

## GOVERNANCE AND AUDIT COMMITTEE

Minutes of a remote meeting held on 13<sup>th</sup> June, 2022.

The Committee agenda is available [here](#).

The Meeting recording is available [here](#).

Present: Councillors P. Drake, E. Goodjohn, M.J. Hooper, J.M. Norman, J. Protheroe and N.J. Wood and G. Chapman, M. Evans and N. Ireland (Lay Members)

Also present: Councillor G. John and S. Wyndham and I Phillips (Audit Wales).

### 43 ANNOUNCEMENT –

Prior to the commencement of the business of the Committee, the Democratic and Scrutiny Services Officer read the following statement: “May I remind everyone present that the meeting will be live streamed as well as recorded via the internet and this recording archived for future viewing.”

### 44 APPOINTMENT OF CHAIR –

RESOLVED – T H A T G. Chapman (Lay Member) be appointed Chair for the current municipal year.

### 45 APPOINTMENT OF VICE-CHAIR –

RESOLVED – T H A T N. Ireland (Lay Member) be appointed Vice-Chair for the current municipal year.

### 46 MINUTES –

RESOLVED – T H A T the minutes of the meeting held on 1<sup>st</sup> March, 2022 be approved as a correct record.

### 47 DECLARATIONS OF INTEREST –

No declarations of interest were received.

#### 48 LEISURE MANAGEMENT CONTRACT – YEAR 9 PERFORMANCE REPORT (REF) –

The reference from Healthy Living and Social Care Scrutiny Committee on 8<sup>th</sup> March, 2022 was presented by the Operational Manager, Neighbourhood Services and Healthy Living.

The report outlined that the Council's Leisure Management Contract was awarded to Parkwood Community Leisure and commenced on 1st August 2012 for a period of ten years with the potential for a further 5-year extension. Due to Covid restrictions the period of the proposed extension was now likely to be extended. The award of the contract followed an extensive procurement process and set out to significantly reduce the revenue cost to the Council of its leisure centres operation. The contract was subsequently sub-contracted to Legacy Leisure, a not-for-profit charitable organisation, in October 2014 and this provided the opportunity for further savings to be made.

The report also detailed the actions taken and planned response to the Audit Wales review of the Council's out-sourced leisure services published in January 2021. The Audit Wales report concluded that the Council had maintained its leisure centre provision and was receiving an income from its contract with Legacy Leisure Limited but until recently lacked a strategy to shape the service; that there was significant scope for the Council to apply the sustainable development principle and focus on delivery of its well-being objectives through its contract with Legacy Leisure, and; the Council had strengthened its management of the contract, but there was scope to improve arrangements to assure itself that it was achieving value for money.

The Operational Manager stated that the Vale of Glamorgan was the only local authority in Wales that generated a surplus from its leisure management contract. It was important to recognise that some of the legislation that was now in place, such as the Wellbeing of Future Generations Act, was not in place when the contract was let in 2012. The Council and Legacy Leisure had therefore been challenged on a number of things, but the Council and Legacy Leisure were keen that the services delivered were those that were needed by the population and communities, particularly from a social and an inclusion side and from a future generations and a sustainability perspective.

Councillor J. Norman stated that as the report was instigated over 12 months ago, the only thing the Committee could do was to accept this report and look forward to the further update in October time. This would allow the Committee to reflect better on the matter given the lifting of Covid restrictions which had meant that a lot of leisure complexes had had to close.

Councillor M. Hooper referred to the community wealth building approach, where the services were often provided by cooperatives, rather than just private sector bodies. Councillor Hooper asked whether this sort of model could be considered during the reviewing of the contract arrangements or in the future. In response, the Operational Manager confirmed that it was something that had been considered when the contract was let in 2012. The Council did look at the

possibility of setting up its own cooperative, which was commonly referred to as a leisure trust. A number of leisure trusts were in operation across parts of Wales, but it was felt that financially, those models were not as good in terms of what was actually produced in the Vale of Glamorgan. He reiterated his previous comment that the Vale of Glamorgan was the only local authority in Wales, that pre-Covid did not require a revenue subsidy to operate its leisure facilities.

In reply to a query from Councillor N. Wood regarding recommendations to meet requirements of the Wellbeing of Future Generations Act, the Operational Manager stated that this related to delivering the service that communities wanted. One aspect was the need to increase communication with the public and to carry out more consultation exercises. Legacy Leisure was keen to progress these, so the Council would work closely with them through the recruitment of an active community managers post which would begin soon. In addition, the Council and Legacy Leisure were looking at opportunities for more activities, for example, the school's program was already quite extensive in terms of learning to swim and other activities. There were also further opportunities that Welsh Government were providing funding for, so the key was to ensure that the Council and Legacy Leisure were exploiting those to the absolute benefit of the communities of the Vale of Glamorgan.

