

AUDIT AND GOVERNANCE COMMITTEE

Minutes of the meeting held on 13 February 2018

- PRESENT:** Councillor Peter Rogers (Chair)
Councillor R. Llewelyn Jones (Vice-Chair)
- Councillors Richard Griffiths, Gwilym O. Jones,
Alun Roberts, Margaret M. Roberts, Robin Williams
- Lay Members: Dilwyn Evans, Jonathan Mendoza
- IN ATTENDANCE:** Head of Function (Resources) and Section 151 Officer
Head of Audit and Risk (MP)
Risk and Insurance Manager (for item 10)
Committee Officer (ATH)
- APOLOGIES:** Councillor Dylan Rees
- ALSO PRESENT:** Councillor John Griffith (Portfolio Member for Finance), Chief Executive,
Gwilym Bury (Performance Audit Lead, Wales Audit Office), Senior
Internal Auditor (SJ), Senior Internal Auditor (EC)
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1 DECLARATION OF INTEREST

No declaration of interest was received.

2 MINUTES OF THE 5 DECEMBER, 2017 MEETING

The minutes of the previous meeting of the Audit and Governance Committee held on 5th December, 2017 were presented and were confirmed as correct.

Arising thereon -

The Chair confirmed that as determined by the Committee at its December, 2017 meeting, a meeting between himself, Officers and the Committee's two Lay Members had been arranged to consider how best to facilitate the Lay Members' role on the Committee. The two Lay Members had indicated at the previous meeting that being provided with all internal audit reports as opposed to those with a Limited Assurance opinion only would help them understand how audit conclusions are reached and opinions given thereby improving the effectiveness of their oversight and scrutiny role. The Chair said that the meeting which took place on 7 February with Mr Dilwyn Evans, one of the Lay Members in attendance had proved useful and informative. The outcome of the meeting was that the current process would remain in place but that the Head of Audit and Risk would look to provide a little more detail on completed audits in the update reports to the Committee.

3 INTERNAL AUDIT UPDATE

The report of the Head of Audit and Risk setting out the work carried out by Internal Audit to 26 January, 2018 was presented for the Committee's consideration. The report provided

a summary of the internal audit reports issued since 17 November, 2017; the outcome of follow up reviews of previous internal audit inspections; implementation of management actions; progress in delivering the Audit Annual Plan for 2017/18 along with the latest position in relation to the planned review of the Audit Committee's terms of reference.

The Head of Audit and Risk reported on the main issues as follows and in doing she confirmed that she had sought to strike a balance between providing the full audit reports which involve more information than the Committee practicably needs for challenge and assurance purposes, and increasing the level of detail about each audit –

- That five Internal Audit review reports were finalised during the period covering the areas noted below. All of the reviews resulted in either a Reasonable or a Substantial assurance rating:
 - General Data Protection Regulations (GDPR) (Reasonable) – 3 moderate level risks raised
 - Capital Expenditure (Substantial) – no risks or issues raised
 - Housing Rents: Readiness for Universal Credit (Reasonable) – 3 major, 7 moderate and 1 minor risk/issues raised
 - Supporting People Programme (Substantial) – no risks or issues raised
 - Referral – Payroll Overpayment – an advisory review

The Head of Audit and Risk elaborated on the findings for those reviews where risks and/or issues had been raised, the nature and degree of the risks identified, current and/or planned corrective actions, and the rationale for the audit conclusion reached. The Officer referred specifically to the audit review of Housing Rents where 3 major risks had been noted. Notwithstanding, the Officer confirmed that due to the preparatory work undertaken by the Housing Service in readiness for the introduction of Universal Credit, Internal Audit was able to provide a Reasonable Assurance rating for this area.

