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CYNGOR SIR
YNYS MÔN
ISLE OF ANGLESEY
COUNTY COUNCIL

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RHYBUDD O GYFARFOD	NOTICE OF MEETING
PWYLLGOR ARCHWILIO A LLYWODRAETHU	AUDIT AND GOVERNANCE COMMITTEE
DYDD MAWRTH, 4 RHAGFYR, 2018 am 2:00 y. p.	TUESDAY, 4 DECEMBER 2018 at 2.00 pm
YSTAFELL BWYLLGOR 1, SWYDDFEYDD Y CYNGOR, LLANGFNI	COMMITTEE ROOM 1, COUNCIL OFFICES, LLANGFNI
Swyddog Pwyllgor	Ann Holmes 01248 752518 Committee Officer

AELODAU / MEMBERS

Cynghorwyr / Councillors:-

PLAID CYMRU / THE PARTY OF WALES

John Griffith, Dylan Rees, Alun Roberts, Margaret M. Roberts

Y GRWP ANNIBYNNOL / THE INDEPENDENT GROUP

Gwilym O. Jones, Richard Griffiths

ANNIBYNNWYR MÔN / ANGLESEY INDEPENDENTS

R. Llewelyn Jones (*Is-Gadeirydd/Vice-Chair*), Peter Rogers (*Cadeirydd/Chair*)

AELODAU LLEYG / LAY MEMBERS

Dilwyn Evans, Jonathan Mendoza

A G E N D A

1 DECLARATION OF INTEREST

To receive any declaration of interest by any member or officer in respect of any item of business.

2 MINUTES OF THE PREVIOUS MEETING (Pages 1 - 18)

To present the minutes of the previous meeting of the Audit and Governance Committee held on 19 September, 2018.

3 EXTERNAL AUDIT: ISLE OF ANGLESEY COUNTY COUNCIL: OVERVIEW AND SCRUTINY - FIT FOR THE FUTURE? (Pages 19 - 34)

To present the report of External Audit.

4 INTERNAL AUDIT UPDATE (Pages 35 - 52)

To present the report of the Head of Audit and Risk.

5 EXTERNAL AUDIT: FOLLOW-UP REVIEW OF PROPOSALS FOR IMPROVEMENT - ISLE OF ANGLESEY COUNTY COUNCIL (Pages 53 - 64)

To present the report of External Audit.

6 TREASURY MANAGEMENT: MID-YEAR REVIEW 2018/19 (Pages 65 - 82)

To present the report of the Head of Function (Resources)/Section 151 Officer.

7 EXTERNAL AUDIT: ANNUAL AUDIT LETTER 2017/18

To present the Annual Audit Letter and Completion of Audit Letter for 2017/18.

(Report to follow)

8 FORWARD WORK PROGRAMME 2018/19 (Pages 83 - 90)

To present the report of the Head of Audit and Risk.

AUDIT AND GOVERNANCE COMMITTEE

Minutes of the meeting held on 19 September, 2018

- PRESENT:** Councillor Peter Rogers (Chair)
Councillor Robert Llewelyn Jones (Vice-Chair)
- Councillors John Griffith, G.O. Jones, Dylan Rees, Alun Roberts, Margaret Roberts.
- Lay Member: Dilwyn Evans
- IN ATTENDANCE:** Chief Executive
Head of Function (Resources) and Section 151 Officer
Head of Internal Audit & Risk (MP)
Head of Housing Services (for item 10)
Corporate Information Governance Manager (HP) (for items 3,4 and 5)
Committee Officer (ATH)
- APOLOGIES:** Councillor Richard Griffiths, Jonathan Mendoza (Lay Member)
- ALSO PRESENT:** Councillor Robin Williams (Portfolio Member for Finance), Mr Gwilym Bury and Mr Alan Hughes (Wales Audit Office)
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1. DECLARATION OF INTEREST

No declaration of interest was received.

2. MINUTES OF THE 24TH JULY, 2017 MEETING

The minutes of the previous meeting of the Audit and Governance Committee held on 24th July, 2018, were presented and were confirmed as correct.

The Chair thanked Mr Dilwyn Evans for chairing the Committee's meeting above in his and the Vice-Chair's absence.

3. INFORMATION GOVERNANCE – ANNUAL REPORT OF THE SENIOR INFORMATION RISK OWNER (SIRO)

The report of the Senior Information Risk Owner (SIRO) which provided an analysis of the key information governance (IG) issues for the period from 1 April, 2017 to 31 March, 2018 was presented for the Committee's consideration. The report also provided an update on the Council's progress with its GDPR Implementation Plan covering the period from 25 May, 2018 to 31 July, 2018.

The Corporate Information Governance Manager reported that the report provides an overview of the Council's compliance with legal requirements in handling corporate information including compliance with the Data Protection Act, 1998; the Freedom of Information Act, 2000 and the Regulation of Investigatory Powers Act, 2000 (Surveillance) and the relevant codes of practice. The report also includes assurance of on-going

improvement in managing risks to information during 2017-18 and identified future plans. It sets out the Council's contact with external regulators and provides information about security incidents, breaches of confidentiality or "near misses" during the relevant period. He highlighted the main points as follows –

- That non-compliance with data protection legislation is likely to be the primary information risk for the Council. Consequently, much progress has been made to develop awareness about personal data risks in order to introduce mechanisms to manage the risk in accordance with best practice and in anticipation of data protection reform. Additionally, the Council has identified risks around personal data in its corporate and service risk registers
- The Council recognises that there are number of risks to the security of information as listed in the report and that harm and distress to individual(s), financial penalties, enforcement actions, adverse publicity and loss of confidence in the Council are also risks associated with its personal data assets. Therefore, as well as technical and physical measures to protect the Council's information, a range of technical and organisational safeguards are in place against information risks; these range from suitable IG policies and procedures and encrypted ICT equipment to data protection training , IG KPIs and procedures for recording data security incidents and learning therefrom.
- That with regard to the General Data Protection Regulation (GDPR), Section 5.1 of the report outlines progress to 31 March, 2018 i.e. the period covered by the SIRO's report which saw the development of the Council's plans to implement the GDPR and also the subsequent work undertaken since 31 March, 2018 up to 31 July 2018 to implement GDPR including the 5 stage implementation plan. The Officer confirmed that all the requirements under each of the 5 stages have been met. In relation to training under Stage 5 of the process, the report shows the take-up to 31 July, 2018 of the e-learning module introduced in May, 2018 by each the Council's services. As at 31 July, a total of 747 staff or 47%, had completed the module. Evidence of training in combination with evidence of policy acceptance provides measurable assurance for the Council.
- That Policy Acceptance is a safeguard for the Council because it provides evidence that staff have read and understood the policy. The Council's Data Protection Policy was made mandatory for acceptance between 4 June, 2018 and 2 July, 2018 and the acceptance rate was 83%. The Data Protection Policy remains open for acceptance.
- That the Council has established its policy management system, Policy Portal which serves as a library of policies since November, 2016. The policy acceptance function was introduced in April, 2017 and provides assurance that key IG policies are being read, understood and formally accepted by individual members of staff. The availability of the Policy Portal has also made the task of monitoring data protection compliance post- 25 May, 2018 significantly easier. Acceptance rates for each of the mandatory policies – Clear Desk Policy, Records Management Policy and Data Classification Policy – was 95%.
- That the Policy Portal relies on the Council's Active Directory which now includes around 1,000 active users following the inclusion of the Learning Service. However, the amount of staff who do not have Active Directory is estimated at around 686. ADE users with email accounts occupy Microsoft Client Access Licences which are expensive. The provision of any IT equipment to facilitate access would also have cost implications. Whilst providing AD accounts for all staff would be technically possible, it would be too costly and therefore not a current priority.
- That during the period of the report, the Council monitored specific IG KPIs some on a monthly and others on a quarterly basis. (Section 5.9 of the report). It also publishes its access to information data on its website on a quarterly basis.
- That 19 Level 0 to Level 1 data security incidents were recorded during the period i.e. incidents classified as near misses or confirmed as data security incidents which do not

need to be reported to the Information Commissioner's Office (ICO) and other regulators (from 33 in the previous report). One Level 2 incident was recorded i.e. a data security incident that must be reported to the ICO and other regulators as appropriate. Details are provided in Appendix A to the report.

- That based on the information collected for the period which the report covers, the SIRO considers that there is significant documented evidence to demonstrate the following –
 - the Council's arrangements for IG and data protection compliance are reasonably effective
 - the Council has successfully met the challenge of implementing the new data protection legislation and it operates in a compliant way;
 - the Council has processes in place to demonstrate compliance to the ICO and it complies with the GDPR's accountability principle;
 - Data protection remains and is always likely to remain a medium risk to the Council because of the sensitivity of the personal data it processes which varies between the services.

The Committee considered the information presented and made points as follows –

- The Committee noted that as of 31 July, 2018 only 43% of staff had taken up the e-learning module for data protection learning with some services in a less compliant position than others e.g. Adults' Services and Highways, Property and Waste Services. The Committee sought clarification of whether arrangements have been made to ensure that all staff undertake the training and whether a target date has been set by which it is expected this will be completed.

The Corporate Information Governance Manager said that whilst the report refers to the position up to 31 July, progress has and is continuing to be made since that time. Heads of Service are responsible for ensuring that their staff complete the e-learning module although as the report discusses, some groups of staff within certain services – e.g. Home Carers within Adults' Services and Transport and Recycling Centre staff in Highways, Property and Waste services are experiencing access issues because they are not Active Directory users and are therefore not included in the process hence the lower compliance rates for these services.

- The Committee noted that the Corporate Information Governance Board (CIGB) established in 2014 to address IG issues may report matters directly to the Council's Senior Leadership Team (SLT). The Committee sought clarification of any circumstances where this has been found to be necessary and whether given the significance of the Information Governance function within the Council, the SLT should in any case be kept informed as a matter of course.

The Corporate Information Governance Manager said that since May, 2018 the Council is statutorily required to ensure that reporting lines to the SLT are open and accessible; historically data security incidents have been reported to the SLT along with related issues such as logjams in training for example. Currently so as to keep the reporting process proportionate, the SLT is kept updated on a periodic basis.

- The Committee noted that Data Protection training will form part of the induction process for new staff. The Committee sought clarification of whether this provision will be available to all new staff in services such as Adults' Services for example where access/attendance issues have been identified in relation to specific groups of staff particularly off-site staff such as Home carers.

The Corporate Information Governance Manager said that as the report acknowledges the Policy Portal's reliance on the Council's Active Directory has been recognised as a compromise from the outset because staff who do not use AD are omitted from the process. However, a meeting is planned for the end of September to look at various options for services so affected.

- The Committee noted that 22 Level 0 -1 Data Security incidents were recorded during the reporting period. The Committee sought clarification of whether after the completion of training the number of incidents will reduce and/or data security will improve.

The Corporate Information Governance Manager said that due to the nature of the risks associated with data protection e.g. human error, it is unlikely that the number of data security incidents will reduce to zero. Conversely, the recording of data security incidents demonstrates both awareness of the need to report such incidents and the effectiveness of the reporting process which are important in the context of information governance.

It was resolved to accept the report and to note its contents and to take assurance from the Senior Information Risk Owner's conclusions about the effectiveness of the Council's arrangements for Information Governance for the period covered by the Annual Report 2017/18.

NO ADDITIONAL ACTION WAS PROPOSED

4. POLICY ACCEPTANCE – YEAR 1 COMPLIANCE DATA

The report of the Head of Function (Council Business)/Monitoring Officer outlining the compliance levels for all services apart from the Learning Service for policy acceptance requirements based on information available as at 24 July, 2018, was presented for the Committee's consideration.

The Corporate Information Governance Manager reported that the Council's policy management system – the Policy Portal – was made available to staff as an electronic library in November, 2016. Policy acceptance requirements began on 24 April, 2017. The Policy Portal provides the Senior Information Risk Owner with assurance that key Information Governance policies are being read, understood and formally accepted by individual members of staff.

The Officer referred to the following key points in relation to Year 1 compliance levels –

- That 7 policies – Clear Desk Policy; Records Management Policy; Data Classification Policy; Managing Absence Policy; Display Screen Equipment Policy; Health and Safety - Roles and Responsibilities, and the Welsh Language Standards – were first subject to the click and accept system between April, 2017 and June, 2018 as determined by the Council's SLT.
- Details of compliance levels for the seven policies for all services apart from the Learning Service are provided in Appendix 1 to the report. A decision was taken in April, 2017 not to include the Learning Service as the service's IT group contained school-based staff for whom the process was not relevant. This issue has since been addressed and the Learning Service was first included in the corporate process in July, 2018 when the Council's Data Protection Policy was made available for acceptance. The first seven policies referred to will be assigned gradually to the Learning Service over the coming months.
- Compliance reports on a service by service basis are submitted to the SLT at the end of the 6 week acceptance period assigned for each policy. All policies remain available for

acceptance after the closing dates so that users who have not completed a policy on time are able to catch up.

- As at 24 July, 2018 average compliance levels for all policies across the Council was 95%, compared with an average of 79% at the end of the 6 week acceptance period set for each policy. All services have attained high levels of compliance apart from Adults' Services where a number of staff do not have an Active Directory account which is an issue.
- Compliance in Children's Services - which was identified as an issue by the Audit Committee at its September meeting - has improved significantly with an average rate of 99% as at 24 July compared with an average of 57% at the end of the six-week acceptance periods. Adults' Services attained an average compliance rate of 78% as at 24 July, 2018 which whilst lagging behind other services, is an improvement on the 63% compliance average at the end of the 6 week acceptance period set for each policy.
- The Policy Portal relies on the Council's Active Directory (AD) which now includes around 1000 users following the inclusion of the Learning Service. The Portal's reliance on the AD has been recognised as a weakness from the outset with staff who are not AD users not included in the process. The number of staff who do not have Active Directory accounts is estimated at around 709 and include specialist support workers and off site staff in Adults' Service, Children's Services, the Learning Service, Highways, Waste and Property and Regulation and Economic Development Services. Although solutions have been considered e.g. provision of Microsoft Client Access Licences; IT equipment or the creation of manual accounts, it has been concluded that whilst widening the scope of the Portal to include non-AD connected staff is possible, the rollout would require significant resource and planning that goes beyond the original remit of the system.

The Officer concluded by saying that despite the limitations referred to above, the Policy Portal is a valuable system in terms of facilitating a high level of oversight and compliance monitoring thereby providing Management with assurance that staff are up to date with key information governance policies.

The Committee noted the policy acceptance compliance levels for Year 1 including the improvement in compliance in Children and Adults' Services whilst noting also that universal access by services' staff to the Policy Portal remains an issue that remains to be satisfactorily resolved.

It was resolved to accept the report and to note the information provided about Policy Acceptance Year 1 Compliance Data.

NO ADDITIONAL ACTION WAS PROPOSED

5. ANNUAL REPORT: CONCERNS, COMPLAINTS AND WHISTLEBLOWING 2017/18

The report of the Head of Function (Council Business)/Monitoring Officer providing information on issues arising under the Council's Concerns and Complaints Policy for the period 1 April, 2017 to 31 March, 2018 was presented for the Committee's consideration. The report also included Social Services complaints but only those where the complainant was not a service user. Service user complaints are dealt with under the Social Services Representations and Complaints Procedure and are reported annually to the Corporate Scrutiny Committee.

The Corporate Information Governance Manager reported that during the period of the report, 112 concerns were received and 72 complaints were made. Of the 72 complaints, 1 complaint was withdrawn prior to investigation (Housing) so 71 complaints were investigated and formal responses sent. An analysis of concerns and complaints by service is provided in section 8 of the report. The overall rate of responses to complaints issued within the

specified time limit (20 working days) was 92%. Of the 71 complaints dealt with during the period, 17 were upheld in full, 6 were partly upheld and 48 were not upheld. Nine complaints were escalated to the Public Services Ombudsman for Wales; 8 of these were rejected and 1 resolved by early resolution. Each of the 9 complaints escalated to the Ombudsman had been through the internal process. No formal language related complaints were received during the year. Neither were any whistleblowing disclosure received during 2017/8 and there were no outstanding matters from 2016/17.

The Officer highlighted that the Concerns and Complaints Policy places an emphasis on learning lessons from complaints thereby improving services. Enclosure 1 to the report seeks to explain what lessons have been learnt and any practice which has evolved as a consequence.

The Committee considered the information presented and whilst it noted that the number of complaints was reasonable given the increasing financial constraints within which services are operating making complaints more rather than less likely, it noted also that no whistleblowing disclosures were reported with no outstanding matters from 2016/17. The Committee sought clarification of whether this pattern is replicated in other authorities or whether it signifies that whistleblowing procedures are not sufficiently documented and/or communicated throughout the Authority and are therefore not understood.

