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CYNGOR SIR
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ISLE OF ANGLESEY
COUNTY COUNCIL

Mrs Annwen Morgan
Prif Weithredwr – Chief Executive
CYNGOR SIR YNYS MÔN
ISLE OF ANGLESEY COUNTY COUNCIL
Swyddfeydd y Cyngor - Council Offices
LLANGFNI
Ynys Môn - Anglesey
LL77 7TW

Ffôn / tel (01248) 752500
Ffacs / fax (01248) 750839

RHYBUDD O GYFARFOD	NOTICE OF MEETING
PWYLLGOR ARCHWILIO A LLYWODRAETHU	AUDIT AND GOVERNANCE COMMITTEE
DYDD MAWRTH, 3 RHAGFYR, 2019 am 2:00 y. p.	TUESDAY, 3 DECEMBER 2019 at 2.00 pm
SIAMBR Y CYNGOR, SWYDDFEYDD Y CYNGOR, LLANGFNI	COUNCIL CHAMBER, 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, Peter Rogers (*Cadeirydd/Chair*)

AELODAU LLEYG / LAY MEMBERS

Dilwyn Evans
Jonathan Mendoza (*Is-Gadeirydd/Vice-Chair*)

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 - 16)

To present the minutes of the previous meeting of the Audit and Governance Committee held on 3 September, 2019.

**3 ISLE OF ANGLESEY COUNTY COUNCIL: ANNUAL AUDIT LETTER 2018/19
(Pages 17 - 20)**

To present the Annual Audit Letter for 2018/19.

4 CYBER SECURITY ANNUAL REPORT 2019 (Pages 21 - 32)

To present the report of the Head of Profession (HR) and Transformation.

5 TREASURY MANAGEMENT MID-YEAR REVIEW 2019/20 (Pages 33 - 50)

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

6 INTERNAL AUDIT UPDATE (Pages 51 - 70)

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

7 REVIEW OF THE AUDIT AND GOVERNANCE COMMITTEE'S TERMS OF REFERENCE (Pages 71 - 82)

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

8 FORWARD WORK PROGRAMME (Pages 83 - 86)

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

9 EXCLUSION OF THE PRESS AND PUBLIC (Pages 87 - 88)

To consider adopting the following -

“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 may involve the disclosure of exempt information as defined in Schedule 12A of the said Act and in the attached Public Interest Test.”

10 RISK BASED VERIFICATION (Pages 89 - 106)

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

AUDIT AND GOVERNANCE COMMITTEE

Minutes of the meeting held on 3 September, 2019

- PRESENT:** Councillor Peter Rogers (Chair)
Mr Dilwyn Evans (Lay Member) (Vice-Chair for this meeting)
- Councillors John Griffith, Richard Griffiths, G.O. Jones, R. Llewelyn Jones, Dylan Rees.
- IN ATTENDANCE:** Chief Executive
Deputy Chief Executive
Director of Function (Resources) and Section 151 Officer
Director of Function (Council Business)/Monitoring Officer (for items 5,6 & 7)
Head of Internal Audit & Risk (MP)
Head of Housing Services (for item 3)
Service Manager – Community Housing (LIW)(for item 3)
Principal Auditor (NRW)
Corporate Health and Safety Advisor (SN) (for item 8)
Committee Officer (ATH)
- APOLOGIES:** Councillors Alun Roberts, Mrs Margaret M. Roberts, Jonathan Mendoza (Lay Member & Vice-Chair), Mr Alan Hughes (WAO), Mr Chris Tidswell (CIPFA)
- ALSO PRESENT:** Councillor Robin Williams (Portfolio Member for Finance), Mr Ian Howse (Engagement Partner - Deloitte)(for item 4), Accountancy Services Manager (BHO), Finance Manager (CK), Senior Auditor (JR), Head of Democratic Services, Programme and Business Planning Manager (GM)

In the absence of the Vice-Chair, Mr Dilwyn Evans, Lay Member was elected Vice-Chair for this meeting of the Audit and Governance Committee only.

1. DECLARATION OF INTEREST

Councillor Richard Griffiths declared a personal interest in respect of item 3 on the agenda on the basis that he was related to an officer in the Housing Service.

2. MINUTES OF THE 27TH JULY, 2019 MEETING

The minutes of the previous meeting of the Audit and Governance Committee held on 27th July, 2019, were presented and were confirmed as correct.

3. MATTER ARISING ON THE MINUTES – TENANT PROFILING UPDATE

The report of the Head of Housing Services providing information on the work of the Community Housing Service with regard to tenant profiling was presented for the Committee's consideration. The information was presented following the submission of an internal audit report to the Audit and Governance Committee meeting of 23 July, 2019 which raised the lack of tenant profiling as an "Issue/Risk." The Committee had requested that the

Head of Housing Services attend its next meeting to provide an update on the tenant profiling position.

The Head of Housing Services reported that he appreciated the Committee's concern that not as much progress as hoped for had been made with tenant profiling and that there were valid reasons why this was so. The Officer accepted that making sure that the information which the Service holds regarding its tenants is current and up to date is vitally important in ensuring that the services provided are appropriate and meet the needs of tenants.

The Service Manager (Community Housing) informed the Committee that each council property is recorded on the Service's Orchard Client Relationship Management System and as well as holding information about each tenant, the Orchard system also captures tenancy history, arrears information, officer interactions, tenancy breach recording and financial inclusion analysis. Having accurate tenant profiling can support the department to develop future services alongside existing services, such as the response to Universal Credit. Operationally, tenant profiling is the responsibility of the customer service team which consists of six full time equivalent officers who deal with day to day maintenance response queries, first contact response for housing allocations, and homelessness in addition to tenant profiling. Customer care staffing levels have fluctuated throughout the year which has been a barrier to capturing tenant profiling on a continuous basis. Homelessness presentation levels have increased thus resulting in more incoming calls to the customer care team in order to support those who are, or are threatened with becoming homeless. Also, the customer service team currently operates from two offices split into three officers at each location per working day. Working from two offices is viewed as a challenge; having a dispersed team with fluctuating staffing levels means that the team's priority has been responding to incoming calls. Going forward, the Housing Senior Management team has agreed to have the Customer Care team working from one location with discussions underway to determine the most suitable office in the long-term. Once the team is settled in a single location, one officer will concentrate on profiling per day. The majority of tenants continue to contact Housing Services by phone meaning the service is continuously reactive to calls. From January, 2020, the focus will be on a 2 year plan whereby tenants will be able to report issues and manage their tenancies on a digital platform linked to the Orchard system. As further assurance to the Committee, Housing Services work closely with the Department for Works and Pensions, the O'Toole Centre and Citizens Advice on issues in connection with Universal Credit. The Council has commissioned policy into practice reports three times per year which flags up Universal Credit hot spot areas and the Universal Credit hub has been refreshed to focus on post-implementation UC factors including sharing information, intelligence data and information gathering in connection with those affected by the change in benefit circumstances.