Mr M. Evans asked whether the recommendations by Audit Wales had been fully addressed. In response, the Operational Manager advised that it was an ongoing process. Covid had impacted upon leisure services, so there were some things that could have been carried out more quickly. The initial 10-year contract, which included the provision for a 5-year extension, also included about £1,000,000 worth of investment but due to Covid, 2 years were lost. That was why the Council had looked to extend the contract slightly longer than the 5-year provision and up to 2030. This it was felt would help to safeguard leisure services moving forward financially. The Operational Manager added that the actions that were able to be dealt with immediately had been completed, and some of that was proving the financial performance and looking at how services could make a contribution in terms of the Wellbeing of Future Generations Act.

The Chair, Mr G. Chapman then made the following points and observations:

- As this was a new Committee, it would be good to understand more the basis behind the recommendations made by Audit Wales.
- To outline what were the actions in the response to the recommendations and what was the progress.
- Was the Council sure that the Leisure Management Contract and the Leisure Strategy were both aligned or tied up correctly.
- The font size in some of the graphs and charts was too small and difficult to read.

In reply to the comments by the Chair, the Operational Manager stated that he would take on board the first two points when bringing further reports to the Committee. He also added that he was keen for all the data to be readable, but the key statistics showed that from 2012 to 2018, the period before Covid, the number of visits to leisure facilities increased by 20%. In terms of the Leisure

Strategy, that was far wider than the Leisure Management Contract, and involved the Council's sports development teams, play operations, and outdoors pitches which did not come under the remit of the contract. He offered reassurance that in terms of the contract aligning to the leisure strategy, that was very important.

The Chair suggested that when the update report was brought back in September or October, for more information to be provided around the financial arrangements with Legacy Leisure. Which being commercially sensitive, may mean for the Committee to consider it under Part II.

There being no further comments or queries, the Committee

RESOLVED -

- (1) T H A T the contents of the covering report and the performance of the Legacy Leisure Contract for Year 9, as set out in Appendix A to the report, be noted.
- (2) T H A T a Year 10 performance report for the Leisure Management contract be presented to the Committee in the autumn of 2022 (September).
- (3) T H A T the actions being taken in response to the Audit Wales Report be noted and the approach proposed for the remainder of the contract period be endorsed.
- (4) T H A T the report be referred to Cabinet for consideration in relation to the issues raised by Audit Wales.

Reasons for decisions

- (1) Having regard to the contents of the covering and appended report in relation to the performance of the contractor during the Year 9 period.
- (2) To keep the Committee informed of progress on the Leisure Management Contract.
- (3&4) To ensure that the Leisure Management Contract reflected the findings of the Audit Wales Report, and that necessary action was taken to provide assurance that the issues identified by Audit Wales were being progressed.

49 AUDIT WALES 2022 AUDIT PLAN (HF/S1510) –

The purpose of the report was to present to Members, the Audit Wales Audit Plan 2022. For this item, the Committee welcomed Steve Wyndham and Ian Phillips from Audit Wales (AW).

AW as the nominated auditor for the Vale of Glamorgan Council, was required to undertake work in relation to the following:

- Audit of Financial Statements
- Value for money
- Continuous Improvement
- Sustainable Development principle

The report provided details regarding how AW would complete this work in 2022. Committee was requested to consider and agree the proposed Audit Plan for 2022.

With regard to the financial statements and Exhibit 1 of Appendix 1, the key addition for the current year would be asset valuations. There was an "Emphasis of Matter" paragraph in 2019/20 and 2020/21 due to the uncertainty caused by Covid-19. This had been heightened by the current significant uncertainty which would place asset valuations under the spotlight. Other areas of work would include Management Override, Covid-19 and Welsh Government funding, and finally the impact on the preparation of the statement of accounts from remote working. AW would also undertake certification work on several of the Council's grant claims and returns relating to 2021/2022.

In addition to the financial audit work, AW would also undertake performance audits which were detailed in Exhibit 2 of Appendix 1. There were two thematic reviews - one on Unscheduled Care and one still to be determined. The estimated fee for 2022 was set out at Exhibit 3 of Appendix 1 and a timetable of key milestones shown at Exhibit 5.

Mr. N. Ireland queried how much audit work was undertaken on site or whether there was a hybrid approach. In reply, Mr. Wyndham stated that since Covid, work was entirely remote, but this was likely to change over the summer months. Going forward there would be flexibility on the approach taken by officers.