The Corporate Information Governance Manager said that he did not have benchmarking data in relation to whistleblowing disclosures; the absence of any such disclosures in 2017/18 may be an anomaly but is more likely to be continuation of the pattern in previous years wherein the number of whistleblowing disclosures has not been high.

It was resolved –

- **To accept the report as providing reasonable assurance that the Council is compliant with the processes required under its Concerns and Complaints Policy and Whistleblowing Policy/Guidance.**
- **To endorse the main messages from the Lessons Learnt Table at Enclosure 1 of the report, namely -**
 - **That the Audit and Governance Committee reminds all Heads of Service that the Customer Care Charter must be followed when dealing with the public at all times and to ensure regular training and refresher training as required.**
 - **That from now on a new corporate system is to be implemented whereby services will be required to complete a formal lessons learned log at the end of the complaints process for any complaint upheld or partly upheld.**

NO ADDITIONAL ACTION WAS PROPOSED

6. INTERNAL AUDIT PROGRESS UPDATE

The report of the Head of Internal 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 reported as follows –

- That four Internal Audit reports were finalised during the period three of which resulted in a Substantial Assurance rating – these were in relation to the Education Improvement Grant 2017/18; Pupil Development Grant 2017/18 and Highways Maintenance Contract Monitoring. The fourth review relating to the School Uniform Grant 2017/18 produced a

Reasonable Assurance rating. Although one moderate risk was raised on the Highways Maintenance Contract Monitoring review relating to the need to maintain a contract register, overall the controls in place to monitor highway maintenance contracts were deemed to be effective thereby providing substantial assurance.

- That six reports with a Limited Assurance rating are scheduled for a follow-up review as detailed in paragraph 16 of the report. Four Follow-up reviews are currently underway – Sundry Debtors; Child Care Court Orders under the PLO; Corporate Procurement Framework and the Council's Preparation for GDPR – these have a planned reporting date of the Audit Committee's December meeting.
- That a detailed report of all outstanding recommendations and issues/risks is provided separately on the agenda.
- That progress has been slow in delivering the Internal Audit Operational Plan for 2018/19 due mainly to two vacancies and a long-term sickness absence. However, two new Senior Internal Auditors have recently commenced in post meaning that for the first time since August, 2017 the Internal Audit Service is fully staffed.
- That as well as undertaking follow-up work, the Service is engaged in a Primary Schools Thematic Review primarily focused on income collection as well as work in relation to the Gypsies and Travellers (Requirements of the Housing (Wales) Act 2014. In addition, the Service is involved in the National Fraud Initiative biennial exercise and is providing data for the data matching exercise; it also will shortly be commencing work on the cyber security review.
- That the Internal Audit Operational Plan 2018/19 will be updated to reflect the Senior Leadership Team's latest review of the Corporate Risk Register which took place on 10 September; the updated version will be presented to the Committee's December meeting.
- That in order to ensure objectivity and independence, the Risk Management audit will be undertaken by the Council's Insurers in the form of an independent health check as it would not be appropriate for the Internal Audit Service to conduct the audit given the Head of Audit's oversight responsibility for Risk Management.
- That there is currently a resource shortfall of 77 days on the Operational Plan – however it is anticipated that the recent review of the Corporate Risk Register and the de-escalation of specific risks will result in changes to the Plan with some reviews being taken out thereby reducing the commitments and bringing the shortfall down.

The Committee noted the information presented and was satisfied with the progress made taking assurance from the update provided.

It was resolved to accept and to note the progress to date by Internal Audit in terms of service delivery, assurance provision, reviews completed and its performance and effectiveness in driving improvement.

NO ADDITIONAL ACTION WAS PROPOSED

7. OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS

The report of the Head of Audit and Risk on the status and detail of the outstanding risks that the Internal Audit Service has raised was presented for the Committee's consideration.

The Head of Audit and Risk reported as follows –

- That the Council is steadily improving its performance in implementing recommendations/ addressing risks with the overall implementation percentage currently standing at 93%.

- That as at 3 September, 2018 the Council had outstanding recommendations/risks and issues with a target implementation date of 31 August, 2018 as summarised in Table 4.1 of the report and elaborated upon in Appendix A.
- That the two red risks outstanding relate to Child Care Court Orders under the Public Law Outline – specifically the conduct of support worker visits, and the Corporate Procurement Framework – Corporate Compliance (Housing Service). With regard to the former, the Internal Audit Service has concluded that although the relevant visits may have been undertaken, they were not recorded as such. However, preliminary testing has evidenced that this risk has now been addressed. Work remains to be done in relation to the Corporate Procurement Framework and the follow-up audit is still ongoing. In order to enable the Committee to obtain an appreciation of the scale of the undertaking, and the materiality of the issues involved, Internal Audit will report to the Committee's December meeting on the outcome of data analytical work it is carrying out as part of the follow-up audit.
- That the Internal Audit Service will be better placed to report on the 8 unimplemented Amber risks to the Committee's December meeting.

It was resolved to note the Council's progress to date in addressing the outstanding Internal Audit recommendations and risks raised since 1 April, 2014.

NO ADDITIONAL ACTION WAS PROPOSED

8. STATEMENT OF THE ACCOUNTS 2017/18 AND ISA 260 REPORT

8.1 The report of the Head of Function (Resources)/Section 151 Officer incorporating the Final Statement of Accounts for 2017/18 following audit was presented for the Committee's consideration.

The Head of Function (Resources)/Section 151 Officer reported that the statutory deadline for the completion of the 2017/18 audited accounts has again been met. Improvements which the audit process identified last year have been made and are continuing. All issues that have arisen throughout the audit were dealt with promptly and in a satisfactory manner.

The Officer said that all amendments to the draft accounts which have been agreed as requiring restatement by Deloitte as the Council's financial auditors have been processed and are contained within the Statement of Accounts. The significant amendments required to the draft statement have been largely confined to the following –

- Incorrect reconciliation of overpaid Housing Benefits recorded on the Housing Benefits system to the Council's ledger over the last three years, which resulted in an under recognition of revenue;
- incorrect percentages were initially used in the internal valuer's report that led to an incorrect calculation of fixed asset revaluation amounts;
- following a review of the treatment of the earmarked reserve for the Penhesgyn Waste Landfill site, it was identified that this meets the criteria for a provision, therefore a provision has been charged to the Comprehensive Income and Expenditure Statement. The earmarked reserve has been released.

The Head of Function (Resources)/Section 151 Officer referred to the two misstatements which Management has decided not to correct as detailed in Appendix 3 to the External Auditor's report, the one in relation to the treatment within the draft accounts of a contribution of £3.66m made by the Council to the Gwynedd Pension Fund to cover the fixed element of the employer contributions for the 3 year period 2017/18 to 2019/20 and the other in relation

to the treatment of a refund of approximately £0.8m from HMRC for VAT paid on Leisure Services dating back to 2012.

The Officer said that the sum paid to the Gwynedd Pension Fund was treated as an advance payment but, after seeing how the Actuary in reviewing the Pension Fund had accounted for the payment, it became apparent that the Authority's treatment was incorrect. The auditors having taken advice from the Wales Audit Office have concluded that the payment should be recognised in full in the year of payment i.e. 2017/18 and charged to the general fund. However, as this would have the effect of reducing the general fund balance, Management has decided not to take this course and instead a negative reserve has been created which has the effect of reducing the earmarked, instead of the general reserve balance. The difference in treatment being a difference in classification has no effect on the total useable reserves figure. The auditors have explained the different approaches in their report.

With regard to the second uncorrected misstatement the Authority has received a refund of approximately £800k from HMRC for VAT paid on leisure service fees dating back to 2012 as these are now classed as exempt supply instead of standard rated. Guidance on how to treat the refund was sought from the Council's Executive, but as the Executive did not meet until 17 September it was too late to change the accounts to reflect the decision made. The refund has therefore not been accounted for in the 2017/18 accounts; instead the credit for the reimbursement will come in the 2018/19 accounts. Because the refund was for a period prior to 1 April, 2018 it is the auditors' opinion that it should have been accounted for in the 2017/18 accounts. However, the figure is not so significant for its omission to have a material effect on the 2017/18 accounts.

The Auditors at the end of the audit of the Statement of Accounts have made 7 recommendations in relation to accounting and payroll control; 2 recommendations in relation to IT and 4 recommendations in relation to asset valuation.

8.2 The report of External Audit on the audit of the Financial Statements for 2017/18 (ISA 260 report) was presented for the Committee's consideration.

Mr Ian Howse, Engagement Lead for the Financial Audit reported as follows –

- The draft financial statements for the year ended 31 March, 2017 were received by the Auditors on 11 June, 2018 and the audit work thereon is now substantially complete. At the date of issue of the audit of financial statements report, the three matters set out in section 6 of the report were outstanding.
- Subject to the satisfactory completion of outstanding work, it is the Auditor General's intention to issue an unqualified audit report on the financial statements once the Authority has provided a Letter of Representation based on that set out in Appendix 1 to the report.
- As regards significant issues arising from the audit, there are misstatements that have not been corrected by Management which the auditors consider should be drawn to those charged with governance due to their relevance to their responsibilities over the financial reporting process. These are set out with explanations in Appendix 3 to the report.
- There are misstatements that have been corrected by Management which are drawn to the attention of those charged with governance due to their relevance to their responsibilities for the financial reporting process. These are also set out with explanations in Appendix 3.
- The Financial Audit Plan provided information regarding the significant audit risks that were identified during the Auditors' planning process. The table at section 12 of the report sets out the outcome of the Auditors' audit procedures in respect of those risks. The audit was conducted in line with the Financial Audit Plan.

- In the course of the audit, consideration is given to a number of matters both qualitative and quantitative relating to the accounts and any significant issues are reported to those charged with governance. No such issues arose this year.
- The Auditors have no concerns about the qualitative aspects of the Council's accounting practices and financial reporting. The Auditors concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.
- No significant issues were encountered during the audit.
- There were no significant matters discussed and corresponded upon with Management which require reporting.
- There are no other matters significant to the oversight of the financial reporting process that require reporting.
- No material weaknesses in internal controls were identified although several areas in which it would be possible to improve controls have been identified and are reported in Appendix 4 to the report
- There are no other matters specifically required by auditing standards to be communicated to those charged with governance.
- The recommendations arising from the financial audit work are set out in Appendix 4 to the report. Management has responded to them and progress on their implementation will be followed up and reported during next year's audit.

The Committee considered the information presented and made points as follows -

- The Committee noted that the accounts have again been completed in accordance with the statutory timescale and that thanks are due to the staff of the Finance Service for their work in ensuring that the accounts' deadline was met.
- The Committee noted that the External Auditors are satisfied with the quality of the Council's accounting practices and financial statements and that it is the Auditors' view that the financial statements have been properly prepared and give a true and fair view of the Council's financial position as at 31 March, 2018.
- The Committee noted that no major issues arose during the course of the audit.
- The Committee noted that there are two misstatements that Management has chosen not to correct. The Committee sought further clarification of why these misstatements might remain unadjusted and whether this is the right approach given that the accounts which are in any case complicated, need to be as clear and as transparent as possible for the benefit of those who read them.

The Head of Function (Resources)/Section 151 Officer clarified that accounting is not an exact science and that sometimes how an item is treated is a matter of opinion as to how the code of practice and the relevant regulations are interpreted. The opinion of Management and that of the External Auditor on how the two misstated items should be treated differ. However, Management has chosen not to make the suggested adjustments because the two items as they have been accounted for do not have any material effect on the accounts.

Mr Ian Howse said that it is the auditors' task to assess whether the treatment of the two items in question makes a difference to how people read and interpret the accounts. The auditors work to a materiality of £5m meaning that if there was a difference of opinion over the treatment of an item/items the value of which exceeded £5m then that would have to be resolved on the grounds that it is the auditors' opinion that this would influence the readers of the accounts' view of what is going on. Items which are for less than £5m are not likely to significantly change readers' view of things in the general scheme of the Council's overall assets and liabilities. The Officer said that the audit process is a very rigorous process and has been strengthened following the financial crisis. The corrections highlighted by the

auditors are to do with judgements and moving items between lines in the balance sheet and ultimately, they do not affect the Council's cash balances.

- The Committee sought clarification of whether the payment to the Gwynedd Pension Fund should have been treated as an item of expenditure

The Head of Function (Resources)/Section 2151 Officer confirmed that the payment is an expenditure item but that in drafting the accounts one third of the £3.66m payment was charged to the revenue account with the remaining two thirds being treated as a pre-payment for years 2 and 3 i.e. 2018/19 and 2019/20. The Actuary treated the contribution as expenditure in 2017/18 which makes the Authority's treatment incorrect. Consequently, the full £3.66m has been charged to the revenue account in 2017/18, but in order to mitigate the effect of this expenditure on the Council's general fund balance a negative reserve has been created from which £2.4m of the £3.6m has been funded which will be unwound over the next two years. The payment has therefore been treated as expenditure but in a way that lessens the impact on the general balances whilst not making any difference to the net reserves of the Council.

- The Committee noted that the Balance Sheet shows that the Council's current cash ratio is now less than 1. The Committee noted further that it has been the Council's strategy because the return on investment is poor to use cash balances to fund part of its capital expenditure in order to avoid borrowing. The Committee noted also that cash balances have now reduced to an extent that it is likely the Council will have to borrow to meet its expenditure needs. The Committee sought clarification of whether this is prudent approach.

Mr Ian Howse said that the ways in which Councils can access funds e.g. through the Public Works Loans Board means that it is not difficult to borrow. Because funding is readily accessible, how the Council chooses to do so and the balance of how it uses those funds for capital and revenue does not cause undue concern because of the availability of funding.

The Head of Function (Resources)/Section 151 Office said that the Council borrows to replenish the cash it has used for capital purposes. The Council has been using cash balances to fund capital expenditure because with interest rates remaining low, using cash to avoid external borrowing provides a better return than cash on deposit.

- The Committee noted that it is difficult to gain a picture of the Council's financial performance from the Statement of the Accounts. The Committee sought clarification of whether it is possible to benchmark the Council's performance against other local authorities of similar stature to obtain a better understanding of what might be expected of it in terms of financial performance.

The Head of Function (Resources) and Section 151 Officer said that due to a number of factors including size, location, and geography it would be difficult to find a comparable authority in order to be able to make a like for like comparison. Although councils in Wales operate within a common legislative and regulatory framework they have different approaches to various issues depending on local needs and priorities e.g. outsourcing services, applying national pay, implementing Job Evaluation which bring about different results in each council. Although benchmarking is done for individual services, globally it is problematic because it is difficult to make a comparison that is meaningful enough to enable Management to make changes on that basis.

It was resolved –

- **To accept and to note the Statement of the Accounts for 2017/18 and to recommend their acceptance to the Full Council.**
- **To note External Audit's Report on the Financial Statements for 2017/18.**
- **To approve the Annual Governance Statement for 2017/18 and to refer the Statement to the Leader of the Council and the Chief Executive to be signed.**

NO ADDITIONAL ACTION WAS PROPOSED

9. REVIEW OF THE AUDIT AND GOVERNANCE COMMITTEE'S TERMS OF REFERENCE

The report of the Head of Audit and Risk incorporating the Committee's revised draft Terms of Reference was presented for the Committee's consideration and endorsement.

The Head of Audit and Risk reported as follows –

- That there have been a number of significant developments in governance and audit practice since the Committee's Terms of Reference were last reviewed in February, 2015 including the introduction of the new Delivering Good Governance in Local Government Framework (CIPFA/Solace, 2016) .
- That CIPFA's guidance represents best practice for audit committees in local authorities throughout the UK. It published its new guidance in May, 2018 which was discussed by members of this Committee at a workshop held on 13 June, 2018.
- That the revised guidance updates the core functions of the audit committee in relation to governance, risk management, internal control and audit. CIPFA has also updated the audit committee role in relation to counter-fraud to reflect the Code of Practice on Managing the Risk of Fraud and Corruption. The guidance continues to include a strong focus on the factors that support improvement which include the knowledge and skills that audit committee members require as well as areas where the committee can add value.
- That the guidance has mostly been incorporated into the terms of reference apart from the requirement that Full Council approves the appointment of the Lay Members. The Head of Function (Resources)/Section 151 Officer was concerned that due to committee scheduling, a delay in the appointment of the Lay Members until the Full Council meeting would also delay the Audit and Governance Committee with implications for meeting the deadline for reporting and approving the draft Statement of Accounts. The previous provision that Lay Members be approved by the Audit and Governance Committee therefore remains.
- That in developing the terms of reference, account has been taken of specific regulations and guidance appropriate for the Council. Consultation has been undertaken with the Head of Function (Resources)/Section 151 Officer, the Head of Function (Council Business)/Monitoring Officer and the remainder of the Senior Leadership Team. The Committee's two Lay Members were also consulted.

