

AUDIT AND GOVERNANCE COMMITTEE

Minutes of the meeting held on 12 February, 2019

PRESENT:	Councillor Peter Rogers (Chair) Councillor Robert Llewelyn Jones (Vice-Chair) Councillors John Griffith, Richard Griffiths, Dylan Rees, Gwilym O. Jones, Alun Roberts Lay Members: Dilwyn Evans, Jonathan Mendoza
IN ATTENDANCE:	Chief Executive Head of Function (Resources) and Section 151 Officer Head of Internal Audit & Risk (MP) Environmental Health Operations Manager (KR) (for item 3) Risk and Insurance Manager (JJ) (for item 12) Committee Officer (ATH)
APOLOGIES:	Councillors Margaret M. Roberts, Robin Williams (Portfolio Member for Finance)
ALSO PRESENT:	Councillor Llinos Medi Huws (Leader of the Council), Accountancy Services Manager (BHO), Principal Auditor (EW), Senior Auditor (NW), Senior Auditor (JR)

1. DECLARATION OF INTEREST

No declaration of interest was received.

2. MINUTES OF THE 4TH DECEMBER, 2018 MEETING

The minutes of the previous meeting of the Audit and Governance Committee held on 4th December, 2018, were presented and were confirmed as correct.

Arising thereon –

- The Head of Audit and Risk confirmed that the North Wales Chief Auditors Group met in January, 2019 as scheduled; the Group is now working on a self-assessment that can be used across North Wales to assess Audit Committees' compliance with CIPFA's new guidance on the role of Audit Committees in Local Authorities and the Police which has extended the scope of audit committees. Members of the Committee will therefore be receiving a questionnaire shortly to obtain their views on where they feel the Committee is at currently.
- The Head of Audit and Risk tabled information on the reimbursements made to operators for concessionary travel for each of the years from 2014/15 to 2017/18 as requested by the Committee at its previous meeting when considering the Concessionary Travel Fraud Internal Audit review (following a publicised case of fraud against Gwynedd Council). The Officer said that she had also contacted Welsh Government to seek its views on whether concessionary travel payments had varied across Wales following the fraud. Although the Welsh Government's Auditor did not

confirm that that was the case, the data shows that there has been a subsequent reduction in concessionary travel payments. As a follow-up to the fraud, North Wales Police and Welsh Government intend to hold a workshop in North Wales to which each Council's Chief Audit Executive is invited with the aim of looking at areas of fraud that can be addressed generally across public services and more specifically, concessionary travel.

- The Head of Audit and Risk tabled information about the position of Councils in Wales with regard to school meals income collection/school meals debts for 2017/18 which the Committee had also requested at its previous meeting. The information was derived from a BBC news piece on school dinner debts in Welsh Councils. The Officer said that although the article refers to the majority of councils in Wales, Anglesey is one of the councils omitted because it is not able to give a total accurate arrears position at present due to the fact that there are two systems in operation with some schools operating on a cashless basis whilst others are not. It is envisaged that all the Council's schools will have transferred to the new system by September thereby enabling the Council to provide a reliable figure for school dinner arrears at that time.

The Head of Function (Resources)/Section 151 Officer confirmed that some schools currently record school dinner arrears on individual registers in classes; some calculate the sum total on a summary form; some are part cashless, part cash whilst others are completely cashless meaning there are different versions of the system each holding different pieces of information. The objective is to reconcile those pieces of information into one global arrears figure bearing in mind also that the figure changes on a daily basis. The most opportune time to make the calculation would be at the end of the Easter term when the figure is static for a fortnight - a figure can be produced at that time. Schools will be transferring to the new cashless system over the summer term with the expectation that the new system will be operational across all schools in September.

In response to a question as to whether there is an agreed procedure for recovering school dinner money debt, the Head of Function (Resources)/Section 151 Officer clarified that it is a matter for each school to refer debts over a certain level – currently £50 - to the Central Debt Recovery team which will then issue a bill and a reminder and if still not paid, will then forward the debt to the Council's Debt Collection Agency. The amount of work expended on recovery depends on the size of the debt, with the aim being to strike a balance between the level of debt and the cost of recovery whilst making it clear that the Council will where necessary take enforcement action to recover debts. The new system will require parents to pay for school dinners in advance and will provide them with a credit account thereby making it easier to both manage parents' credit position and to contact them should the need arise.

The Committee having regard to the range of school dinner debts recorded in the BBC article, suggested that lessons could be learnt from contacting the Council with the lowest debt level i.e. Rhondda Cynon Taf at £770.56 to establish what practices it has implemented to help it manage school dinner money and keep the debt level low.

A member of the Committee further highlighted that this Council has in the past sought to make a case for extending free school meals to all school children in Wales thereby removing the social stigma that still attaches to claiming and being a recipient of free school meals.

