

AUDIT AND GOVERNANCE COMMITTEE

Minutes of the meeting held on 21 September 2016

- PRESENT:** Councillor R. Llewelyn Jones (Chair)
Councillor John Griffith (Vice-Chair)
- Councillors Jim Evans, Alun Mummery, Nicola Roberts,
Peter Rogers, Dafydd Rhys Thomas
- Lay Members: Mr Richard Barker and Mrs Sharon Warnes
- IN ATTENDANCE:** Chief Executive (for item 3)
Assistant Chief Executive (Partnerships, Community & Service Improvement)
Head of Function (Resources) and Section 151 Officer
Head of Function (Council Business)/Monitoring Officer (for item 4)
ICT Business Transformation Manager (for item 2)
Accountancy Services Manager (BHO)
Head of Internal Audit (MH)
Internal Audit Manager (SP)
Committee Officer (ATH)
- APOLOGIES:** Councillor Richard Owain Jones
- ALSO PRESENT:** Clare Edge (Financial Audit Manager – Deloitte)
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1 **DECLARATION OF INTEREST**

No declaration of interest was received.

2 **MINUTES 25 JULY, 2016, MEETING**

The minutes of the previous meeting of the Audit and Governance Committee held on 25 July, 2016 were presented and confirmed as correct.

Arising thereon –

- **ICT Disaster Recovery**

The ICT Business Transformation Manager reported on progress to date with regard to arrangements for ICT disaster recovery with the objective ultimately of ensuring that the Council has a dedicated off- site back-up data centre that will allow its critical business systems to be fully recovered in the event of flood or fire or any other disaster scenario. The Officer said that the Council does not currently have that advanced capability and that information stored in its one existing data centre is backed up by other means. In addition, the equipment which the Council's systems rely upon does not have the necessary degree of resilience, and although the storage systems themselves are robust and have historically been carefully managed, the arrangements as at present are susceptible to risk and single points of failure.

The Officer explained the enhancements made to the existing data centre as a result of increased investment in ICT over the previous 12 months which was made to improve both infrastructure and business systems as well as the general ICT capability within the Council. In addition investment has also been made in new service technologies to replace the outdated technologies that were in place; the storage system has been replaced with a new state of the art system and new data back- up systems are being implemented as part of the broader aim of moving to a more digital economy in Anglesey to improve the delivery of services to its citizens.

The Officer said that the new technologies which have been purchased specifically to run over two data centres have designed out all the single points of failure meaning that the Council is in a much better position that it was 12 months ago in terms of its ICT arrangements. There is no additional cost overhead because the new technologies' design is best practice and also because of good procurement practice in their acquisition. These technologies are meant to provide resilience over two data centres without extra cost and will provide the bedrock of the core infrastructure to support the Council's digital ambitions in future e.g. App Môn. The end objective of these endeavours is to construct a second facility as the ultimate back-up solution which is what the ICT Service has been tasked with doing and for which it has received capital funding to deliver. The build is underway, and the two data centres will together act, and be managed, as a single entity although they will be in physically separate locations. This means that the Council, in the event that it loses use of the current data centre can continue running its entire business from the other data centre and vice versa because all the technologies will be designed to run over both centres thereby guaranteeing the availability of the Council's business systems over and above the core critical businesses. This is a more economical and more flexible option than obtaining a back- up solution via a third party provider as the latter would be unlikely to be able to provide resilience for all of the Council's 112 business systems. The decision as to what systems to prioritise in a disaster event becomes the choice of the organisation and will form part of the Disaster Recovery Plan which has now been formulated. The business systems that will be prioritised will be based on work with individual services but the ultimate decision, taking into account seasonal demands and the nature of the incident will be made by the SLT thus allowing the Council to respond to changing demands within the organisation.

The Officer said that the new facility once up and running, will remove all of the remaining single points of failure. It will provide disaster recovery, back-up capability and critically it will enable continuous operation of the Council's services. Essential systems will be delivered over both data centres by design, there will be no single point of failure and the system will be responsive to demands. The new arrangements are planned to go live in December, 2016 but their implementation could possibly slip into the New Year.

