

# AUDIT AND GOVERNANCE COMMITTEE

## Minutes of the meeting held on 11 February 2020

- PRESENT:** Councillor Peter Rogers (Chair)  
Mr Jonathan Mendoza (Lay Member)(Vice-Chair)
- Councillors John Griffith, Richard Griffiths, G.O. Jones,  
R. Llewelyn Jones, Dylan Rees, Alun Roberts, Margaret M. Roberts.
- Lay Member: Mr Dilwyn Evans
- IN ATTENDANCE:** Chief Executive  
Director of Function (Resources) and Section 151 Officer  
Director of Education, Skills and Young People (for item 5)  
Finance Manager (CK)  
Principal Auditor (NRW)  
Risk and Insurance Manager (JJ) (for item 8)  
Committee Officer (ATH)
- APOLOGIES:** Marion Pryor (Head of Audit and Risk)
- ALSO PRESENT:** Councillor Robin Williams (Portfolio Member for Finance), Senior Auditor (EW)
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### 1 DECLARATION OF INTEREST

No declaration of interest was received.

### 2 MINUTES OF THE PREVIOUS MEETING

The minutes of the previous meeting of the Audit and Governance Committee held on 3<sup>rd</sup> December, 2019, were presented and were confirmed as correct.

Arising thereon –

- **Item 2 – IoACC Annual Audit Letter 2018/19** - The Committee sought an update on the position with regard to the finalisation and receipt of the Wales Audit Office's report on the financial sustainability of the Council the draft findings of which were expected to be made known to the Council by the end of the previous calendar year. The Committee was advised by the Director of Function (Resources)/Section 151 Officer that the Wales Audit Office has undertaken work to assess the financial sustainability of all 22 local authorities in Wales; it was understood that each authority would be provided with initial verbal feedback and that subsequently local reports for the individual authorities would be issued. A draft national summary report of the findings is also expected to be issued around April, 2020. The Officer confirmed that hitherto the Council in Anglesey has not received feedback from the exercise.
- **Item 6 - Internal Audit Update (resources available to the Internal Audit Service)** - The Committee sought an update on the staff position of the Internal Audit

Service. The Director of Function (Resources)/Section 151 Officer confirmed that the Internal Audit Service's permanent staff structure includes 5 full-time members of staff (Head of Audit and Risk, Principal Auditor and 3 Senior Auditors) and has been supplemented recently by a temporary secondment from the Accountancy Service. Currently there are two Senior Auditor vacancies – one due to a secondment to the Accountancy Service and the other due to a permanent appointment to the Accountancy Service – meaning the Service's staff level at present stands at 3.6 against an establishment level of 5 full time staff. The Officer in confirming that an advertisement for one full time permanent Senior Auditor post and one full time temporary Senior Auditor post had been issued, said that due largely to enforced cutbacks Internal Audit teams across local authorities have reduced in size and the nature of the Internal Auditor post has also changed with fewer entrants at the lower assistant level. Recruitment is therefore focused on attracting fully qualified and experienced internal audit staff and notwithstanding this Authority has lately been successful in this respect, the process can be challenging. The alternative would be to reconsider the Internal Auditor posts with a view to appointing at a lower level and provide on the job training; and although the "grow your own" model is one that is favoured by the Authority the drawback of this approach would likely be felt in reduced output by the Internal Audit team in the short-term.

- **Item 7 – Review of the Audit and Governance's Terms of Reference** – The Committee sought an update on the position with the provision of training on governance matters which has been identified by a session of the 22 chairs and heads of audit in Wales as an area where Welsh local authority audit committees could benefit from additional support. The Principal Auditor said that although she was not in a position to confirm whether progress had been made with those training arrangements she would report the matter back to the Head of Audit and Risk for her to clarify at the next meeting. As a matter of information, the Vice-Chair said that he and his fellow Lay Member had attended a CIPFA course where they had exchanged views on the challenges of ensuring that audit committees properly fulfil all the functions variously delegated to them. It had been agreed that following their attendance on the course he and Mr Dilwyn Evans (Lay Member) would meet with the Head of Audit and Risk to identify any areas of responsibility which the Audit Committee may not be sufficiently addressing at present and to consider how this can be overcome.