The Head of Function (Resources)/Section 151 Officer said with regard to best practice in other councils that with the introduction of Universal Credit, the free school meals system has changed. Whereas previously a child would receive free school meals if his/her parents were in receipt of one of six out of work benefits, Universal Credit brings

both out of work and in work benefits together. A child whose parents are in receipt of Universal Credit will receive free school meals regardless of whether the benefit that applied previously was in-work or out-of-work. Areas where Universal Credit has been rolled out for a longer period will therefore have more children who are entitled to free school meals than those areas where it has only been introduced recently i.e. Anglesey where Universal Credit was only introduced in December, 2018 and where the number of people receiving it, and consequently the number of children with entitlement to free school meals, is lower than for example in areas such as Torfaen.

In relation to there being a stigma attached to having free school meals, the Officer said that the new cashless payment system will remove the stigma as it does not distinguish those receiving free school meals from their peers in the same way as physically collecting school dinner money does.

The Committee noted the information presented.

ACTIONS PROPOSED:

- **Head of Audit and Risk to inquire with Councils in Wales where the school dinner debt level is low what practices they have in place to manage school dinner debt.**
- **The Executive to be asked to consider lobbying Welsh Government to introduce free school meals to all school children in Wales.**

3. CORPORATE HEALTH AND SAFETY ANNUAL REPORT 2017/18

The Corporate Health and Safety Annual Report for 2017/18 was presented for the Committee's consideration.

The Environmental Health Operations Manager summarised the main considerations to be drawn from the report as follows –

- Significant work has been carried out to revitalise Health and Safety within the Council which has involved Senior Officers, Human Resources and Corporate Health and Safety. The development of a new Corporate Health and Safety Policy clarifying roles and responsibilities for all stakeholders within the Council has been the key work stream at a senior level. In addition, the revised role of Health and Safety Co-ordinators to being more proactive in improving health and safety is a significant change in the arrangements.
- For 2017/18, a total of 1322 incidents was recorded which is a reduction of 111 from the number of incidents in the previous year. A total of 249 employee related incidents were recorded which is 46 fewer than for the previous year. An analysis of the incidents is provided in the report and where trends or patterns have emerged, work has been done to reduce the risk. This should have helped reduce the number of incidents and is a continuous process.
- A total of 20 incidents were reported to the Health and Safety Executive (HSE) as required by RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) with the HSE being provided with a report on each incident. No follow-up action was taken by the HSE indicating that it was satisfied with the work done to prevent reoccurrence.
- A total of 92 short training courses on a range of health and safety subjects were provided during the year which were attended by a total of 892 members of staff.
- Partnership work was carried out between the six North Wales Corporate Health and Safety teams with information being provided by the Welsh Local Government

Association to assist with Health and Safety work streams. Gwynedd Council has provided Occupational Health and Training support.

- Information to assist the HSE has been provided. Although there were no interventions by the HSE in 2017/18, the Corporate Health and Safety team carried out 336 proactive interventions to assist with Health and Safety issues. A monthly Health and Safety bulletin was also introduced to raise awareness of health and safety issues within the Council.
- A Corporate Health and Safety Action Plan has also been developed to further improve Health and Safety standards within the Council.

The Committee considered the information and made points as follows –

- The Committee noted that the overall message from the report is positive and reflects an improving Health and Safety culture at the Council; the Committee welcomed the greater prominence and visibility given to Health and Safety within the Council along with the actions taken to place Health and Safety on a sound footing.
- The Committee noted that although the total number of incidents has reduced from the previous year, the number of physical assaults (client and pupil related incidents) has almost doubled in the same time from 56 in 2016/17 to 103 in 2017/18. The Committee noted also that incidents under a separate category for physical assaults by a person were recorded although no satisfactory differentiation was made between the two categories. The Committee sought an explanation for the rise in physical assaults and how this trend might be countered.

The Chief Executive said that the data includes incidents of physical assaults in schools both mainstream and special including pupils with special/additional learning needs in mainstream schools. It is possible that incidents in schools have contributed to a higher percentage of incidents overall. The increase in 2017/18 could also be partly attributed to the fact that schools now have in place a Schools' Health and Safety Policy based on the Corporate Health and Safety Policy which will have influenced recording and reporting of incidents. The revised Health and Safety Policy was implemented in 2017/18 and sets out more clearly than previously the expectations for schools specifically those in terms of the role of Head Teachers, senior teachers and teachers in relation to reporting incidents to the school's Senior Leadership Team.

Notwithstanding, the reasons for the increase need to be interrogated further with the Corporate Health and Safety Advisor as regards how the results from one year to the next have been moderated and to establish whether the increase in the number of physical assaults is a statistical increase due to clearer reporting or whether it is due to an increase in concerns.

The Environmental Health Operations Manager said that a comparison of the data for 2017/18 against the data in next year's 2018/19 annual report may provide a clearer indication of how the efficiency of reporting has improved in the context of the number of incidents recorded.

- The Committee noted that the increase in physical assaults reflects recent trends in the Health Service where assaults on frontline staff have been much publicised; the Council should seek to obtain the same level of publicity for challenging behaviour against Council staff.
- The Committee noted that accidents and/or injuries sustained whilst on Council duty or more particularly by members of the public on Council premises may result in claims against the Council which can be costly. The Committee sought clarification of whether the Council tracks the number of health and safety claims made against the Council and their resultant costs.