The Committee considered the information presented and made the following points:

- The Committee was satisfied that the risks associated with ICT Disaster Recovery are being appropriately addressed, that good progress has been made and that Management is in the process of finalising arrangements to ensure that the Council's business systems are protected and remain viable in the event of those risks materialising.
- The Committee noted that the new technologies and systems have been acquired efficiently by good procurement practice and that they will not entail additional overhead costs. The ICT Business Transformation Manager said that it is also part of the ICT Strategy to challenge and rationalise the Council's software estate which eclipses infrastructure as regards costs and he described the steps being taken to do so.
- The Committee noted that the actions taken to upgrade the Council's electronic and ICT systems in total contribute towards the achievement of one of the Council's key strategic objectives which is the digitisation and improved accessibility of services.

- The Committee sought clarification regarding the longevity of the technologies acquired and the strategy for replenishing them economically. The ICT Business Transformation Manager said that the service will bid into the capital programme each year to replace 25% of all of core infrastructure so that over a 4 year period the service will have refreshed the whole of its infrastructure. The ICT service is mindful of the demands on the capital budget and will therefore target its investment to ensure that it is contributing to the delivery of some form of efficiency and improvement elsewhere in the Council.

It was resolved to accept the information and to note the progress made.

- **Internal Audit Progress Report**

With regard to the need by Management to ensure timely and effective communication so as to provide a clear picture of how well services are implementing internal audit recommendations the Head of Function (Resources) and Section 151 Officer confirmed that the issue relates to Management ensuring that the 4 action system which records the implementation of internal audit recommendations is updated in a timely and appropriate way so that the Internal Audit Manager is provided with a clear picture of the state of play and can then present that information accurately to the Audit Committee via the quarterly progress report. The Officer said that the message regarding the need for clarity in what is reported through the 4 action system has been conveyed to Heads of Service through the Penaethiaid meeting and it is hoped that that message will now filter down the management structure.

The information was accepted and was noted by the Committee.

3 STATEMENT OF ACCOUNTS 2015/16 AND ISA 260 REPORT

- The report of the Head of Function (Resources) and Section 151 Officer incorporating the Statement of Accounts for 2015/16 and Annual Governance Statement 2015/16 was presented to the Committee.

The Head of Function (Resources) and Section 151 Officer reported that the draft accounts for 2015/16 were presented to the Audit Committee at its meeting held on 27 June, 2016 and were subsequently submitted for external audit which process has taken place over the summer months and is now substantially complete . A number of amendments to the draft have been incorporated into the accounts details of which are set out in the Auditor's ISA 2560 report; a summary of the more significant amendments to the draft statement is provided at paragraph 3.2 of the report. The Officer said that the Audit and Governance Committee is required to recommend the financial statements for approval by the County Council but that there remains an outstanding issue which needs to be resolved before that can take place.

The Head of Function (Resources) and Section 151 explained that as part of the audit of the financial statements the auditors undertake substantive testing of certain areas of the accounts. During that sampling process, the auditors have identified three infrastructure assets totalling £5.336m for which they require evidence to corroborate their existence and ownership. The Officer confirmed that the value of one of the assets in need of supporting evidence is shown as £4m on the accounts, and because of the historical nature of the asset, the Finance Service to date has not been able to provide the evidence required partly because systems have changed over the course of time and partly because of difficulty in accessing paper records the retention of which is time limited. Although efforts to resolve the issue are ongoing and it is anticipated that a resolution can be achieved shortly, the Service at this point has not been able to provide the auditors with the required level of assurance with regard to this item to enable them to certify the accounts without