## **NO ADDITIONAL ACTIONS WERE PROPOSED**

### **3 TREASURY MANAGEMENT PRACTICES**

The report of the Director of Function (Resources)/Section 151 incorporating a statement on the Authority's Treasury Management Practices in compliance with the CIPFA Code of Practice on Treasury Management (2017) was presented for the Committee's consideration.

The Finance Manager reported that the report is presented to ensure that the Council is implementing best practice in accordance with the CIPFA Code of Practice for Treasury Management. The Code recommends that the Council documents its treasury management procedures as Treasury Management Practices (TMPs). Section 7 and schedule 2 of the Code include suggestions on what should be included in authorities' TMPs. The Council's current TMPs were completed and approved in 2016. These have been reviewed and updated and they endorse many of the suggestions provided by the CIPFA Code as well as including a section (TMP13) on non-treasury investments held by the Council as required by the revised CIPFA Treasury Management Code. The Council's non treasury management investments are the investment properties which are managed by Property Services.

The Officer provided a brief overview of the 13 listed TMPs and referred to the newly added TMP13 on non-Treasury Management Investments explaining what this practice refers to and highlighting how the other TMPs - with TMPs 1, 2, 5, 6 and 10 being the most relevant - apply to non-treasury management investments. The 2018/19 Statement of Accounts shows that the Council's investment portfolio was valued at £6m which are mainly industrial units. Both in 2017/18 and 2018/19 there was net income stream from the Council's investment portfolio.

In response to questions arising on the report, the Committee was advised –

- That unlike in England where local authorities are invested with a general power of competence that allows them to invest financially in assets such as shopping centres, hotels and cinemas both within and outside their authority area, councils in Wales do not have such powers and would have to use other economic development powers if they were minded to pursue such investments which would in any case be limited to their own areas. The Council's investment property portfolio does include commercial and industrial units as well as the odd retail property but it is not invested in any larger retail assets.
- That the Council does not currently have an approved overdraft facility with its bank. The Council regularly reviews and manages its cash flow requirements so that it does not become overdrawn. Also, the banking arrangements have been implemented so that all bank accounts under the corporate contract with NatWest are taken into account when determining the Council's overall balance. This means that if any account is overdrawn, if the other accounts are in credit to the amount overdrawn or more the Council will not be in an overdraft position. In addition, should it be required the Authority is able to borrow at short notice with the PWLB - such a loan whether short term or longer term would cost less than an overdraft. **The Committee took assurance from the fact that a daily cash-flow record of movements and balances is kept and updated morning and afternoon.**
- That with regard to counterparty criteria (TMP1, 1.1.) UK local authorities are not credit rated in the same way as banking institutions. Should the Authority be minded to invest short term with another local authority then it would undertake due process checks on the authority it was making the investment with. Local authorities are in general regarded as a low risk investment; security and creditworthiness have in recent years become priorities for local authorities in making investment decisions.
- That the specialist Treasury Management Consultants/Advisory Service is provided by Link Asset Services (formerly Capita Asset Services); their contract ran from 1 April 2016 to 31 March 2019 but with an option to extend for up to 2 years. A contract extension has been agreed and is in effect.

**It was resolved –**

- **To note the contents of the covering report.**
- **To endorse the revised Treasury Management Practices included at Appendix 1 and to forward them to the Executive without further comment.**

**NO ADDITIONAL ACTION WAS PROPOSED**

#### **4 TREASURY MANAGEMENT STRATEGY STATEMENT 2020/21**

The report of the Head of Function (Resources)/Section 151 Officer incorporating the Treasury Management Strategy Statement for 2020/21 was presented for the Committee's consideration. The report set out the Council's proposed approach to investment and borrowing activities in the forthcoming financial year in light of current and forecasted economic conditions.