It was resolved to endorse the Audit and Governance Committee's revised Terms of Reference as presented and to recommend the same to the Executive.

NO ADDITIONAL ACTION WAS PROPOSED

10. EXTERNAL AUDIT: THE SERVICE USER PERSPECTIVE – THE WELSH HOUSING QUALITY STANDARD – ISLE OF ANGLESEY COUNTY COUNCIL

The report of External Audit on the outcome of its review of Anglesey's Council House tenants' experiences in relation to the delivery of the Welsh Housing Quality Standard (WHQS) was presented for the Committee's consideration.

Mr Gwilym Bury, Wales Audit Office reported on the main issues as follows –

- In 2017/8, the Wales Audit Office completed work to understand the “service user perspective” at every Council within Wales. A broadly similar approach was followed at each council, although the specific focus and approach to the work was agreed with each council individually. In the Isle of Anglesey County Council, the Housing Service was reviewed and in particular, tenants' engagement with and degree of choice experienced in delivering the Welsh Housing Quality Standard (WHQS) and their view on the quality of the service they receive from the Council.
- That for the purpose of the review, the auditors spoke to a sample of 119 tenants via a doorstep survey. Although it was not possible to talk to everyone, engaging with a sample of service users helped gain a better understanding of their perspective. In addition, a focus group with the Môn Tenants and Officers Voice Group was held and most of the Council's housing estates were visited.
- Overall the review found that most of the Council tenants who the auditors spoke to were satisfied with the quality of the service, but they were less involved in service design than they have been, and the Council has not always evaluated the impact of changes to the service. This conclusion was reached because –
 - before 2015, the Council effectively involved tenants in service design on WHQS, but tenant involvement has declined since.
 - Most Council tenants are satisfied with the quality of the service although 37% of the tenants felt they had problems with damp and condensation in their home. The Wales Audit Office has conducted a similar survey in the last 12 months at all 11 councils in Wales which retained their housing stock and this is one of the highest recorded percentages of tenant reporting problems with damp and condensation in their homes.
 - Tenants can access the services they need but the Council has not always evaluated changes it has made to access models and service standards for sheltered housing. Many of the sheltered housing tenants whom the auditors spoke to said that they value the housing service and are happy in their homes. However, they feel that although they are informed of changes, the level of service has declined and their views are not always listened to. The tenants approached regretted the withdrawal of the dedicated site-based warden service and some felt lonely and isolated as a result. At two schemes visited, the arrangements for the fire-alarm service in which wardens used to play a role in checking and resetting alarms is a concern to some tenants. The auditors were told that alarms are sometimes taking over an hour to be reset by some external contractors and their concerns were not being addressed.
- That as a result of the review findings, the following proposals for improvement have been made –
 - The Council should work with tenants to review its approach to assisting people experiencing problems with condensation and damp, and
 - The Council should work with tenants to review the long-term impact of ending the resident warden service from its sheltered housing schemes.

The Head of Housing Services said that the Service is working to maintain the Welsh Housing Quality Standard which it met in 2012. One of the areas which the service is working on is the information held in relation to acceptable fails i.e. dwellings where an individual element(s) of the WHQS has for specific allowable reasons not been achieved but are otherwise compliant. Currently, the Service is carrying out inspections on those dwellings and its focus has been on reducing the number of acceptable fails amongst its housing stock. It is the Service's intention next year to conduct a complete stock condition survey so that it can gain a better understanding of any areas where it needs to focus attention. With regard to the number of tenants who were concerned about damp in their homes, 37% of the 119 tenants spoken to is not an especially high number and reduces the issue to around 40 tenants. Lifestyle factors e.g. tenants not heating their homes or not opening windows to ventilate their homes are a consideration as is educating tenants on how to deal with the issue and remediate the problem and these are high on the Service's agenda. In the worst cases the Service can install specialist dehumidifying units to eliminate dampness. However, the number of complaints about dampness is not particularly high in the context of the complaints the Service receives.

The Committee considered the information presented and made points as follows –

- The Committee noted that the External Audit report recognises that the Council's WHQS programme has successfully raised housing quality and that the WAO's survey with tenants shows that people are generally very satisfied with the quality of the housing service; that they value the housing service highly and that many commented on the high level of customer service provided by most housing staff.
- The Committee noted that 37% of tenants had raised concerns about problems with damp and condensation in their homes. The Committee noted also that this is a complex issue with multiple causes; and it further noted that the External Audit report accepts that the Council is reviewing its process for investigating reports of damp and condensation and intends that in future surveyors will gather more information on damp in homes and raise awareness on how to avoid and eliminate condensation via a number of channels which the Service deploys to engage with its tenants. This approach is confirmed by the Head of Housing Services.
- The Committee noted and was concerned by the comments made by many of the Council's sheltered housing tenants about feeling lonely and isolated following the withdrawal of the dedicated site based warden service. The Committee was particularly concerned by the arrangements for the fire-alarm service at the two sheltered housing schemes visited because of the potential risks arising from the delay in re-setting alarms now that this task is undertaken by external contractors where previously it was part of the warden's role.

The Committee emphasised the importance of the Council's sheltered housing schemes as a component of its preventative agenda whereby older people who might otherwise have to enter residential care are given appropriate support to live independently. The Committee highlighted that for sheltered housing schemes to be effective, standards of service need to be maintained. The Committee endorsed the External Audit proposal that the long-term impact of the ending of the warden service should be assessed and it recommended that the Housing Service conduct a post-implementation review of the withdrawal of the dedicated site based warden service at its sheltered housing schemes.

The Head of Housing Services said that the warden service has to all effects been externalised with mobile support being commissioned through the Supporting People Programme; this was one of the decisions made by the Council in withdrawing its dedicated warden service. There is therefore a mobile service available to individuals who require support but this provision extends beyond the Council's tenants and is

available to property owners and private sector renters and is centred on individual needs rather than on a housing scheme.

It was resolved to accept the External Audit report on the Service User Perspective in relation to the WHQS at the Isle of Anglesey County Council and to note its contents.

ADDITIONAL ACTION PROPOSED – The Housing Service to conduct a post-implementation review of the withdrawal of the dedicated site-based warden service at its sheltered housing schemes.

11. EXTERNAL AUDIT: ISLE OF ANGLESEY ANNUAL IMPROVEMENT REPORT 2017/18

The report of External Audit summarising the audit and assessment work undertaken and reported during 2017/18 in relation to the Council including the conclusions and proposals for improvement for each report issued was presented for the Committee's consideration.

Mr Gwilym Bury, Wales Audit Office confirmed that based on and limited to the work carried out by the WAO and relevant regulators, the Auditor General for Wales believes that the Council is likely to comply with the requirements of the Local Government Measure (2009) during 2018/19 in relation to making arrangements to secure continuous improvement. No reviews of the Council by Estyn or the Care Inspectorate Wales have taken place during the time period covered by the report.

It was resolved to accept External Audit's Annual Improvement Report 2017/18 for the Isle of Anglesey County Council and to note the contents.

NO ADDITIONAL ACTION WAS PROPOSED

12. INTERNAL AUDIT CHARTER

The report of the Head of Audit and Risk incorporating an updated Internal Audit Charter was presented for the Committee's consideration and approval.

The Head of Audit and Risk reported that although the Audit Charter is not due for full formal review until April, 2020, a review conducted to ensure its continued appropriateness has identified the two following minor changes –

- Paragraph 10 first bullet - to include Lay Members in accordance with the equal status afforded to Lay Members in the Committee's updated Terms of Reference.
- Paragraph 11 – to correct an error in the date of the regulations and to update for new legislation as detailed in the report.

It was resolved to approve the amendments to the Internal Audit Charter as presented.

NO ADDITIONAL ACTION WAS PROPOSED

13. FORWARD WORK PROGRAMME

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

The Head of Audit and Risk reported that as a result of the changes to the Committee's Terms of Reference the Committee's Work Programme is likely to expand meaning that it will also change in the future.

It was resolved to accept the Forward Work Programme as presented without amendment.

NO ADDITIONAL ACTION WAS PROPOSED

14. 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.

15. CORPORATE RISK REGISTER

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

The Risk and Insurance Manager reported that the Corporate Risk Register was reviewed by the Senior Leadership Team on 10 September, 2018 and has been updated to reflect their comments and opinions at that meeting. Since the Corporate Risk Register was last presented to the Audit and Governance Committee, the 4Risk software has been procured as a means to improve the recording and monitoring of risks throughout the Council. The migration to the 4Risk system has resulted in changes to the risk references of some risks.

The Officer highlighted the changes in the updated Register as follows –

- Risk YM35 has been removed from the Register on the basis that the risk has materialised and is now considered an issue as opposed to a risk.
- Five risks (YM20, YM23, YM26, YM29 and YM33) have been de-escalated because the likelihood of occurrence and/or impact have reduced.
- Two new risks (YM38 and YM39) have been added to the Register.
- The top red risks to the Council are the three risks identified in paragraph 12 of the report.

The Committee considered the information presented and made points as follows –

- The Committee noted that Risk YM11 is classified as C1 in terms of inherent risk, and that the introduction of risk controls has seemingly had no impact on YM11's residual risk status which remains unchanged at C1. The Committee noted further that implementing the risk controls might have been expected to result in downgrading the residual risk status of YM11 .

The Risk and Insurance Manager clarified that YM11 is a risk for which controls are in place which had they not been put into effect would likely mean the inherent risk level would have to be upgraded.

- The Committee noted that the use of a combination of letters and numerals to classify risks can be confusing.

The Committee was informed that the criteria for designating risks have been approved by the Senior Leadership Team which takes the view that by using both letters and numerals the likelihood of a risk materialising (letter - with A denoting the highest probability) as well as the impact if it does (numeral - with 1 denoting the greatest impact) can be conveyed simultaneously.

It was resolved to note the contents of the report and 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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WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Overview and Scrutiny – Fit For the Future? – **Isle of Anglesey County Council**

Audit year: 2017-18

Date issued: October 2018

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We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

This document is also available in Welsh.

The team who delivered the work comprised Charlotte Owen, Alan Hughes and Jeremy Evans directed by Huw Rees.

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Summary report

Summary

- 1 This review explored with each of the 22 councils in Wales how ‘fit for the future’ their scrutiny functions are. We considered how councils are responding to current challenges, including the Well-being of Future Generations (Wales) Act 2015 in relation to their scrutiny activity, as well as how councils are beginning to carry out scrutiny of Public Service Boards. We also examined how well placed councils are to respond to future challenges such as continued pressure on public finances and the possible move towards more regional working between local authorities.
- 2 As part of this review we also reviewed the progress that councils have made in addressing the recommendations of our earlier National Improvement Study **Good Scrutiny? Good Question?** (May 2014) (see [Appendix 2](#)). We also followed up on the proposals for improvement relevant to scrutiny that we issued in local reports including those issued to councils as part of our 2016-17 thematic reviews of Savings Planning and Governance Arrangements for Determining Significant Service Changes.
- 3 Our review aimed to:
 - identify approaches to embedding the sustainable development principle into scrutiny processes and practices to inform practice sharing and future work of the Auditor General in relation to the Well-being of Future Generation (Wales) Act 2015 (WFG Act);
 - provide assurance that scrutiny functions are well placed to respond to current and future challenges and expectations;
 - help to embed effective scrutiny by elected members from the start of the new electoral cycle; and
 - provide insight into how well councils have responded to the findings of our previous Scrutiny Improvement Study.
- 4 To inform our findings we based our review method around the Outcomes and Characteristics for Effective Local Government Overview and Scrutiny that were developed and agreed by scrutiny stakeholders in Wales following our previous National Improvement Study **Good Scrutiny? Good Question?**
- 5 During November 2017 to January 2018 we reviewed documents, interviewed and ran focus groups with key officers and councillors to understand their views on Isle of Anglesey County Council’s (the Council) current scrutiny arrangements. In particular how the Council is approaching and intends to respond to the challenges identified above.
- 6 We observed a sample of overview and scrutiny meetings and reviewed relevant meeting documentation provided to committee members to support their scrutiny role, such as reports and presentations.

7 In this review, we concluded that **the Council has strengthened its overview and scrutiny function and is making arrangements to meet future challenges.**

We came to this conclusion because:

- the Council is supportive of overview and scrutiny, and arrangements necessary to help overview and scrutiny members meet future challenges are being put in place;
- overview and scrutiny committee practice is improving, the range of evidence sources they draw on has increased, and scrutiny committees forward work programmes align with the work of the Executive; and
- the overview and scrutiny function is contributing to improvements in performance and decision-making, and the Council regularly evaluates its effectiveness.

Proposals for improvement

8 The table below contains our proposals for ways in which the Council could improve the effectiveness of its overview and scrutiny function to make it better placed to meet current and future challenges.

Exhibit 1: proposals for improvement

Proposals for improvement	
P1	The Council's Overview and Scrutiny function should further improve arrangements for promoting the engagement of the public and other stakeholders in scrutiny activity.
P2	The Council should build on its experience through further self-assessment, to consider more innovative methods of undertaking scrutiny activity.

The Council has strengthened its overview and scrutiny function and is making arrangements to meet future challenges

The Council is supportive of overview and scrutiny, and arrangements necessary to help overview and scrutiny members meet future challenges are being put in place

- 9 The Council's Constitution defines the role of overview and scrutiny within the Council. The Council's two scrutiny committees undertake overview and scrutiny activity, supported by three scrutiny panels. Overview and scrutiny is a systematic part of the Council's governance arrangements and both officers and councillors regard it as valuable. Councillor roles and responsibilities for scrutiny are clearly set out in the constitution with member and chair role descriptions, and the member training and development program has enabled those involved in the scrutiny function to develop a clear understanding of their roles.
- 10 The Council engaged the Centre for Public Scrutiny¹ to clarify the role scrutiny plays in the Council's governance arrangements. The Council's Scrutiny Improvement Programme² identifies the steps scrutiny committees need to take in the short and medium term to improve scrutiny performance. It recognises scrutiny as an important part of the Council's governance arrangements that provides constructive challenge as a "critical friend" to influence policy and service improvement.
- 11 The Council provides training on effective scrutiny and chairing skills as part of its councillor induction and scrutiny member's development programme. The Council has engaged with external training providers to develop members' ability to question effectively and analyse information and evidence presented and have engaged services from Chartered Institute of Public Finance and Accountancy (CIPFA) to assist in developing committee members' capacity to undertake financial scrutiny. Committee members and officers value the training provided, and commented on the positive impact it had on members' ability to effectively question and scrutinise. Several committee members noted that they have seen the level of challenge improve and expect it to continue to do so.
- 12 The Council has recognised the need to strengthen scrutiny of the PSB however, it has begun to scrutinise elements of PSB activity including its draft well-being plan in March 2018. The Committee's has also scheduled further items to examine the work of the PSB later in 2018 and in 2019. Having recognised the need to clarify

¹ <https://www.cfps.org.uk/>

² <http://www.anglesey.gov.uk/download/63274>

and strengthen the scrutiny of the Gwynedd and Isle of Anglesey Public Service Board (PSB). The Scrutiny Improvement Programme action plan notes the need to:

- develop the forward work programme of the Partnership and Regeneration Scrutiny Committee to review governance arrangements;
- focus on scrutinising the impact of collaboration and partnership on local services;
- act as a statutory consultee on the Well-being Assessment and Well-being Plan;
- monitor progress on implementing the well-being plan and engagement in the planning cycle; and
- the detail of this work stream will become clearer following the publication date of the PSB's well-being plan.