qualification meaning that the Audit Committee is not in a position at today's meeting to recommend the accounts for approval to the Council at its meeting on 27 September. This is due to the fact that the accounts could change depending on how the outstanding issue is resolved and the outcome in terms of what is shown on the accounts. In the circumstances the Authority could delay approving the accounts until such time as the auditors have obtained the necessary assurance but that could then require convening an extraordinary meeting of the Council or alternatively, the auditors could issue a qualified report. Following discussion with the Chair and the auditors, the Engagement Lead for the financial audit has confirmed that he is satisfied with the work currently being undertaken to resolve the issue and to provide the auditors with the level of assurance they require, and it is therefore recommended that the Committee delegates to the Chair and Vice-Chair the authority to recommend the accounts to the Council once the outstanding issue has been resolved and the auditors are satisfied with the assurance received regarding the matter and are able to issue an unqualified opinion.

The Committee noted the position and having sought further clarification of the issue in question, the extent of the assurance required by the auditors and the implications, was minded to accept the recommendation put forward and to authorise the Chair and Vice-Chair to liaise with the Finance Service and the auditors regarding confirmation of the accounts and to subsequently recommend them to the Council.

The Head of Function (Resources) and Section 151 Officer said that at present the Code of Practice under which the Statement of Accounts is prepared requires that the value of infrastructure assets is shown on the balance sheet which because they are infrastructure assets means reflecting the capital expenditure on them during the year. As the expenditure continues from year to year, the value of the assets increases. A change in the regulations means that next year the Authority will have to revalue its infrastructure assets and the revaluation figure will be shown in the accounts and the supporting details will be readily available meaning that the specific issue that has arisen in the course of the 2015/16 audit is not likely to recur.

Ms Clare Edge, Financial Audit Manager confirmed that the issue arose through sample testing and that the auditors had sought to establish what were the items of infrastructure in the sample, their existence and ownership and, given that the balance of one of the items was £4m, they would have expected to see audit evidence confirming they were true assets.

It was resolved –

- **To accept and to note the Statement of Accounts for 2015/16 subject to the resolution of the outstanding issue as reported by the Head of Function (Resources) and Section 151 Officer.**
- **To delegate to the Chair and Vice-Chair the authority to recommend the Statement of Accounts 2015/16 for approval by the Council on receipt of confirmation by the auditors that the issue outstanding on the accounts has been resolved to their satisfaction and they are able to issue an unqualified opinion.**
- **To approve the Annual Governance Statement for 2015/16 and refer the document to the Leader of the Council and the Chief Executive.**

- The report of the External Auditors on the audit of the Financial Statements for 2015/16 (ISA 260 report) was presented for the Committee's consideration.

Ms Clare Edge, Financial Audit Manager confirmed that subject to the satisfactory completion of outstanding work including that referred to above, it is the Auditor General's

intention to issue an unqualified audit report on the financial statements. The Officer also confirmed the following:

- That there are no misstatements identified in the financial statements which remain uncorrected.
- There are misstatements which have been corrected by Management which are drawn to the Audit Committee's attention in line with the Committee's responsibilities over the financial reporting process (Appendix 3 of the report)
- There are no issues arising from the audit risks as identified in the Financial Audit Plan other than one adjustment in relation to grant income (Appendix 3) and one control observation (Appendix 4)
- There are no concerns regarding the qualitative aspects of the Authority's accounting practices and financial reporting. However a recommendation has been made with regard to improving the quality and timeliness of some supporting audit evidence (Appendix 4)
- No significant difficulties were encountered during the audit.
- There were no significant matters discussed and corresponded upon which Management need to report to the Committee.
- There are no other matters significant to the oversight of the financial reporting process that need to be reported.
- No material weaknesses in internal control were identified although several areas in which it would be possible to improve control were identified.
- There are no other matters specifically required by auditing standards to be communicated to those charged with governance.

It was resolved to accept the report and to note its contents.

4 INFORMATION GOVERNANCE - SENIOR INFORMATION RISK OWNER'S (SIRO) ANNUAL REPORT 2015/16

The report of the Council's Senior Information Risk Owner setting out the key information governance issues for the period from 1 April, 2015 to 31 March, 2016 along with current priorities was presented for the Committee's consideration.