The Head of Function (Resources)/Section 151 Officer said that the Council's Insurance and Risk Manager maintains a record of the number of claims made against the Council as well as their outcome in terms of the claims accepted and those challenged.

The Head of Audit and Risk said that as part of the Audit Committee's new wider governance responsibilities, it will be presented with an annual Insurance Report at its next meeting in April which will cover issues relating to claims against the Council.

- The Committee noted and welcomed the training sessions provided for Council staff during the reporting period as an important preventative measure in maintaining health and safety and work.

It was resolved to accept the Annual Corporate Health and Safety Report for 2017/18 and to note its contents noting also that there is a requirement for the Executive to consider Health and Safety arrangements and performance.

ACTIONS PROPOSED: The Corporate Health and Safety Officer be asked to clarify the following –

- **Whether there are any specific reasons for the increase in the number of physical assaults and whether the upturn reflects an emerging trend.**
- **The differentiation between the two categories of "Physical Assault by Person" in the Types of Incident Table at Page 6 of the report.**

4. ANNUAL AUDIT LETTER 2017/18

The Annual Audit Letter for the Isle of Anglesey County Council for 2017/18 was presented for the Committee's consideration. The Letter confirmed that on 28 September 2018, the Auditor General issued an unqualified audit opinion on the Council's financial statements confirming that they present a true and fair view of the Council's financial position. The key matters arising from the audit were reported to the Audit Committee's September 2018 meeting.

The Committee noted the Audit Letter and noted also that it comments on the financial challenges which the Council is facing in seeking to set a balanced budget against a backdrop of diminishing general fund balances and that it refers specifically to demand pressures in Children and Adults' Social care as key drivers of the £3.3m deficit which the Council is projecting on the provision of services in 2018/19. In light of this the Committee sought clarification of the following –

- Whether the Health Service contributes towards the cost of children's care placements or is asked to do so.
- Whether the Authority is seeking a long-term resolution to the shortage of children's placements locally by increasing the capacity on the Island thereby reducing the use of out of area placements which account for a large proportion of the expenditure on Children's social care.

The Chief Executive said the Authority has specific responsibilities in relation to safeguarding and promoting the welfare of children whom it looks after; over the past three years the Authority has worked hard to ensure that the services it provides for its looked after children are of the highest quality with significant improvements having been made in that time. There are however instances where the needs of a looked after

child are also health related, and in those cases the Authority does engage with the Health Service.

The Officer said that the Audit Letter also highlights the Council's diminishing General Fund balances as a risk and that it observes that it is not sustainable to rely on reserves to support the ongoing cost of demand led care/Children's Services. The Officer added that the risk posed by demand pressures on Children and Adults' Social care budgets is currently an issue for all local authorities in Wales and is not unique to Anglesey.

With regard to addressing the shortage of placements locally, the Leader of the Council said that the Authority has received Executive approval both for the Small Group Homes Model of care which entails the Council utilising appropriate dwellings from its own housing stock to provide accommodation for up to 2 looked after children and for an enhanced Foster Carers' support package which is intended to facilitate the recruitment of Foster Carers. Whilst these measures will bring savings in the long-term by reducing the use of distance placements/private Foster Carers there will always be children in the Authority's care whose needs are such that they require specialist placements that are not available in-county. The Welsh Government has launched a £100m Health and Social Services Transformation fund to develop new models of health and social care through the Regional Partnership Boards. Currently the six North Wales authorities along with BCUHB are working on a Children Plan.

It was resolved to accept the Annual Audit Letter for 2017/18 and to note its contents.

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 Head of Audit and Risk highlighted the main points as follows –

- That one audit review report was finalised during the period relating to **IT Cyber Security** which resulted in a Reasonable Assurance opinion (the Committee was provided with a copy of the full report). Although the review concluded that overall the Council has a number of effective operational controls in place to manage the risk to cybersecurity and to prevent and reduce the impact to Council Services, systems and information of malicious, external attacks, it also identified that a lack of proactive monitoring of the extent and nature of current and emerging cyber threats faced by the Council could compromise success in this area. A total of five issues/risks were raised and an Action Plan to address those issues has been agreed with Management.
- That one follow-up review was finalised during the period which was a third follow –up review of **Logical Access and Segregation of Duties**. A review of logical access and segregation of duties controls was undertaken initially as part of the Annual Internal Audit Plan in 2014/15; this resulted in a Red rating with 14 recommendations and one suggestion being made. A first follow-up review in January, 2015 again resulted in a Red rating and found that 12 recommendations remained outstanding. A second follow-up review took place in December 2017 which confirmed that 5 recommendations remained unaddressed. Consequently, this review resulted in a Limited Assurance opinion in accordance with the new audit approach. In December 2018, a third follow-

up review was undertaken. This confirmed that from five issues/risks outstanding, two have been addressed and three - which relate to segregation of duties in Payroll - are in the process of being addressed.

