

AUDIT AND GOVERNANCE COMMITTEE

Minutes of the meeting held on 5 December 2017

- PRESENT:** Councillor Peter Rogers (Chair)
- Councillors Richard Griffiths, Dylan Rees, Alun Roberts, Margaret M. Roberts, Robin Williams
- Lay Members: Dilwyn Evans, Jonathan Mendoza
- IN ATTENDANCE:** Chief Executive
Head of Function (Resources) and Section 151 Officer
ICT Business Transformation Manager (JT) (for item 2)
IT Service and Performance Manager (LE) (for item 2)
Risk and Insurance Manager (JJ)
Principal Internal Auditor (EW)
Senior Internal Auditor (SAJ)
Committee Officer (ATH)
- APOLOGIES:** Councillors G.O. Jones, R. Llewelyn Jones, Marion Pryor (Head of Audit and Risk)
- ALSO PRESENT:** Councillor John Griffith (Portfolio Member for Finance), Gwilym Bury (Performance Audit Lead, Wales Audit Office)
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1 **DECLARATION OF INTEREST**

No declaration of interest was received.

2 **MINUTES OF THE 21 SEPTEMBER, 2017 MEETING**

The minutes of the previous meeting of the Audit and Governance Committee held on 21 September, 2017 were presented and were confirmed as correct.

Arising thereon –

- The Committee sought clarification of progress or otherwise with deciding to renew the Orchard Housing Information Management System

The Committee was informed that a decision had been made to extend the existing Orchard system and to work with the supplier to make better use of the Business module.

- The Committee sought clarification of whether the Corporate Scrutiny Committee had considered the Internal Audit review report of School Transport to whose attention the Audit Committee had referred the matter.

The Committee was informed that the matter is scheduled to be considered by the Corporate Scrutiny Committee at its meeting to be held on 31 January, 2018.

- In accordance with the Committee's request at its meeting held on 21 September, 2017 the ICT Business Transformation Manager reported on the Council's approach to dealing with the threat from malicious hacking activities and other forms of cyber-crime.

The ICT Business Transformation Manager reported that cyber threats are increasing as testified to by a number of press reports. This year's cyber-attacks have reached unprecedented levels and are likely to be exceeded again next year. Attacks can be perpetrated by state actors or by individuals; they can be low level where the likelihood of success against an organisation such as a local authority is very low, or sophisticated. The Council has to ensure that IT is sufficiently protected against the whole spectrum of attacks. An emerging threat is that posed by Ransomware which is typically delivered by e-mail and associated links. In light of such a threat, user awareness training is critical for all individuals who use the technologies within the Council to ensure they remain vigilant about e-mails, attachments and what they contain or ask for. Phishing attacks for example seek to induce individuals to disclose sensitive information whilst a whaling attack is one that is targeted at senior officers. The Council subscribes to national bodies and organisations to receive alerts and updates in relation to cyber security and is a member and attendee of Cymru Warp, a national community of IT security officers who share and exchange information and experiences. Additionally, all staff are to be provided with training on cyber security and data protection via the e-learning portal. The ICT service is also looking to strengthen capacity to take a proactive approach to ICT security monitoring. Hopefully, the picture presented will help the Committee gain a better appreciation and understanding of the risks the Council faces whilst also being assured that it has in place an array of measures to obstruct potential attacks.

The IT Service and Performance Manager reported on the technologies deployed by the Council to deal with the various levels of threats faced by it, the nature of the attacks it has experienced and how it has successfully defended against these attacks to minimise and/or avert ensuing loss and/or disruption.

The Committee noted and took assurance from the information provided. The Committee referred back to the previous meeting where the Senior Information Risk Owner had reported that a data breach risk had been identified in connection with the autocomplete function on the Council's e-mail system. The Committee sought clarification of whether the autocomplete function should, or is to be disabled.

The ICT Business Transformation Manager said that autocomplete has its advantages and disadvantages. In mitigation of the function, it can be useful in business terms and whilst it should be left on it requires staff on the e-mail system to regularly update their details in order to validate their credentials.

The Chief Executive confirmed that work is being done to enable the Council's staff to upload their photo card, or alternatively if they do not wish to provide a photo, their business card onto the e-mail system. All the Council's staff will be required in due course to provide one or the other form of credentials.