The Officer referred to the approaches taken to tenant profiling pre-June 2019 prior to the audit review and subsequently post-June, 2019 following the audit review. Future tenant profiling approaches will include developing a tenant profiling strategy; launching the strategy internally and work on mainstreaming tenant profiling with housing services; launching the strategy externally with tenants, emphasising the importance both of tenant profiling and of keeping the Housing Service updated on changes to profile; encouraging tenants to complete their own profile on the digital tenant portal from January 2020 onwards and customer care officers targeting tenants through increasing visibility on housing estates.

The Head of Housing Services also clarified in the interest of providing assurance that the issue is not whether the Service has information about its tenant population – which it has, but whether the information it holds is as complete and current as it could be. The Service has a programme for increasing its tenant profile information including asking new tenants to complete and bring their profiling questionnaire to a property sign-up and, given that the Orchard system has regular updates and has only this month produced a workflow to

facilitate tenant profiling, it is hoped that tenant profiling will now become an integral part of day to day work. Housing Services are committed to improving tenant profiling in order to support their services, and once the Customer Care team is located in one location, measures will be in place to ensure a more proactive approach to profiling. Additionally the Service reports on performance to the Housing Services Board and intends to include profiling as one of the areas reported on.

The Committee in welcoming the report - and in particular the intended development of a tenant profiling strategy - as addressing its concerns from the previous meeting, sought clarification of how the Service saw progress with tenant profiling six months hence. The Service Manager (Community Housing) said that realistically, and in light of the prioritisation of work on the STAR Customer Survey recently, it is envisaged that with a further mailshot to all tenants in the next few weeks the tenant profile position can be improved by 8% by the end of the year.

It was resolved that the Audit and Governance Committee –

- **Accepts that measures are in place to improve tenant profiling within the Housing Department;**
- **Agrees that a tenant profiling strategy needs to be developed to ensure this aspect is mainstreamed within the department; and**
- **Agrees also that tenant profiling needs to be reviewed by the internal Housing Services Board on a quarterly basis for an initial 12 month period.**

NO ADDITIONAL ACTIONS WERE PROPOSED

4. STATEMENT OF THE ACCOUNTS 2018/19 AND ISA 260 REPORT

4.1 The report of the Director of Function (Resources)/Section 151 Officer incorporating the Final Statement of the Accounts for 2018/19 following audit was presented for the Committee's consideration.

The Director of Function (Resources)/Section 151 Officer reported that the statutory deadline for the completion of the 2018/19 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 details of the main amendments to the draft accounts are set out in External Audit's report on the Financial Statements below. All amendments which have been agreed as requiring restatement by the auditors, Deloitte have been processed and are contained within the Statement of the Accounts. The amendments to the draft Statement were not significant and have been largely confined to amendments to a small number of disclosure notes and the Cash Flow Statement. At this stage no financial changes have been made to revenue or capital meaning that the main financial statements remain the same. The Auditors' report highlights an ongoing uncorrected misstatement from 2017/18 in connection with the accounting treatment of the pension's lump sum for unfunded historic pension costs. This relates to differing interpretations of the accounting arrangements for the lump sum paid in 2017/18 for these costs which led to a saving of approximately £200k. This was not amended due the differences in the Authority's and the Auditor's interpretation of written guidance on the issue.

Following their work on the Statement of the Accounts, the Auditors have made 3 recommendations in relation to accounting and payroll control; 1 recommendation in relation to IT and 1 recommendation in relation to corporate controls which are detailed in their ISA 260 report.

With regard to the uncorrected misstatement, the Officer clarified that in 2017/18 the Authority made a lump sum payment of £3.66m to the Gwynedd Pension Fund to cover the three years to 2019/20 on the basis that this sum would be invested and the Authority would receive a discount (the return on investment as part of the pooled pension fund monies being greater than had the Authority invested the sum on its own). The Auditors are of the view that the payment should have been charged to the revenue account as expenditure in 2017/18 in the year it was made. The Authority takes a different view and consequently it was agreed that in order to lessen the impact of the payment on the Council's general fund balance, a negative reserve be created which will unwind over the course of the three years meaning that by next year the sum will have disappeared from the accounts.

4.2 The report of External Audit on the audit of the Financial Statements for 2018/19 (ISA 260 report) was presented for the Committee's consideration.

Mr Ian Howse, Engagement Lead for the Financial Audit confirmed that subject to the satisfactory completion of outstanding work as outlined in paragraph 6 of the report, 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. In terms of audit outcomes, the report highlights a misstatement which has not been corrected by Management in relation to the classification 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 (Accounting standards requiring that certain items be recognised in the year the payment is made rather than spread over a period of time which is how the Authority has dealt with the pension contribution payment). Misstatements that have been corrected by Management are outlined in paragraph 10 of the report. The Financial Audit Plan submitted to Committee in April provided information regarding the significant audit risks that had been identified during the Auditors' planning process. The table at section 12 of the report sets out the outcome of the Auditors' audit procedures in addressing those risks. The audit was conducted in line with the Financial Audit Plan. The Auditors have no concerns about the qualitative aspects of the Council's accounting practices and financial reporting and found the information provided to be relevant, reliable, comparable, material and easy to understand. Accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear. No significant issues were encountered during the audit and there are no matters significant to the oversight of the financial reporting process that require reporting. The recommendations arising from the financial audit work along with Management's response to them are set out in Appendix 3. These are areas where External Audit has identified opportunities for improvement should resources permit, but have not impacted on the overall audit opinion. These will be followed up next year and any outstanding issues will be included in next year's audit report.

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

- The Committee noted that there is a difference of opinion with regard to the treatment of the £3.66m payment made by the Council to the Gwynedd Pension Fund. The Committee sought assurance that External Audit is comfortable with the Authority's approach to the matter and the way in which it has accounted for the payment in the financial statements.

Mr Ian Howse confirmed that External Audit does not consider the misstatement to be material (the quantitative levels at which such misstatements are judged to be material for the Isle of Anglesey County Council being £4.91m) in terms of affecting the views of readers of the accounts as regards the conclusions they might come to

on the overall financial position of the Authority, hence the recommendation that the Auditor General issues an unqualified opinion on the financial statements. Had the Auditors been uncomfortable with the misstatement then they would have recommended that a qualified audit opinion be issued.

- With reference to External Audit's recommendations with regard to password parameters, the Committee sought assurance that the Authority's approach to password security and password controls is suitably robust. The Officers clarified that staff are now advised to use a password of 9 characters (as opposed to the previous 7 characters) which whilst offering increased security is not so complicated as to make it difficult to memorise meaning that staff are less likely to write it down which is contrary to policy. Passwords also have a longer expiry period. Lockout happens after 3 failed login attempts at which point the user must contact the IT service Desk/Systems Administrator to request unlocking. With certain systems (but not Payroll) the system password is linked to the network password thereby dispensing with the need for two separate passwords.