The payroll section is currently undergoing a restructure. Once the Northgate project is finished, the new structure will be implemented. The first round of consultations on the new structure has just taken place and will progress during January, 2019. Once implemented in full, the Accountancy Service Manager is confident that this will address the remaining issues/risks originally raised. Although progress has been made, taking consideration of the results of the follow-up review, the assurance level of the report remains as Limited Assurance with a further follow-up planned for July, 2019.

- That two reports with a Limited Assurance rating are scheduled for a follow-up review before the end of the financial year – Child Care Court Orders under the Public Law Outline and Payment Card Industry Data Security Standard Compliance. Both follow up reviews were in progress at the time of the drafting of the report and it can be confirmed that since writing the update the follow-up review of the Child Care Court Orders under the Public Law Outline audit has been finalised and has been raised to Reasonable Assurance.
- That since the appointment of the two new Senior Auditors, work on the Internal Audit Operational Plan for 2018/19 (Appendix A to the report) has progressed well. However, given the length of these vacancies together with protracted investigations, significant follow-up work and the maternity leave of the third Senior Auditor, the Service's target for undertaking 80% of the red and amber residual risks in the Corporate Risk Register will be difficult to achieve. To date, 35% of the red and amber residual risks have been covered and work in five other areas denoted as red and amber residual risks in the Corporate Risk Register is ongoing. Those areas are noted in the report. Work is also ongoing in three specific areas at the request of Heads of Service. The Service is also involved in two ongoing investigations which are both nearing their conclusion. Areas that are not addressed this year will be rolled forward into and prioritised in 2019.
- That an independent Risk Management Health Check was undertaken by the Council's insurers, Zurich Municipal (ZM) which focused on the six areas of risk management activity set out in paragraph 26 of the report. ZM concluded that risk management was at a Managed level within the five levels of maturity in the Performance Model used. This was largely as expected and an Action Plan is being developed to address all the observations/recommendations raised by ZM a summary of which is provided in the report.

The Committee considered the report and made points as follows –

- The Committee noted with regard to the Intrusion Prevention System Rate of Attack diagram within the IT Cyber Security Report that a sharp increase in the rate of attack had occurred over the course of three days at the end of November, 2018. The Committee sought clarification of what this increase might indicate and whether the source of attack was known.

The Committee was informed that foreign state actors can be at the source of cyber-attacks on public bodies and that they will seek to cover their tracks by conducting their activity under the guise of another country. Most UK public sector bodies experienced raised attack levels in the second half of 2018 which have been reported as resulting from a specific source country stepping up its cyber activities as part of the tensions in the period following the Salisbury incident. Cyber awareness training for all staff and Elected Members is being provided.

- The Committee noted that at the time of the review 92% of staff with computer access had read and accepted the Information Security Policy meaning that 8% of staff had not done so thereby posing a risk to the Council. The Head of Audit and Risk said that the 8% could have included staff on sickness absence, holiday leave and maternity leave at the time of the review and that the percentage figure is likely to have reduced in the period since the review was conducted. The Internal Audit Service was of the opinion that 92% represented a reasonable level of compliance.
- The Committee noted that the review highlighted that a lack of proactive monitoring of the extent and nature of current and emerging cyber threats could compromise success in this area which it found worrying. The Committee sought clarification of whether steps were being taken to rectify this shortcoming.

The Head of Audit and Risk said that the necessary data is available and is being monitored but not at Head of Service level; scrutiny and reporting arrangements need to be strengthened at this level, neither is there a specific post within the IT Service and structure that carries this responsibility with a number of posts sharing aspects of Cyber Security responsibilities meaning that proactive monitoring is unintentionally overlooked.

- The Committee noted with regard to the third follow-up review of Logical Access and Segregation of Duties that after three years and three updates the assurance rating remains Limited. The Committee suggested that after this length of time the review may have lost relevance and that the potential to draw lessons from it is limited.

The Head of Audit and Risk said that although the audit was inherited from a previous period and a previous audit system, the segregation of duties is an important control to mitigate against the risk of fraud.

The Head of Function (Resources)/Section 151 Officer said that notwithstanding the specific controls have not been implemented to the satisfaction of the Internal Audit Service, there are other safeguards in place to ensure the accuracy and reliability of Payroll and to make certain that the Authority only pays employees that are actually at the Council and working for it. Whilst it is a reasonable control to put in place, the structure of the Payroll Team currently means that it cannot be implemented. Once the restructure is complete which will introduce a formal System Administrator to the team, the segregation of duties within the system can be implemented in a properly controlled way. Additionally, the Authority's financial systems – including Payroll - are subject to audit by External Audit as part of the audit of accounts process. The Auditors therefore need to be assured that the information which the Payroll system generates is accurate and they will undertake systems controls checks to that end; no issues have been identified with the Payroll system by External Audit. However, achieving segregation of duties within what is a small team is inherently difficult. The Officer confirmed that the audit covered the segregation of duties across a range of systems with Payroll being the only system where there are issues outstanding due also to the fact that Payroll has been part of a lengthy improvement project which is seeking to integrate Payroll with part of the Human Resources system.

- The Committee noted that the audit approach is now fully risk based; in light of this, it queried whether it is possible that some existing audits may drop off the plan as their risk status changes.