Mr. M. Evans asked whether there were any large-scale areas of management judgment contained within the Council's financial accounts. In reply, Mr. Wyndham advised that these related to estimated liabilities which were based on the probability likelihood of an event occurring with a financial value, for example creditor balances or asset valuations.

Councillor M. Hooper commented on the significant impact of Covid and the pressures from the cost-of-living crisis and rising inflation. In response, Mr. Wyndham stated that over the past two years, inflationary pressures had been identified as an audit risk. This had meant that asset valuations had increased which would be a key focus of audit work for this financial year. Further to this query, the Head of Finance/Section 151 Officer advised that there would be a section on this within the Annual Statement of Accounts which would be presented to the Committee. With regard to the value of Council assets, there was a four-year rolling program, but because of the uncertainty from Covid and the additional uncertainty because of cost of living and inflation, a review of the value of assets had been commissioned.

Subsequently it was

RESOLVED – T H A T the contents of the Audit Wales 2022 Audit Plan be noted.

Reason for decision

Having regard to the contents of the report and discussions at the meeting.

50 ANNUAL INTERNAL AUDIT ANNUAL REPORT (HRIAS) -

The Head of the Regional Internal Audit Service presented the report which provided the Head of Internal Audit's Annual Opinion on the Council's control environment in relation to governance, risk management and internal control and to inform the Governance and Audit Committee of the work and performance of internal audit for the financial year 2021/22.

Appendix A to the report contained the Annual Internal Audit Report 2021/22 which detailed internal audit's performance, opinions and recommendations made during the year which assisted in forming the Head of Internal Audit's Annual Opinion on the Council's overall control environment.

From the work undertaken during the financial year 2021/22 and considering other sources of assurance, the Head of Internal Audit's annual opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control for 2021/22 was of reasonable assurance.

It was reported that audit work had been carried out remotely with staff predominantly working from home. Audits have been conducted using various digital solutions and whilst there were steep learning curves both for audit staff and auditees all adjusted well to this way of working.

The Annual Internal Audit Report was at Appendix A, which summarised the reviews undertaken during 2021/22, the recommendations made, and any control issues identified. A total of 37 reviews were completed with an audit opinion and a total of 182 recommendations made. A detailed breakdown was included at Annex 1 of the appendix.

The Annual report also discussed the performance of the internal audit service during the year, including benchmarking of its performance against other local authorities and highlighting individual staff development and training that had taken place.

Progress against the 2021/22 Risk Based Plan was attached at Annex 2. This detailed the status of each planned review. It was noted that some reviews listed had no audit opinion, for example advice and guidance, fraud and irregularity work and external audit liaison. This was because the audit work carried out in respect of these items was planned but the nature of the work did not lead to testing and the formation of an audit opinion.

It was reported that Annex 2 illustrated that many planned audit reviews had been undertaken during 2021/22 despite the continuing impact the pandemic had had on services as well as the adoption of remote working. Where planned work had not been undertaken, assurance had been gained where possible from other sources such as previous work and coverage in other audits. Some planned reviews were not undertaken during the year due to requests from services that were under intense pressure, these would be considered in the 2022/23 plan whilst one audit had started and would be completed during 2022/23.

Based on the testing of the effectiveness of the internal control environment an audit opinion of substantial assurance had been given to 4 reviews (11%) and an opinion of reasonable to 27 reviews (73%). The remaining 6 (16%) have been given an audit opinion of limited, that was only limited assurance can be placed on the current systems of internal control. It was reported that whilst this was a slightly higher number and percentage than previous years there did not appear to be any indication of any particular pattern or connection from these reviews or wider underlying concerns. The 6 reviews with a limited assurance audit opinion were:

- Tender Evaluation & Award - Building Services
- Direct Payments Follow Up
- Enable Grant Verification 2019/20
- Disabled Facilities Grants (DFG's)
- Ysgol Gymraeg Bro Morgannwg - Stock Control
- Payment Card Industries - Data Security Standards (PCI-DSS) Compliance

Councillor M. Hooper referred to the percentage of recommendations that came from follow-up reviews. In reply, the Head of the Regional Internal Audit Service stated that normally most improvement actions would have been implemented by the follow-up review, but there had been some issues in one or two areas due to ongoing staffing pressures. This meant that progress was not where it was expected to be. In being asked to clarify further, the Deputy Head of the Regional Internal Audit Service commented that the service areas were making progress with some of the actions, so in some cases the recommendations had been downgraded to a lower priority. In other cases, it had been acknowledged that work had not yet started, so the audit service was working closely with the service areas.