With regard to the recommendations made by External Audit, the Director of Function (Resources)/Section 151 Officer assured the Committee that these are receiving attention but that the recommendations relating to payroll controls may take longer to address due to the restructuring of the Payroll/Payments function which is a lengthy process. The restructuring, once complete, will address the segregation of duties issues which the Auditors have highlighted. However, clear separation of duties can sometimes be more difficult to achieve in a smaller team and particularly so at times of staff absences meaning that on such occasions checks may have to be made after, rather than before payment has been made.

It was resolved –

- **To accept and to note the Statement of the Accounts for 2018/19 and to recommend its acceptance to the Full Council.**
- **To note External Audit's Report on the Financial Statements for 2018/19.**
- **To approve the Annual Governance Statement for 2018/19 and to refer the Statement to the Leader of the Council and the Chief Executive to be signed.**

NO ADDITIONAL ACTION WAS PROPOSED

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

The report of the Senior Information Risk Owner (SIRO) providing an analysis of the key information governance (IG) issues for the period from 1 April, 2018 to 31 March, 2019 was presented for the Committee's consideration. The report also included assurance of on-going improvement in managing risk to information during the period.

The Director of Function (Council Business)/Monitoring Officer and designated Senior Information Risk Owner (SIRO) reported on the main points as follows –

- 29 data security incidents were recorded during the reporting period (20 in 2017/18) of which 26 were at Level 0-1 (near miss or confirmed as a data security incident but no need to report to the Information Commissioner's Office (ICO) and other regulators) and 3 at Level 2 (data security incidents that must be reported to the ICO and other regulators as appropriate). The report provides an analysis of the nature of the incidents.
- 1,052 requests under the Freedom of Information Act were received during the reporting period which contained a total of 7,532 questions.

- There were 20 requests for an Internal Review of an FOIA response. In 9 cases the review upheld the original response; 1 case was not upheld and a new Section 1 response was sent, and 1 request was refused as a response had been sent prior to the receipt of the request for an internal review.
- 6 appeals were lodged with the ICO in the period. In 4 cases the Council was asked to send a response; 1 case was withdrawn and in 1 case the Council's response was upheld.
- 8 Data Protection Act complaints were made and investigated – 2 pre and 6 post GDPR. No DPA complaints were investigated by the ICO.
- 46 Subject Access Requests were received with 81% of responses being sent within the statutory deadline for SARs and complex SARs.
- The Investigatory Powers Commissioners Office (IPCO) oversees the conduct of covert surveillance and covert human intelligence sources by public authorities in accordance with the Police Act 1997 and the Regulation of Investigatory Powers Act 2000 (RIPA). The RIPA regime aims to ensure that directed surveillance is carried out in a way that is compliant with human rights. The Council makes very little use of covert surveillance and covert human intelligence sources (Appendix 1 to the report refers). The Council's processes and practices were inspected by the IPCO during September 2018 and this confirmed that the Council's compliance level meant that no physical inspection was necessary with the IPCO requiring only that the Council undertake a review of its extant CHIS authorisation, make minor amendments to the Council's policy documents and provide refresher training for authorising officers and applicants.
- Following on from the initial period of GDPR implementation, analysis of the Council's data protection assurance documents suggested key areas for further development and investigation. These elements were incorporated into a Data Protection Plan for the Year (Appendix 2 to the report). The Plan seeks to address issues which present the highest risks to the Council within the Services which are deemed to be high risk because of the nature of the personal data processing that occurs within them. This is why particular attention is given to Children and Families' Services, Adults' Services, Learning (which includes the Local Education Authority) and Housing.
- The importance of training as a safeguard of data protection compliance is clear. Whereas the Council has trained on data protection matters since 2013, the introduction of the new data protection legislation in 2018 required fresh training across the board. The report details the training provided via the E-learning module which was introduced to all staff to provide a foundational level of knowledge about the requirements of GDPR along with the participation level of each service. The participation of Elected Members and Co-opted Members with the data protection training is also documented.
- In addition, a training module was developed which was intended for staff roles which the Council's record of data security incidents demonstrate to have a key role to play in ensuring data security and compliance with the legislation. The training was delivered to frontline staff and middle managers as roles which are important in ensuring data security. A series of trainer led sessions was held for staff in the key roles identified by their Head of Service – attendance levels for each service are shown in the report and include only those nominated for attendance by their Heads of Service.
- Aside from training the most important key element of the Work-Plan was to audit the reliance of the Council's Services on consent as a basis for processing personal data. The new legislation places a duty on the Council to review its uses of consent and to take remedial action if consent is not the appropriate legal basis for processing personal data. The audit has resulted in increased intelligence about the Services' processes and whilst Social Services and Housing Services made excellent progress with the audit, the Learning Service was not able to put in the resources required to prioritise this work and so made little progress. The Service will be provided with support to ensure the work is completed by next March. Work to quality assure the audit continued after the period of the report.

- The report sets out the steps taken in respect of providing CCTV assurance noting also that the Council is not responsible for the compliance of schools with the legislation or the Surveillance Camera Commissioner's Code.

In discussing the report the Committee queried the cost of addressing the 1,052 Freedom of Information Act requests which the Council received during the period and whether the Council has the capacity to deal effectively with this work given the volume of requests. Additionally the Committee sought clarification of whether not being open or transparent enough in terms of the availability of information are factors in the increase in the number of FOI requests.

The Director of Function (Council Business)/Monitoring Officer said that an estimate of the cost in Officer time of dealing with Freedom of Information Requests has not been made since the Council is statutorily required to respond to the requests and to provide the information asked for unless there is a good reason not to (i.e. the information is classed as exempt). Much of the information that is requested is minutiae that the Council would not routinely publish. The Council is however obliged to have a publication scheme and to publish information that it is reasonable for it to publish. This has been reviewed in recent times. Although the more information the Council publishes routinely, the fewer the FOI requests, the difference it makes in terms of the numbers received is not significant. The introduction of GDPR has raised public awareness and consequently the increase in FOI requests is a pattern that is replicated across the public sector. The capacity to deal with FOI requests extends across the Authority in as much as the officers designated to deal with Freedom of Information are those who do the work in their areas and who respond to FOI requests as part of those duties. Whilst the capacity currently is deemed sufficient, Heads of Service have been asked to highlight any issues which may arise particularly as a result of more complex requests which can be time consuming.