The Head of Audit and Risk said that the areas that are being carried forward into 2019 are all in the Corporate Risk Register.

It was resolved that having considered the information presented and the clarifications provided by Officers , the Audit and Governance Committee accepts and notes Internal Audit's latest progress in terms of its service delivery, assurance provision, reviews completed, performance and effectiveness in driving improvement.

NO ADDITIONAL ACTION WAS PROPOSED

6. OUTSTANDING INTERNAL AUDIT ISSUES AND RISKS

The report of Head of Audit and Risk providing an update on the status and detail of the outstanding risks that Internal Audit has raised as at 27 January, 2019 was presented for the Committee's consideration.

The Head of Audit and Risk reported that the graph at 3.4 of the report shows that the Council has been steadily improving its performance with regard to addressing issues and risks raised by Internal Audit with the overall implementation percentage at 93%. A slight dip in performance in addressing High/Red/Amber issues and risks from 93% in Quarter 3 to 87% in Quarter 4 to date is attributable to several issues/risks becoming due in December for the Learning Service which coincided with a change in staff responsible for updating the 4action system. As at 27 January, 2019, no High risks were outstanding; 7 Medium risks were outstanding and 12 Low risks and, from the previous audit system, 1 Red risk was outstanding, 18 Amber risks, 18 Yellow risks and 3 Green risks. Details of the outstanding risks/issues were provided in Appendix A to the report.

The Officer said that many of the recommendations that remain within the system were made under the previous Internal Audit administration and system and those may not be as relevant to the new system/approach. Heads of Service have been advised to postpone the requirement to keep recommendations updated until the new system is fully implemented pending the resolution of some software issues. Therefore, rather than undertaking a data cleansing exercise with regard to existing data, a decision has been taken with the Section 151 Officer's approval to start anew. Issues and risks that have been raised since the new audit approach was introduced will be inputted into the new system. The Officer confirmed that the recommendations relating to the Child Care Court Orders under the Public Law Outline which are included in Appendix A have now all been addressed. It is anticipated that Internal Audit will be able to provide a report based on the new system to the Committee's July meeting.

The Committee noted that an Amber risk in relation to Housing Rents – Readiness for Universal Credit remains outstanding and that the risk arises from the Housing Rents Orchard system not being up to date with the current recovery process. The Committee sought clarification of whether having identified the risk, steps are being taken to address the issues arising given that the longer they remain unactioned the greater the implications for the Council in terms of the income it should be collecting as part of rent arrears recovery.

The Head of Audit and Risk said that the Service would look at this particular issue as part of the current audit of Welfare Reform and that she would update the Committee at its next meeting.

It was resolved to note the Council's progress in addressing the outstanding Internal Audit recommendations and issues/risks raised since April 2014 as reflected in the report and in the oral update provided by the Head of Audit and Risk.

NO ADDITIONAL ACTION WAS PROPOSED

7. TREASURY MANAGEMENT STRATEGY STATEMENT 2019/20

The report of the Head of Function (Resources)/Section 151 Officer incorporating the Treasury Management Strategy Statement for 2019/20 was presented for the Committee's consideration. The report set out the Council's proposed approach to investment and borrowing arrangements for 2019/20 in light of current and forecasted economic conditions.

The Head of Function (Resources)/Section 151 Officer reported on the main points of the Strategy as follows –

- That in setting the Treasury Management Strategy, 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. The economic outlook is set out in detail in Appendix 3 to the report with the main points summarised in section 3.1. The main message is that increases in interest rate levels are expected to be gradual and minimal over the course of the next few years with the returns on investment also remaining low.
- The Council's current external borrowing position is set out in Table 2 of the report which provides a summary of the Council's current outstanding loans.
- One of the main functions of Treasury management is the funding of the Council's capital plans. The Council's capital programme for 2019/20 through to 2021/22 is set out in Table 3 of the report which also notes how the capital programme is to 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. The impact of the Council's capital expenditure plans and the MRP charge on the CFR and the level of external and internal borrowing (i.e. borrowing from the Council's own cash balances) is shown in Table 4 of the report.
- The Council continues to maintain an under borrowed position. 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 over the medium term the returns on investment are expected to continue to be below long-term borrowing rates. Consideration will be given to debt re-scheduling having regard to the factors outlined in section 6.5.2 of the report.
- The Council will take a flexible approach to the choice between internal and external borrowing. 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. The pros and cons of external v internal borrowing in the current climate are set out in section 6.3 of the report.
- The Council's investment priorities remain security of capital first, liquidity second and return on investment third. The Council will make investments with counterparties in accordance with the creditworthiness policy set out in section 7.2 of the strategy.
- That there are no proposed amendments to the core principles and policies of the 2018/19 Statement.

The Committee considered the report and raised points as follows –

- The Committee noted that the average interest rate on PWLB loans is 5.26%. The Committee sought clarification of whether it would be to the advantage of the Council were it to seek to restructure its debts in order to reduce the interest payments.