It was resolved to accept the information and to note that the Committee takes assurance from the Officers' account of the arrangements in place to protect the Council from the cyber/technological threats it faces.

NO FURTHER ACTION WAS PROPOSED

3 INTERNAL AUDIT UPDATE

The report of the Head of Audit and Risk which provided an update on Internal Audit's progress with regard to service delivery, reviews completed, follow up action taken and implementation of management action was presented for the Committee's consideration.

The Head of Function (Resources) and Section 151 Officer summarised the main points as follows –

- That 3 internal audit review reports were finalised in the period as detailed in paragraph 3.2 of the report. Two of the reports – Licensing Services and Council Tax and Non Domestic Rates resulted in a Substantial Assurance opinion and Reasonable Assurance opinion respectively. The third Internal Audit Review report in relation in Sundry Debtors resulted in a Limited Assurance opinion and in accordance with agreed practice, the Committee has been provided with a copy of the full report separately to the agenda.
- That a second follow up review of Building Regulations Fees – Inspection and Enforcement Regimes was carried out. Although this report had a Reasonable Assurance rating and would not normally be the subject of a formally reported follow-up, no progress had been made in implementing the management actions at the first follow up visit. The second follow-up review confirmed that from the four risks raised, actions have been partially implemented to address all risks and the priority ratings have been reassessed to take into account the actions implemented to date. The Building Control Team has demonstrated good progress in implementing the actions agreed to address the risks identified and the rating remains as Reasonable Assurance for the arrangements for governance, risk management and/or internal control.
- That the graph at section 5.3 of the report shows that the Council has steadily improved its performance in implementing Internal Audit recommendations over the last 12 months, notwithstanding a slight trailing off of performance over the last month.
- That to date, 41% of the Internal Audit Operational Plan had been completed with a further 31% currently work in progress. Due to a significant slippage of work from 2016/17, the retirement of the Senior Fraud Officer and the long-term absence of a Senior Auditor, the resource available to complete the Operational Plan for 2017/18 has been reduced. Consequently, the Head of Audit and Risk has undertaken a risk assessment with Heads of Service and the Head of Function (Resources)/ Section 151 Officer. Audit reviews have been prioritised to ensure resources are targeted to the areas of highest risk.
- That the Committee should periodically review its terms of reference for appropriateness. In accordance with the Committee's Forward Work Programme, the terms of reference were due to be considered at the Committee's September meeting. It was determined that the review be postponed until the December meeting after publication of the new CIPFA guidance expected in November, 2017. However, CIPFA has confirmed it will now publish the guidance in December, 2017. Therefore, it is recommended that the review of the terms of reference be further postponed until the Committee's February, 2018 meeting.

The Head of Function (Resources) and Section 151 Officer provided the Committee with the context to the Limited Assurance Internal Audit review report on Sundry Debtors. The Officer said that the audit was undertaken during a period of change within the Income section which has been undergoing a restructure since January, 2016. The purpose of the restructure amongst other things is to ensure that the Revenues section is sufficiently resourced to operate at full capacity and that there is a correct balance of resources between the various elements of the Revenue and Benefits Team. The restructure has taken longer than expected due to the appointment of two new managers for Revenues and Benefits externally and to allow them an input into the new structure. The overall aim within the Resources Service has been to develop and improve the Council's financial systems and to make the best use of the technology available. As the developments are in

addition to the staff's normal day jobs and both financial and IT resources are limited, developments have been prioritised and improving the debtors system has had a lower priority. However, the service has secured funding to improve the cash system to enable collection of more income on-line before the service is provided, which will reduce the number of invoices needing to be raised. So the service was aware of issues arising with the sundry debtors system and those are now in the process of being addressed. Despite the inefficiencies identified in the sundry debtors system, the percentage of overall debt collected over the course of the last three years is 98.9%.