Having considered the report, it was resolved that the Audit and Governance Committee accepts and adopts the recommendations of the report as follows –

- **That all Members who have yet to undertake the e-learning data protection module do so within three months of this meeting.**
- **That the Learning Service ensures that adequate resources are allocated to ensure that the consent audit is completed by the end of March, 2020.**
- **That the Council's audit of its CCTV systems is supported by the services;**
- **That the Data Protection Officer for Schools consider the risks of CCTV and provides support and guidance to schools on best practice.**
- **That the Committee endorses the remaining actions in the Data Protection Action Plan as reflecting the information governance risks currently facing the Council.**

NO ADDITIONAL ACTION WAS PROPOSED

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

The report of the Director of Function (Council Business)/Monitoring Officer providing information on issues arising under the Council's Concerns and Complaints Policy for the period 1 April, 2018 to 31 March, 2019 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 Director of Function (Council Business)/Monitoring Officer reported on the main points as follows –

- During the period covered by the report, 62 concerns were received and 76 complaints were made. Of the 76 complaints, one (Housing) remains open as the required works have not been completed and another (Planning) is on hold as the Council is waiting to hear from the Public Services Ombudsman for Wales (PSOW). Therefore, 74 complaints have been investigated and responded to during this period. The number of complaints received remains at around the same level as in 2017/18.
- Of the 74 complaints dealt with during the period, 16 were upheld in full, 7 were partly upheld and 51 were not upheld. 9 complaints were escalated to the PSOW, 5 were rejected by the PSOW and 4 complaints (Resources) were resolved by early resolution. Each of the 9 complaints escalated to the PSOW had been through the internal process. A breakdown of the concerns and complaints by service is provided in the report.
- The overall rate of responses to complaints issued within the specified time limit (20 working days) was 92.6%. 9% of the complaints received (up from 5% in 2017/18) resulted from escalated concerns which continues to indicate that services are dealing effectively with concerns thereby limiting formal complaints.
- The Concerns and Complaints Policy places an emphasis on learning lessons from complaints and thereby improving services. Enclosure 1 to the report explains what lessons have been learnt and any practice which has evolved as a consequence of these findings.
- Where the complainant remains dissatisfied with the Council's response to a complaint, the Concerns and Complaints Policy includes the option of escalating the complaint to the PSOW. There were 18 complaints relevant to this process within the timescale of the report lodged with the PSOW – only 1 was considered sufficiently serious to warrant an investigation; this was a Highways matter which was dealt with by way of the Council agreeing to an early voluntary resolution.
- During 2018/19, 1 code of conduct complaint was received by the PSOW against a County Councillor but was closed after initial assessment. There were no investigations against County Councillors.
- Whilst there were no formal language related complaints during the year, 4 expressions of concern were received and recorded relating to the matters documented in the report. All 4 issues were resolved without being escalated into formal complaints.
- During 2018/19, 1 whistleblowing concern under the Council's Whistleblowing Policy was received and is noted in the report.

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 accept and to note the Lessons Learnt Table as at Enclosure 1 to the report.**

NO ADDITIONAL ACTION WAS PROPOSED

7. POLICY ACCEPTANCE – YEAR 1 COMPLIANCE DATA

The report of the Director of Function (Council Business)/Monitoring Officer was presented for the Committee's consideration. The report provided details of compliance for the second round of policies introduced for acceptance via the Council's Policy Portal management system as well as the Learning Service's compliance levels for the first round of policies. The data presented is based on the information available at 16/17 and 19 July, 2019.

The Director of Function (Council Business)/Monitoring Officer reported on the main points as follows –

- That 8 policies – Data Protection Policy; IT Security Policy, Financial Procedure Rules, IT Acceptable Usage Policy, Safeguarding Policy, Officers' Code of Conduct, E-mail and Instant Messaging Usage Policy and the Whistleblowing Policy – were made available for acceptance between 2 July, 2018 and 3 June, 2019 as determined by the Senior Leadership Team (SLT). The final policy in the current series – Equality and Diversity Policy – was introduced for acceptance on 29 July and the six week acceptance period will close on 9 September, 2019.
- Details of compliance levels for the 8 policies both across the Council and by service are provided in Appendix 1 to the report. Average compliance for all policies across the Council is 95% which is the same as last year. This is compared with an average of 87% at the end of the six week acceptance period set for each policy which is an improvement on last year's 79%.
- That it was reported last year that compliance in Children's Services had improved significantly with an average compliance rate of 99% as at 24 July, 2018 compared with an average of 57% at the end of the six week acceptance period. The service has continued to improve and has achieved a compliance rate of 100% for all 8 policies and 100% at the end of the six week acceptance period for the last 4 policies.
- A significant improvement can also be seen in Adults' Services as at July, 2019 with the service achieving a 92% compliance average compared with 78% as July, 2018. The Learning Service staff have been part of the corporate process since July 2018 and were required to catch up by accepting the first 7 policies in addition to accepting the second round of policies as they are released for acceptance. Appendix 2 sets out the service's compliance levels showing an average compliance rate of 99%.
- Following review by the SLT, the number of policies in the core set will be reduced from 16 to the 9 policies listed in paragraph 4.1 of the report. These 9 policies will be subject to acceptance only once in every 2 year period but will be available throughout that time for new staff.
- The Policy Portal relies on the Council's Active Directory (AD) and includes around 1,000 active users. The Portal's reliance on the AD was recognised as a weakness from the outset with this Committee raising concerns that staff who are not AD users are not included in the process. It has been acknowledged that different approaches may be required to reach the various categories of non-AD connected staff, and in order to progress this issue, discussions will take place with each relevant Head of Service to identify the highest categories of risk and possible workable and proportionate solutions to address the risk.
- Staff who are not technically employed by the Council who work for agencies partnerships etc. are expected to work in accordance with the Council's policies and procedures particularly in terms of data protection, security, confidentiality and conduct. The Authority therefore needs assurance that these individuals are aware of and comply with key Council policies. To this end, it is proposed to introduce a statement asking staff who are not technically Council employees to ensure that they are aware of and abide by certain corporate policies.

The Committee sought clarification of how compliance levels are monitored across the Council. The Director of Function (Council Business)/Monitoring Officer confirmed that compliance levels on a service by service basis are submitted to the SLT at the end of the 6 week acceptance period assigned for each policy. Weekly e-mail reminders generated by the Policy Portal automatically list all outstanding policies for each user. All Heads of Service also have direct access to the Portal to monitor compliance within their own services. However, the Policy Portal is not used by schools' staff who have their own system to reflect the different policies that apply within schools.

It was resolved to accept the report and to note the current position with regard to policy acceptance across the Council.

NO ADDITIONAL ACTION WAS PROPOSED

8. CORPORATE HEALTH AND SAFETY ANNUAL REPORT 2018/19

The report of the Director of Place and Community Well-being incorporating the Corporate Health and Safety Annual Report for 2018/19 was presented for the Committee's consideration. The report followed the format and guidance developed by the Welsh Local Government Association which provide a series of headings for reporting health and safety performance which should assist in identifying the commitment, ability and direction of the management of occupational health and safety.

The report included data on all accidents and incidents reported in 2018/19 classified into minor, serious and RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) which are incidents which meet specific criteria that require reporting to the Health and Safety Executive. The table at page 7 of the report provides an analysis of incidents by type broken down further into sub-categories for certain incidents. The tabular format allows comparison with the data for the previous three years.