- 13 The Partnership and Regeneration Scrutiny Committee has engaged with six partners in 2017-18, ensuring that there is scrutiny of partnership working across a range of council services. The Council has identified the need to prioritise and focus on key strategic partnerships and consider their impact in delivering services locally. A report was presented to the June 2018 Partnership and Regeneration Scrutiny Committee identifying key partnerships undertaken in 2017-18, identifying the characteristics of effective partnership scrutiny, and identifying key partnerships, including the Public Services Board for prioritising the forward work plan for the next two to three years.
- 14 Overview and scrutiny committee members spoke highly of the support they receive from the Council's two scrutiny support officers. Scrutiny support officers provide support and help facilitate the work of scrutiny meetings, and are instrumental in providing development opportunities for members. The officers can, if required, produce additional briefing information, which assist committee members to develop an understanding of a topic they are scrutinising. Officers also provide suggested key scrutiny questions that committee members can use if desired. Several commented that this was very useful early in their roles as scrutiny members, and as a result were able to develop their own questions as their experiences grew. Committee members were supportive of these arrangements and credited the facilitators with raising the standard of committee meetings.
- 15 The quality of papers that we observed being presented to scrutiny committee is generally good, and the Scrutiny Report Template provides guiding principles for scrutiny members including references to the WFG Act's five ways of working. Councillors were aware of limited officer capacity within the scrutiny support function and expressed a view that "they could do with another officer", but also recognised the resource difficulties facing the Council.
- 16 Officers and councillors demonstrate awareness of the future challenges facing the scrutiny function, such as reduced budgets and an increased focus on regional working. The Council expects the scrutiny function to evolve to meet the future

financial and regional challenges, and the forward work programme includes a number of PSB and partnership agenda items.

Overview and scrutiny committee practice is improving, the range of evidence sources they draw on has increased, and scrutiny committees forward work programmes align with the work of the Executive

- 17 Scrutiny committees have a well-defined forward work programme, which sets out the workload for six months to a year in advance. In developing their work programmes committees take into account information from a number of sources including the Executive; the Chief Executive / Senior Leadership Team and Corporate Plan and other corporate priorities. The Scrutiny Committee forward work planning has significantly improved over the last year, and is a result of discussions between the Scrutiny Chairs and Vice Chairs, the Leader and Chief Executive as part of the scrutiny forum. There are monthly briefing sessions on key strategic/service matters that helps shape the forward work programmes and is a standing item on the scrutiny meeting agendas.
- 18 The Scrutiny Forward Work Programmes are predominantly occupied with monitoring improvement, with policy development and pre-decision scrutiny having a lesser role. The Scrutiny committees have reduced the number of agenda items in order to allow greater time for topics that they consider to be priorities. The scrutiny committees receive agenda items from officers, Panels, and external partners. To further strengthen forward work programmes committees need to consider the best method for scrutiny, which may not be within a committee setting,
- 19 Overview and scrutiny committees regularly challenge and hold lead members and officers to account. The role of members in relation to scrutiny is clearly set out in Scrutiny Committee Member, and Chair of Scrutiny Committee, role descriptions. The relevant lead member introduces most agenda items and officers provide support and further detail.
- 20 The scrutiny meetings we observed are well run. We saw examples of robust challenge and well-informed debate. Chairs encourage contributions from committee members and ensure that discussions remain focused. The scrutiny committees also prioritise agenda items to allow sufficient time for individual topics.
- 21 The Corporate Scrutiny Committee has sought to include external contributions such as that of young people (Llais Ni) and adults (Citizen Panel) in the 2018-19 budget scrutiny arrangements, and is now an ever increasing part of key decision making within the Council and is prioritised as such eg budget setting/school modernisation. Such engagement is not fully embedded within all of the work of scrutiny.
- 22 Public involvement in overview and scrutiny in general is more limited, and public attendance at committee meetings is rare and limited to controversial issues. There

is no advertising of the meeting in the Council reception area and no clear procedure for welcoming the public. The Council also does not webcast its overview and scrutiny committee meetings. Whilst there are examples of public engagement within scrutiny, there is scope for the Council to use Participation Cymru's 10 Principles for Public Engagement in improving the way scrutiny engages with the public and stakeholders.

The overview and scrutiny function is contributing to improvements in performance and decision-making, and the Council regularly evaluates its effectiveness

- 23 Both councillors and officers provided examples of overview and scrutiny committees contributing to solutions to recognised problems, for example changes to frequency of residual waste collection, location of gypsy and travellers sites, and raising school educational standards and modernising of schools in the Llangefni and Seiriol wards. The Council has raised the importance of 'closing the loop' by having the Scrutiny Committee chairs presenting the findings of scrutiny to the Executive. The good practice of Scrutiny Committee chairs presenting the findings of scrutiny to the Executive is formalised in the Council's constitution.
- 24 The Council regularly evaluates the effectiveness of the scrutiny function and has identified good progress in a number of areas, including:
- a new scrutiny vision, agreed between the Executive, the Chairs and Vice-chairs of scrutiny, and the Senior Leadership Team;
 - better alignment of Executive, Scrutiny, and Senior Leadership Team work programmes;
 - greater focus on strategic aspects in the scrutiny work programme;
 - prioritising items using robust criteria focussing on outcome and improving impact;
 - introduction of three scrutiny panels to focus on schools' standards, children's services improvements and finance scrutiny; and
 - introduction of greater public engagement such as including inputs from children and young people (Llais Ni) and Adults (Citizen's Panel) as part of the budget setting process.
- 25 An Improvement Programme for Scrutiny is in place that identifies a number of improvements designed to realise the potential of the scrutiny function. This includes an 18-point action that identifies expected outcomes, responsibility for delivery, timeline, and status.

Appendix 1

Outcomes and characteristics for effective local government overview and scrutiny

Exhibit 2: outcomes and characteristics for effective local government overview and scrutiny

Outcomes	Characteristics
<p>What does good scrutiny seek to achieve?</p>	<p>What would it look like? How could we recognise it?</p>
<p>1. Democratic accountability drives improvement in public services. 'Better Services'</p>	<p>Environment</p> <ul style="list-style-type: none"> i) Scrutiny has a clearly defined and valued role in the council's improvement arrangements. ii) Scrutiny has the dedicated officer support it needs from officers who are able to undertake independent research effectively, and provide Scrutiny members with high-quality analysis, advice and training. <p>Practice</p> <ul style="list-style-type: none"> iii) Overview and Scrutiny inquiries are non-political, methodologically sound and incorporate a wide range of evidence and perspectives. <p>Impact</p> <ul style="list-style-type: none"> iv) Overview and scrutiny regularly engages in evidence based challenge of decision makers and service providers. v) Scrutiny provides viable and well evidenced solutions to recognised problems.

Outcomes	Characteristics
<p>What does good scrutiny seek to achieve?</p>	<p>What would it look like? How could we recognise it?</p>
<p>2. Democratic decision making is accountable, inclusive and robust. 'Better decisions'</p>	<p>Environment</p> <ul style="list-style-type: none"> i) Scrutiny members have the training and development opportunities they need to undertake their role effectively. ii) The process receives effective support from the Council's Corporate Management Team which ensures that information provided to scrutiny is of high quality and is provided in a timely and consistent manner. <p>Practice</p> <ul style="list-style-type: none"> iii) Scrutiny is Member led and has 'ownership' of its work programme taking into account the views of the public, partners and regulators whilst balancing between prioritising community concerns against issues of strategic risk and importance. iv) Stakeholders have the ability to contribute to the development and delivery of scrutiny forward work programmes. v) Overview and scrutiny meetings and activities are well-planned, chaired effectively and make best use of the resources available to it. <p>Impact</p> <ul style="list-style-type: none"> vi) Non-executive Members provide an evidence based check and balance to Executive decision making. vii) Decision makers give public account for themselves at scrutiny committees for their portfolio responsibilities.
<p>3. The public is engaged in democratic debate about the current and future delivery of public services.</p>	<p>Environment</p> <ul style="list-style-type: none"> i) Scrutiny is recognised by the Executive and Corporate Management team as an important council mechanism for community engagement. <p>Practice</p> <ul style="list-style-type: none"> ii) Scrutiny is characterised by effective communication to raise awareness of, and encourage participation in democratic accountability. iii) Scrutiny operates non-politically and deals effectively with sensitive political issues, tension and conflict. iv) Scrutiny builds trust and good relationships with a wide variety of internal and external stakeholders. <p>Impact</p> <ul style="list-style-type: none"> v) Overview and scrutiny enables the 'voice' of local people and communities across the area to be heard as part of decision and policy-making processes.

Appendix 2

Recommendations from the report of the Auditor General's national improvement study 'Good Scrutiny? Good Question?' (May 2014)

Exhibit 3: recommendations from **Good Scrutiny? Good Question?** Scrutiny Improvement Study

Recommendation	Responsible Partners
R1 Clarify the role of executive members and senior officers in contributing to scrutiny.	Councils, Welsh Government, Welsh Local Government Association
R2 Ensure that scrutiny members, and specifically scrutiny chairs, receive training and support to fully equip them with the skills required to undertake effective scrutiny.	Councils, Welsh Government, Welsh Local Government Association
R3 Further develop scrutiny forward work programming to: <ul style="list-style-type: none"> • provide a clear rationale for topic selection; • be more outcome focussed • ensure that the method of scrutiny is best suited to the topic area and the outcome desired; and • align scrutiny programmes with the council's performance management, self-evaluation and improvement arrangements. 	Councils
R4 Ensure that scrutiny draws effectively on the work of audit, inspection and regulation and that its activities are complementary with the work of external review bodies.	Councils, Staff of the Wales Audit Office, CSSIW, Estyn
R5 Ensure that external review bodies take account of scrutiny work programmes and the outputs of scrutiny activity, where appropriate, in planning and delivering their work.	Staff of the Wales Audit Office, CSSIW, Estyn

Recommendation	Responsible Partners
R6 Ensure that the impact of scrutiny is properly evaluated and acted upon to improve the function's effectiveness; including following up on proposed actions and examining outcomes.	Councils, Welsh Government, Welsh Local Government Association
R7 Undertake regular self-evaluation of scrutiny utilising the 'outcomes and characteristics of effective local government overview and scrutiny' developed by the Wales Overview & Scrutiny Officers' Network.	Council
R8 Implement scrutiny improvement action plans developed from the Wales Audit Office improvement study.	Councils
R9 Adopt Participation Cymru's 10 Principles for Public Engagement in improving the way scrutiny engages with the public and stakeholders.	Councils

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ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	Audit and Governance Committee
Date:	4 December 2018
Subject:	Internal Audit Update
Head of Service:	Marc Jones, Head of Function (Resources) / S151 Officer 01248 752601 MarcJones@ynysmon.gov.uk
Report Author:	Marion Pryor, Head of Audit and Risk 01248 752611 MarionPryor@ynysmon.gov.uk
<p>Nature and Reason for Reporting: This report provides information on work carried out by Internal Audit since the last Committee meeting. It allows the Committee to monitor Internal Audit's performance and progress as well as providing summaries of Internal Audit reports so that the Committee can receive assurance on Council services and corporate areas.</p>	

1. Introduction

1.1. The report provides an update as at 9 November 2018 on:

- Internal Audit reports [issued](#) since 31 August 2018
- [Follow up](#) of internal audit reports
- Implementation of [management actions](#)
- Progress in delivering the [Internal Audit Operational Plan 2018/19](#)
- [Risk Management](#)
- [National Fraud Initiative](#)

2. Recommendation

2.1. That the Audit and Governance Committee notes Internal Audit's latest progress in terms of its service delivery, assurance provision, reviews completed, performance and effectiveness in driving improvement and decides whether it needs any further assurance on audit reports.



CYNGOR SIR
YNYS MÔN
ISLE OF ANGLESEY
COUNTY COUNCIL

Internal Audit Update

December 2018

Marion Pryor BA MA CMIIA CPFA
Head of Audit & Risk

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Internal Audit reports recently issued

1. This section provides an overview of Internal Audit reports finalised since the last meeting, including the overall Assurance Rating and the number of Issues / Risks raised in the report's action plan.
2. We have finalised **two** reports in the period, summarised below:

Title	Assurance Level	Catastrophic	Major	Moderate	Minor	Total
School Income Collection Arrangements	Limited	0	2	1	0	3
Concessionary Travel Fraud	Reasonable	0	0	0	0	0

School Income Collection Arrangements

3. *In accordance with the Audit and Governance Committee's resolution with regards 'Limited Assurance' reports, I have provided a copy of the full report to the members separately.*
4. We included this audit within the audit plan following a request by the previous Head of Learning. Various concerns were raised about income collection processes within schools and further concerns were raised during the consultation we provided on the new IT system for collecting income within schools. Three primary schools were visited as part of the audit.
5. We identified that:
 - policies and procedures in relation to income are outdated
 - there are inconsistencies in accounting for income
 - there is a lack of corporate monitoring
 - monitoring of debt is variable between schools
 - governance of school funds is weak and
 - there are inappropriate system access controls.
6. Most of the weaknesses found within the income collection processes adopted by schools were due to a lack of knowledge and training, i.e. the Learning Service has not issued schools with up to date policies, supported by procedures and training. In addition, there is a lack of corporate compliance monitoring by the Learning Service to identify problems, leaving the Council exposed to risks.
7. The Schools Business Support Officer, who is new in post, confirmed that the Service had arranged further training for the School Comms system in October 2018. She also

stated that some schools have different packages for the School Comms system and are therefore not all able to undertake the same tasks. This is something that the Learning Service will review.

8. However, based on the weaknesses in the current system, we were only able to provide '**Limited Assurance**' of the risk management, governance and internal control arrangements.

Concessionary Travel Fraud

9. Reports of fraud against Gwynedd Council have recently been in the press following the conviction of the owners of two bus companies for offences including conspiracy to commit fraud by false representation. The company had used lost or stolen concessionary bus passes, which allow free travel for the over 60s and others with certain disabilities, to claim for bus journeys never made. The company had used one card 23,000 times even though its holder had been issued with a replacement card and used one pensioner's bus pass thousands of times after he had died. The company submitted claims to Gwynedd Council, which the Council paid and then claimed back from the Welsh Government under the all-Wales Concessionary Travel Scheme.
10. We conducted enquiries with Gwynedd Council and the Council's Transport Service to ensure that the Council is not exposed to this fraud. One of the companies had operated two contracts for which the Council reimbursed concessionary fares but were not successful when the Council re-tendered the contracts in 2015. The other had not received any payments since June 2014.
11. Flintshire County Council, on behalf of all the north Wales Councils, provides summary reports directly from the Wayfarer system to support reimbursement claims for concessionary fares, so contractors cannot tamper with them. The Council's Transport Service checks all claims for concessionary fares submitted by the bus operator against the reports minimising the risk of losses due to fraudulent claims.
12. From July 2016, the Welsh Government introduced monthly detailed system reports to allow Councils to monitor smart card activity. The Council reviews the reports to identify any duplicate / high use of a card and any unusual activity so they can query with the bus operator. Reports highlight manual system over-rides and, within a tolerance level of 2%, the Transport Service investigates. The new reporting system means that the Council can identify and investigate anomalies and so there is a reduced risk of losses due to inflated or fraudulent claims for reimbursement of concessionary fares.
13. The Council participates in the Tell Us Once scheme and cancels cards when informed of deaths. The Council retains damaged cards and any card reported lost is de-activated. This ensures that the risk of financial loss due to fraudulent use of cards is minimised.
14. Based on the above conclusions, reasonable controls are in place to ensure the Council's exposure to risk in the reimbursement of concessionary fares is minimised.

Follow up of Internal Audit reports

15. Currently, we follow up all reports with an assurance rating of 'Limited' or below. We have finalised **three** follow up reviews in this period, with the following outcomes:

Title of Audit	Review	Follow Up Concluded	Assurance Level	Catastrophic	Major	Moderate	Minor	Total
Sundry Debtors	First Follow Up	Nov-18	Limited	0	4	7	2	13
Corporate Procurement Framework	Second Follow Up	Nov-18	Reasonable	0	2	4	0	6
Council's Preparation for GDPR	First Follow Up	Oct-18	Reasonable	0	2	0	0	2

Sundry Debtors – First Follow Up

16. *In accordance with the Audit and Governance Committee's resolution with regards 'Limited Assurance' reports, I have provided a copy of the full report to the members separately.*
17. Over the last two years, the Resources Service has embarked on large-scale investment in systems, including Debtors, Cash Collection and Accounting, Council Tax and Housing Benefits. The Debtors Team suffered historically from a lack of investment, both in terms of staffing and in systems. The introduction of the Civica Debtors system improved the situation, but at the time of our last audit and prior to the restructure, the Team did not have the capacity to develop the system and modernise processes.
18. This has been a challenging time; while maintaining the daily workload, staff have implemented major changes to systems but there have been a number of IT system implementation problems. There is evidence that the team has undertaken significant work to address the issues / risks raised during our original review, but our follow up review found that in many cases it has been insufficient to fully address the risk and therefore remains as '**Limited Assurance**'.
19. Of the 19 issues / risks raised during the initial audit review, the Revenues and Benefits Service Manager has tolerated one 'Minor' risk around refunds and the risk of fraud, five have been addressed, 11 are in the process of being addressed and work is yet to start on two. Where work has commenced and this has reduced the likelihood of the risk occurring, we have reflected this in the risk rating.
20. We will revisit in July 2019 to monitor the progress of addressing the risks.