The Finance Manager in confirming that there are no proposed amendments to the core principles and policies of the 2019/20 Statement highlighted the main points of the 2020/21 TM Strategy as follows -

- The wider context to the Treasury Management Strategy. Setting out the Strategy cannot be undertaken in isolation, and consideration must be given to the economic situation as this has an impact on investment rates, the cost of borrowing and the financial strength of counterparties. A full summary of the economic outlook is provided at Appendix 3 to the Statement and the main points are summarised in section 3.1. Uncertainty surrounding Brexit and its impact on the UK and Eurozone economy is likely to continue and investment returns are expected to remain low during 2020/21 with little increase in the following two years.
- The Council's current external borrowing position as set out in Table 2 of the report which provides a summary of the Council's current outstanding loans.
- The Council's capital programme for 2020/21 to 2022/23 as set out in Table 3 of the report and how this will be funded. An important factor to consider is the impact of borrowing on the Council's Capital Financing Requirement which calculates the Council's underlying need to borrow in order to finance capital expenditure. Capital expenditure will increase the CFR but only by the sum that is not funded from capital grants, receipts, reserves or revenue. The CFR will also reduce annually by the sum of the Minimum Revenue Provision (MRP) which is a charge made to the revenue account each year to ensure that the Council is able to repay debt as it falls due. Regulations require that the Council approves a MRP Statement in advance of each financial year – the policy for 2020/21 is set out in Appendix 6 and is unchanged from that for 2019/20 following extensive revision in 2018. The impact of the Council's capital expenditure plans and the MRP charge on the CFR and the level of external and internal borrowing is shown in Table 4 of the report.
- The Council's borrowing strategy and the factors impinging thereon as set out in section 6 of the Statement. The Council continues to maintain an under borrowed position meaning that the Council's capital borrowing need (CFR) has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. Whilst this approach is prudent as investment returns are low and counterparty risk is still an issue to be considered, the ability to externally borrow to repay the reserves and balances if needed, is important. Table 4 of the Statement indicates that £12.777m may need to be externally borrowed if urgently required which is the amount of Council reserves and balances used in the past to fund the capital programme instead of taking out borrowing.
- 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. In determining whether borrowing will be undertaken in advance of need consideration will be given to the factors outlined in paragraph 6.4.2.
- The Council will take a flexible approach to the choice between internal and external borrowing as set out in section 6.3 of the report. The Council has been making use of its own cash funds to finance capital expenditure in order to minimise interest payments by deferring the need to borrow externally. However, the ability to externally borrow to repay the reserves and balances if needed is an important part of the strategy. Opportunities for debt re-scheduling or early repayment are likely to remain limited but will be considered if they meet the criteria set out in section 6.5 of the report.
- The Council's investment priorities remain security of capital first, liquidity second and return on investment third. The Council's investment policy has regard to Welsh Government and CIPFA guidance which places a high priority on the management of risk. The Council has adopted a prudent approach to managing risk and defines its risks appetite by the means set out in section 7.2.3 of the report.
- The Prudential and Treasury Indicators as outlined in in Appendix 11 to the Statement; these cover affordability and prudence and set out the limits for capital

expenditure, external debt and the structure of the debt. The purpose of each indicator is described in Appendix 12.

The following matters were raised by the Committee in considering the report –

- The Council's overall borrowings of £126m and the reasons for this level of indebtedness. The Committee was advised by the Director of Function (Resources)/Section 151 Officer that much of the debt is historic with the Council on its establishment in 1996 inheriting all of the outstanding borrowing of its predecessor Borough Council as well as a share of the loans of the former Gwynedd County Council. As regards the present Council's borrowings, its largest borrowing has been for £21m for the purpose of buying itself out of the Housing Revenue Account Subsidy; more recently the Council has embarked on a schools modernisation programme which to date has involved building three new primary schools funded by a combination of Welsh Government grant, and both supported and unsupported borrowing. Whilst the Council has been borrowing internally by using the cash it holds to fund capital expenditure, a decision was taken last year to externalise some of this borrowing in order to replenish the cash spent.