- That 6 follow up reviews of Limited Assurance reports were finalised during the period with the following outcomes –
 - **Logical Access and Segregation of Duties (Second Follow-Up)** – it was concluded that due to the length of time the risks/issues identified by the original audit in 2014/15 and subsequently by the first follow-up review in January, 2015 have been outstanding, the Council has demonstrated little progress in implementing actions agreed to address all the audit recommendations. Therefore, and because of the nature of the risks outstanding which relate to staff acceptance of ICT policies and issues around the separation of duties in the Payroll system, the level of assurance remains as Limited. The Head of Function (Resources)/Section 151 Officer explained that arrangements are in hand to update and integrate the Payroll and HR systems which will allow more tasks to be undertaken electronically and will address the issue of segregation of duties. The upgrade will also link the recruitment process to Payroll electronically thereby doing away with the need for payroll staff to manually establish staff payroll records. There has been some delay due to technical issues and a redesign of the business processes is necessary to reflect a new division of duties/responsibilities. Whilst this will take time, the project does have a planned finish date of September, 2018.
 - **Affordable Housing, Houses into Homes and Self-Build Loan Schemes (Second Follow-Up)** – it was concluded that the Council has demonstrated reasonable progress in addressing the audit risks. Taking account of the issues identified in the remainder of the report, the level of assurance has increased to Reasonable.
 - **Extra Care Housing (First Follow-Up)** – it was concluded that the Council has demonstrated good progress in addressing the issues/risks and as a result, the assurance rating has increased to Substantial.

- **Payment Card Industry Data Security Standards Compliance (First Follow-Up)** – it was concluded that as the Council has demonstrated little progress in addressing the issues/Risks, the assurance rating remains as Limited Assurance. Internal Audit will revisit this area during October, 2018 to monitor progress with addressing the risks. The Head of Function (Resources)/Section 151 Officer explained the requirements with regard to PCI DSS and what it entails for the Council in terms of ensuring the security of the card data it holds. A planned update of the Income Management system which is to be project managed will help address PCI DSS issues; however as meeting the requirements in full involves a number of tasks some of which are complex, it is a project for the longer term.
- **Child Care Court Orders under the Public Law Outline (First Follow-Up)** – it was concluded that the Council has demonstrated reasonable progress in implementing actions agreed to address the audit recommendations. However, due to the outstanding “catastrophic” risk, the level of assurance remains as Limited. Internal Audit will undertake a further follow-up review during 2018/19.
- **Corporate Procurement Framework (First Follow Up)** – it was concluded that the Council has demonstrated good progress in implementing actions with an agreed target date of December, 2017. However, the assurance level of the report remains as Limited Assurance due to the priority level of the remainder of the issues raised which are yet to reach their target implementation date. A further follow-up review will be undertaken in July, 2018.
- **School Transport (Follow-Up in process)** – this matter was considered by the Corporate Scrutiny Committee at its meeting on 31 January, 2018 following a referral by the Audit and Governance Committee. Following a detailed discussion of the issues raised by the audit review and the assurances given to the meeting by the Highways and Learning Services, the Corporate Scrutiny Committee was satisfied overall by the progress made against the Internal Audit Action Plan and by the commitment shown by both services to complete the plan within timescale. It had noted that the safeguarding issues arising are being monitored by the Corporate Safeguarding Arrangements Board and it had noted also that there are arrangements within Internal Audit to follow-up and monitor management actions in relation to Limited Assurance reports and to report thereon to the Audit and Governance Committee. The Scrutiny Committee had further determined that it be provided with a progress update at its June, 2018 meeting.
- That the Council’s performance in relation to the implementation of management actions has steadily improved over the last 13 months with a significant increase having taken place over the last six months. However, analysis of the outstanding issues/risks has shown that that the extension to the target implementation dates for addressing the Payment Card Industry Data Security Standards and the Children’s Court Orders under the PLO issues/risks has been the main contributor to the increased performance. This has highlighted that managers assigned with implementing actions are able to extend the target implementation date without reference to Internal Audit. This facility has since been withdrawn from managers, and all requests for the date to be extended must be made to Internal Audit who will consider the circumstances before agreeing to extend. It is expected that this will have a short-term impact on the implementation rate and that performance will worsen in the short-term.
- Due to a significant slippage of work from 2016/17 and capacity related matters, the resource available to complete the Operational Plan for 2017/18 has 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. The revised Annual Plan is included at Appendix A to the report. To date, 64% of the revised plan has been completed with a further 23% currently work in progress making a combined total of 87%. Ninety two percent of audits have been completed in time against a target of 90%.
- The Committee’s terms of reference which are due for review were to have been presented to the Committee’s September, 2017 meeting. However, the Committee agreed

to postpone the review pending the publication of the new CIPFA guidance anticipated originally for November, 2017. A further postponement ensued in December, 2017. The guidance has still not been published, and although complete, CIPFA is awaiting the Home Office which is bringing out a new Financial Management Code of Practice that impacts on Police audit committees. The new guidance is now expected in March, 2018.