Councillor Protheroe queried future plans for the review of procurement and whether audit staff had the necessary expertise for this work. In reply, the Deputy Head of Service advised that the follow up for the report for Building Services would be undertaken in quarter one of this financial year. Throughout 2022/23, there would be other elements covering procurement that would also be looked at. These were contained in the draft Internal Audit Strategy and Risk Based Audit Plan for 2022/23, which would be presented later in the meeting Agenda. In terms of expertise, it was considered that audit staff had regard to new policies and procedures, and staff possessed the necessary knowledge to undertake the review work. As procurement was a very important area, within the structure of the regional audit service, it had been agreed for there to be a post for a contracts

auditor that was due to be advertised. In addition, the audit service was also able to call on procurement advice and guidance from colleagues within legal services.

Mr M. Evans suggested that the Governance and Audit Committee should receive regular updates on progress with overdue recommendations. The Head of the Regional Internal Audit Service stated that a new management information system had been introduced which should improve the functionality of tracking recommendations, so more regular updates to the Committee would be possible.

Councillor E. Goodjohn, referred to Section 5 of the annual report and counter fraud, and queried whether the £230,000 identified as fraud or error was significant when compared to previous years. In response, the Head of the Regional Internal Audit Service advised that the amount identified in previous years was about the same. He added that the majority of that money related to issues flagged up by the National Fraud Initiative (NFI) such as Council Tax. It was planned for the Committee to receive an update on corporate fraud for its July meeting.

In reference to the Council's tendering process, Councillor N. Wood queried how much was undertaken electronically through Sell to Wales. In reply, the Head of the Regional Internal Audit Service advised as a percentage he would have to check with colleagues in procurement. His understanding was that the majority of tenders already went through Sell to Wales, but the issues identified related to the evaluation process.

The Chair, made the following comments and observations:

- During 2021/22, 37 out of 53 audit reviews were undertaken, and this should be presented as a percentage figure too.
- The report refers to future reviews, but there is no indication of by when or how long each review will take. Could timescales or estimated completion dates be included.
- Dates and timescales also applied to some of the recommendations and implementation work, for example, Direct Payments had a number of delayed recommendations and no indication of when the follow-up review would be undertaken.
- Were follow-up reviews planned for the Enable Grant verification work and Disabled Facilities Grants.
- Were all recommendations for Ysgol Gymraeg Bro Morgannwg agreed.
- Payment Card Industries – was the one remaining action completed.

In response to some of the Chair's comments, the Committee was advised that with regards to timescales and reviews with a limited assurance opinion, in general terms the audit service would carry out a review within 3 months. Covid and staffing pressures across the Council had meant that the Service had been more mindful when it came to timescales for recommendations to be implemented. Most of the follow-up work would now be on the auditors work programme. With regard to those planned reviews not undertaken during 2021/22, the Head of the Regional Internal Audit Service advised that while the audit service would always strive to achieve a 100% completion rate, there were would always be

unforeseen circumstances and requests for investigations that would require a change to the allocation of resources. In addition, pressures such as staffing issues within Council services also had to be taken into account, so this meant that some audit work would be deferred. If some audit work was of extreme importance, then external support could be procured. Audit planning was therefore important.

In terms of vacancies within the audit service, the Deputy Head of Service advised that there were 6 across the regional service. These included 2 graduate auditors, an I.T. auditor, a contracts auditor, an auditor and a senior auditor post.

The Chair referred to the client's feedback survey, which had a response rate of 29%, and he queried what would the management of the Vale Council do to increase the return rate. In reply, the Head of Corporate Performance and Resources advised that he would work with his colleagues in the audit service to understand in more detail those departments which were responding and those with a low response rate. This would then be reported to the Council's Senior Leadership Team.

There being no further comments or queries, it was

RESOLVED – T H A T having considered the Annual Internal Audit Report for the Financial Year 2021/22 including the Head of Internal Audit's Annual Opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and internal control, the comments of the Governance and Audit Committee be given due consideration by the Head of the Regional Internal Audit Service.

#### Reason for decision

Having regard to the comments made at the meeting and the contents of the report.

#### 51 REGIONAL INTERNAL AUDIT SERVICE CHARTER 2022/23 (HRIAS) -

The purpose of the report was to present to Members the Regional Internal Audit Service Charter for 2022/23.

The Regional Internal Audit Service (RIAS) Charter defined the purpose, authority and responsibilities of the Regional Internal Audit Shared Service across Bridgend, Merthyr Tydfil, Rhondda Cynon Taf and the Vale of Glamorgan Councils. The Head of Internal Audit was responsible for reviewing the charter and presenting it to each Council's Governance and Audit Committee annually for review and approval in line with the Public Sector Internal Audit Standards (PSIAS).