In response to a further question about the merit of long-term borrowing the Officer confirmed that the interest charges do tend to be higher for long-term borrowing because of the increased risk involved; but conversely, as the Council has to meet interest payments from its revenue budget the longer the loan period the lower the minimum revenue provision (MRP) charge which is the sum the Council must set aside to repay the principal of its external debt – with a long-term loan the MRP charge is spread over a longer period and is therefore significantly lower.

- Whether the Council is actively seeking to move away from the Public Works Loans Board as its principal source of borrowing as a result of the 100 bps increase in PWLB rates in November, 2019. The Committee was advised by the Director of Function (Resources)/Section 151 Officer that even with the increase PWLB loans remain on the whole cheaper than their commercial counterparts. The Authority will discuss the matter with its Treasury Management Advisors and if its borrowing requirements increase, it may have to consider taking an alternative course to borrowing with the PWLB.

In response to an observation about the importance of realising assets that are surplus to requirements in order to obtain income, the Officer confirmed that the Authority has in place an Asset Management Policy and seeks to dispose of surplus assets by ensuring that it sells at the right time in order to obtain the best price for the asset it is selling.

**It was resolved to note the Treasury Management Strategy Statement for 2020/21 and to forward the Statement to the Executive without further comment.**

**NO ADDITIONAL ACTION WAS PROPOSED**

## **5 INTERNAL AUDIT PROGRESS UPDATE**

The report of the Head of Audit and Risk which provided an update on Internal Audit's latest progress with regard to service delivery, assurance provision, and reviews completed was presented for the Committee's consideration.

The Principal Auditor highlighted the main points as follows –

- That two reports were finalised during the period (copies of which were made available to the Committee) – Managing the Risks of Brexit and Business Continuity Planning both of which resulted in a Reasonable Assurance opinion. No issues/risks were

raised on the former whilst four issues/risks for management attention were raised on the latter three of which are classed as “Major” due to the potential impact of the risk in this area. Notwithstanding, the outcome of the Internal Audit review is mainly positive and an action plan to address the issues raised has been agreed with Management and will be monitored through Internal Audit’s action tracking system.

- Four follow-up reviews have been finalised in the period - Direct Payments (first follow-up – Reasonable Assurance); Schools Information Governance Health Check (first follow-up – Reasonable Assurance); Governance Review at Ysgol Kingsland (first follow-up – Substantial Assurance) and **Primary Schools Income Collection (first follow-up – Limited Assurance)**. With regard to the latter although much work has been undertaken and progress made in addressing the issues/risks originally raised, in many cases it has been insufficient to address the issue/risk. Unrealistic timescales coupled with staffing issues across a number of departments have meant that a number of actions are still outstanding. In addition the Primary Senior Manager post will need to approve the new process and this post is yet to be filled. The follow up review also found that some of the management actions originally proposed even if fully implemented would not wholly address the issue/risk raised. Further actions have therefore been discussed and agreed with Management. Consequently the assurance rating has remained Limited; the action plan will be revisited by Internal Audit in September, 2020.

The Director of Education, Skills and Young People provided the Committee with an update on progress confirming that although the second follow-up is not scheduled until September, 2020 the Service will in the meantime be actively addressing the issues raised. Steps have and continue to be taken to respond to the Internal Audit review in order to improve the assurance rating. In response to questions about the vacant Primary Senior Manager post hampering progress and whether to avoid delay, the next Officer in line would then be expected to undertake the necessary actions, the Director of Education as well as confirming that an appointment to the post has now been made, clarified that in the period since his own appointment he had sought to build a team with a particular focus on sharing a leadership mind-set so as to avoid “putting all the Service’s eggs in one basket” and to ensure therefore that there is joint approach to different elements of the service. Three new senior lead positions have been established covering the primary and secondary sectors and wellbeing and safeguarding elements. Information is shared and support provided so that in the event of Officer absence service continuity can be maintained. In addition, the Service rather than taking a top down approach, is working in tandem with schools to develop and implement policy and it is also reviewing the way it engages with school governing bodies. In the strategic forums, schools through the Head teachers are now better placed to understand the reasons for policies and procedures and the consequences of not following them thereby helping schools’ buy into the changes. He was confident that the Service is now in a stronger position in terms of knowing what its objectives are in this respect and having a plan in place to achieve them.