The Head of Function (Resources)/Section 151 Officer said that the Authority regularly reviews its loans for opportunities to make savings and assesses the cost of the penalty payments that are incurred as a result of early repayment of loans against the savings made by not paying the interest. The penalties for early repayment are nearly always greater than the savings made on interest payments.

- The Committee noted that the Council makes use of Link Asset Services to provide advice on treasury management. The Committee sought clarification of whether the Council's advisors are assessed for value for money given that the funds which the Council has available to invest are limited.

The Head of Function (Resources)/Section 151 Officer said that the Council's advisors also provide advice on matters other than investment including on borrowing and they provide services by way of facilitating access to money markets should the Council wish to avail itself of the opportunity; training on Treasury Management including for Elected Members, and by keeping the Council up to date on credit ratings. The contract was tendered and was awarded to Link Asset Services on the basis of a competitive fee which is deemed to provide value for money.

- The Committee noted that the Council has made use of internal borrowing to fund capital expenditure. The Committee sought clarification of whether the only criterion in taking this approach is interest rates in order to reduce the cost of servicing debt.

The Head of Function (Resources)/Section 151 Officer said that the cost of borrowing externally is currently greater than the returns were the Council to put the cash on deposit meaning that it is sensible to use surplus cash balances instead of taking on new external borrowing. To obtain better returns would require the Council to take a riskier approach to investment which would necessitate a change in the Treasury Management Strategy; this is not being considered.

It was resolved to accept the Treasury Management Strategy Statement for 2019/20 and to recommend the Statement to the Executive without additional comments.

NO ADDITIONAL ACTION WAS PROPOSED

8. INTERNAL AUDIT STRATEGY AND ANNUAL PLAN 2019/20

The report of the Head of Audit and Risk incorporating the Internal Audit Strategy and Annual Plan for 2019/20 was presented for the Committee's consideration.

The Head of Audit and Risk reported on the main points as follows –

- That since April, 2017 the Internal Audit Service has adopted a fully risk-based approach to its work with further efficiencies having been achieved by also adopting lean audit which is a methodology based on Systems Thinking.
- That traditionally, auditing was mostly focused on evaluating the past and ensuring compliance. Compliance is Management's responsibility with Internal Audit providing assurance on the appropriateness and effectiveness of the Council's system of internal control as implemented by Management. Specifically, the Internal Audit Service will be providing global assurance to the Committee and senior management on the

effectiveness of internal governance and risk processes and providing assurance in support of the Annual Governance Statement.

- That there are also other sources that can be used to provide assurance that risks are being effectively managed. The three lines of defence model (as described in the report) is a framework that can be used to bring these sources of assurance together and will give assurance to Members, sector regulators and external auditors that appropriate controls and processes are in place and are operating effectively. The Service's new risk management software (4risk) provides a facility to record the various three lines of assurance in one place, which will be rolled out in 2019/20.
- That in order to provide a flexible approach and to take account of changes in the organisation and the risk environment, the Internal Audit Service has aligned its work with the corporate risk register and will meet with senior management to discuss their latest risks, concerns and requirements. In this way, the Service will be fully up to date with, and aware of, emerging issues and will be able to focus its resources in areas of greatest priority and risk.
- Therefore, instead of being a fixed annual plan, the Audit Plan for 2019/20 will change during the year following changes to the corporate risk register. As a result, the Strategy does not provide a definitive list of the projects that the Service will carry out during 2019/20 but provides the audits that the Council has identified as its main priorities currently as listed in Appendix A to the report.
- That in accordance with the agreed Internal Audit Charter, all risks/issues included within audit reports with Limited or No Assurance ratings (according to the definition of assurance ratings set out in Appendix B to the report) will be followed-up.
- A new shorter one-page report will aid a new bilingual reporting protocol, which will also for the first time enable the Service to provide final agreed internal audit reports to the Executive Portfolio Holders and members of this Committee thereby increasing transparency and accountability and improving the quality of assurance provided. Agreed action plans will be recorded in a separate operational document shared only between the Service and Internal Audit.
- The Service has in place a quality assurance and improvement programme to ensure continuing improvement of the Internal Audit Service. The Service will adopt a streamlined suite of performance measures as outlined in Appendix C to the report in order to determine the effectiveness of its work.
- That delivery of the strategy will enable the Head of Audit and Risk to fulfil the requirement to produce an annual internal audit opinion to support the Annual Governance Statement.

The Committee considered the report and made points as follows –

- The Committee noted that within the strategy, the focus of the Internal Audit Service's work has shifted from ensuring compliance (ensuring that policies, processes or procedures are being implemented) to providing assurance (ensuring the appropriateness of policies, processes or procedures for the purpose of managing risk and meeting regulations). The Committee queried whether this expands the Internal Audit function.

The Head of Audit and Risk clarified that based on the Strategy, the Internal Audit Service will not seek to instruct Management on what to do but rather advise Management that what it may or may not be doing is exposing the Council to risk.

- The Committee noted that agreed action plans will be shared only between the service and Internal Audit meaning that the Committee will not have sight of them. The Committee queried whether this caveat restricts the ability of the Committee to

exercise its oversight role in being sure that Management is responding to issues/risks raised in the right way at the right time.