The Senior Information Risk Owner (SIRO) reported that it is an expectation of the role of SIRO that it produces an annual report and the report presented is the first such report by the SIRO in Anglesey and has been used to take stock of the position at the Council. The report includes a summary of information governance issues that have arisen in the past as well as charting the actions taken to date and the plans going forward.

The Officer referred specifically to the following:

- The Data Security Incidents during the period categorised according to their assessed severity. The number of incidents recorded is set out at Appendix B and comprises of 6 Level 0 to Level 1 incidents (having applied the data security incident methodology to these occurrences it was concluded that 5 were incidents that do not require reporting to the Information Commissioner's Office – ICO and 1 was a near miss). No Level 2 incidents (incidents that must be reported to the ICO and other regulators) were recorded.
- That the Council monitors specific Information Governance related Performance Indicators some on a monthly and others on a quarterly basis. These are acted upon on an exception basis and are used to escalate matters as necessary to the attention of the SLT.
- Specific Information Governance roles have been established within the Council and include Information Asset Owners and Information Asset Administrators whose

responsibilities are summarised in paragraph 4 of the report and who have received specialist training to undertake the roles.

- All the Council's staff are required to undertake basic Information Governance training which is refreshed every two years. This training commenced in June, 2014 and a process to ensure maximum take up was followed. Compliance close to 90%.
- A range of key IG policies as set out in paragraph 5.2 of the report have been established and are available on the Council's intranet. These policies are reviewed and updated by the Corporate Information Governance Board (CIGB). Following the identification of funding, the Council has now procured and is currently implementing a policy management system which will provide the SIRO with assurance that the key IG policies are being read, understood and formally accepted by individual members of staff. The policy management system will be of wider application the idea being that staff will have available to them a digital library of up to date policies across all corporate services.
- The Council's overall data protection compliance has been assessed as a medium risk by Internal Audit. The SIRO is aiming to produce a Statement of Control in the next 3 years subject to the implementation and successful testing of the steps described in the report. The principal factor in respect of the Council's being able improve on its medium risk status is the Information Asset Register which is the key mechanism for understanding an organisation's information holdings and the key risks associated. The Council's register is not as yet developed to the extent that adequate information about the risks to the assets is captured at granular level. This work will have to be done within current resources and on a risk based approach.
- The report also makes reference to the work associated with the Office of Surveillance Commissioners and Regulation of Investigatory Powers Act.
- The SIRO is able to conclude that the Council's arrangements for IG and data protection compliance are reasonably effective.

The Committee considered the report and made the following points –

- The Committee noted that a great deal of progress has been made, albeit from a low base, to implement the ICO's audit work and enforcement activity.
- The Committee sought clarification in an environment where the emphasis is increasingly on the digitisation of services and on interaction through digital means e.g. the use of Skype to engage with clients and service users, of the steps being taken to put in place safeguards in the implementation of such new practices. The SIRO said that in such circumstances the individual service would lead with advice from the SIRO and ICT and it would then be reported through to the CIGB.
- The Committee noted that whilst much has been done at corporate level to address weaknesses in IG arrangements at the Authority, many breaches can arise from carelessness and bad practice. The Committee sought assurance that the same level of attention is being paid to getting the basics right e.g. that there is a mechanism for checking and ensuring the accuracy of e-mails/addresses and information held on databases. The SIRO said that the ICO recognises the potential for human error and that this cannot be completely eliminated; the expectation therefore is not to have zero data breaches but to manage the risks effectively and to learn from any incidents that do occur. While no system can take out all the risks, the objective should be to manage the risks down to the minimum level and to a level which the Authority can tolerate operationally. The Head of Function (Resources) and Section 15 Officer said that the Council has released funding to improve business processes and that two bids were approved, one to link the Authority's systems to the national property gazetteer (a list of property reference numbers for each address in the UK) which will improve accuracy, and one to implement a Customer Relationship Management system which also verifies information e.g. addresses.
- The Committee noted that there is a variance between services in terms of information governance and data protection and it sought clarification of the steps being

taken to ensure the same level of proficiency and compliance across all services. The SIRO confirmed that the level and areas of compliance between services are different with some services being better at some things than others e.g. because they are often complex, responding to subject access requests can be a slow process in Social Services but that the consensus is that in this respect, accuracy is preferable to speed so as to minimise the risk of sensitive information being inadvertently shared with an unauthorised party.