Corporate Procurement Framework – Second Follow Up

21. We undertook an audit of the corporate procurement framework and published a report in September 2017. The review resulted in a 'Limited Assurance' rating.
22. We conducted a follow-up review and published our report in January 2018. We concluded that although the Council had demonstrated 'Reasonable Progress' in addressing the Issues / Risks raised, the assurance level of the report should remain as a 'Limited Assurance' level due to the priority level of the remainder of the issues raised which were yet to reach their target implementation date.
23. This second follow up review concluded that of the 20 Issues / Risks raised during the original review in September 2017, six remain unaddressed. The Corporate Procurement Manager has extended the deadline dates for addressing these remaining risks, with the latest being in August 2019.
24. We raised one red Issue/Risk within the original report, which related to the Council's lack of assurance that all its procurement activity was compliant with procedures and regulations and the possibility that the Council had incurred expenditure where no formal competitive procurement exercise had been undertaken. There was a risk that fit for purpose contracts were not in place and services had not considered issues such as safeguarding, safety and value for money. Services agreed to undertake a review of current services provided by external providers to ensure that they had complied with procurement regulations and fit for purpose contracts were in place. Not all services had completed this review at the time of audit testing but they were making good progress towards gaining this assurance.
25. In addition, we undertook an exercise as part of our review to identify all expenditure with individual suppliers over £150k in the period 2017/18 to confirm that a contract is in place for the goods or service provided. We found that for this level of expenditure, the Council consistently has contracts in place and services were making use of national and regional procurement frameworks to derive savings.
26. Due to the work carried out by services and the results of our testing, we reduced the likelihood of the non-compliance of contracts to 'Unlikely', reducing the risk rating to 'Major' (Amber).
27. We therefore concluded that the Council has demonstrated 'good progress' in addressing the Issues/Risks raised and we are therefore now able to provide '**Reasonable Assurance**' that the Council manages its procurement activity effectively.

Council's Preparation for General Data Protection Regulations – First Follow Up

28. We have undertaken two audits over the last year tracking the Council's preparation for GDPR. The first was an interim review in November 2017 to assess progress as at that date, which we then followed by a full audit in May 2018 to determine whether the Council was in a position of compliance with GDPR by the 25 May 2018 deadline.

29. While the interim update provided '**Reasonable Assurance**' that the Council was on track to achieve compliance with GDPR by May 2018, our subsequent review found that several services had not implemented the GDPR Action Plan in line with the agreed target dates. Due to the imminent implementation of the GDPR legislation and the potential consequences for the Council of non-compliance, we were only able to provide a '**Limited Assurance**' rating at this time, and we raised eight issues / risks for management attention.
30. The Council has undertaken much work within a relatively short period to address the issues / risks raised during our last review. Our follow up review confirms that the Council is now in a stronger position to demonstrate to the Information Commissioner's Office (ICO) that it has taken reasonable steps towards GDPR compliance. A more robust framework now exists within the Council to facilitate full compliance with GDPR over the next two years.
31. Of the eight risks / issues raised during the full review in May 2018, the Council has addressed six with two still in progress.
32. The Council has yet to appoint a School Data Protection Officer, to assist and advise schools on Data Protection and GDPR compliance; however, at the time of our review the recruitment process for this post was underway.
33. In addition, further work is required to ensure that all staff are sufficiently trained with regards GDPR. While the Council has rolled out a GDPR e-learning module, which is compulsory for all staff, recent completion statistics demonstrate that more than 50% of staff are yet to complete the training. There is therefore still a risk posed by staff not being fully aware of their individual and the Council's overall responsibilities with regards Data Protection.
34. Nevertheless, the Council has made good progress in addressing the issues / risks identified during our original review. We are also able to gain further assurance of how well the Council manages its information governance (IG) risks, from the annual SIRO (Senior Information Risk Officer) report presented to the Council's Audit and Governance Committee in September 2018. This report concluded that the Council's arrangements for information governance and data protection compliance are reasonably effective; it has successfully implemented the new data protection legislation, operating in a compliant way; and processes exist within the Council to demonstrate compliance to the ICO.
35. Taking consideration of the results of our follow up review, as well as the assurances provided by the annual SIRO report, we are now able to re-score our assurance rating and provide a **reasonable level of assurance** with regards to the Council's compliance with GDPR.

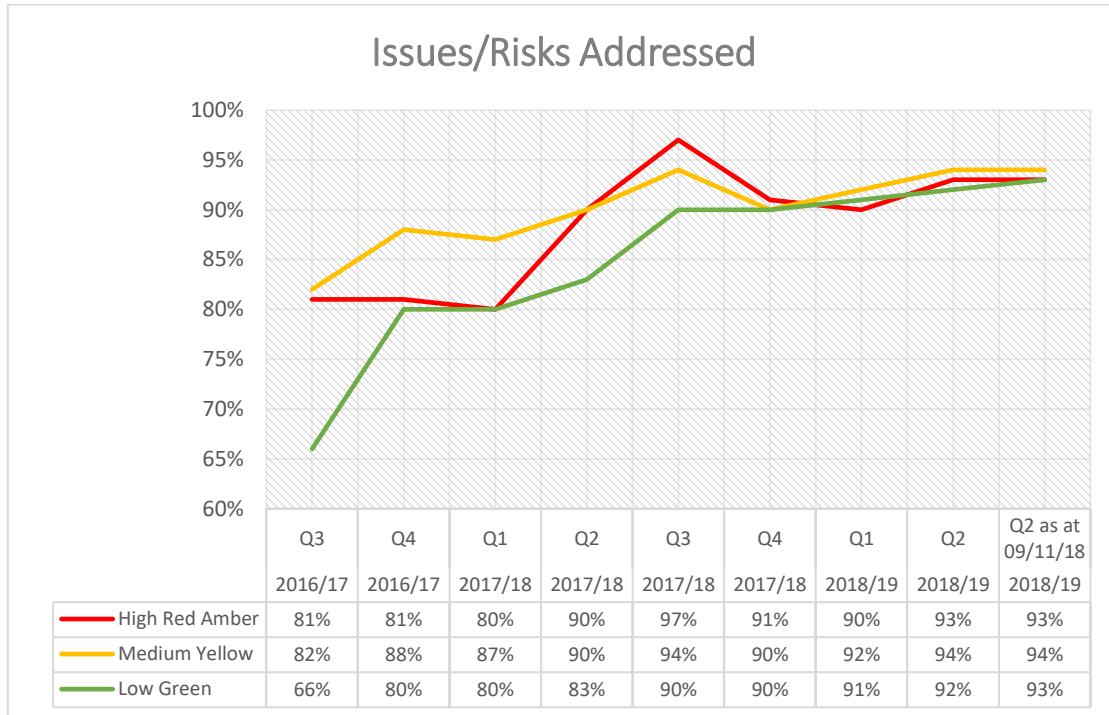
Follow Ups Scheduled and In Progress

36. We have **three** reports with a ‘Limited Assurance’ rating scheduled for a follow up review before the end of this financial year. All **three** follow-up reviews are currently in progress:

Title of Audit	Reason for Review	Date of Follow Up	Assurance Level	Catastrophic	Major	Moderate	Minor	Total
Child Care Court Orders Under the Public Law Outline	Second Follow Up	Jul-18	Limited	1	3	3	1	8
Payment Card Industry Data Security Standard Compliance	Second Follow Up	Oct-18	Limited	0	6	4	1	11
System Controls - Logical Access and Segregation of Duties	Third Follow Up	Dec-18	Limited	0	3	2	0	5

Implementation of Management Actions

37. The graph below highlights management's performance in addressing Issues/Risks raised during our audits:



38. The Council steadily improved its performance during 2017/18 and has continued to maintain good performance over the first two quarters of 2018/19.

39. A more detailed report of all outstanding recommendations and Issues/Risks is made twice a year, with the next due in February 2019.

40. However, a recent exercise to examine the historical data included in the action tracking system has highlighted an overly administrative configuration and items inconsistent with our risk-based approach to auditing. A new and upgraded version of the action tracking system will shortly be available, which provides extra functionality and reduces the administrative burden. Therefore, we will undertake an exercise next year to cleanse the historical data and review the system configuration.

Progress in delivering the Internal Audit Operational Plan 2018/19

41. The current Plan is attached at [Appendix A](#). Since the appointment of the two new Senior Auditors, work has progressed well. However, going forward, along with the length of these vacancies, protracted investigations, significant follow up work and the maternity leave of the third Senior Auditor, which started unexpectedly in October 2018, our target for undertaking 80% of the red and amber residual risks in the corporate risk register will be difficult to achieve.
42. Although we have only covered **29%** of the red and amber residual risks in the corporate risk register, work is currently ongoing in **seven** areas:
- Cyber Security (red risk)
 - Gypsies and Travellers (Requirements of the Housing (Wales) Act 2014)
 - Counter Terrorism and the Prevent Duty
 - Recruitment and Retention
 - Business Continuity (two red risks)
 - Direct Payments
 - Leisure Services – Governance Arrangements
43. We are also involved in two ongoing investigations, which are both nearing their conclusion.

Risk Management

44. The migration of the risk registers into the new Risk Management software (4risk) is going well and work is continuing with services to quality assure their risks. There will be further work to embed and enhance the assurance mapping aspect of the system as part of the second phase of implementation.
45. We have undergone an independent Risk Management Health Check by our insurers, Zurich Municipal. The outcome is largely as expected, with a few opportunities for improvement. We will share the Strategic Risk Consultant's report with the Committee once it is finalised, along with our improvement action plan.

National Fraud Initiative

46. To support Welsh public bodies in their fight against fraud, the Auditor General runs the National Fraud Initiative (NFI) in Wales on a biennial basis under his statutory data matching powers set out in Part 3A of the Public Audit (Wales) Act 2004.
47. The NFI matches data across organisations and systems to help public bodies identify potentially fraudulent or erroneous claims and transactions. It has been run every two years since 1996 and, to date has been used to identify fraud and overpayments totalling £1.69 billion across the UK.
48. During this last quarter, we have been requesting, collating, reviewing and uploading all the required data for the 2018/19 NFI exercise, following strict data specifications. This involved working closely with colleagues in IT and across all services to extract the data for 12 data sets, and took eight days in total across the team.
49. The Wales Audit Office has just released the results of the previous NFI exercise (2016-18), which has been one of the most successful to date, already resulting in the identification of £5.4 million of fraud and overpayments in Wales, and £301 million across the UK. The Wales Audit Office's report includes a number of case studies which highlight the excellent work that participating organisations are doing to drive out fraud in public services and is available at <http://www.audit.wales/publication/national-fraud-initiative-wales>

Appendix A – Internal Audit Operational Plan 2018/19¹

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Residual)	Revised Plan 2018/19	Actual Days as at 11/11/18	Notes / Assurance Rating	Target / Actual Date of Reporting to Committee
CORPORATE-WIDE							
Corporate	Business Continuity	Corporate Risk Register	C2 - YM9 C1 - YM38	10	1.75		April 2019
Corporate	Welfare Reform	Corporate Risk Register	C2 YM10	10			April 2019
Corporate	Corporate Safeguarding	Corporate Risk Register	D2 ² YM11	10	7	Reasonable Assurance	December 2018
Corporate	CONTEST (Countering Terrorism and Preventing Radicalisation)	Corporate Risk Register	E1 YM27	10	2.5		April 2019
Corporate	Payment Card Industry Data Security Standards (PCIDSS)	Corporate Risk Register	D1 YM34	10	0.75		February 2019
Corporate	General Data Protection Regulations (GDPR)	Corporate Risk Register	C2 YM31	0	8	Reasonable Assurance	December 2018
Corporate	Corporate Procurement	Corporate Risk Register	D2 - YM20 D2 - YM22	18	18	Reasonable Assurance	December 2018
Corporate	Risk Management	New process implemented October 2017. New 4Risk software rolled out September 2018. Will be the subject of an independent Health Check by our insurers.	n/a	n/a	n/a	Draft report received November 2018	February 2019
Corporate	Well-being of Future Generations Act	High-profile legislation that has a significant impact on	n/a	3			

¹ Corporate Risk Register approved by SLT 10/09/18

² Residual Risk reduced from C1 (Red) to D2 (Amber)

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Residual)	Revised Plan 2018/19	Actual Days as at 11/11/18	Notes / Assurance Rating	Target / Actual Date of Reporting to Committee
		the way the Council works. It is subject to specific review by WAO.					
Corporate	Social Services and Well-being Act - Part 9 requirements	High-profile legislation that has a significant impact on the way the Council works. Extension from WG to implement pooled budgets	n/a	2			
Corporate	Managing the Risk of Fraud	PSIAS requirement	n/a	5			
RESOURCES							
Resources	Recovery and Write-offs (Car Loans)	Key Financial System - S151 concerns	n/a	15			April 2019
Resources	Income – Sundry Debtors Follow Up	Key Financial System - external audit assurance	n/a	15	15	Limited Assurance	December 2018
Resources	Payroll	Key Financial System - external audit assurance	n/a	15			
TRANSFORMATION							
ICT	IT Audit - Cyber Security	Corporate Risk Register	C1 YM28	15	7.25		February 2019
HR	Recruitment & Retention	Corporate Risk Register	C2 YM5	15			April 2019
REGULATION & ECONOMIC DEVELOPMENT							
Regulation & Economic Development	Energy Island Programme (including major schemes such as Wylfa Newydd)	Corporate Risk Register	C2 - YM13 C2 - YM16 D2 - YM17	10			
Regulation & Economic Development	Leisure Services – financial investment	Corporate Risk Register	B3 YM32	10			April 2019

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Residual)	Revised Plan 2018/19	Actual Days as at 11/11/18	Notes / Assurance Rating	Target / Actual Date of Reporting to Committee
Regulation & Economic Development	Leisure Services - Governance and Control	Head of Service Request - major structural changes. Carried forward from 2017/1	n/a	15		Waiting for restructure to be finalised	April 2019
HIGHWAYS, WASTE & PROPERTY SERVICES							
Highways	Car Park Services – Enforcement	New pilot in place from 2017/18 with external organisation for car parking enforcement	n/a	15 0		Deleted – low priority	
Highways	Highways Contract Monitoring Arrangements	Head of Service request	n/a	15 10	10	Substantial Assurance	September 2018
HOUSING							
Housing	Gypsies and Travellers (Requirements of the Housing Act 2014)	Corporate Risk Register	C2 YM29	10	0.25		April 2019
ADULT SERVICES							
Adults	Deprivation of Liberty Safeguards	Corporate Risk Register	C2 YM25	15 9	9	Reasonable Assurance	July 2018
Adults	Direct Payments	Head of Service request (carried forward from 2017/18)	n/a	10	0.5		September 2018
CHILDREN'S SERVICES							
Children's	Integrated Service Delivery Board	Corporate Risk Register	C2 YM36	10			April 2019
LEARNING							
Learning	General Data Protection Regulations (GDPR) - Implementation within Schools	Corporate Risk Register. Will be the subject of an independent Health Check by our insurers.	C2 YM38	n/a	n/a		April 2019
Learning	Primary Schools Thematic Reviews - Schools Income Collection	Head of Service request		20	16	Limited Assurance	September 2018 December 2018

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Residual)	Revised Plan 2018/19	Actual Days as at 11/11/18	Notes / Assurance Rating	Target / Actual Date of Reporting to Committee
GRANT CERTIFICATION							
	Rent Smart Wales Grant	Grant requirement	n/a	10	10	Substantial Assurance	July 2018
	School Uniform Grant					Reasonable Assurance	September 2018
	Education Improvement Grant					Substantial Assurance	September 2018
	Pupil Development Grant					Substantial Assurance	September 2018
	TOTAL AUDIT DAYS			312	72		
CHARGEABLE NON PROGRAMMED DAYS (PRODUCTIVE)							
	Follow Up Work	Several limited assurance reports requiring follow up, includes reporting and administering 4Action		50	46		
	National Fraud Initiative			8	8		
	General Counter Fraud Work, enquiries and referrals			52	33		
	Closure of Previous Year's Work			19	19		
	Corporate consultancy			60	34		
	Audit & Governance Committee, including training for members			40	27		
	Management Review			40	15		
	TOTAL			269	182		
NON CHARGEABLE DAYS (NON-PRODUCTIVE)							
	Risk & Insurance			20	10		
	General Administration			40	25		

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Residual)	Revised Plan 2018/19	Actual Days as at 11/11/18	Notes / Assurance Rating	Target / Actual Date of Reporting to Committee
	Personal Development & Review, 121 & Team Meetings			30	8		
	Management, including liaison with External Audit and audit plan preparation			40	24		
	Leave, including annual, statutory, special and sick leave			357	173		
	Training and Development for staff, including induction and Welsh lessons			119	64		
	TOTAL			606	303		
	TOTAL RESOURCE REQUIREMENT			1187			
	RESOURCE AVAILABLE			1096			
	RESOURCE SHORTFALL			-91			
	PRODUCTIVITY			49%			

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WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Follow-up Review of Proposals for Improvement – **Isle of Anglesey County Council**

Audit year: 2018-19

Date issued: July 2018

Document reference: 665A2018-19

This document has been prepared for the internal use of Isle of Anglesey County Council as part of work performed/to be performed in accordance with statutory functions.