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

- The Committee noted with regard to the internal audit reviews of Licensing Services and Council Tax and Non Domestic Rates that although the risks identified are identical in number and level, the assurance rating for both differs with the former assessed as providing Substantial Assurance and the latter Reasonable Assurance only. The Committee's Lay Members noted that in order to be able to appreciate the reasons for the difference in rating which they could not do from the summary provided, they would require access to the full reports. It was suggested by the Lay Members that it would in any case be helpful for them - and perhaps the Committee - to be able to see all completed internal audit reports to understand how conclusions are reached and assurance ratings determined. The Head of Function (Resources) and Section 151 Officer said that many of the review reports which Internal Audit produces can be lengthy and carry a level of detail which the Committee may not require especially if the assurance provided of the areas reviewed is Reasonable or Substantial. The Committee has to ensure that the information it receives is pertinent and manageable, it should not be so voluminous as to deflect from its main responsibility which is to satisfy itself that the Council's system of internal control is effective in managing identified risks having particular regard to any shortcomings in internal control that have been reported. To this end, the Committee is provided with Limited Assurance reports on areas where significant weaknesses in internal control have been identified so that it can be assured that action to rectify the weaknesses has been agreed and that its implementation will be monitored. Otherwise the quarterly Internal Audit update provides the Committee with assurance as to areas where the internal controls have been found to be robust and functioning properly.
- The Committee noted with regard to the Internal Audit Operational Plan that there seemed to be noticeable variances between the planned days assigned to some audits and the actual days spent on them – the audit of the Housing Benefit and Council Tax Reduction Scheme being a case in point where 15 days were assigned to the audit and 23 days actually spent on it. The Committee sought clarification of the extra days especially as the assurance provided was Reasonable suggesting that no complications requiring additional time to resolve were encountered. The Head of Function (Resources) and Section 151 Officer said that the Housing Benefit and Council Tax Reduction Scheme is a complex area so the 15 days planned allocation would have been a conservative estimate. The Committee also noted that the 11.25 days out of a planned 15 days spent on scoping the Housing Rents Readiness for Welfare Reform appeared excessive. The Senior Internal Auditor said that the service could check for an update on this position.
- The Committee noted that the Audit Plan at Appendix A makes no reference to follow-up action; the Committee sought clarification therefore of the process for allocating resources to monitoring the implementation of Internal Audit recommendations. The Head of Function (Resources) and Section 151 Officer said that a batch of days is allocated to follow-up work with the Head of Audit and Risk then determining how these are to be allocated taking into account the views of the Committee.
- With regard to the Limited Assurance report in relation to Sundry Debtors, the Committee was concerned that although the value of invoices written off at the 2016/17 year end was only 1% of income which in a period of austerity is still a substantial amount, it has taken a length of time to recognise how inefficient the system is which suggests that

the level of internal controls in place and their oversight were inadequate in bringing to Management's attention the shortcomings in what is a significant element of the Council's revenue raising function. The Committee sought assurance that the Internal Audit process is now sufficiently robust to avert a similar situation of cumulative inefficiencies over time from reoccurring, The Head of Function (Resources) and Section 151 Officer said that since his appointment to post, the priority has been to restructure the Revenues and Benefits service; the debtors system although it was not working as well as it could, was functioning in terms of recovering debt and was therefore a lesser priority. Having completed the restructure, changes can now be made to the debtors system. Additionally, the Council's financial systems are subject to more rigorous scrutiny and testing than any other service systems both by way of internal audit and also by external audit as part of the audit of accounts process. It is reasonable to assume therefore that the external auditors at the time found the level of assurance provided by the Debtors system to be adequate in terms of allowing them to certify that the Council's income was properly accounted for in its accounts otherwise the audit certificate would have specified differently.

- The Committee sought clarification of the processes for recovering Home Care debts and whether any best practices in other areas have been identified as well seeking assurance that arrangements will be put in place to ensure the collection of school transport income given that the school reorganisation programme is likely to make this task more vital. The Head of Function (Resources) and Section 151 Officer said that due to the nature of its clients, Home Care debts are difficult to recover because withdrawal of the service due to non-payment is not an option. However, the Finance Service and Social Services will have to review arrangements to ensure that recovery procedures for Home Care debtors are established. The Officer said that he was not aware of the availability of benchmarking data in relation to the recovery of Home Care debts. With regard to school transport, the Finance Service plans to make available by September, 2018 a facility that will allow parents to pay for school bus passes on-line in advance of receiving the pass as opposed to the current arrangement whereby parents are billed for the pass after it has been issued. The new system is intended to reduce the need to chase for non-payment which in the case of home to school transport is difficult because enforcement on the bus can be problematic as can recovery as the level of income involved often does not justify the costs of recovery.

