

Issue Date: 12th September 2019

Executive Summary

Audit Opinion



Partial

In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Recommendation Summary

Priority	Number
Priority 1	1
Priority 2	2
Priority 3	0
Total	3

Audit Conclusion

The Capital Programme Governance Handbook, which should provide an overview of governance procedures for the capital programme has yet to be adopted. The procedures include a corporate standard for business case development. The full adoption of the Handbook is an important step towards addressing current audit concerns regarding governance around the setting and monitoring of the capital programme.

Audit testing on the 2018/19 Capital Programme, noted that two projects had limited or no supporting documentation, whilst the two projects reviewed that utilised the new business case templates, were found to represent a significant improvement as regard establishing the business case and the provision of supporting documentation. The introduction of these procedures should help address the long-standing issue, evident in previous audit reviews, of inadequate documentary evidence to demonstrate relevant authorisation and the business case behind projects on the capital programme.

Summary details of the actual progress of the 2018/19 Capital Programme expenditure against budget was as follow:

	31 st May 2018 £,000	31 st August 2018 £,000	30 th November 2018 £,000	28 th February 2019 £,000
Actual spend to date	3,712	17,897	37,960	57,292
Further Committed expenditure	39,073	36,356	35,555	29,380
Remaining uncommitted budget	63,568	69,987	41,010	9,575
% remaining uncommitted budget	59.8%	56.3%	35.8%	9.9%
Revised working budget after virements	106,353	124,240	114,525	96,247

The above pattern of underspending was also evident in the 2017/18 Capital Programme where there was an underspend of £20.598 million i.e.25% of the revised working budget. Such underspends create the need for significant virements and fluctuating revised working budgets. Although there are many factors that could have contributed to the underspends, there is nevertheless a probable link between the failure to deliver projects, within budget and on a timely basis, and poorly defined inadequately supported business cases.

A delay with the reconciliation of the Asset Register to the General Ledger for 2017/18 due to staffing issues was an issue for concern. Continuity arrangements need to be in place to ensure the reconciliation takes place on a timely basis.

Background

The Capital Strategy 2018 to 2023 sets out the Council's Capital Programme which is a 5-year rolling budget. The Capital Programme for 2018/19 totals £87,703,000 including £20,139,000 for the Housing Revenue Account.

Capital Accounting is the responsibility of a team headed by the Capital & Financial Planning Accountant within the Finance Section of the Resources Directorate.

Corporate Risk Assessment

Objective

To ensure the capital assets are correctly valued and the asset records are accurate and complete

Risk	Inherent Risk Assessment	Manager's Initial Assessment	Auditor's Assessment
1. The Council is in breach of its statutory duty to maintain an accurate and complete asset register in accordance with legislation	High	Medium	Medium
2. Capital assets are misrepresented in the Annual Statement of Accounts	High	Medium	High
3. Capital Assets are misappropriated due to false or fraudulent practises.	High	Medium	Low

Scope

The review looked at the capital accounting processes with a particular focus on the development process for individual projects in the 2018/19 Capital Programme. Testing of the capital accounting processes, including the asset register focused on 2017/18 and 2018/19.

Findings and Outcomes

Summary of Control Framework

A Capital Programme Governance Handbook is in the process of being adopted, with standardised procedures for business case development already partially introduced. An authorised capital programme was in place for 2018/19.

The service level agreement for the delivery of financial services to the relevant service areas sets out responsibilities as regard capital accounting, budget setting, maintenance and monitoring.

Procedures are in place for budget monitoring with the Collaborative Planning system generating monthly monitoring reports.

The Authority maintains an asset register, with systems in place for the accounting of asset disposals, valuation of assets, asset impairments and the reconciliation of the asset register to the general ledger.

Management oversight is provided by the Capital & Financial Planning Accountant.