The Committee was informed that the data shows that violence and aggression and falls appear to be the most significant type of incident. With regard to violence and aggression (total number of incidents – 287 compared with 237 in 2017/18), the highest number of incidents are those involving challenging behaviour where the intent to harm may not be present (106). Abuse from members of the public is also a significant figure (103 incidents compared with 53 in 2017/18). Whilst the majority of these involve telephone calls some include face to face incidents. The increase may be attributable to a combination of factors including societal pressures, the economic climate and increased demand for the services provided by the Council. Falls incidents relate mainly to school pupils and clients in homes with the majority not being due to supervision issues or issues with the environment. The "Another Kind of Accident" category also shows a high number of incidents (135) and includes awareness reports of situations such as "hoarding" in housing stock; possible safeguarding issues and information provided by external agencies which may impact on the Council's duty of care. This will be reviewed to establish whether these incidents may be recorded as near miss incidents or whether an additional method of recording is required.

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

- The Committee sought clarification of what determines whether an incident is reported as a RIDDOR incident, whether all such incidents are very serious and whether the Council benchmarks its performance in this respect against other authorities. The Corporate Health and Safety Advisor clarified that there are specific criteria which determine whether an incident is reportable as RIDDOR and he gave examples of incidents that meet the RIDDOR definition e.g. injuries to workers which result in their incapacitation for over 7 days. Occasionally, an incident will be serious but will not be reportable to RIDDOR but would be subject to a more in-depth internal investigation. Investigating RIDDOR incidents is one of the Service's performance targets. Under RIDDOR, injuries to non-Council workers which results in them being taken directly to hospital (be they serious or not) must also be reported. The Officer confirmed that currently the Council does not undertake any benchmarking against other authorities with regard to health and safety but in the past when comparisons were being made, its performance in respect of RIDDOR reporting (used as a benchmark because its standards are consistent to all councils) was generally on a par with that of the other

North Wales Authorities. The North Wales Corporate Health and Safety Group has not met for some years although there has been a request for it to be reinstated.

- The Committee sought clarification of who is responsible for Councillors' personal safety especially in a climate where they may be at increased risk because of the nature of their duties and the interactions they have with the public. The Corporate Health and Safety Advisor advised that the Council is responsible for Councillor safety when they are carrying out duties on its behalf. The Officer said that he had been asked to contribute to training for councillors on personal safety and to that end he was working on a presentation. The Committee requested that the training be expedited.
- The Committee was concerned about the increase in violent incidents highlighting 8 incidents where an employee had been struck, and it also noted the rise in the number of violent incidents where a member of the public had been verbally abusive to staff members which had almost doubled from 53 to 103. The Committee sought clarification of whether violent incidents were being reported to the Police, whether in the interest of safeguarding staff, there should be a clear notice in the Council's main reception area that violent behaviour against staff will be reported to the Police and whether the Authority is satisfied that staff are getting the support they need when they have been subjected to violence or abuse when carrying out their work. The Committee noted additionally that it would be helpful if the data could be broken down further into incidents by service since abuse by housing tenants for example could potentially be a breach of their tenancy which could be countered by positive action. The Corporate Health and Safety Advisor clarified that the majority of violent incidents take place within the school environment potentially pupil on pupil but that he was not aware of their being reported to the Police. Although the majority of physical assault incidents relate to challenging behaviour where there are mental capacity issues and where it could not be established that there was intent to harm, the number of general physical assaults where no mental capacity issues have been identified have also risen. The Officer said that although he was not aware of any resulting prosecutions, there were 2 incidents in which the Police had been involved. Signage highlighting that violence and aggression will not be tolerated is displayed in Cyswllt Môn (the Council's public reception area); the inclusion of a reference to the Police is a matter for discussion. For staff who have suffered abuse in the course of their work there is support and awareness at Line Manager level in addition to which resulting revisions to the Managing Contact – Unacceptable Actions by Customers Policy and the Risk of Violence Marker Policy and Procedure have been made.

The Chief Executive confirmed that staff have the right to terminate a telephone call if the caller is being abusive and to report such calls to the Head of Service. If this happens repeatedly then the Risk of Violence Marker Policy allows for the caller to be flagged up as one who is abusive/threatening.

It was resolved that the Audit and Governance Committee accepts the Corporate Health and Safety Annual Report and recommends that the report be considered by the Authority and the Development Plan implemented.

NO ADDITIONAL PROPOSAL WAS MADE

9. INTERNAL AUDIT 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 three Internal Audit reports were finalised during the period two of which resulted in a Substantial Assurance rating – these were Grant Certification Audits in relation to Rent Smart Wales and the Pupil Development Grant. The third review relating to Corporate Safeguarding produced a Reasonable Assurance rating and identified 4 major issues/risks that need to be addressed. The issues/risk were designated major because of their potential impact in this area. However, overall the review concluded that the Council has implemented a number of effective controls to manage the risk of serious safeguarding error causing or contributing to harm to those who it has a responsibility to protect and consequently, Internal Audit was able to provide reasonable assurance of the governance, risk management and control in this area.
- That three reports with a Limited Assurance rating are scheduled for a follow-up review as detailed in paragraph 15 of the report. Two Follow-up reviews are currently in progress – Primary Schools Income Collection (first Follow-Up) and Sundry Debtors (second Follow-Up) .The Follow-Up to the Logical Access and Segregation of Duties review has been postponed pending the completion of the Payroll/Payments function restructure.
- That the Council's IT Service has confirmed that the "4 action" corporate action tracking system upgrade to which Internal Audit's quarterly reports have referred to in recent months has now been configured and is being tested. This process has identified some issues which are currently with the supplier for resolution. These have been chased up and it is hoped they can now be progressed.
- That there has been little change with regard to the Operational Plan for 2019/20 in the six weeks since the last Committee update. Although progress has been hampered by the holiday season, a number of draft reports have been issued which are awaiting management response and work has continued on several audits as detailed in paragraph 19 of the report as well as a consultation piece on staff car loans.

In considering the report the Committee queried whether in view of the potential impact of the 4 issues/risks identified in an area as sensitive as safeguarding, the review should have resulted in a Limited Assurance thereby ensuring it would be formally followed up and the outcome reported to this Committee.

The Head of Audit and Risk clarified that Internal Audit had worked very closely with Senior Management with responsibility for safeguarding as well as with the Education Service and schools and that the actual picture is more positive than the corporate monitoring position reflects. In practice, DBS checks and renewals are being undertaken and the issues identified pertain to routine housekeeping around DBS e.g. lack of formal meeting minutes for the strategic safeguarding board, and the absence of an integrated system to record and monitor DBS compliance and renewals with reliance being placed instead on service based manual processes which were seen to be causing some issues particularly for school staff. Work was ongoing during the audit and the issues highlighted have been taken on board with the Head of Profession (HR) and Transformation advising that the Council will shortly be procuring the DBS e-bulk system for this purpose. The Head of Audit and Risk confirmed that although the review will not be followed up in the same way as for a Limited Assurance review, Officers will be required to update the corporate tracking system on their progress in managing the risks identified and these will not be closed down until Internal Audit is satisfied that they have been fully mitigated or addressed. Should any of the Issues/Risks remain unaddressed, then as major or amber rated risks they will come to the Committee's attention as part of the biannual reporting of outstanding Internal Audit Issues/Risks. Corporate Safeguarding is also reviewed annually as an element of the Corporate Risk Register.