- The Committee noted that due to the number of officers across a range of services which the Sundry Debtors review affects, one officer should be designated to oversee progress to ensure the recommended actions are implemented in full and in a timely way. The Head of Function (Resources) and Section 151 Officer said that the responsibility for implementation rests with the Revenues and Benefits Manager with oversight to be provided by the Section 151 Officer.

It was resolved -

- **To note Internal Audit's latest progress in term of its service delivery, assurance provision, and reviews completed, performance and effectiveness in driving improvement and to accept the assurance provided with regard to the areas reviewed and actions taken and/or proposed.**

- **To postpone the review of the Committee's terms and conditions until CIPFA issues its new guidance document.**

ADDITIONAL ACTION PROPOSED: The Chair, Portfolio Member for Finance and Head of Function (Resources) /Section 151 Officer to meet with the Committee's two Lay Members to consider how best to enable them to have access to the range of Internal Audit reports in support of their role on the Committee.

4 EXTERNAL AUDIT: ANNUAL AUDIT LETTER 2016/17

The Annual Audit Letter for 2016/17 along with the notice of the certification of the completion of the audit of the 2016/17 accounts were presented for the Committee's information.

The Audit Letter confirmed the following –

- That the Council complied with its responsibilities relating to financial reporting and use of resources
- That the Auditor General is satisfied that the Council has in place appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources
- That the Auditor General issued a certificate confirming the completion of the audit of accounts on 29 September, 2017
- That to date external audit work on the certification of grant claims and returns has not identified significant issues that would impact on the 2017/18 accounts for key financial systems.

It was resolved to accept and to note the external audit documentation.

NO ADDITIONAL ACTION WAS PROPOSED

5 MID-YEAR REVIEW OF TREASURY MANAGEMENT 2017/18

The report of the Head of Function (Resources) and Section 151 Officer incorporating a review of the Treasury Management position at mid-year 2017/18 was presented for the Committee's consideration.

The Head of Function (Resources) and Section 151 Officer reported on the main points as follows:

- That the Treasury Management Strategy Statement (TMSS) for 2017/18 was approved by the Council on 28 February, 2017. There are no policy changes to the TMSS; the details provided in the mid- year review report updates the position in the light of the updated economic position and budget changes already approved.
- The table at 5.2 of the report shows the revised estimates for capital expenditure in comparison to the capital budget. The current estimate for capital expenditure is behind the original estimate mainly due to the New Highways to Wylfa being delayed until the next financial year and the Holyhead Strategic Infrastructure still awaiting WEFO funding. However, there are no significant changes to the financing of the capital programme to report at this stage.
- The table at 5.4.2.1 of the report shows the Capital Financing Requirement (CFR) which is the underlying need to borrow externally to fund capital expenditure. The Council is currently slightly below the original forecast CFR due to the forecast underspend in the 21st Century schools programme meaning less borrowing will be undertaken in 2017/18. The table also shows the expected debt position (or operational boundary) over the period. The Council is at present £47m approximately within the boundary.
- Section 6 of the report outlines the position with regard to the Council's investment portfolio for 2017/218. A full list of investments as at 30 September, 2017 is provided in Appendix A to the report. The approved limits within the Annual Investment Strategy were not breached during the first six months of 2017/18.
- The projected CFR for 2017/18 is £138.1m. The Council has projected year end borrowing of £118m and will have used £20.1m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails. Whilst no borrowing

was undertaken during the first half of the financial year, it is anticipated that borrowing will need to be undertaken during the second half of the year. Paragraph 7.3 gives details of two separate long term loans with the PWLB that matured during the first six months of the financial year.

- No debt rescheduling has been undertaken to date in the current financial year.
- Paragraph 9 of the report outlines activity since the end of Quarter 2, principally the arrangements made with regard to borrowing £5m from Tyne and Wear Pension Fund South Shields.
- Section 11 of the report provides an update on TM related matters in relation to revised CIPFA codes and regulations under MIFID II - these govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities as from 3 January, 2018 and the options available to the Council in terms of opting up to professional status or retaining retail client status.