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1.	Capital assets are misrepresented in the Annual Statement of Accounts	Medium
1.1	Finding and Action	
Issue		Risk
Asset Register Reconciliation		Medium
Findings		
The Asset Register was reconciled against the General Ledger for 2017/18. However, a lack of key staff meant that the reconciliation of the Register was late.		
Recommendation		
Continuity arrangements need to be in place to ensure that the Asset Register is reconciled with the General Ledger on a timely basis.		Priority Score 2
Agreed Action		Timescale
Agreed		Responsible Officer Capital & Financial Planning Accountant

1.2 Finding and Action		
Issue	Risk	
Business cases	High	
Findings		
<p>For the 2018/19 Capital Programme, business case templates were only completed for those within the 21st century school programme. All bids for 2019/20 Capital Programme should follow the new model and will require the completion of the relevant Business case template.</p> <p>An Audit review of four capital programme projects included within the 2018/19 Capital Programme found that:</p> <ul style="list-style-type: none">Two projects, not in the format of the new business case templates, were found in one instance to have limited documentation and in the second to have no available documentation for audit purposes. Documentary evidence did not provide a clear audit trail to demonstrate relevant authorisation and the business case behind each project.The two projects reviewed that utilised the new business case templates were found to represent a significant improvement on previous requirements as regard the need for a business case/ supporting documentation to support a capital project.		
Recommendation		
Ensure that all projects included in the Capital Programme are supported by a robust business case and suitable documentary evidence.	Priority Score	1
Agreed Action		
Agreed	Timescale	
	Responsible Officer	Capital & Financial Planning Accountant

1.3 Finding and Action		
Issue	Risk	
Capital Programme Governance Framework	Medium	
Findings		
A governance framework set down in the Capital Programme Governance Handbook has been produced but has not yet been adopted. The proposal had been to introduce the framework for 2019/20.		
Recommendation		
Arrangements need to be put in place for the adoption of the Capital Programme Governance Handbook as soon as possible.	Priority Score	2
Agreed Action	Timescale	
I will clarify what changes need to be made to the Handbook and draft briefing paper for EMT to agree the formation and make up of a Capital Panel to undertake the Gateway Reviews.	Responsible Officer	Capital & Financial Planning Accountant

Audit Framework and Definitions

Assurance Definitions

None	The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Reasonable	Most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Substantial	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

Definition of Corporate Risks

Risk	Reporting Implications
High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
Medium	Issues which should be addressed by management in their areas of responsibility.
Low	Issues of a minor nature or best practice where some improvement can be made.

Categorisation of Recommendations

In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions:

Priority 1	Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management.
Priority 3	Finding that requires attention.

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Document is Restricted

Mae'r dudalen hon wedi'i gadael yn wag yn fwriadol

	Audit Committee Work Programme
Date	Items for consideration
19/12/19	WAO Annual Improvement Report
	WAO review of misstatements and errors
	Strategic Risk Management
	Business continuity
	Internal Audit - performance monitoring Q2
	Internal Audit Review
	Local Government Act - Audit and Governance Committees
	Economic and Financial Assessments - Review of Progress
	Transforming Contract Management
	Closure of Accounts
22/01/20	Seminar - Self Assessment
07/02/20	Strategic Risk Management
	Business Continuity
	Internal Audit - Performance Monitoring Q3
	Treasury Management Q3
	Closure of Accounts
	Audit Committee Self Assessment
07/05/20	WAO Audit Plan
	Internal Audit - Annual Plan
	Strategic Risk Management
	Business Continuity
	Internal Audit - Annual Plan
	Internal Audit - Performance Monitoring
	Treasury Management Q4 and Annual Review
	Closure of Accounts
	Draft Annual Governance Statement
14/05/20	AGM
12/06/20	Seminar - draft statement of accounts
28/08/20	Seminar - final statement of accounts
04/09/20	Statement of Accounts 2019/20
	Annual Improvement Report - WAO
	Annual Audit Opinion
	Strategic Risk Management
	Business continuity
	Internal Audit Performance monitoring - Q1
10/12/20	Strategic Risk Management
	Business continuity

	Internal Audit Performance monitoring - Q2
	Treasury Management