It was resolved to accept and to note the latest progress 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

10. 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. These were detailed in Appendix A to the report and contained also a progress update from the Managers responsible for addressing the issues/risks documented.

The Principal Auditor reported as follows –

- That there are no High or Red Issues/Risks currently outstanding, and performance in addressing Amber rated issues/risks has improved since the previous update in July with the overall implementation percentage for High/Red/Amber issues/risks at 92%.
- That there has also been a small improvement in performance for the Medium/Yellow risks with an overall reduction in the number of outstanding actions by 5, spread across services.
- As at 11 August, 2019 the implementation rate was 100% for High/Red issues/risks; 83% for Amber issues/risks; 97% for Medium issues/risk; 80% for Yellow risks/issues.
- That 2 Follow-up review – Sundry Debtors and Schools Income Collection are currently underway and these two reviews account for 6 out of the 9 outstanding Medium Issues/Risks.
- That confirmation has been received that the required action under item 9 in Appendix A – PCI DSS Compliance relating to the Transformation Service has now been completed.
- That implementation of the new upgraded corporate action tracking system provides an opportunity to review the Internal Audit Service's reporting framework to ensure that the information provided to senior management and the Audit and Governance Committee is in line with the new audit approach and is useful, concise, relevant and timely. As it will be easier to configure the new system's reporting parameters from the outset rather than make changes once operational, it was considered prudent to consult with the Committee about its reporting requirements prior to the upgrade so that these can be built into the system. It is anticipated that the new system can be configured to more easily report on areas as listed in paragraph 14 of the report - that currently require significant manual intervention.

The Committee in considering the report and the type of information it would like to be provided with under the new action tracking system indicated that whilst incorporating all the elements in paragraph 14 would be useful, the separation of red and amber risks would be particularly helpful.

It was resolved that the Audit and Governance Committee –

- **Notes the Council's progress in addressing the outstanding Internal Audit recommendations and risks, and**
- **Supports the inclusion of the elements noted in paragraph 14 of the report as part of future reporting to the Committee under the new 4action actions tracking system.**

NO ADDITIONAL ACTION WAS PROPOSED

11. 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 –

- The amendment of all references to the Head of Function (Resources)/Section 151 Officer within the document to reflect the re-designation of the post as Director of Function (Resources)/Section 151 Officer.
- The addition of Paragraph 30 to reflect CIPFA's Statement on the Head of Internal Audit (2019).

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

NO ADDITIONAL ACTION WAS PROPOSED

12. FORWARD WORK PROGRAMME

The Committee's Forward Work Programme was presented for review **and was approved with the following amendments –**

- New item for the Committee's December 2019 meeting – Introduction of Risk Based Verification (RBV) – Housing Benefits/Council Tax Reduction.
- Re-scheduling of the Annual ICT Security Report 2018/19 from the Committee's September to its December, 2019 meeting.

NO ADDITIONAL ACTION WAS PROPOSED

13. 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.

14. 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 Head of Audit and Risk reported that in May, 2019 the Senior Leadership Team (SLT) reviewed the corporate risk register and considered that a number of risks were no longer relevant and that some risks could be amalgamated being mindful also of the recommendations made during the recent Zurich Municipal Risk Management Health Check about the Corporate Risk Register being overpopulated with risks. The outcome of the SLT's review resulted in the net closure of 19 risks – these comprised of risks where significant progress has been made to mitigate the risk, risks of a similar nature which have been merged, and risks that are no longer considered a risk because circumstances have changed. Details of the individual risks thereby affected are provided in the report. The SLT has identified the top (red) residual risks to the Council as YM28, YM40 and YM41. Additionally, the SLT has also agreed that rather than reviewing the entire corporate risk register quarterly, it will review a small number of risks every month.

The Committee considered the information presented and raised the following matters –

- The Committee queried how the SLT would determine which risks it would be reviewing each month.

The Head of Audit and Risk clarified that risks have been prioritised according to their inherent and residual risk rating with priority being given to Red Inherent/Red Residual risks followed by Red Inherent /Amber Residual risks; Red Inherent/Yellow Residual risks and Red Inherent/Green residual risks. Whilst mitigating actions are key to reducing residual risk it is considered that Red inherent risks need to be monitored on a regular basis.

- The Committee queried whether the Council is happy to tolerate 3 major risks that remain Red as residual.

The Head of Audit and Risk clarified that there are times when a risk will remain red and that it is not unusual for a risk register to contain red inherent and red residual risks. This reflects the Council's risk appetite as set out in the risk matrix but does not mean that the risks are not being managed.

- The Committee discussed the use of the term “catastrophic” to describe the highest level of impact were a risk to materialise and whether it overstated the potential effects; the Committee queried whether it would be sensible to focus on identifying measures to reduce any residual risks to below the catastrophic level.

The Head of Audit and Risk explained that the use of the term catastrophic is not uncommon; she clarified that with all risks, the SLT has determined that the amount of resources that it is willing/able to put in to manage risks is at the level reflected in the risk matrix which is the level it is willing to tolerate.

- The Committee queried at what point did the Council intend to introduce measures to mitigate Brexit.

The Committee was informed that the Council has a designated Brexit Officer and that regular meetings are held across North Wales to consider Brexit related issues and how these are, and will be mitigated across the region. The Brexit Officer also maintains a separate Brexit risk register down to service level and regular reports are made to the Welsh and UK Governments.

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

Wales Audit Office / Swyddfa Archwilio Cymru

24 Cathedral Road / 24 Heol y Gadeirlan
Cardiff / Caerdydd
CF11 9LJ

Tel / Ffôn: 029 2032 0500

Fax / Ffacs: 029 2032 0600

Textphone / Ffôn testun: 029 2032 0660

info@audit.wales / post@archwilio.cymru

www.audit.wales / www.archwilio.cymru

Annwen Morgan
Councillor Llinos Medi Huws
Council Offices
Llangefni
Anglesey
LL77 7TW

Reference: IH/CS 18-19

Date issued: 5 November 2019

Dear Annwen and Llinos

Annual Audit Letter – Isle of Anglesey County Council 2018-19

This letter summarises the key messages arising from the Auditor General for Wales's (Auditor General's) statutory responsibilities under the Public Audit (Wales) Act 2004 and his reporting responsibilities under the Code of Audit Practice.

The Council complied with its responsibilities relating to financial reporting and use of resources

It is the Isle of Anglesey County Council's (the Council's) responsibility to:

- put systems of internal control in place to ensure the regularity and lawfulness of transactions and to ensure that its assets are secure;
- maintain proper accounting records;
- prepare a Statement of Accounts in accordance with relevant requirements; and
- establish and keep under review appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Public Audit (Wales) Act 2004 requires the Auditor General to:

- provide an audit opinion on the accounting statements;
- review the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- issue a certificate confirming that he has completed the audit of the accounts.