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

- With regard to GDPR, the Committee noted that schools/Head teachers have not been provided with information on GDPR compliance. The Committee noted also that the stated date for GDPR compliance is May, 2018. In light of that fact that penalties can be imposed for non-compliance and that schools may not be in a position of readiness by the due date particularly smaller primary schools, the Committee sought both clarification of the consequent risk to the Council and assurance that the matter is receiving attention. The Head of Audit and Risk said that schools are separate establishments acting as independent bodies under the new regulations and will need to establish their own compliance. However, the Learning Service has recognised this matter as a risk and has made a resource available for GDPR compliance within schools and preparations are underway. This issue will be the subject of a separate internal audit early in 2018/19.
- The Committee noted the 3 major risks raised with regard to the Housing Rents Readiness for Universal Credit internal audit review. The Committee sought assurance that there is a commitment and a timetable for Management to complete the actions necessary to address all the risks highlighted since none was specified. The Head of Audit and Risk confirmed that an action plan has been agreed with the service. As the assurance rating is Reasonable, the recommendations for actions by Management will be fed through to Internal Audit's tracking system and the service will be reminded to provide updates on the progress in addressing those actions.
- The Committee noted that the scheduled completion date for the School Transport Action Plan is September, 2018. The Committee sought clarification whether the actions required are complex and therefore require this length of time to implement. The Committee further inquired whether the Action Plan addresses the issue of over expenditure on school transport. The Head of Audit and Risk said that the timescale is influenced by the timing of school transport contracts; the current contracts will run to the end of the school term. The contract tendering process will commence shortly with the new contracts coming into effect at the start of the new school year in September, 2018. Safeguarding elements are now being followed up whilst data cleansing work needs to be done before the Transport ONE software system can be implemented fully. The latter will enable the optimum school routes to be mapped out electronically thus eliminating any duplication of routes meaning the transport to school service will be more cost-efficient. There is now also a written agreement between the Learning Service and the Highways Service which clarifies their respective responsibilities. Additionally, the Learning Service has appointed a Consultant as the Project's Manager. Councillor Robin Williams as a member of the Finance Scrutiny Panel, said that the Panel had been informed by the Highways and Learning services that a 100 new requests for a home to school transport service had been received. The Panel was however reassured that Management is now approaching this matter in a more proactive manner and that the new electronic route mapping process will be more robust for the next school year.
- The Committee noted in the context of the Logical Access and Segregation of Duties follow up that a systems upgrade is in process which will lead to greater clarity and accountability in the separation of duties. The Committee inquired whether under the current system therefore where staff are recorded in Payroll manually, the Council has been at risk because the potential for irregularities is greater. The Head of Function (Resources)/Section 151 Officer said that there are other controls in place to verify the accuracy of the Payroll; budget monitoring of staffing would also flag up any anomalies. There are therefore controls during and after the payment process that mitigate against the

risk from the lack of a separation of duties facility within the Payroll system at present. An audit of Payroll is planned for 2018/19.

- The Committee sought clarification of whether Management does or should be required to report to Internal Audit on circumstances which may delay or affect the speed of implementation of actions to address issues raised. The Head of Audit and Risk said that implementation target dates can be extended with the agreement of Internal Audit who will consider the circumstances.
- The Committee noted with regard to the Corporate Procurement Framework first Follow-Up review that a factor in the non-completion of two of the actions/risks is a lack of response by relevant officers to a request for advice by the Legal Service on issues in relation to the wording of draft terms and conditions. The Committee noted that whilst it recognised the volume of work that the internal audit update reflected as a whole, it was disappointed that progress seemed to have been delayed in this instance by officer inaction although it accepted that there may also be extenuating circumstances of which it was unaware. The Chief Executive said that he noted the Committee's concern; the Head of Audit and Risk confirmed that she would follow the matter up.
- The Committee noted with regard to the delivery of the Internal Audit Operational Plan for 2017/18 that some items had been deleted; the Committee took assurance however from that fact that a risk assessment has been undertaken with Heads of Service and that the revised Audit Plan is risk based meaning that it is driven by a recognition of the areas of highest risk to the Council.

