

LOCAL DEMOCRACY AND BOUNDARY COMMISSION FOR WALES

AUDIT AND RISK ASSURANCE COMMITTEE MEETING HELD ON WEDNESDAY 21 FEBRUARY 2018 AT HASTINGS HOUSE (10:30 – 12:30)

LDBCW Members Present: Ceri Stradling (Chair), David Powell (Member), Theo Joloza (Member)

Wales Audit Office Representative Present: Mark Jones

Deloitte Representative Present: Lauren Parsons

Welsh Government Representative Present: Lisa James

LDBCW Officers Present: Steve Halsall (Chief Executive), Matt Redmond (Deputy Chief Executive), David Carr (Finance Manager), David Burley (Business Support Manager)

The Chair welcomed the Commission's new Business Support Manager, David Burley, who was attending the Committee for the first time.

1. Apologies for Absence

1.1 Apologies were received from Julie James (Independent Member), Ian Howse (Deloitte) and Derwyn Owen (Wales Audit Office).

2. Declarations of Interest

2.1 There were no declarations of Interest.

3. Minutes of Audit Committee meeting held on 22 November 2017.

3.1 It was **resolved** to adopt the minutes of the Committee meeting held on 22 November 2017.

4. Issues Arising from Previous Meeting.

4.1 The Committee noted that there were several issues still outstanding following the previous meeting.

4.2 In respect the arrangements for the periodic external review of internal audit it was expected that a verbal report from Ian Howse of Deloitte giving an update on the position would be provided later in the week. It was **agreed** that the content of the update would be reported to Committee members by email.

Action: Finance Manager **By:** 23 February 2018

4.3 A response was still being awaited from Welsh Government regarding the IT internal audit reports requested by the Committee for 2017-18. It was noted that these were unlikely to be produced until after the 31 March. It was **agreed** that the Finance Manager would continue to periodically remind Welsh Government of the request.

Action: Finance Manager **By:** 25 July 2018

4.4 The new Business Support Manager was currently reviewing the LDBCW's policies in order to comply with the 2017-18 internal audit recommendation. However, in view of the backlog of work for the Business Support Manager post, it was considered unlikely that the 31 March deadline would be met. It was proposed that this issue would be discussed further at agenda item 10.

4.5 It was noted that the LDBCW's IT internal audit requirements would be given further consideration closer to the time of implementation of the new IT arrangements.

Action: Business Support Manager **By:** 21 November 2018

4.6 It was noted that the LDBCW's new IT specifications would be passed to Deloitte as soon as they are available to enable them to consider the governance arrangements.

Action: Business Support Manager **By:** 21 November 2018

4.7 The practice of including resource based budget reporting as part of the LDBCW's finance reporting would be established for the next financial year.

Action: Finance Manager **By:** 30 April 2018

5. Audit and Risk Assurance Committee Work Plan 2016-17

5.1 The Committee noted the 2016-17 Work Plan. No further changes were proposed.

6. External Audit: Audit Plan 2018

6.1 Mark Jones explained that the Audit Plan for 2018 set out the proposed work for the audit of the 2017-18 financial statements. It included the obligations of the Auditor General for Wales and the audit approach, key tasks, outputs, details of the audit team personnel and expected timetable for carrying out the audit work. The overall materiality level for reporting misstatements would be £17K with some lower materiality levels for specific audit areas. The interim audit work had been completed during January 2018.

6.2 It was noted that the fee for the 2018 audit was estimated to be the same as the 2017 fee. However, this would be subject to adjustment for any difference between the estimated fee and the actual expenditure on the audit.

6.3 The respective responsibilities of the Auditor General and the LDBCW were set out at Appendix 1 whilst Appendix 2 identified the main audit risks which could lead to material misstatements in the accounts and would require special consideration during the audit. These were:

- The risks associated with the costs of the Commission's new web portal and refurbishment of accommodation being accounted for appropriately as capital or revenue expenditure and also the basis of accommodation lease payments in the absence of an agreement being reached on the new lease;

- The risk of management override of controls. The audit response will be testing journal entries and adjustments made to the financial statements, reviewing accounting estimates and checking significant transactions;
- The risk that disclosures for senior officer remuneration may not be accurate or may not comply with the relevant disclosure requirements. The audit response will be to test all relevant disclosures and consider any changes to roles, responsibilities and remuneration levels and review appointment approval processes;
- The risk of material misstatement in the disclosures required for the notes to the accounts. The audit response will be to review and testing of disclosure notes within the accounts to gain assurance that they are materially accurate.