The roles of the Governance and Audit Committee in relation to internal audit were to:

- Oversee its independence, objectivity, performance and professionalism;
- Support the effectiveness of the internal audit process and;
- Promote the effective use of internal audit within the assurance framework

One of the key roles which demonstrated the Governance and Audit Committee's oversight was the approval of the Internal Audit Charter.

Mr. N. Ireland referred to paragraph 2.18 of the Charter at Appendix A, and the activities of the regional board which included the resolving of conflicts. Mr. Ireland queried whether that would also include any form of complaint about the Internal Audit Service. In response, the Head of the Regional Internal Audit Service clarified that it could, if there was a need, particularly if there was a difference of view as to how a complaint should be managed.

Having considered the report, it was

RESOLVED – T H A T the Regional Internal Audit Service Charter for 2022/23 as attached in Appendix A to the report be approved.

#### Reason for decision

Having regard to the contents of the report and discussions at the meeting.

#### 52 DRAFT ANNUAL INTERNAL AUDIT STRATEGY AND RISK BASED PLAN 2022/23 (HRIAS) -

The Deputy Head of the Regional Internal Audit Service presented the draft Internal Audit Strategy and Risk Based Plan for 2022/23.

Attached at Appendix A was the draft Internal Audit Strategy document for 2022/23. It demonstrated how the Internal Audit Service would be delivered and developed in accordance with its Terms of Reference. The Strategy would be reviewed and updated annually in consultation with stakeholders namely the Governance and Audit Committee, Senior Leadership Team, external auditors and senior management.

The 2022/23 draft Annual Risk Based Plan of work had been formulated in compliance with the Public Sector Internal Audit Standards (PSIAS). The draft detailed plan was attached at Appendix B.

It was reported that the proposed plan continued to recognise risks and challenges arising from the remote ways of working. The plan was also flexible to allow for changing circumstances and events that may occur, such as requests to respond to new issues that may emerge.

Mr. N. Ireland stated that improvements he would like to see in future reports was for more information detailing the links between Council risks and work contained in the internal audit plan. He also suggested that consideration should be given to the wording of scopes for the reviews in the plan, particularly when the term “to

ensure that” was used. This would make sure that the audit service was not getting drawn into something that was outside of its remit. In addition, he asked whether a progress column could be included as a tracking tool for the Committee. Finally, Mr. Ireland referred to the number of reviews scheduled for this financial year, which was shown as 63 audits, and he queried whether the service had the necessary resources to complete this work.

In reply to Mr. Ireland, the Deputy Head of Service advised that the suggestions would be taken away and considered. With regard to resources, the plan had been based on a full complement of staff and therefore the full number of days that the Vale of Glamorgan commissioned from the regional service. It was also important to recognise that there was the option of utilising external resources from the South West Audit Partnership. Further to this, the Head of Finance/Section 151 Officer advised that there was a commitment to deliver all the high priority audits and a commitment to deliver all follow-up recommendations.

Subsequently, the Committee

RESOLVED - T H A T the draft Internal Audit Strategy (attached at Appendix A to the report) and draft Annual Risk Based Audit Plan for 2022/23 (attached at Appendix B to the report) be approved.

#### Reason for decision

Having regard to the contents of the report and discussions at the meeting.

#### 53 UPDATED FORWARD WORK PROGRAMME (HRIAS)

In order to assist the Governance and Audit Committee in ensuring that due consideration was given to all aspects of its core functions, the Forward Work Programme appended to the report at Appendix A, had been produced and was aligned to the Committee's Terms of Reference.

The Forward Work Programme had been updated to reflect changes required to the Committee's Terms of Reference under the new Local Government & Elections Act.

The Committee was asked to note the Forward Work Programme and indicate whether any additional information was required.

Mr. N. Ireland stated he would like to see a recommendation tracking report being provided for each Committee meeting, which would allow the Committee to monitor the implementation of the recommendations made by the audit service. This was agreed by the Committee.

It was therefore

RESOLVED –

- (1) T H A T the Forward Work Programme be noted.
- (2) T H A T the schedule of items for the next meeting, 11<sup>th</sup> July 2022, be endorsed.
- (3) T H A T the Governance and Audit Committee receive an Audit recommendation tracking report at each Committee meeting.

Reason for decisions

- (1&2) To ensure the Governance and Audit Committee is aware and informed of progress on the proposed work programme.
- (3) To allow the Governance and Audit Committee to track the implementation of recommendations made by the Internal Audit Service.