It was resolved that the Committee:

- **Notes Internal Audit's latest progress in terms of service delivery, assurance provision, reviews completed, performance and effectiveness in driving improvement and that overall, it takes assurance from the information presented both in the report and by the officers' updates at the meeting.**
- **Approves the postponement of the review of its terms of reference until the Chartered Institute of Public Finance and Accountancy (CIPFA) issues its new guidance document.**

ADDITIONAL ACTION PROPOSED: Head of Audit and Risk to follow-up on the Officer response in connection with the Corporate Procurement Framework first Follow-Up review.

4 OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS, ISSUES AND RISKS

The report of the Head of Audit and Risk which set out details of all the outstanding internal audit recommendations and risks raised since April, 2014 was presented for the Committee's consideration.

The Head of Audit and Risk reported that as at 26 January, 2018 out of a total of 745 recommendations/risks/issues with a target implementation date of 31 December, 2017 the Council had implemented or addressed 695 or 93% with 50 remaining unimplemented / unaddressed. The percentage performance for addressing High or Red/Amber rated issues was 98%; for Medium and Yellow rated issues it was 94% and for Low and Green rated issues it was 90%. Details of the outstanding issues along with the date each matter was raised were provided in Appendix A to the report.

The Committee considered the information presented and it noted that several issues relating to the Housing Benefit and Council Tax Reduction Scheme 2016/17 remain outstanding. The Head of Function (Resources) said that the Housing Benefit Service underwent a restructure during 2017 with the result that the service now has a full

complement of staff; it has enhanced supervision arrangements as well as improved feedback on staff performance matters. At the same time, work has been ongoing on improving systems, specifically on integrating electronic benefit claim forms into the Benefit System; there has been some delay with this due to issues with the transfer of data. However, when implemented this change is expected to improve the accuracy of data input. Work is also being done on introducing an electronic document management system which will replace the current system whereby benefit claim forms are filed manually meaning they are more liable to being misplaced. It is expected these improvements will address most of the outstanding internal audit issues raised. The target implementation date has been exceeded because in the case of the electronic document management system, the software is also one that the Planning Service will use to upgrade the planning system albeit the Planning Service is on a different version – the work has involved reconciling the two so that both systems can unfold together. With regard to the missed target date, the process would have required the Housing Revenue and Benefit Manager to inform Internal Audit of the reasons for late implementation and come to an agreement on a revised target date.

The Committee having considered the clarification provided by the Officer above, noted and was satisfied by the improvement in performance with regard to implementing internal audit recommendations which the report reflected, and was further assured that Internal Audit is systematically tracking and following up on action to be taken by Management in response to internal audit reports and will report thereon to the Audit and Governance Committee.

It was resolved to note the Council's progress in addressing the outstanding internal audit risks raised since 1 April, 2014.

NO ADDITIONAL ACTION WAS PROPOSED

5 EXTERNAL AUDIT - PERFORMANCE WORK PROGRAMME UPDATE

The External Audit update on current and planned Wales Audit Office work was presented for the Committee's consideration. The report provided information on the status of financial and performance audit work in 2016/17 and 2017/18 as well as the Auditor General's programme of national value for money examinations.

It was resolved to accept the report and to note the status of the External Audit performance work programme as presented.

NO ADDITIONAL ACTION WAS PROPOSED

6 INTERNAL AUDIT STRATEGY AND ANNUAL PLAN 2018/19

The report of the Head of Audit and Risk incorporating the proposed Internal Audit Strategy and Plan for 2018/19 was presented for the Committee's consideration.