The Head of Audit and Risk clarified that the actions plans resulting from Limited or No Assurance reports will continue to be presented to the Audit Committee. For reviews where the Assurance rating is Reasonable, the risks identified are not likely to be significant enough to warrant their being brought to the Committee's attention the aim being to ensure that the Audit Committee gains an insight into the key sources of risks at the Council and how they are managed rather than presenting the Committee with each and every risk/action raised. The significance of a risk is determined by the Council's risk appetite with every risk scored against the Council's risk matrix. The risk is set at where the Council pitches its Red, Amber and Yellow risks. Areas where Red and Amber risks have been identified are likely to be the subject of a limited assurance audit report and will therefore be brought to the Committee. In accordance with the Council's risk appetite, areas where the risks are Yellow or moderate do not need to be brought to the Committee's attention.

- The Committee queried whether adopting a more strategic approach to managing risk makes the likelihood of a potential issue being missed, greater.

The Head of Audit and Risk said that being a small team, the Internal Audit Service needs to focus on the risks which the Council deems are the most significant which were they to materialise, would most likely affect the organisation's achievement of its corporate objectives. The Council has determined that the risks contained within the Corporate Risk Register are the most important, hence the Internal Audit Service's alignment of its work with the corporate risk register as being the most effective and focused way of ensuring those risks are managed. The Officer said that during 2019/20, the Service will also undertake a piece of work on fraud specifically, areas where the potential for fraud and/or irregularities are greatest. There are therefore several aspects to the Internal Audit Service's approach to reviewing the effectiveness of the Council's system for internal control encompassing the corporate risk register, assessing the Council's vulnerability to fraud as well as horizon scanning to see whether any emerging issues elsewhere could impact on the Council.

- The Committee noted that monitoring progress against a plan that is constantly changing is recognised as a challenge in the Strategy. The Committee sought clarification of whether the Service still intends to produce a forward programme of activity which will also detail the sequence in which reviews will take place the reasoning being that a structured programme with timescales is more helpful to the Committee in terms of knowing what is being planned, when it will happen and when the Committee will know about it.

The Head of Audit and risk said that the list of priority audit areas as presented takes account of the days available to the Service and that the list represents the sum of what the Service aims to achieve in the period. However, having regard to the fact that circumstances change and that new issues may emerge, areas of lesser priority may fall off the list. The Officer said that it is important that the list of priorities contains an element of flexibility thereby allowing the Internal Audit Service the scope to respond to issues that may appear at short notice. The Internal Audit update report which the Committee receives quarterly will provide the target/actual date of reporting on each area to the Committee and whether this has been achieved.

- The Committee sought clarification of whether the move towards a risk based audit approach will affect the Service's productivity in that the Service's work is more likely to be reactive than planned meaning that it will be breaking off from whatever assignment it is doing to respond to other things as they arise.

The Head of Audit and Risk said that the Service will not be spending valuable resources on planning reviews long in advance which when the time comes may not be carried out because they have been superseded by events or by other more important requirements. Whilst the Service is committed to undertaking and concluding a review that has been prepared for, the new agile way of working will enable it to question the scope of audits for their ongoing relevance.

It was resolved to approve the Internal Audit Strategy for 2019/20.

NO ADDITIONAL ACTION WAS PROPOSED.

9. 2018/9 CLOSURE OF ACCOUNTS PROCESS

The report of the Head of Function (Resources)/Section 151 outlining a proposed amendment to the 2018/19 accounts approval process was presented for the Committee's consideration.

The Head of Function (Resources)/Section 151 Officer reported that changes to the statutory timetable for the publication of the draft and final Financial Statements under the Accounts and Audit (Wales) Regulation as amended by the Accounts and Audit (Wales) (Amendment) Regulations 2018 mean that for the 2018/19 and 2019/20 financial years the draft financial statements must be signed and published by 15 June (as opposed to 30 June in previous years) and the final audited financial statements must be considered, approved and published by 15 September (as opposed to 30 September previously). This is in preparation for the 2020/21 financial year and beyond when the date for the publication of the draft accounts is further brought forwards to 31 May with the audited accounts to be published by 31 July. The timetable at 2.2 of the report sets out the key dates in the accounts preparation, publication and committee approval process as they applied to the 2017/18 financial year and as they will apply following the changes, to 2018/19, 2019/20 and then 2020/21 onwards. The revised timetable will be very challenging, and in particular completing the draft final accounts by 14 May, only 6 weeks after the end of the financial year, will be extremely difficult for the staff concerned. In addition, completion by mid-May could compromise the accuracy and quality of the draft financial statements and could result in a greater level of external audit work and subsequent post-audit adjustments.