Local authorities in Wales prepare their accounting statements in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. This Code is based on International Financial Reporting Standards.

On 12 September 2019 the Auditor General issued an unqualified audit opinion on the accounting statements confirming that they present a true and fair view of the Council's financial position and transactions. The key matters arising from this audit were reported to the Audit Committee where appropriate.

From 2020-21 onwards, Committee dates will need to be brought forward to incorporate the earlier statutory deadlines whereby the draft financial statements need to be prepared and signed by the responsible finance officer (S151 officer) by 31 May 2021 and the financial statements need to be approved by the Council and published by 31 July 2021. We will continue to work closely with Council officers over the Autumn to identify and implement further improvements to the preparation and audit of the 2019-20 financial statements, with the aim of meeting the revised deadlines by 2020-21.

The Auditor General is satisfied that the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources

The Auditor General's consideration of the Council's arrangements to secure economy, efficiency and effectiveness has been based on the audit work undertaken on the accounts as well as placing reliance on the work completed under the Local Government (Wales) Measure 2009 and under the Well-being of Future Generations (Wales) Act 2015. The Auditor General is satisfied that the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources, although in July 2019 the Auditor set out in my Annual Improvement Report¹ some areas where improvements could be made.

Notwithstanding the above conclusion, the Auditor General wishes to highlight that he is currently undertaking a review of the Council's financial sustainability, on which he expects to report to the Council by December 2019. The Auditor General's report will set out any specific areas where improvements could be made.

¹ <https://archwilio.cymru/publication/isle-anglesey-county-council-annual-improvement-report-2018-19>

The Auditor General issued a certificate confirming that the audit of the accounts has been completed on 12 September 2019

Having given an audit opinion on the financial statements and concluded on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources, the Auditor General was able to certify that the audit was complete when he issued his audit opinion.

Work to date on certification of grant claims and returns is underway

A more detailed report on the Auditor General's grant certification work will follow early in 2020 once this year's programme of certification work is complete.

Financial audit fee

The financial audit fee for 2018-19 is currently expected to be in line with the agreed fee set out in the Annual Audit Plan.

Yours sincerely

Handwritten signature of Ian Howse in blue ink.

Ian Howse

For and on behalf of the Auditor General for Wales

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ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	Audit and Governance Committee
Date:	3 rd December 2019
Subject:	Cyber Security Annual Report 2019
Head of Service	Carys Edwards, Head of Profession HR and Transformation (01248) 752502 CarysEdwards@ynysmon.gov.uk
Report Author:	Lee Evans, IT Service and Performance Management Manager (01248) 752526 LeeEvans@ynysmon.gov.uk
<p>Nature and Reason for Reporting:</p> <p>The report allows the Committee to monitor the Council's arrangements in mitigating Cyber Threats as well providing details of other monitoring and assurance activities relating to this area.</p>	

1. Introduction

This report provides information relating to the Cyber Threats facing the Council and how the IT Division is taking action to mitigate them.

2. Recommendation

To note the assurance provided in the report.



Cyber Security

Annual Report 2019

OFFICIAL



Cyber Security Annual Report 2019

1. BACKGROUND

Reports of Cyber Attacks have become common place in the news with high profile attacks on a weekly and even daily basis, the most well-known example being the WannaCry ransomware attack on the NHS. At best, such attacks erode the trust of services and customers and cause reputational damage, at worse they can cripple an organisation and prevent the provision of essential services.

Cyber attacks vary in their approach and complexity but are consistent in their intent to disrupt, damage or steal.

Cyber Security is the practice of defending computer systems from cyber threats and protecting the integrity, confidentiality and availability of the organisation's information.

Similar to any Internet connected organisation, the Council's network is under constant 24hr attack and the significant volume of sensitive personal data held by the Council means it is imperative that we reduce the risk of a successful cyber-attack as much as is reasonably possible. The risk of Cyber Attack is recognised by the Council and is recorded within the corporate Risk Register which is monitored by the Senior Leadership Team (SLT).

This report summaries the Cyber Threats facing the Council and some of the mitigations the Council has in place. One of the key principles of effective Cyber Security is "security by obscurity", therefore the report will only provide a high level overview and not detail the technologies or products used.

2. WHO ARE THE POTENTIAL ATTACKERS?

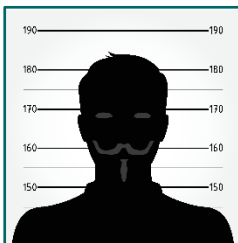
As with all organisations, the origins of attempted cyber-attacks vary in terms of method and motive and fall into the following broad categories;

Criminals



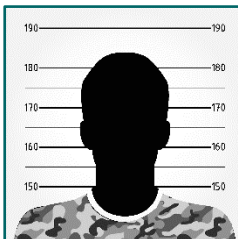
Motivated purely by financial gain. Cybercrime allows criminals to operate internationally and anonymously, offering a low risk method of stealing versus traditional crimes and potentially much higher returns. The low cost of set up means criminals can launch an attack on thousands of potential victims and only need a small number of successes to make large financial gain.

Hackers and Glory Seekers



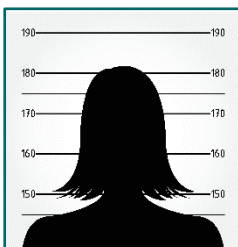
Individuals or groups of attackers who carry out their malicious activity to promote their chosen agenda. Such an attack can include disruption to the availability of a system or “de-facing” corporate websites and social media with the attackers chosen message - this could be a political topic, religious belief or social ideology or can even be simply to demonstrate their technical ability to peers.

Foreign Nation States



Groups sponsored by nation states. Local Councils are the Gateway to central government and crucial public services. State-sponsored attackers have particular objectives aligned with either the political, commercial or military interests of their country of origin. These types of attack are extremely sophisticated and difficult to detect. The National Cyber Security Centre has published advisories stating that the risk of attack from these groups is real, particularly around major national events such as elections.

Insider Threats



The insider threat is a threat to an organization's security or data that comes from within. This type of threat comes from employees or former employees, but may also arise from third parties, including contractors, temporary workers, employees or customers. It is widely stated that 50% of the worst information security breaches are caused by inadvertent human error such as opening a malicious email.

3. WHAT ARE THE CYBER THREATS?

Malware

Malware, or “malicious software,” is an umbrella term that describes any malicious program or code that is harmful to systems.

Malware seeks to damage or disable computers, servers, networks and other computing devices.

Example of Malware include Viruses, Trojan Horses, Ransomware and Key Loggers;



Viruses

The most well-known type of Malware, Viruses mostly seek to cause disruption to a system or destroy data. Virus spread from computer to computer via networks, email and removable media. A virus infection can take place by the victim running a malicious file or simply by plugging in a USB Stick.

Ransomware

Ransomware is a form of malware that encrypts a victim's files. Having prevented access to their data, the attacker then demands a ransom from the victim to restore access to the data upon payment.