The Director of Function (Resources)/Section 151 Officer confirmed that the ongoing work with regard to income collection policy has been focused on clarifying schools’ responsibilities particularly when they would be expected to transfer debt to the central finance team to pursue.

- No follow-ups of reports with a Limited Assurance rating are currently in progress. Three follow-ups are scheduled for the next financial year – System Controls (Logical Access and Segregation of Duties (Fourth follow-up/Limited Assurance); Sundry Debtors (Third follow-up/Reasonable Assurance) and Primary Schools Income Collection (Second follow-up/Limited Assurance). These may be added to dependent on the assurance provided for reviews conducted throughout the year.

- No High or Red issues/risks are currently outstanding and the performance of the Council in addressing outstanding issues/risks continues to improve. The overall

implementation percentage for High/Red/Amber issues/risks was 94% as at December, 2019.

- Progress with implementing the new and upgraded version of the action tracking system is now moving on at pace following the resolution of an IT compatibility issue. It is anticipated that Internal Audit will be in a position to issue the first report from the new system to the Committee at its next meeting in April, 2020.
- That work is currently in progress on five audits from the Operational Plan for 2019/20 as listed in Paragraph 34 of the report. Progress with concluding audits has been hampered by the loss of two members of the team effectively reducing the resource by 118 days. The plan has been amended accordingly and a recruitment process is currently underway.

In discussing the report, the Committee further raised the following matters –

- In light of the Internal Audit review with regard to managing the risks of Brexit which found that Members' input in connection with Brexit preparations had been limited hitherto, the Committee requested that the EU Transition Co-ordinator be invited to a Full Council briefing session to provide an update on preparations and progress to date.
- Notwithstanding the Internal Audit review of the Council's overall business continuity framework found that in the main it is managing the risk in this area very well and has a number of effective controls in place to ensure the continuity of critical services following a major event or emergency, the Committee questioned whether the nature of the issues/risks raised – 3 Major and 1 Moderate and the gaps identified - would be more appropriately covered by a Limited assurance rating. The Principal Auditor confirmed that the review found that the key business continuity plans and processes were in place and available; furthermore, a joint exercise with Flintshire County Council facilitated by the North Wales Councils Regional Emergency Planning Service in which those plans were tested, was successful.
- With reference to the First Follow-up of the Schools Governance Information Health Check the Committee questioned whether it was appropriate to be issuing a Reasonable assurance opinion when the work is still currently in progress. The Principal Auditor confirmed that progress will still be monitored via the 4 action tracking system until such point as all actions have been completed to the satisfaction of Internal Audit.
- The Committee sought assurance regarding the prospects for fulfilling the Internal Audit Operational Plan for 2019/20 given the current productivity rate and the vacancies in the Service. The Principal Auditor confirmed that the Plan has been adjusted to reflect the reduced resource available and low priority reviews have been deleted. The focus will remain on completing the reviews that correlate with Red/Amber risks on the Corporate Risk Register.

**Having considered the report and the further clarifications and assurances provided by the Officers at the meeting, the Committee resolved to note Internal Audit's latest progress in terms of service delivery, assurance provision, reviews completed, performance and effectiveness in driving improvements.**

**ADDITIONAL ACTION: EU Transition Co-ordinator to be invited to a Full Council briefing session to provide Members with an update on Brexit preparations with an invitation to attend to be extended also to the Committee's two Lay Members.**

## **6 DRAFT INTERNAL AUDIT STRATEGY 2020/2021**

The report of the Head of Audit and Risk incorporating a draft Internal Audit Strategy for 2020/21 was presented for the Committee's consideration and review.

The Principal Auditor reported that the draft IA Strategy is presented to the Committee for comment and to determine whether it meets the Council's assurance requirements. Following its evaluation by this Committee and the incorporation of any subsequent feedback, the Head of Audit and Risk will present a final Internal Audit Strategy including an Operational Plan to the Audit and Governance Committee for approval at the 21 April, 2020 meeting.