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We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

The team who delivered the work comprised Charlotte Owen, Alan Hughes, Gwilym Bury and Andy Bruce under the direction of Huw Rees.

Contents

The Council has satisfactory processes for addressing proposals for improvement and recommendations from the Wales Audit Office but arrangements could be strengthened to provide greater assurance on progress to elected members.

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The Council has addressed the proposals for improvement issued in the selected reports	7

Summary report

Summary

- 1 The purpose of this review is to gain assurance that the Isle of Anglesey County Council (the Council) has effective arrangements for addressing proposals for improvement and recommendations made by the Wales Audit Office, and is evaluating the extent to which its actions are contributing to delivering improved service performance and outcomes for citizens.
- 2 In December 2015, the Auditor General published his Annual Improvement Report (AIR) for the Council. The report, which included findings from the 2015 Corporate Assessment (CA), concluded that the Council's self-awareness and its track record of improving governance and management were likely to support it in making arrangements to secure continuous improvement in 2015-16.
- 3 We came to this conclusion because:
 - members, officers and partners co-operated well within an improving governance framework, addressing local priorities and arrangements that the Council recognised were not working well;
 - the Council had taken steps to address weaknesses in its strategic use of resources but more work lay ahead in the face of financial challenges; and
 - the Council had made good progress against its key improvement priorities.The report made six proposals for improvement (PFIs), which are included in the detailed report below.
- 4 To gain assurance that the Council has effective arrangements for addressing the proposals for improvement, in June 2018, we reviewed the progress that the Council had made in implementing these proposals for improvement and the effectiveness of its arrangements for doing so.
- 5 We found that the Council has satisfactory processes for addressing proposals for improvement and recommendations from the Wales Audit Office, but arrangements could be strengthened to provide greater assurance on progress to elected members. We came to this conclusion because:
 - the Council has satisfactory arrangements for responding to proposals for improvement and recommendations from the Wales Audit Office, but elected members are not consistently informed of progress; and
 - the Council has addressed the proposals for improvement issued in the selected reports.

Proposals for improvement

- 6 The table below contains our proposals for ways in which the Council could improve its arrangements for responding to proposals for improvement and recommendations.

Exhibit 1: proposals for improvement

Proposals for improvement

- P1 Keep elected members informed of Wales Audit Office proposals for improvement and recommendations, and the Council's progress against them by:
- circulating all Wales Audit Office reports to Audit and Governance Committee members for information; and
 - reporting annually to the Audit and Governance Committee on progress made against outstanding Wales Audit Office proposals for improvement and recommendations.

The Council has satisfactory processes for addressing proposals for improvement and recommendations from the Wales Audit Office but the Audit and Governance committee would benefit from formalised monitoring information

The Council has satisfactory arrangements for responding to proposals for improvement and recommendations from the Wales Audit Office, but elected members are not consistently informed of progress

- 7 The Council has clear processes in place to feed findings and recommendations from external reviews to the Strategic Leadership Team (SLT) who prioritise the recommendations according to risk and their alignment with corporate priorities. Heads of Service advise SLT on the relevance of recommendations in national reports, where not all findings may apply to the Council.
- 8 Heads of Service develop actions to respond to the recommendations and these are incorporated into services' annual delivery plans. Services track progress against the plans on a quarterly basis and a panel of senior officers and elected members review and challenge progress at annual service performance reviews. When the Council requires additional assurance it establishes boards to oversee and monitor the implementation of high priority recommendations, such as those issued by Care Inspectorate Wales (CIW) in 2017.
- 9 The SLT determines which external reports go to Council committees. Reports that SLT considers priority or high risk are routinely reported at either Scrutiny or Audit and Governance committee, with follow-up reports on progress as necessary. Currently not all Wales Audit Office external reports are circulated to the Audit and Governance Committee even as an information item, and it is unclear if all members have had the opportunity to read all available reports. Doing so would promote greater transparency by ensuring that Committee members are well informed and able to follow up on any issues of interest or concern. The Council does not currently provide the Audit and Governance Committee with an annual report on progress against all Wales Audit Office recommendations and proposals for improvement.

The Council has addressed the proposals for improvement issued in the selected reports

Exhibit 2: proposal for improvement 1

Proposal for improvement 1: the 2015 Wales Audit Office AIR and Corporate Assessment

The Council should review its improvement priorities to ensure that the scale of its ambitions is clear and that it reflects realistically the capacity and resources at the Council's disposal.

- 10 The Council's Corporate Plan 2017-2022 includes clear and ambitious improvement priorities which are aligned to the Wellbeing and Future Generations Act, and take into account the views of local people. The Plan is supported by annual delivery plans which demonstrate the scale of its ambition, providing quantifiable targets for the year.
- 11 The draft 2018-19 delivery plan was developed alongside the Council's Medium Term Financial Plan (MTFP) to ensure that initiatives take account of available funding. For example, all planned activities in the 2018-19 delivery plan will be delivered from the Council's revenue budget and capital programme for the year. The MTFP also takes into account funding requirements for future years of the Corporate Plan. The Council regularly reviews its MTFP in light of new financial information. These arrangements will ensure that future delivery plans are based on up-to-date projections of available funds.

Exhibit 3: proposal for improvement 2

Proposal for improvement 2: the 2015 Wales Audit Office AIR and Corporate Assessment

The Council should ensure that its strategies for People, ICT and Asset Management are clearly linked to the Council's Corporate Plan and the associated financial strategy.

- 12 There are reasonable links between the Council's latest Corporate Plan and its supporting strategies. For example, in detailing how it will meet its objectives, the Corporate Plan makes reference to the acquisition or construction of council housing, extra care housing and new school buildings. Further details on all these projects are included in the Council's Asset Management Plan, which itself makes reference to the underlying service strategies. The Plan includes a summary of the Council's Capital Plan budget, but has not been updated with the current year's budget.

- 13 The Corporate Plan makes reference to using IT to transform the way Council services are delivered. The Council is currently updating its Digital Strategy to align it to the current Corporate Plan, but the existing strategy demonstrates some of the ways the Council is, or is planning to, use ICT to transform the way staff work and the way the public interacts with the Council.
- 14 The Council's People Strategy demonstrates how it links the Corporate Plan to underlying HR strategies and projects. All strategies have underlying action plans which are aligned to corporate priorities. Also the Council's MTFP takes into account the funding requirements of the Corporate Plan's improvement priorities and annual delivery plans reflect the resources available.

Exhibit 4: proposal for improvement 3

Proposal for improvement 3: the 2015 Wales Audit Office AIR and Corporate Assessment

The Council should further embed a culture of consistent corporate working among staff at all levels and ensure that staff at all levels are held to account for complying with Council policies and the implementation of decisions.

- 15 Council officers we spoke to commented that the corporate culture at the Council has improved in recent years. There are co-operative working relationships amongst senior officers and this is filtering down through the organisation. Cross-departmental projects, such as the Wylfa Newydd project, are also helping to reduce silos and embed a more consistent culture of corporate working. Bi-annual service review meetings also encourage Heads of Service to consider how they are contributing to a consistent corporate approach to working.
- 16 The Council implemented an electronic policy management system in April 2017 to address concerns regarding its record keeping in relation to staff compliance with policies. The Policy Portal provides an electronic library of over 100 Council policies and enables staff to electronically verify that they have read and understood policies. Heads of Service and the Senior Leadership Team (SLT) prioritised key corporate policies for staff to review and accept. Six were made available for acceptance in 2017-18 and a further nine have been selected for 2018-19. Compliance reports submitted to Heads of Service and SLT show average compliance rates of around 75%. However, as the system uses the Council's email address book as its staff database, compliance reports only take into account staff with a Council email account. The Council is currently exploring ways to make the system accessible to all staff.

Exhibit 5: proposal for improvement 4

Proposal for improvement 4: the 2015 Wales Audit Office AIR and Corporate Assessment

In implementing its new procurement strategy, the Council should ensure that it develops and applies the skills necessary to better manage and monitor contracts with external suppliers of goods and services.

- 17 Following the Welsh Government's national programme of procurement fitness checks in 2013, the Council established a procurement improvement project to address the recommendations of the review. The Council adopted a new procurement strategy in May 2015 and increased the staffing of the procurement team to improve its capacity. The Council also developed a Contracts Management Strategy, which centralises the management of some main contracts.
- 18 Contract managers can access a range of training and support. For example, a Procurement Handbook provides information on the procurement process and Procurement Champions are available to provide support. The Corporate Procurement Team is currently updating its procurement and contract procedure rules training and will run a programme of training sessions once completed. The Team also ran contract management training in February 2018 and is scheduling a further session for officers responsible for managing large contracts over the tender threshold.
- 19 An internal self-assessment of the procurement function, based on the initial fitness check, concluded that the Council's maturity was improving and developing towards conforming. The Council's Internal Audit department continues to regularly review the procurement function, taking into account the improvement plan. Its February 2018 follow-up report found that the Council had made good progress in implementing actions but, as several key actions were not yet due to be completed, only limited assurance could be provided at this time. Internal Audit will review progress against the outstanding actions during July 2018.

Exhibit 6: proposal for improvement 5

Proposal for Improvement 5: the 2015 Wales Audit Office AIR and Corporate Assessment

The Council should ensure a consistent approach to workforce planning and use the results to inform future reductions in staff.

- 20 The Council has developed a risk-based approach to workforce planning supported by a Workforce Planning Operational Strategy. During 2017, HR officers worked with all Heads of Services to identify and rank workforce risks within each service and to develop actions to reduce the identified risks. HR officers meet with Heads of Service on a quarterly basis to review and update the risks and assess the impact of mitigating actions. The Council's Children and Family Service recently

developed its own workforce strategy document based on the information that came out of the above workforce planning process. The document has been shared with other services who wish to develop their own strategy, **and there is a clear aim for all services to produce a similar document.**

- 21 Recognising the Council's historic difficulties to recruit staff to senior positions, Heads of Service were also asked to identify potential successors for the Head of Service role and the management level below. An in-house leadership programme supports officers identified as 'star performers' to develop their potential. Recent cohorts provided positive feedback on the programme and the Council hopes it will help improve staff retention and succession planning. The Council is also identifying opportunities to attract new talent into its workforce. One recently launched scheme will provide young adults with a 12-week paid work experience placement at the Council.
- 22 The Council has also reviewed spans of control within the organisation, ie the number of staff a manager or supervisor directly controls. Guidelines suggest managers should not manage fewer than three or more than eight staff. The exercise has identified potential savings and will inform future restructuring proposals.

Exhibit 6: proposal for improvement

Proposal for Improvement 6: the 2015 Wales Audit Office AIR and Corporate Assessment

The Council should address systematically and, where appropriate, corporately, the recommendations and proposals for improvement included in the:

- Wales Audit Office reviews of the Council's arrangements to support the safeguarding of children and of the Anglesey and Gwynedd Joint Local Service Board;
- Review of the ICT service commissioned by the Council;
- Enforcement Notice issued by the Information Commissioner's Office;
- Performance Evaluation Report 2013-14 issued by CSSIW; and
- Reports produced by Internal Audit.

- 23 The Council developed an action plan to respond to relevant safeguarding recommendations, and actions relating to all but one recommendation on safeguarding training were completed by the end of 2016-17. Internal Audit now regularly review safeguarding arrangements. Their July 2017 report provides reasonable assurance over progress made to improve current arrangements and confirms that the Council completed the outstanding actions related to safeguarding training.

- 24 The Council was making good progress against the recommendations in the Joint Local Service Board report during 2016-17 but work ceased following the Welsh Government's decision to replace Local Service Boards with Public Service Boards.
- 25 Following an external review of its ICT Service, the Council incorporated the report's recommendations into the ICT division's 2016 service action plan. All but one action has been completed. The outstanding recommendation relates to the application of corporate project management arrangements to technology based projects. The action plan notes that the Council is deciding on its approach to project management. One of the recommendations related to the Council's ICT Disaster Recovery arrangements, which has been subject to a number of Internal Audit reviews. Following a slow start, the Council made good progress during 2016-17 and Internal Audit provided a substantial assurance rating in its last report of June 2017.
- 26 The Council established a Corporate Information Governance Board in November 2014 to address information risk. It is chaired by the Senior Information Risk Owner (SIRO) who reports annually to the Audit Committee. The Board produced an action plan to address the Information Commissioner's Enforcement Notice and nine recommendations. The plan contained 41 actions to address the nine recommendations and was implemented by a sub-group of the Board. Actions were prioritised according to risk. The action plan was signed off as completed in February 2018, although two outstanding actions relating to physical rights access and an electronic training database remained. These are being addressed as part of the current Northgate ICT Project.
- 27 Earlier work by the Council to respond to recommendations in CIW's 2013-14 and 2014-15 reports was superseded by CIW's report of March 2017 which contained 14 recommendations. The Council responded proactively, developing an action plan which was incorporated into the Children's Service's improvement plan. The Council has established appropriate governance arrangements to scrutinise progress against the plan: a Children's Service Improvement Panel meets monthly and regular monitoring reports go to Corporate Scrutiny and Executive Committees. The latest report shows progress has been made against all areas on the plan, with six recorded as developed, ten almost complete, and five ongoing pieces of work.
- 28 The Council has strengthened its arrangements for following up Internal Audit recommendations. Services take ownership of identified risks and issues and develop the actions needed to address them. Service review meetings then hold senior officers to account for progress against recommendations. Internal Audit routinely follow up recommendations from audit reports with limited and minimal assurance shortly after planned actions are scheduled for completion. This provides assurance that the actions have been completed and that they have addressed the issues. Furthermore, services can no longer amend the target completion date for actions without approval from Internal Audit. As a result of these strengthened arrangements, the percentage of recommendations implemented has risen to approximately 90% and the backlog of non-implemented

recommendations has reduced. The Audit and Governance Committee provides effective oversight, receiving regular update reports and calling in services to account for lack of progress when required.

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ISLE OF ANGLESEY COUNTY COUNCIL	
REPORT TO:	AUDIT COMMITTEE
DATE:	04 DECEMBER 2018
SUBJECT:	TREASURY MANAGEMENT MID-YEAR REVIEW REPORT 2018/19
PORTFOLIO HOLDER(S):	COUNCILLOR ROBIN WILLIAMS
HEAD OF SERVICE:	MARC JONES, HEAD OF FUNCTION (RESOURCES) & SECTION 151 OFFICER (EXT. 2601)
REPORT AUTHOR:	GARETH ROBERTS
TEL:	01248 752675
E-MAIL:	GarethJRoberts@anglesey.gov.uk
LOCAL MEMBERS:	n/a

1. Background

1.1 Capital Strategy

In December 2017, the Chartered Institute of Public Finance and Accountancy (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities will be required to prepare a Capital Strategy which is intended to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed; and
- the implications for future financial sustainability.

A report setting out our Capital Strategy will be taken to the full Council before 31st March 2019.

1.2 Treasury Management

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses and, on occasion, any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, treasury management is defined as:-

“The management of the local authority’s borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

2. Introduction

This report has been written in accordance with the requirements of CIPFA's Code of Practice on Treasury Management (revised 2017). The primary requirements of the Code are as follows:-

- (i) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- (ii) Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- (iii) Receipt by the full Council of an Annual Treasury Management Strategy Statement, which includes the Annual Investment Strategy and Minimum Revenue Provision Policy for the year ahead, a Mid-year Review Report (this report) and an Annual Report, covering activities during the previous year.
- (iv) Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- (v) Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council, the delegated body is the Audit Committee.

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:-

- An economic update for the first part of the 2018/19 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure as set out in the Capital Strategy, and prudential indicators;
- A review of the Council's investment portfolio for 2018/19;
- A review of the Council's borrowing strategy for 2018/19;
- A review of any debt rescheduling undertaken during 2018/19;
- A summary of activity since Quarter 2; and
- A review of compliance with Treasury and Prudential Limits for 2018/19.