The Head of Audit and Risk reported that the Public Sector Internal Audit Standards (PSIAS) require the chief audit executive to establish risk-based plans to determine the priorities of the internal audit activity, consistent with the Council's goals. In prioritising resources, Internal Audit is expected to undertake sufficient work to enable the chief audit executive to deliver an annual internal audit opinion for the Council to inform its Annual Governance Statement. Historically, Internal Audit has planned its work on the basis of a three or five year planning strategy. However, the External Audit Quality Assessment undertaken in March, 2017 highlighted that although this planning methodology complied with the PSIAS, consideration should be given to whether this approach is effective given

the difficulty of trying to predict what will matter to the Council in three years' time. The assessor stated that the rate of change in local government suggests a maximum of one-year planning. With this in mind, Internal Audit has adopted a new approach to developing the Annual Plan for 2018/19 using the corporate risk register to determine the priorities for Internal Audit activity whilst also being mindful of the Audit Strategy for 2017/18 to 2019/20. Additionally, meetings were held with the WAO, the Head of Function (Resources) /Section 151 Officer, Head of Function (Council Business) and most Heads of Service to canvass their views on the proposed areas for review. This has resulted in a much more focused, relevant and risk-based plan for 2018/19. The plan is also a dynamic plan and will be reviewed and adjusted as necessary in response to changes in the Council's business risk, operations and programmes to ensure it remains relevant. Any changes will be reported to the Head of Function (Resources) /Section 151 Officer and to the Audit and Governance Committee.

The Committee considered the report and made the following points –

- The Committee noted that the Internal Audit service structure is compact and carries no spare capacity. The Committee sought assurance therefore that the service is confident that it has the staff resources to be able to deliver the Audit Plan to target. The Head of Audit and Risk said that the new audit approach and streamline way of reporting will reduce much of the administrative burden and non-productive days spent. Even if the audit reviews conducted are not in-depth they will be sufficient to identify any substantive or material risks/issues in the area audited; Internal Audit can then decide whether the matters raised require further investigation and can either rearrange the audit and/or modify the work plan to make the accommodation.
- The Committee sought clarification of the process whereby the Committee is able to ensure that timely corrective action is taken by Management to issues raised by Internal Audit. The Head of Audit and Risk said that the Audit and Governance Committee can require a Head of Service to attend before it to explain compliance or otherwise; Heads of Service are aware through the internal tracking system, of recommendations that have not been implemented by their managers. In addition, a culture change from the top downwards means that overview and scrutiny of areas where there are outstanding issues/actions is now more focused and is becoming more embedded in practice, hence the significant improvement in implementing outstanding recommendations and addressing issues/risks as reported on earlier. The Head of Function (Resources)/ Section 151 Officer said that one of the elements of this year's service challenge reviews was the implementation of Internal Audit recommendations.

It was resolved to approve the Internal Audit Strategy and Annual Internal Audit Plan 2018/19 and to note the new audit approach to audit planning.

NO ADDITIONAL ACTION WAS PROPOSED

7 TREASURY MANAGEMENT STRATEGY STATEMENT 2018/19

The Head of Function (Resources)/Section 151 Officer reported that as there has been no significant change in the economic position and since the outlook remains uncertain, the Council's Treasury Management approach will continue to be based on the following –

- The Council will not borrow more than, or in advance of, its needs solely in order to profit from the investment of the extra sums borrowed since the returns on the investment are likely to be lower than the cost of borrowing.
- The Council will maintain a flexible approach to internal and external borrowing having regard for the factors described in section 3.3.1 of the strategy. The Council is at present maintaining an under borrowed position meaning that the capital borrowing need

(the Capital Financing Requirement) has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used instead. This approach is prudent because investment returns are low and counterparty risk is still an issue that needs to be considered. The Capital Financing Requirement (the forecast underlying need to borrow to finance the capital programme) at year end will be £138.1m resulting in the Council being internally borrowed (using Council reserves and balances to help fund the capital programme) by £20.1m by year end.

- Consideration will be given to debt re-scheduling as well as to the potential for making savings by running down investments to repay debt prematurely. Additionally, where possible, the Council will avoid new borrowing to replace maturing external debt and will instead use cash balances.
- The Council's investment priorities will remain security first, liquidity second and then return. The Council will make investments with counterparties in accordance with the creditworthiness policy set out in section 4.2 of the strategy.
- In terms of updates to the Treasury Management Strategy Statement, the only proposed amendment to the core principles and policies of the 2017/18 Statement is to amend the Minimum Reserve Provision (MRP) Policy so that the MRP charge going forward is consistent for both supported borrowing and unsupported borrowing and is based on the useful economic life of the asset.
- There is also one proposed change to the Authority's Treasury Management Practices which is to increase the minimum cash balance from £6m to £6.5m.