The Committee considered the information presented and commented as follows –

- The Committee noted the interest rate forecast provided by the Council's treasury advisors as at paragraph 3.1 of the report. The Committee sought clarification as to the reliability of the forecast and consequently how much reliance the Council should be placing on it for treasury management planning purposes given that it assumes the bank rate will be 0.25% in March, 2019 when it has already risen to 0.50% in November, 2017. The Head of Function (Resources) and Section 151 Officer said that the forecast will influence the timing of the Authority's borrowing (although PWLB loans tend to be fixed rate) and is meant to be indicative of trends and as such, is more relevant to the loans which the Authority has over the long-term. The Council's treasury advisors are not predicting a significant rise in interest rates over time and their projections will be taken into account by the Authority in deciding the most opportune time to commit to a loan. However, it is not the Authority's policy to borrow on the basis of the rate because unless it is for a specific purpose, a loan will cost more for the Authority to carry than it can hope to make up by way of investment return.
- The Committee sought clarification of the variance with regard to the original and revised estimates for capital grants. The Head of Function (Resources) and Section 151 Officer said that the variance is due mainly to the delay in the new highways to Wylfa; whilst the original plan provided for the work to be undertaken prior to the submission of the Development Consent Order (DCO) for the new nuclear build, the revised plan sees the highways element become part and parcel of the DCO meaning that little actual work on the new road to Wylfa will take place before permission for the new nuclear power station is granted. The Council as Highways Authority will be undertaking the work which is being funded by Horizon; this is being treated as a capital grant and although the new highways programme has slipped into 2018/19 the funding for it will still be available at that time.
- The Committee sought clarification of the funding position with regard to the 21st Century Schools programme given that the report refers to a forecast underspend on the programme with the result that less borrowing will be undertaken in 2017/18. The Head of Function (Resources) and Section 151 Officer said that funding for the 21st Century Schools Programme is shared between the Authority and the Welsh Government; the Authority's share is made up of borrowing whilst one third of the Welsh Government's share is made up of a grant and two thirds is made up of supported borrowing i.e. the Authority does the borrowing whilst Welsh Government provides additional funding as part of the annual settlement to cover the cost of the Minimum Revenue Provision (MRP) and interest. The Authority can use capital receipts from the sale of redundant school assets as part of its share of the funding meaning it only has to borrow the balance through unsupported borrowing i.e. borrowing whereby the Authority has to fund the cost of the MRP and interest from its own budget. If the Authority is able to make savings by way of realising the sale of schools that have closed, then those can reduce its borrowing commitment and the associated revenue costs that come with borrowing.

- The Committee noted that the capital expenditure rate has to accelerate in order to progress from the September, 2017 position to the current estimate. The Committee sought clarification of whether this is realistic. The Head of Function (Resources) and Section 151 Officer said that while capital schemes usually take some time to get started, the Finance Service will hold discussions with project managers regarding the progress of expenditure leading to a joint Finance and Service projection of spend. Historically, capital expenditure has been weighted towards the second half of the financial year; this might be because Services are not able to commence expenditure until late February when the capital budget is approved – until then they have no authority to do so. The Finance Service will seek to ensure that no grant funding is lost due to slippage on capital schemes particularly in relation to the 21st Century Schools programme which is the Authority's largest grant where a specific level of expenditure is required. Should adverse weather conditions delay or prevent work being undertaken on the latest phase of the programme so that the required level of spending has not happened then the Authority will consult with the Welsh Government on ways to maximise the grant.

It was resolved to accept the TM mid-year review report 2017/18 with the recommendation to the Executive that with regard to financing the Council's part of the Twenty-first century schools programme expenditure, a proactive approach is taken to ensure the timely sale of assets so as to reduce the Council's need to borrow along with the associated revenue costs arising from the borrowing.

NO ADDITIONAL ACTION WAS PROPOSED

6 REVIEW OF RISK MANAGEMENT STRATEGY AND FRAMEWORK

The report of the Head of Function (Resources) and Section 151 Officer incorporating the Risk Management Policy and Guidance was presented for the Committee's consideration.