The Officer explained that the Corporate Risk Register has been used to determine the priorities for internal audit activity with the red and amber residual risks on the register being priority areas for Internal Audit review. Currently, the Corporate Risk Register includes 12 areas where the residual risk has been assessed as red or amber – the top 5 are highlighted in the Strategy. In addition, meetings have been held with the Council Leader, the Senior Leadership Team and all Heads of Service to discuss their views on the proposed areas for review and their specific areas of concern. Those concerns which reflect areas of potential and/or emerging risks are outlined in the Strategy and will be kept on Internal Audit's radar and reviewed as proposed.

In considering the report the Committee questioned the omission of an operational plan for 2020/21 as a component of the Strategy. The Principal Auditor clarified that due to the uncertainty around recruitment an operational plan has not as yet been developed. Once recruitment is complete a plan will be developed and kept under review as necessary and it will be adjusted in response to changes in the Council's business, risks, and operations and programmes to ensure that it remains responsive and relevant.

With regard to areas of concern, the Committee briefly discussed the risks around the rising number of Looked After Children and the increasing complexity of cases which has financial implications for the Council. The Committee was assured by the arrangements in place for Scrutiny and Executive oversight of service expenditure and budget management in this area.

**It was resolved to note the Internal Audit Strategy for 2020/21 accepting that the approach and priorities as outlined meet the Council's assurance needs.**

#### **NO ADDITIONAL ACTION WAS PROPOSED**

#### **7 EXCLUSION OF THE PRESS AND PUBLIC**

**It was resolved 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 Public Interest Test presented.**

#### **8 CORPORATE RISK REGISTER UPDATE**

The report of the Head of Audit and Risk incorporating the revised Corporate Risk Register and associated appendices was presented for the Committee's consideration.

The Risk and Insurance Manager reported that the Senior Leadership Team reviews a small number of risks each month. The frequency with which each individual risk is reviewed depends on the perceived residual risk level; the higher the residual risk level the more frequent the review hence red risks are reviewed monthly, amber risks are reviewed quarterly, yellow risks are reviewed every six months and green risks are reviewed every nine months. The Officer highlighted that as a result of the latest review by the SLT in January, 2020 the following changes/amendments have been made –



- No risks have been closed or removed from the Corporate Risk Register
- One new risk has been added to the register in clarification of the Council's overall safeguarding responsibilities as opposed to its safeguarding responsibilities in connection with the risk of harm to children and vulnerable adults which remains a separately classified risk.
- That due to changing circumstances and/or increase/decrease in control activity the level of residual and/or inherent risk has changed for YM9, YM11, YM29, and YM40.
- The top (red) risks to the Council have been identified as YM28 (IT related), YM29 (Gypsies and Travellers accommodation needs related), YM40 (Brexit related) and YM41 (Funding related).

In considering the report the Committee discussed whether or not the Coronavirus outbreak should be recognised as a risk within the Corporate Risk Register. The Committee was advised that the risk needs to be evaluated and defined at this stage being mindful that some aspects may already be covered by current risk planning arrangements e.g. Business Continuity Planning (YM9); the matter will be discussed at the SLT's next review meeting.

The Committee's Lay Members also requested an update on the draft Risk Verification Policy which was considered at the last meeting in December, and whether the suggestions which had been offered for ensuring the robustness of the policy had been taken on board. The Director of Function (Resources)/Section 150 Officer confirmed that the proposed policy will be presented for Executive approval on 17 February, 2020 and that the comments made have been reflected in the policy and methodology. A copy of the Executive report will be provided to the Committee's Lay Members.

**It was resolved to note the amendments to the Corporate Risk register as part of the Council's arrangements for managing its risks and to take assurance that the Senior Leadership team has recognised and is managing the risks to the achievement of the Council's priorities.**

**NO ADDITIONAL ACTION WAS PROPOSED**

**Councillor Peter Rogers  
Chair**