6.4 Appendix 3 set out future changes to IFRS relevant to central government. It was noted that the change which would have the most significant effect on the LDBCW would be the change to the accounting treatment of operating leases which was due to be implemented for 2019-20.

7. Internal Audit: End Year Audit Report and Annual Audit Report 2017-18

7.1 Lauren Parsons reported that the audit work carried out in December 2017 had covered Travel, Subsistence and Other Expenses and Civil Service Pension Arrangements. The findings of the audit work were detailed in the report which gave a Substantial assurance rating for Travel, Subsistence and Other Expenses and a Moderate assurance rating for Civil Service Pension Arrangements.

7.2 Two recommendations had been raised as a result of the audit. One Medium priority recommendation in respect of Civil Service Pension Arrangements and one Low priority recommendation in respect of Travel, Subsistence and Other Expenses. It was explained that the medium priority recommendation had arisen as a result of uncertainty in how to report pensionable allowances to the pensions administrator. However, it was noted that this error had been quickly identified by the pensions administrator and corrected by the Finance Manager and therefore there had been no adverse impact on the pension record for the individual concerned. Controls had subsequently been put in place to ensure the error was not repeated.

7.3 The audit had also included a follow up on previous years' recommendations which found that 9 of the 15 outstanding recommendations had now been implemented. The remaining 6 recommendations had been re-raised although the Committee noted that the majority of these could not be implemented until the LDBCW had undertaken substantially more review work.

7.4 The outstanding recommendation in respect of undertaking community reviews could not be implemented until the LDBCW carried out a community review and it was considered unlikely that this would be in the near future. It was **agreed** that this recommendation would be removed from the outstanding recommendations and re-raised when the LDBCW next undertook a community review. A note would need to be included in the audit plan that the recommendation was on hold until such a time when it could be implemented.

Action: Deloitte **By:** 25 July 2018

- 7.5 The remaining outstanding audit recommendations would be dealt with in more detail at agenda item 10.
- 7.6 It was noted that the end year audit report gave no indication as to whether the sample of travel and subsistence claims used for testing was for just staff or staff and commission members. It was considered that the sample should have covered both staff and commission members. It was **agreed** that the sample used by the auditor would be checked to ascertain who was included.
Action: Finance Manager / Deloitte **By:** 25 July 2018
- 7.7 The issue arose as to whether the parliamentary Boundary Commission for Wales (BCW) review should be subject to internal audit. Although it was noted that a parliamentary review had not been completed since 2005, work had been undertaken on two reviews since then, one cancelled and the other currently ongoing. It was **agreed** that this issue would be raised with the BCW at their March 2018 meeting.
Action: Chief Executive **By:** 14 March 2018
- 7.8 The Annual Report for 2017-18 contained a summary of the audit work and its findings and gave an overall assurance rating for the LDBCW of 'Substantial' based on the internal audit work undertaken during the year. It also contained Deloitte's self-assessment of their performance in carrying out the audit work during the year.

8. Internal Audit Assessment Annual Questionnaire 2017-18

- 8.1 It was proposed that members would meet after the meeting to complete the questionnaire. **It was agreed** that the Finance Manager would analyse the members' responses and report the results to the next meeting. It was **agreed** that an electronic version of the questionnaire would be emailed to Julie James for completion.
Action: Finance Manager **By:** 25 July 2018

9. Review of Audit and Risk Assurance Committee Self-Assurance Questionnaire Responses

- 9.1 The Committee considered the responses to their annual self-assessment questionnaire which indicated that all of the good practice had been demonstrated. It was **resolved** that the Committee would continue the self-assessment exercise each year and endeavour to maintain the current high standard of compliance with good practice.

10. Audit Recommendations – Progress Report.

- 10.1 The Committee considered the progress on the outstanding internal audit recommendations.
- 10.2 There were two outstanding recommendations relating to the LDBCW's electoral reviews, one from 2012-13 and one from 2014-15. These could not be evidenced as having been implemented until a significant amount of review work had been

undertaken. However, following the commencement of electoral reviews in late 2017, it was anticipated that it would be possible for Deloitte to test whether these recommendations had been implemented in due course.