It was resolved to accept the Annual Report of the SIRO for 2015/16 and to note the level of compliance and risk which the report documents as concluded by the Senior Information Risk Owner.

NO FURTHER ACTION ENSUING

5 INTERNAL AUDIT PROGRESS REPORT

The report of the Head of Internal Audit on the work of the Internal Audit Service during the period from 1 April to 31 August, 2016 was presented for the Committee's consideration. The report included a summary of all audit assignments completed during the year; the level of assurance provided; a schedule of follow up audits undertaken together with a list of all Internal Audit recommendations that remain outstanding.

The Internal Audit Manager confirmed that the performance levels of the Internal Audit Section are on target. The Officer highlighted that the implementation rate with regard to High and Medium rated recommendations is now up to 83%.

The Committee noted the update provided by the report and made the following points:

- The Committee noted and welcomed the Internal Audit section's performance to date against the key PIs as documented in Appendix A of the report.
- The Committee noted those areas in Appendix D in relation to Housing Benefit key controls and Corporate Safeguarding where the assurance level was judged to be limited and it raised particular concern that the assurance processes and controls in relation to the latter were deemed to be inadequate as a particularly high risk area involving the care and protection of vulnerable individuals. The Assistant Chief Executive (Partnerships, Community and Service Improvement) said that the Assistant Chief Executive (Governance and Business Process Transformation) has met with all Heads of Service to progress corporate safeguarding. The Committee was agreed that the Corporate Scrutiny Committee be asked to further scrutinise the findings in relation to Corporate Safeguarding.
- The Committee noted that certain fundamental control issues e.g. the completion of order requisitions prior to the receipt of goods are identified with regularity in audit review findings especially in relation to schools and while accepting that practices sometimes require time to embed, the Committee sought clarification of whether the findings of internal audit reviews in relation to certain establishments e.g. schools require more extensive monitoring. The Head of Function (Resources) and Section 151 Officer said that it is difficult to ensure that every establishment adheres to the rules exactly and uniformly especially in relation to schools where the resources, capacity and pressures vary from school to school. There is a key role for the governing body to monitor practice and to hold head teachers accountable for ensuring compliance.
- The Committee noted that the internal audit recommendation in relation to agency staff remained on the outstanding list and it sought assurance that agreed practice in relation to hiring agency staff is now being followed. The Head of Function (Resources) and Section 151 Officer confirmed that this is the case as per the recommendation and that the system needs to be updated to reflect implementation. The Internal Audit Manager said that she would follow the matter up with the Chief Executive.

The Internal Audit Manager said with regard to those areas in Appendix D where the audit review findings resulted in a limited assurance opinion or where progress on implementation appears to be slow that services are given time to respond to internal audit findings and if at the end of the follow up review in six months, the recommendations have still not been acted upon to an acceptable degree then that lack of progress will be reported to the Audit Committee which then has recourse to calling the relevant Head of Service to account. With regard to Corporate Safeguarding, the review found that although the foundations are in place, safeguarding objectives have not been consistently embedded across services' business planning processes.

It was resolved to accept the report and that the Committee takes assurance from the information provided regarding the internal control, risk management and corporate governance processes in place subject to further scrutiny of Corporate Safeguarding.

ACTION ARISING: Findings of audit review of Corporate Safeguarding to be referred for scrutiny by the Corporate Scrutiny Committee.

**Councillor R. Llewelyn Jones
Chair**