The Officer said that in light of the shortened timetable for the completion of the draft financial statements and the practical difficulties it will bring, and given that the Accounts and Audit Regulations (Wales) 2014 and the associated CIPFA Code of Practice do not require formal approval of the draft financial statements by a Committee of the Council before they are published and presented for audit, it is proposed that the draft financial statements are signed by the Section 151 Officer (the responsible Financial Officer) and presented for audit before they are considered by the Audit and Governance Committee. The proposed change would allow additional time for the completion of the draft financial statements. With reference to the Council's committees calendar, a meeting of the Audit and Governance Committee has been scheduled in the calendar for both June and July, 2019 with the June meeting being for the express purpose of approving the 2018/19 draft financial statements. In light of the proposal that the draft financial statements be signed by the Section 151 Officer before they are brought to the Committee, the draft statements could instead be presented to the Committee's July meeting.

The Committee in supporting the change and revised timetable proposed by the Section 151 Officer, noted the amendments to the statutory timeframe with reservations believing that the changes put Finance Departments under pressure to prepare and complete the draft financial statements in an unrealistically tight timescale with possible implications for the accuracy and quality of the financial statements.

It was resolved –

- **To approve the change in the timetable and allow the Section 151 Officer to sign the draft financial statements prior to their consideration by the Audit and Governance Committee.**
- **To agree that the 2018/19 draft financial statements be presented to the Audit and Governance Committee meeting scheduled for July, 2019.**

NO ADDITIONAL ACTION WAS PROPOSED

10. FORWARD WORK PROGRAMME

The Committee's Forward Work programme was presented for review and comment.

The Head of Audit and Risk reported that in light of the decision that the draft financial statements be presented to the Committee's July meeting making it unnecessary to convene a meeting of the Committee in June, items scheduled for consideration at the June meeting will be re-scheduled to July or where possible, they will be brought forwards to the Committee's April meeting.

It was resolved to note and accept the Forward Work programme subject to the change outlined by the Head of Audit and Risk.

ADDITIONAL ACTION: Head of Audit and Risk to update the Forward Work Programme accordingly.

11. EXCLUSION OF THE PRESS AND PUBLIC

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

12. CORPORATE RISK REGISTER

The report of the Head of Function (Resources)/Section 151 Officer incorporating the Corporate Risk Register was presented for the Committee's consideration.

The Risk and Insurance Manager reported that a new software system – 4risk has been introduced to record and monitor risks, the measures in place to control these risks and any actions that are to be introduced to mitigate those risks further. Although not currently populated within the 4risk system, work is being currently undertaken to record assurance against existing controls. Three lines of assurance will be recorded on 4risk namely– first line of assurance – front line action by the control owner; second line of assurance – overall management control, financial control; third line of assurance provided by internal, external audit and other regulatory bodies. This will allow the effectiveness of existing controls to be assessed and assurance provided that the residual risk has not been over or underestimated.

The Officer said that the version of the Corporate Risk Register presented reflects the comments of the Senior Leadership Team following a review of the register. The format of the register includes the Lines of Assurance that will be populated as risks are reviewed and audited.

The top Red risks to the Council are highlighted in section 7 of the report. Apart from the addition of risk YM40, there have been no other changes to the Corporate Risk Register. The Officer clarified that risk YM35 is no longer classified as a risk and is instead an issue which is being addressed and as such will be removed from the register.

The Committee considered the report and made the following points –

- The Committee noted that discounting YM35, the register contains 39 risks which it considered excessive at a corporate level making focusing on the really high level risks difficult. The Committee suggested that some risks would be more appropriately managed at departmental level.

The Risk and Insurance Manager said that priority is given to risks where the residual risk is Red and Amber. The Officer said that there are two approaches that could be taken in formulating the risk register – the one where the register contains generic risks only which are less accurately described but means there are fewer risks on the register, or the other where the risks are more detailed and as such are more numerous but are also more easily audited against. The Authority has opted for the detailed version but it is subject to review.

The Head of Audit and Risk said the 4risk system provides a better reporting tool which can focus the Senior Leadership Team's scrutiny on the most important risks and which also allows them to be grouped into themes so that risks in relation to a specific area can be found quickly. A detailed version of the risk register is more helpful from an Internal Audit perspective.

- The Committee noted that there are areas where the inherent risk and residual risk levels are the same even after mitigation/reduction actions have been taken. The Committee further noted that the register could be improved as a source of risk management information were the risks to be dated to show when they were raised, when reviewed and when they are likely to be closed.

The Risk and Insurance Manager said that work in relation to assurance levels and assurance from controls is to be undertaken which will assess the effectiveness of controls in reducing risk. Additionally, each risk register will be reviewed with the Senior Leadership Team or relevant service over the coming months to ensure they are robust. The Officer said that the report presented is an abbreviated version for committee purposes which highlights the main points for the Committee. The 4risk system contains a much greater level of detail about each risk and how it is managed including dates and timelines.

- The Committee referred to the treatment of Brexit and queried whether risks associated with Brexit should be a matter for examination either by the Audit Committee or by Scrutiny.

The Committee was informed that there is a risk register for Brexit which is led by the Regulation and Economic Service. The Council is also endeavouring to ensure that the appropriate structures are in place internally based on both worst- case and best-case

scenarios. The challenge in relation to Brexit are the “unknowables” which makes scrutiny premature at this point in time.

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**

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