3. Economic Update

3.1 The Council's treasury advisers provided an economic update and can be found in Appendix 1. They have also recently provided the following interest rate forecast:-

	Dec 2018	Mar 2019	Jun 2019	Sep 2019	Dec 2019	Mar 2020	Jun 2020	Sep 2020	Dec 2020	Mar 2021
Bank Rate (%)	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
5yr PWLB rate (%)	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB rate (%)	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
25yr PWLB rate (%)	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB rate (%)	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

3.2 The Council's treasury advisers recently provided a commentary alongside the interest rate forecast above. This commentary can be found in Appendix 2.

4. Treasury Management Strategy Statement and Annual Investment Strategy Update

4.1 The Treasury Management Strategy Statement (TMSS) for 2018/19 was approved by this Council on 28 February 2018. There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

5. Investment Portfolio 2018/19

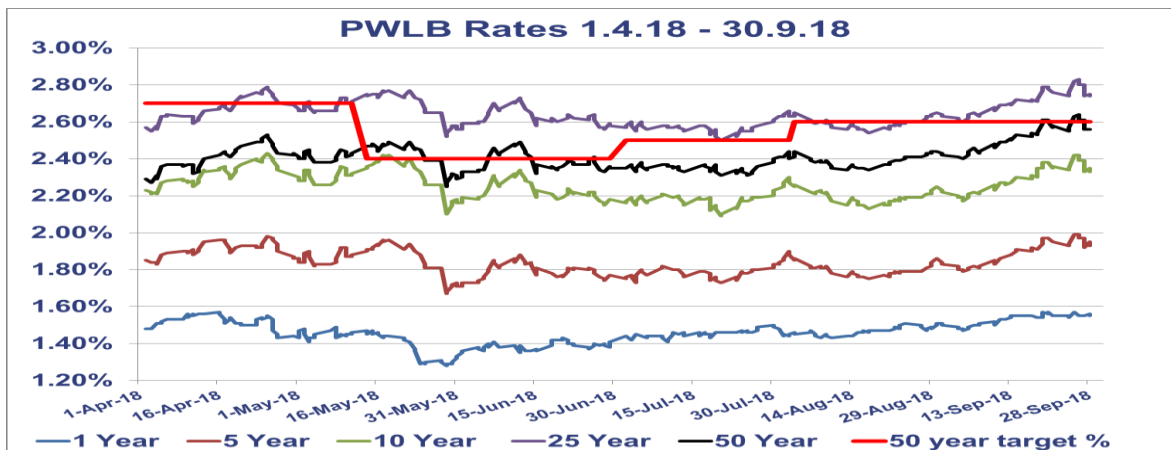
- 5.1** In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 3, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.75% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.
- 5.2** The Council held £6.089m of investments as at 30 September 2018 (£5.993m at 31 March 2018) and the investment portfolio yield for the first six months of the year was 0.65%. A full list of investments as at 30th September 2018 can be found in Appendix 3. A summary of the investments and rates can be found in Appendix 4.
- 5.3** The approved limits within the Annual Investment Strategy were not breached during the first six months of 2018/19.
- 5.4** The Council's budgeted investment return for the whole of 2018/19 is £0.017m and performance for the year to date exceeds the budget, with £0.023m received to the end of Quarter 2. The reason for this is the increase in bank rate from 0.5% to 0.75% that occurred in August 2018.
- 5.5** The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.
- 5.6** The Approved countries for investments can be seen in Appendix 5.

6. Borrowing

- 6.1** The projected capital financing requirement (CFR) for 2018/19 is £142.0m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive, the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The Council has projected year end borrowings of £125.6m and will have used £16.4m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.
- 6.2** No borrowing was undertaken during the first half of this financial year. However, it is anticipated that borrowing will need to be undertaken during the second half of the financial year.
- 6.3** During the first half of the financial year a short-term borrowing from the Tyne & Wear Pension Fund matured and was repaid. The borrowing was for £5m and was taken out on 19/01/18 at an interest rate of 0.50%. It was repaid on 19/04/18.
- 6.4** Debt rescheduling opportunities have been very limited in the current economic climate, given the consequent structure of interest rates, and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has, therefore, been undertaken to date in the current financial year.
- 6.5** Since Quarter 2 ended, the Authority has arranged to borrow £5m from North Yorkshire County Council. The borrowing will take place from 16/10/18 until 16/01/19 at a rate of 0.85%. This decision is in line with our current borrowing strategy of only borrowing longer term when we require the funding and not to borrow simply to take advantage of low borrowing rates as the cost of carry (difference between the interest paid and the investment return) is too high.

- 6.6 Appendix 6 shows additional graphs including Comparison of borrowing parameters to actual external borrowing, as provided by Link Asset Services.
- 6.7 Appendix 7 shows additional information including on LOBO's, as provided by Link Asset Services.

The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date: -



	1 Year	5 Year	10 Year	25 Year	50 Year
3.4.18	1.48%	1.84%	2.22%	2.55%	2.27%
30.9.18	1.55%	1.93%	2.33%	2.74%	2.56%
Low	1.28%	1.67%	2.09%	2.50%	2.25%
Date	01/06/2018	29/05/2018	20/07/2018	20/07/2018	29/05/2018
High	1.57%	1.99%	2.43%	2.83%	2.64%
Date	17/04/2018	25/09/2018	25/04/2018	25/09/2018	25/09/2018
Average	1.46%	1.84%	2.25%	2.64%	2.41%

7 The Council's Capital Position (Prudential Indicators)

7.1 This part of the report is structured to update:-

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

7.2 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure in comparison to the capital budget.

Capital Expenditure	2018/19 Original Estimate £'000	Position as at 30 September 2018 £'000	2018/19 Current Estimate £'000
Council Fund	44,891	8,169	23,685
HRA	15,998	3,103	10,372
Total	60,889	11,272	34,057

7.2.1 The projected expenditure shows that the majority of projects are on target to be completed within budget but there are 4 major projects (Gypsy and Travellers Sites, Improvements to the A5025 to Wylfa, 21st Century School at Llangefni and the acquisition of HRA properties) which are expected to significantly underspend the budget in 2018/19, and this is reflected in the above table. A full breakdown on the planned capital expenditure for 2018/19 is provided in the Capital Budget Monitoring Report Q2, presented to the Executive on 26 November 2018.

7.3 Changes to the Financing of the Capital Programme

7.3.1 There are some changes to the financing of the capital programme as can be seen in table below. The main reason for the change is as noted in paragraph 7.2.1, there will be significant underspend on four capital schemes in 2018/19. However, these four schemes will slip into 2019/20 along with their funding and it is not anticipated, at this point, that any funding will be lost due to the delays.

7.3.2 The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original funding of the capital programme, and the expected funding arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Financing	2018/19 Original Estimate £'000	2018/19 Revised Estimate £'000
Capital Grants	33,411	15,628
Capital Receipts	1,228	1,346
Reserves	474	972
Revenue Contribution	13,329	7,703
Supported Borrowing	5,064	3,853
Unsupported Borrowing	5,999	4,181
Loan	374	374
Underspend from 2017/18	1,010	0
Total	60,889	34,057

7.4 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

7.4.1 Table 7.4.3 below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary, which this is set annually by the Council as part of the Treasury Management Strategy Statement.

7.4.2 Prudential Indicator – Capital Financing Requirement

	2018/19 Operational Boundary as per TMSS 2018/19 £000	2018/19 Opening Borrowing Position £000	Amount Within the Boundary £000	2018/19 Estimate Borrowing Position £000	Amount Within The Boundary £000
Prudential Indicator – External Debt/ The Operational Boundary					
Borrowing	169,000	116,425	52,575	124,455	44,545
Other long term liabilities	3,000	1,353	1,647	1,168	1,832
Total Debt 31 March	172,000	117,778	54,222	125,623	46,377

7.4.3 Prudential Indicator – Capital Financing Requirement (CFR)

7.4.3.1 We are currently slightly below the original forecast Capital Financing Requirement due to the forecast underspend in borrowing, mainly down to the 21st Century schools programme and the revised funding method for the Seiriol Extra Care.

	2018/19 Original Estimate £000	2018/19 Revised Estimate £000
Prudential Indicator – Capital Financing Requirement		
CFR – Council Fund	104,425	101,217
CFR – HRA	40,815	40,815
Total CFR	145,060	142,032
Net movement in CFR	8,194	5,166
Original CFR Forecast		145,060
Underspend in Unsupported Borrowing due to revised Band A Matrix with greater weighting for Capital Grants for Llangefni New Build rather than borrowing		-1,818
Underspend in Supported Borrowing mainly due to revised funding method for Seiriol Extra Care		-1,210
Revised CFR Forecast		142,032

7.5 Limits to Borrowing Activity

7.5.1 The first key control over the treasury activity is a prudential indicator to ensure that, over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and the next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need, which will be adhered to if this proves prudent.

	2018/19 Original Estimate £000	Current Position at 30 September 2018 £000	2018/19 Revised Estimate £000
External Borrowing	116,425	111,420	124,455
Internal Borrowing	27,467	n/a	16,409
Plus other long term liabilities	1,168	1,168	1,168
CFR (year-end position)	145,060	n/a	142,032

7.5.2 It is not envisaged that there will be any difficulties for the current year in complying with this prudential indicator.

7.5.3 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members, currently £177m. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under Section 3 (1) of the Local Government Act 2003.

Authorised Limit for External Debt	2018/19 Original Indicator	Current Borrowing Position as at 30 September 2018 £'000
Borrowing	174,000	111,420
Other long term liabilities	3,000	1,168
Total	177,000	112,588

8. Recommendation

8.1 To consider the content of the report and forward any comments onto the Executive.

Diweddariad ar yr Economi hyd yma a'r rhagolygon / Economic Update & Forecasts**United Kingdom**

The first half of 2018/19 has seen UK economic growth post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to unanimously (9-0) vote to increase Bank Rate on 2nd August from 0.5% to 0.75%. Although growth looks as if it will only be modest at around 1.5% in 2018, the Bank of England's August Quarterly Inflation Report forecast that growth will pick up to 1.8% in 2019, albeit there were several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

Some MPC members have expressed concerns about a build-up of inflationary pressures, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from 2.4% in June to 2.7% in August due to increases in volatile components, but is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in Bank Rate for the second half of 2019.

As for the labour market, unemployment has continued at a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high in July, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 2.9%, (3 month average regular pay, excluding bonuses) and to a one month figure in July of 3.1%. This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 0.4%, near to the joint high of 0.5% since 2009. (The previous high point was in July 2015.) Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC were right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy. However, the MPC will need to tread cautiously before increasing Bank Rate again, especially given all the uncertainties around Brexit.

In the political arena, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

United States of America

President Trump's massive easing of fiscal policy is fuelling a (temporary) boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2, but also an upturn in inflationary pressures. With inflation moving towards 3%, the Fed increased rates another 0.25% in September to between 2.00% and 2.25%, this being four increases in 2018, and indicated they expected to increase rates four more times by the end of 2019. The dilemma, however, is what to do when the temporary boost to consumption wanes, particularly as the recent imposition of tariffs on a number of countries' exports to the US, (China in particular), could see a switch to US production of some of those goods, but at higher prices. Such a scenario would invariably make any easing of monetary policy harder for the Fed in the second half of 2019.

Eurozone

Growth was unchanged at 0.4% in quarter 2, but has undershot early forecasts for a stronger economic performance in 2018. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of 2% for 2018, the horizon is less clear than it seemed just a short while ago.

China

Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

Japan

Japan has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

Sylwadau ar y rhagolygon diweddaraf ar raddfeydd llog / Commentary on the latest interest rates forecasts

The flow of generally positive economic statistics after the end of the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary or contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time but they declined to give a medium term forecast. We do not think that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. We also feel that the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. This is likely to lead to friction with the EU when setting the target for the fiscal deficit in the national budget. Unsurprisingly, investors have taken a dim view of this and so Italian bond yields have been rising.
- Austria, the Czech Republic and Hungary now form a strongly anti-immigration bloc within the EU while Italy, this year, has also elected a strongly anti-immigration government. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position as a result of the rise of the anti-immigration AfD party. To compound this, the result of the Swedish general election in September 2018 has left an anti-immigration party potentially holding the balance of power in forming a coalition government. The challenges from these political developments could put considerable pressure on the cohesion of the EU and could spill over into impacting the euro, EU financial policy and financial markets.
- The imposition of trade tariffs by President Trump could negatively impact world growth. President Trump's specific actions against Turkey pose a particular risk to its economy which could, in turn, negatively impact Spanish and French banks which have significant exposures to loans to Turkey.
- Weak capitalisation of some European banks.
- Rising interest rates in the US could negatively impact emerging countries which have borrowed heavily in dollar denominated debt, so causing an investor flight to safe havens e.g. UK gilts.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- President Trump's fiscal plans to stimulate economic expansion causing a significant increase in inflation in the US and causing further sell offs of government bonds in major western countries.

- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.
- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Crynodeb Benthycyca a Buddsoddi – Chwarteroedd 1 a 2 2018/19
Borrowing and Investment Summary – Quarters 1 and 2 2018/19

	30 Medi / Sept 2018		30 Mehefin / June 2018	
	£m	% (paid on borrowing and received on investment)	£m	% (paid on borrowing and received on investment)
Benthycyca – graddfa sefydlog Borrowing – fixed rate	111.4	5.15	114.4	5.15
Benthycyca – graddfa amrywiol Borrowing – variable rate	Dim / Nil	d/b / n/a	Dim / Nil	d/b / n/a
Adneuon – galw hyd at 30 diwrnod Deposits – Call to 30 days	6.1	0.65	8.7	0.38
Adneuon – Tymor sefydlog < 1 bl. Deposits – Fixed Term < 1 year	Dim / Nil	d/b / n/a	Dim / Nil	d/b / n/a
Adneuon – Tymor sefydlog 1 bl. + Deposits – Fixed Term 1 year +	Dim / Nil	d/b / n/a	Dim / Nil	d/b / n/a
Cyfanswm Adneuon Total Deposits	6.1	0.65	8.7	0.38
Adneuon Uchaf yn y Chwarter Highest Deposits in the Quarter	14.8	d/b / n/a	22.5	d/b / n/a
Adneuon Isaf yn y Chwarter Lowest Deposits in the Quarter	6.1	d/b / n/a	5.5	d/b / n/a
Cyfartaledd Adneuon yn y Chwarter Average Deposits in the Quarter	10.4	0.48	14.2	0.31

Ni dorwyd unrhyw un o'r dangosyddion trysorlys yn ystod hanner cyntaf y flwyddyn.
None of the treasury indicators were breached during the first half of the year.

Graddfeydd Credyd Gwrthbartion buddsoddi a'r adneuron a ddelir gyda phob un ar 30 Medi 2018*
Credit ratings of investment counterparties and deposits held with each as at 30 September 2018*

Grŵp Bancio/ Banking Group	Sefydliad/ Institution	Adneuron / Deposit £'000	Hyd (Galw/ tymor sefydlog) / Duration (Call / Fixed Term**)	Cyfnod (O / I) / Period (From / To)	Graddfa Dychweliad/ Rate of Return %	Graddfa Tymor Hir Fitch Long Term Rating	Graddfa Tymor Byr Fitch Short Term Rating	Graddfa Tymor Hir Moody's Long Term Rating	Graddfa Tymor Byr Moody's Short Term Rating	Graddfa Tymor Hir Standard & Poor's Long Term Rating	Graddfa Tymor Byr Standard & Poor's Short Term Rating	Lliw Sector/Hyd Awgrymiedig/ Sector Colour / Suggested Duration
Lloyds Banking Group plc	Bank of Scotland plc	6.086	Galw/ Call	n/a	0.65	A+	F1	Aa3	P-1	A+	A-1	Glas – 12 mis/ Blue -12m months
Santander Group plc	Santander UK plc	0.001	Galw/ Call	n/a	0.40	A	F1	Aa3	P-1	A	A-1	Coch – 6 mis/ Red - 6 months
The Royal Bank of Scotland Group plc	The Royal Bank of Scotland plc (Part / Nationalised)	0.002	Galw/ Call	n/a	0.25	BBB+	F2	Baa2	P-2	BBB-	A-3	Glas - 12 mis / Blue - 12 months

* Ceir y Rhestr Benthycu Cymeradwyedig yn Atodiad 6 o'r Datganiad Strategaeth Rheoli Trysorlys 2018/19/Strategaeth Buddsoddi Blynnyddol/The Approved Lending List can be found at Appendix 6 of the 2018/19 Treasury Management Strategy Statement / Annual Investment Strategy

** Sef tymor ar pwynt y buddsoddi/Being term at the point of investment.

Approved countries for investments

Based upon lowest available sovereign credit rating

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- U.S.A.