- 10.3 As agreed earlier in the meeting, the 2014-15 outstanding recommendation relating to the LDBCW's community reviews would now be removed from the list of outstanding recommendations and suspended until such a time as a community review had been undertaken and completed with a note added to the Audit Plan to that effect.
- 10.4 It was noted that it would not be possible to implement the three outstanding audit recommendations relating to the LDBCW's new IT arrangements until the arrangements were in place which would be approximately 31 January 2019.
- 10.5 There were also three outstanding recommendations for implementation by the new Business Support Manager with a deadline date of 31 March 2018. It was considered that, given the workload of the Business Support Manager this deadline date may not be achievable for all three recommendations. The Committee **agreed** that the deadline for these recommendations should be reviewed and revised as necessary.
- 10.6 It was considered that the 2017-18 internal audit recommendation that the Corporate Plan be updated to include a Mission Statement would be best implemented following receipt of the 2018-19 Remit Letter from Welsh Government and therefore a revised deadline date of 30 June 2018 was proposed. The Committee **agreed** to the revised deadline date.

11. Draft Audit and Risk Assurance Committee Chair's Annual report 2017-18

- 11.1 The Committee considered the draft ARAC Chair's report and **agreed** that additional text should be added to paragraph 3.10 to report that the Committee had fully considered the issue of staff travel insurance during 2017-18 and had gone through due process including seeking advice from Welsh Government and the Wales Audit Office.
Action: Finance Manager **By:** 1 April 2018
- 11.2 The report was **agreed** subject to the proposed changes to paragraph 3.10 and some other minor amendments.

12. Draft Governance Statement 2017-18

- 12.1 The Committee considered the draft Governance Statement. It was reported that the bullet point lists at paragraphs 3.5 and 3.8 of previous years' versions had now been removed and replaced with significantly briefer summarised text in order to comply with the 2016-17 external audit recommendation. Several other changes had also been made in order to remove duplicate of items which were also contained within the Annual Report to the Accounts.
- 12.2 It was considered that the document lacked reference to the challenges the LDBCW had faced during the year, such as undertaking a seaward boundaries review for the

first time and progressing the electoral review programme in line with the agreed timetable. It was **agreed** that an additional section would be drafted to provide a brief outline of these challenges. It was **agreed** that the revised Governance Statement would be tabled at the LDBCW's March meeting.

Action: Finance Manager **By:** 27 March 2018

13. LDBCW Pensions Risk Register

13.1 The Committee noted the current version of LDBCW's pensions risk register together with a record of the changes made since their last review.

13.2 It was noted that the residual risk for PEN2 had increased from 6 to 9 to reflect the recent the recent internal audit finding and recommendation regarding an instance of incorrect data being submitted to MyCSP.

14. Risk Management Report.

14.1 The Committee noted the current risk registers and policy. Details of the changes made to both the Corporate and Operational risk registers since the last Committee meeting were reported.

14.2 Consideration was given to whether Operational Risk OP21 regarding the new General Data Protection Regulation should be elevated to a corporate risk. It was agreed that this risk would be reviewed once all proposed mitigating actions had been established.

Action: Business Support Manager **By:** 25 July 2018

15. Budget Monitoring Report.

15.1 The Committee noted the minutes of the budget report presented at the Commission meeting of 23 January 2018. It was noted that Commission had surrendered £30K Grant-In-Aid back to Welsh Government in view of the estimated underspend.

16. Gifts and Hospitality – Report and Declarations

16.1 The Committee noted that no declarations of gifts of hospitality had been made for 2017-18 to date.

17. Complaints

17.1 The Committee noted that no complaints had been received since the last report.

18. Whistleblowing and Fraud Report

18.1 The Committee noted that there had been no instances of whistleblowing or fraud since the last report.

19. IT Data Security Report

19.1 It was reported that there had been no data security incident since the last report.

20. Any Other Business

20.1 There was no other business.

21. Dates of Next Meetings

21.1 The dates for the next meetings were set for:

Wednesday 25th July 2018

Wednesday 21st November 2018.

21.2 It was agreed that confirmation of these dates would be emailed to members.

Action: Finance Manager **By:** 28 February 2018