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

- The Committee noted the variance between borrowing rates and investment rates. The Committee sought clarification of whether the Council is able to offset the amount it borrows against the amount it has invested in order to reduce the capital borrowed. The Head of Function (Resources) /Section151 Officer said that the majority of the loans taken out by the Council are fixed amounts over a fixed period with a fixed interest rate which enables it to plan over the long term and provides security against volatility. At present due to the low interest rates, the preference is to tie into the low rates for the benefit of the Council.
- The Committee sought clarification of the point at which it is considered viable for the Council to increase borrowing. The Head of Function (Resources) /Section151 Officer said that it depends on the difference between the amount borrowed and the return on investment. Other factors taken into consideration include the amount of cash balances the Council holds at any given time which influences the timing of borrowing. Whilst the Council has to ensure that it has enough cash available to meet requirements it does not want to hold too much surplus cash with nowhere to invest it.
- The Committee sought clarification of whether the Council has regard for the Discounted Cash Flow factor when undertaking projects i.e. the idea that a sum of money to be paid in future is worth less today than were the same sum to be paid today. The Head of Function (Resources) /Section151 Officer said that that calculation would be made for any projects that are funded by unsupported borrowing. The Council also has to consider the MRP calculation because the MRP charge has an impact on the revenue budget.

It was resolved –

- **To note the contents of the covering report.**
- **To endorse the Treasury Management Strategy Statement (including the Prudential and Treasury Management Indicators) [Annex A] for 2018/19.**
- **To forward the TM Strategy Statement 2018/19 to the Executive without further comment.**
- **To approve the change in TMPs, increasing the minimum cash balance from £6m to £6.6m to reflect the increase in the minimum general reserve balance.**

NO ADDITIONAL ACTION WAS PROPOSED

8 FORWARD WORK PROGRAMME

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

It was resolved to accept and to note the Forward Work Programme without amendment.

9 EXCLUSION OF THE PRESS AND PUBLIC

It was resolved to under Section 100 (A) (4) of the Local Government Act 1972, to exclude the press and public from the meeting during the discussion on the following item on the grounds that it involved the disclosure of exempt information as defined in Schedule 12A of the said Act and in the attached Public Interest Test.

10 CORPORATE RISK REGISTER

The report of the Head of Function (Resources) and Section 151 Officer incorporating the Corporate Risk Register as reviewed and updated to the end of Quarter 2 2017/18 by the Senior Leadership Team was presented for the Committee's consideration.

The Insurance and Risk Manager reported that the position was as follows at the end of Quarter 2 –

- No risks have been removed from the Corporate Risk Register since it was last presented to the Committee in September, 2017.
- There has been no change to the residual risk level of any existing risk since the Corporate Risk Register was last presented to the Committee
- Four new corporate risks have been identified during Quarter 2. Details of these are provided in section 5 of the report.
- The top ranked (Red) risks to the Council are identified as those listed in section 6 of the report.

The Officer informed the Committee that the Senior Leadership Team reviewed the Quarter 3 2017/18 position at its meeting held on 12th February, 2018 the outcome of which was as follows –

- No new risks were added to the Corporate Risk Register
- No risks were removed from the Register
- Four risks were de-escalated. One of those risks (YM22) remains at Amber level whilst the other three (YM29, YM33 and YM40) have been downgraded from Amber to Yellow. The residual risk level in terms of the likelihood of occurrence has reduced for all four risks.

The Committee noted the information presented. The Committee sought assurance that the approach to managing risk YM43 (relating to Children's Services) remains suitably robust. The Committee was assured that the mitigating actions and the reporting and monitoring arrangements in relation to the identified risk in this service area are robust and ongoing.

It was resolved to note the content of the report and to note also that the Committee takes assurance that the risks to the Council's aims and objectives are being recognised and managed by the Senior Leadership Team.

NO ADDITIONAL ACTION WAS PROPOSED

**Councillor Peter Rogers
Chair**