AA

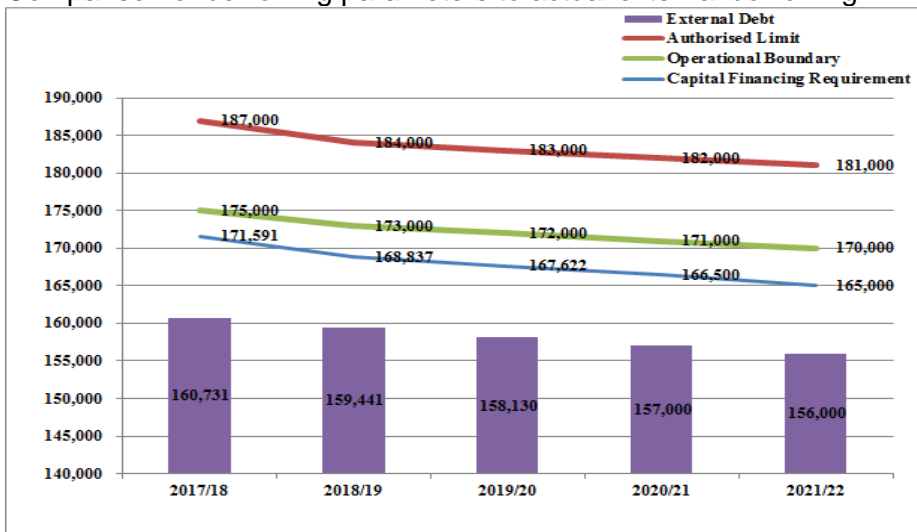
- Abu Dhabi (UAE)
- France
- Hong Kong
- U.K.

AA-

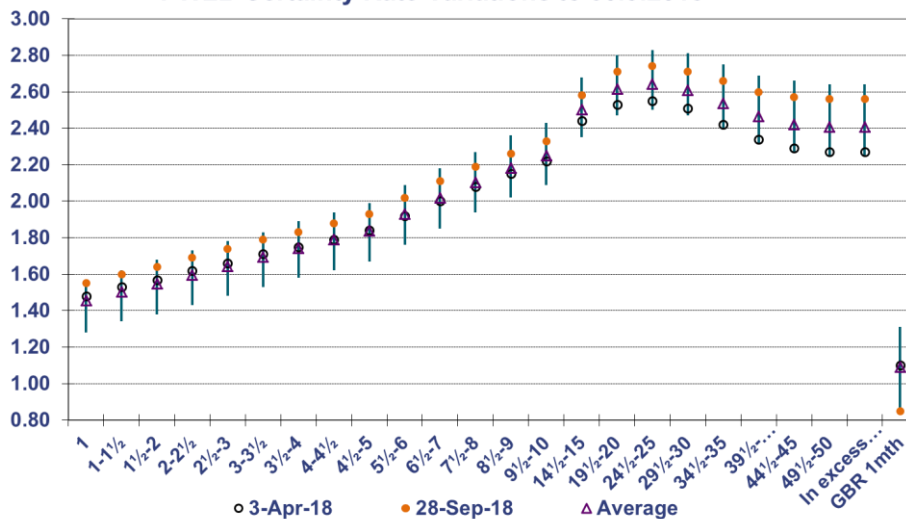
- Belgium
- Qatar

Graffiau Ychwanegol / Additional Graphs

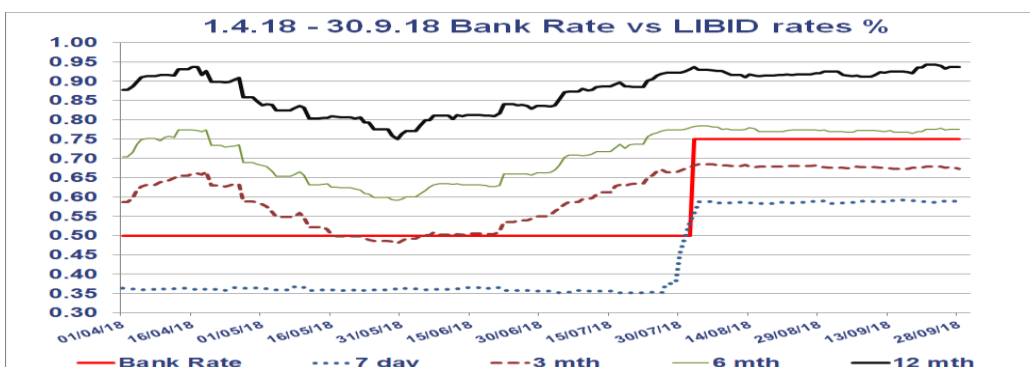
Comparison of borrowing parameters to actual external borrowing



PWLB Certainty Rate Variations to 30.9.2018



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.75	0.59	0.60	0.68	0.78	0.94
High Date	02/08/2018	14/09/2018	18/09/2018	06/08/2018	03/08/2018	21/09/2018
Low	0.50	0.35	0.37	0.48	0.59	0.75
Low Date	01/04/2018	19/07/2018	30/05/2018	30/05/2018	30/05/2018	30/05/2018
Average	0.58	0.43	0.47	0.61	0.71	0.87
Spread	0.25	0.24	0.23	0.21	0.19	0.19



Rhan o gyngor dderbyniwyd gan / An extract from advice received from: Link Asset Services

Gwybodaeth Ychwanegol / Additional information

1. UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as “ring-fencing”. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity’s core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered) will be considered for investment purposes.

2. IFRS9 accounting standard

This accounting standard came into effect from 1st April 2018. It means that the category of investments valued under the available for sale category will be removed and any potential fluctuations in market valuations may impact onto the Surplus or Deficit on the Provision of Services, rather than being held on the balance sheet. This change is unlikely to materially affect the commonly used types of treasury management investments but more specialist types of investments, (e.g. pooled funds, third party loans, commercial investments), are likely to be impacted.

3. Changes in risk appetite

The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members’ attention in treasury management update reports.

4. LOBOs

- a) **Inverse LOBOs**- Any authority which has these LOBOs may wish to update members on developments in the current financial year.
- b) **Rescheduling of LOBOs** into fixed rate debt. We already have paragraph 8. Debt rescheduling so that may be a suitable point to add in information to update members on developments in the current financial year.

5. WELSH AUTHORITIES

Treatment of Money Market Funds and investments involving the purchase of loan capital etc
 LAS comment: clients may need to check their current TMSS in order to ascertain whether some additions to approved investments can be made as a result of the updated 2018 regulations. If so, a specific resolution requesting member approval for specific additions of types of investment should be added to this report.

The 2018 No.325 (W.61) Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2018 have been issued which have introduced some changes to the treatment of certain types of treasury management investments. Paragraph 9 now makes clear that the following types of investment are not to be treated as being capital expenditure: -

1. A treasury investment involving the acquisition of loan capital, through a bond issued via grant or for financial assistance for a capital purpose will remain capital expenditure;
2. An investment in a money market fund;
3. An investment in the shares of a company to which Part 12 of the Corporation Tax Act 2010(1) (real estate investment trusts) applies;
4. The acquisition of shares in an investment scheme approved by the Treasury under section 11(1) of the Trustee Investments Act 1961(2) (local authority investment schemes).

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CYNGOR SIR
YNYS MÔN
ISLE OF ANGLESEY
COUNTY COUNCIL

AUDIT & GOVERNANCE COMMITTEE

FORWARD WORK PROGRAMME

4 December 2018

Contact Officer:	Marion Pryor, Head of Internal Audit & Risk
E-Mail:	MarionPryor@ynysmon.gov.uk
Telephone:	01248 756211

Date	Subject	Responsible Officer (including e-mail address)
12 February 2019	Internal Audit Update <ul style="list-style-type: none"> • An update on Internal Audit's latest progress in terms of its service delivery, assurance provision, reviews completed, performance and effectiveness in driving improvement. 	Head of Internal Audit & Risk MarionPryor@ynysmon.gov.uk
12 February 2019	External Audit Update <ul style="list-style-type: none"> • An update on External Audit's work: <ul style="list-style-type: none"> ○ Performance Audit ○ Financial Audit 	Performance Audit Lead – Wales Audit Office Alan.Thomas@audit.wales Financial Audit Manager – Deloitte cedge@deloitte.co.uk
12 February 2019	Outstanding Internal Audit Issues / Risks <ul style="list-style-type: none"> • A detailed report of all outstanding internal audit Issues / Risks 	Head of Internal Audit & Risk MarionPryor@ynysmon.gov.uk
12 February 2019	Internal Audit Strategy and Annual Plan 2019/20 <ul style="list-style-type: none"> • The Public Sector Internal Audit Standards (2017) requires the chief audit executive to present the Internal Audit Strategy and Annual Plan to the Audit and Governance Committee for approval. 	Head of Internal Audit & Risk MarionPryor@ynysmon.gov.uk
12 February 2019	Corporate Risk Register <ul style="list-style-type: none"> • In accordance with its terms of reference, the Audit and Governance Committee is required to review the Corporate Risk Register and, where appropriate, request a response from management on actions to manage risks. 	Insurance & Risk Manager JulieJones@ynysmon.gov.uk

Date	Subject	Responsible Officer (including e-mail address)
12 February 2019	Progress made on External Regulatory Reports <ul style="list-style-type: none"> The Audit and Governance Committee is requested to consider the progress made on external regulatory reports, which are directly related to the issues of governance or the management of risk within the Council. 	Programme, Business Planning & Performance Manager GethinMorgan@ynysmon.gov.uk
12 February 2019	Treasury Management Strategy 2019/20 and Actual Prudential Indicators for 2019/20 <ul style="list-style-type: none"> CIPFA's Treasury Management Practice Reporting requirements and management information arrangements recommend that local authorities should, as a minimum, report annually on their treasury management strategy and plan, before the start of the year. The report will cover the actual Prudential Indicators for 2019/20 in accordance with the requirements of the Prudential Code. 	Head of Function (Resources) / S151 Officer MarcJones@ynysmon.gov.uk
12 February 2019	Review of the Risk Management Strategy and Framework <ul style="list-style-type: none"> In accordance with its terms of reference, the Audit and Governance Committee is required to keep under review the Risk Management Strategy for the Council. 	Head of Internal Audit & Risk MarionPryor@ynysmon.gov.uk

FUTURE REPORTS

Date	Subject	Responsible Officer (including e-mail address)
<p>April 2019 June 2019 July 2019 September 2019 December 2019 February 2020</p>	<p>Internal Audit Update</p> <ul style="list-style-type: none"> • An update on Internal Audit's latest progress in terms of its service delivery, assurance provision, reviews completed, performance and effectiveness in driving improvement. 	<p>Head of Internal Audit & Risk MarionPryor@ynysmon.gov.uk</p>
<p>April 2019 June 2019 July 2019 September 2019 December 2019 February 2020</p>	<p>External Audit Update</p> <ul style="list-style-type: none"> • An update on External Audit's work: <ul style="list-style-type: none"> ○ Performance Audit ○ Financial Audit 	<p>Performance Audit Lead – Wales Audit Office Alan.Thomas@audit.wales</p> <p>Financial Audit Manager – Deloitte cedge@deloitte.co.uk</p>
<p>April 2019</p>	<p>Annual Report of the Audit & Governance Committee – Chair's Report</p> <ul style="list-style-type: none"> • The Committee are asked to approve the Chair's Report for submission to full Council 	<p>Head of Function (Resources) / S151 Officer MarcJones@ynysmon.gov.uk</p>

Date	Subject	Responsible Officer (including e-mail address)
June 2019	<p>Draft Report of the Head of Function (Resources) / S151 Officer regarding the Annual Finance and Governance Statement 2018/19</p> <ul style="list-style-type: none"> The Audit and Governance Committee is requested to comment on the content of the draft Annual Finance and Governance Report 2018/19 and contribute to the evaluations, conclusions and recommendations proposed to further develop or strengthen elements of the Council's governance arrangements during 2019/20. 	<p>Head of Function (Resources) / S151 Officer MarcJones@ynysmon.gov.uk</p> <p>Programme, Business Planning & Performance Manager GethinMorgan@ynysmon.gov.uk</p>
June 2019	<p>Internal Audit Annual Report 2018/19</p> <ul style="list-style-type: none"> The Public Sector Internal Audit Standards requires the chief audit executive to deliver an annual internal audit opinion and report that can be used by the Council to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. The Committee is asked to note the report from the Head of Internal Audit & Risk on the conclusion of the internal audit work carried out during 2018/19. 	<p>Head of Internal Audit & Risk MarionPryor@ynysmon.gov.uk</p>
June 2019	<p>Annual Insurance Performance Report for 2018/19</p> <ul style="list-style-type: none"> Annual performance report on insurance activity 	<p>Head of Internal Audit & Risk MarionPryor@ynysmon.gov.uk</p>
July 2019	<p>Annual Treasury Management Report 2018/19</p> <ul style="list-style-type: none"> The annual treasury report is a requirement of the Council's reporting procedures and covers the treasury activity for 2018/19. 	<p>Head of Function (Resources) / S151 Officer MarcJones@ynysmon.gov.uk</p>

Date	Subject	Responsible Officer (including e-mail address)
September 2019 February 2020	Outstanding Internal Audit Issues / Risks <ul style="list-style-type: none"> A report of all outstanding internal audit Issues / Risks 	Head of Internal Audit & Risk MarionPryor@ynysmon.gov.uk
September 2019 February 2020	Corporate Risk Register <ul style="list-style-type: none"> In accordance with its terms of reference, the Audit and Governance Committee is required to review the Corporate Risk Register and, where appropriate, request a response from management on actions to manage risks. 	Head of Internal Audit & Risk MarionPryor@ynysmon.gov.uk Insurance & Risk Manager JulieJones@ynysmon.gov.uk
September 2019 February 2020	Progress made on External Regulatory Reports <ul style="list-style-type: none"> The Audit and Governance Committee is requested to consider the progress made on external regulatory reports, which are directly related to the issues of governance or the management of risk within the Council. 	Programme, Business Planning & Performance Manager GethinMorgan@ynysmon.gov.uk
September 2019	Report of the Head of Function (Resources) regarding the Annual Finance and Governance Report 2018/19 The Audit and Governance Committee is charged with approving the accounts on behalf of the Council. The Audit and Governance Committee is therefore required to: <ul style="list-style-type: none"> approve the Annual Finance and Governance Report 2018/19, including the Statement of Accounts 2018/19, receive the Appointed Auditor's report on the accounts and the ISA 260, and to approve the Final Letter of Representation. 	Head of Function (Resources) / S151 Officer MarcJones@ynysmon.gov.uk
September 2019	Annual ICT Security Report <ul style="list-style-type: none"> Annual report of the ICT Business Transformation Manager on digital data security/cyber security threats to the Council and the arrangements in place to manage those risks. 	ICT Business Transformation Manager JohnThomas@ynysmon.gov.uk

Date	Subject	Responsible Officer (including e-mail address)
September 2019	Internal Audit Charter <ul style="list-style-type: none"> The Public Sector Internal Audit Standards require the chief audit executive to produce an Internal Audit Charter, which the Audit and Governance Committee must approve. Although not due for review until 2021, the Charter will be updated for changes to the internal audit approach. 	Head of Internal Audit & Risk MarionPryor@ynysmon.gov.uk
December 2019	Review of the Audit and Governance Committee's Terms of Reference <ul style="list-style-type: none"> The Audit and Governance Committee should periodically review its terms of reference for appropriateness, with consideration given to sector guidance and the needs of the Council. 	Head of Function (Resources) / S151 Officer MarcJones@ynysmon.gov.uk
December 2019	Review of the Risk Management Strategy and Framework <ul style="list-style-type: none"> In accordance with its terms of reference, the Audit and Governance Committee is required to keep under review the Risk Management Strategy for the Council. 	Head of Internal Audit & Risk MarionPryor@ynysmon.gov.uk
December 2019	Mid-year Report on Treasury Management for 2019/20 <ul style="list-style-type: none"> CIPFA's Treasury Management Practice Reporting requirements and management information arrangements recommend that local authorities should, as a minimum, report the treasury management position mid-year. The Committee is requested to note the current position on investments and borrowing. 	Head of Function (Resources) / S151 Officer MarcJones@ynysmon.gov.uk

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