The Insurance and Risk Manager reported on the outcome of the review of the Risk Management Strategy and Framework which was undertaken by the Head of Audit and Risk and the Risk and Insurance Manager in conjunction with the Senior Leadership Team and Heads of Service during Quarter 2. The review highlighted areas where improvements can be made mainly in relation to fully embedding risk management processes within the Council's working practices so that it becomes an integral part of informed decision making rather than a tick-box paper exercise, as well as the steps being taken or already implemented to ensure the improvements take place. The review also found that Elected Members and Officers are not always fully informed of the risks involved when taking decisions; neither has training on risk management been offered to Elected Members although senior and middle managers have received the training.

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

- The Committee having considered the Risk Management Guidance noted that the document sets out an approach to risk that appears to be onerous in terms of its complexity and level of detail. As such, it could be off-putting to managers and could reinforce the impression of risk management as a tick-box exercise rather than as a practice to be applied in a meaningful way as part of day to day operational activities and decision making. The Insurance and Risk Manager said that the guidance has been put together with the support of an external consultant and is pitched at a level which it was agreed Management required at the time; an abridged version covering the principal considerations is available on the Council's intranet site.
- In light of the recent flooding event the Committee sought clarification of the process for reviewing the risk of reoccurrence or if flooding does reoccur, the steps that will be taken to reduce the impact on the Council. The Chief Executive confirmed that the

Council has commenced the lessons to be learnt process after the flood; the Head of Function (Resources) and Section 151 Officer said that with regard to the Council office building specifically, the review of what happened will generate a lessons learnt log which will in turn feed into the relevant risk register.

- The Committee sought clarification as to what level of decision making does the Risk Management process come into effect i.e. whether there is a risk to the Council in any way from decisions that may be taken at a more junior level. The Insurance and Risk Manager said that risks are assessed according to impact and likelihood against agreed criteria using descriptive scales; having made this assessment it is then a matter for Management and the level of authority and scope to act which an individual has. The Head of Function(Resources) and Section 151 Officer said that decision making and responsibility are commensurate with post, so that decisions taken at a more junior level would not be expected to have an impact on the service.

- The Committee noted that given Risk Management is a vitally important part of Council activities, it is therefore equally important that the Risk Management process is clearly articulated to staff so that they know what is expected of them. The Committee sought assurance therefore that appropriate direction is provided to staff on risk managing and risk assessing as part of their day to day activities. The Insurance and Risk Manager said that the message about the importance of risk management has been imparted to Heads of Service and that it has also been agreed that they will meet with the Insurance and Risk Manager twice a year to review their service registers – the most recent update was in the Autumn. The Head of Function (Resources) and Section 151 Officer said that repositioning the Insurance and Risk Manager so that the latter reports directly to the Head of Audit and Risk has invested the role with more authority thereby raising the profile of risk management within the Council. The Insurance and Risk Manager now attends meetings of the Senior Leadership Team every quarter and is able to update the SLT on any non-compliance by services.

- The Committee further noted that the Senior Leadership Team (SLT) had not reviewed the Corporate Risk Register during the first half of 2017. The Committee therefore sought assurance of the Officers that Risk Management is now embedding within SLT as well as Heads of Services' practices and it sought clarification also of the actions that would be taken to ensure that this is the case going forwards. The Head of Function (Resources) and Section 151 Officer said that the Audit Committee will be provided with regular updates on risk management and if as part of those reports the Head of Audit and Risk and/or the Insurance and Risk Manager find that the SLT and/or Heads of Service are not complying with established processes then the Audit Committee will be informed.

It was resolved that the Committee having considered the information presented and the assurances given on the issues raised verbally, accepts and notes the content of the report and takes assurance that although there remains work to be done to fully embed risk management throughout the Council, progress has been made and is continuing.

NO ADDITIONAL ACTION WAS PROPOSED

7 2017/18 FORWARD WORK PROGRAMME

The Committee's Forward Work Programme to September, 2018 was presented for the Committee's consideration and review.

With regard to the Children's Services Improvement Plan, Councillor Richard Griffiths as the Corporate Scrutiny Committee's representative on the Children's Services Improvement Panel confirmed that regular progress reports are being made to the Corporate Scrutiny Committee and that progress is currently on target.

It was resolved to accept the Work Programme as presented.

NO ADDITIONAL ACTION WAS PROPOSED.

**COUNCILLOR <NAME>
CHAIR**