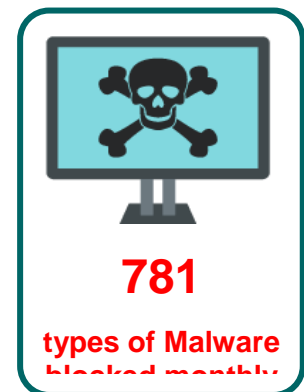
The ransomware software shows the victim instructions on how to pay the ransom and often include a support number where “help” is given to complete the transaction. The disruption caused by ransomware can bring an organisation to a halt and the cost of the ransom can be as much as tens of thousands of pounds with little realistic chance of the perpetrators being brought to justice.

Key Loggers

A Key Logger is software which is installed on a victim's PC without their knowledge will capture their keystrokes over a period of months or even years. Information captured by the Key Logger is relayed back to the attacker over the Internet where they will filter if for login details, passwords and credit card information which are then used to facilitate financial crime.

Trojan Horses

Posing as useful and non-malicious software so as to be innocently installed by a victim, a Trojan Horse will secretly download other Malware such as Ransomware or Key Loggers to a user's PC without their knowledge and without any obvious signs which would raise suspicion.



Mitigation

Anti-Malware Software

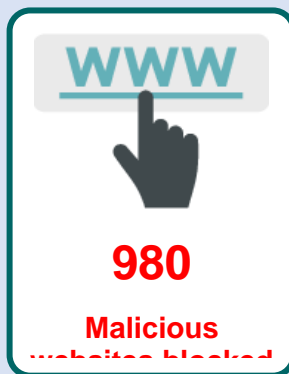
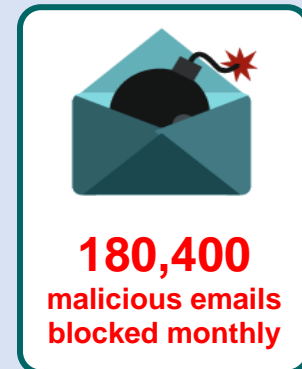
All Council computers and servers operate anti-Malware software which scans for signatures of known malicious code and block access if found.

There are several potential sources of Malware attack and these include; email attachments, malicious websites and removable media;

Email Filtering

All email attachments received by the Council are subject to Malware analysis. Any known risky file types are either automatically blocked or sanitised so that any "active content" is removed.

The Council is also subscribed to an email blacklisting service ensuring that emails from known malicious sources are automatically blocked.



Web Filtering

The Council is subscribed to the National Cyber Security Centre (NCSC) Protective Domain Name resolution Service.

In plain terms, this means that any web address accessed by a Council computer is checked against a list of known malicious sites and access blocked if necessary.

In addition, the Council uses a web filtering service which blocks access to undesirable websites such as Games, Gambling, Pornography and Illegal activity.

Removable Media

Removable media such as CD's and USB sticks have historically been convenient and cheap means of data transfer. However, they can also be used for Malware to spread from one network to another and can also easily be lost leading to a data breach. In response to this risk the Council has retired the use of USB Sticks on Council computers with the exception of a small number where there is an overriding business case.

Software Vulnerabilities

Software vulnerabilities are bugs or loopholes in software code which if exploited by an attacker can cause the software to behave in an un-expected and undesirable manner, for example allowing an attacker to remotely access the system without permission.

Where software is current and still supported by the supplier, corrected code packages known as “updates” or “patches” are made available to address the software bugs and close the potential security loophole. Depending on the software it may be manual process to update each device or it may be possible to manage the process centrally.

Mitigation

Early Windows 10 Adoption

In order to take advantage of the enhanced security features it provides, the Council took a strategic decision several years ago to upgrade every PC or Laptop to Windows 10. This project identified a raft of legacy software which was no longer updated by the supplier and was potentially a risk going forward. A decision was taken to remove the legacy software and reduce the overall estate of software which needed updating.

Application Virtualisation

Traditionally, application software was installed on each and every computer or laptop which was a significant burden to manage software security updates. With the rollout of Windows 10, a decision was taken to move away from this model to “application virtualisation”. In simple terms this means that for each application there is a master copy which runs on a central server. Each of the computers or laptops access this central copy of the software meaning there is only one copy to keep up to date and manage.

Vulnerability Testing

In line with Cabinet Office and industry requirements, the Council arranges for third party “ethical hackers” to carry out vulnerability assessments on the Council’s network. This process identifies any software which is out of date, is missing patches and poses a risk, the highlighted software is then either updated or retired.

Insider Threats

According to McAfee, 43% of Cyber incidents are caused by Insider Threats – these can be categorised as accidental staff actions, malicious staff actions or the actions of contractors.

Many of the threats discussed in this report have been technical in nature, however the success of those attacks usually rely on a human clicking a malicious link, opening a malicious attachment, revealing their password or some other action.

Mitigation

Cyber Security Training

In ensuring that staff are aware of the risks associated with Cyber Threats the Council played a leading role in the procurement of a bilingual, all-Wales E-Learning package on Cyber Awareness.

The Cyber Awareness module has been deployed on the Council's e-Learning platform and SLT have mandated that all IT connected staff must complete this module.

Baselines Personnel Security Standard (BPSS)

All staff who have access to OFFICIAL-SENSITIVE data which is derived from the cabinet office must go through the BPSS process which requires them to produce proof of ID, nationality and undergo a DBS check.

Data Processing Agreements

All contractors who either host Council IT systems or have remote access to Council IT systems are required to sign a Data Processing Agreement (DPA).

The DPA outlines the responsibilities of the contractor in terms of Cyber Security and also legally requires them to accept full financial liability for any breaches or damages which arise as a result of their failure to comply.

Policy Agreement

The Council has various policies in place for the safe use of IT, including an Acceptable Usage Policy and IT Security policy. The Acceptable Usage and IT Security Policy outline the responsibilities on staff in protecting the security of the Council's IT systems and it is mandatory that all IT connected staff review and accept these policies.

Phishing

This type of attack is used to obtain financial or other confidential information from a victim. This is typically achieved by sending an email that looks as if it is from a legitimate organisation such as a bank but contains a link to a fake website that replicates the real one. The victim's login details are captured by the fake website upon login and passed to the attacker.

Whereas a generic Phishing attack is mailed out to thousands of potential victims at a time, there is a variation of Phishing known as "Spear-Phishing". In a Spear-Phishing attack a specific organisation or even individual is targeted and therefore the email and fake website will be tailored to seem more familiar and credible to the victim. For example, the attacker may attempt to pose as the organisation's IT Helpdesk.

Mitigation

Email and Web Filtering

As previously noted, the Council has sophisticated filtering technology in place which aims to block Phishing emails and in addition, block the malicious websites that they attempt to divert victims to.

Cyber Security Training

Configuring Email and Web filtering systems is a balance between blocking suspected malicious content and ensuring that legitimate business activities are not blocked. With this in mind, it is inevitable that some Phishing emails will get through and it is imperative that all staff have an awareness of Cyber Threats.

As previously noted, all IT connected Council staff must complete a mandatory E-Learning module on Cyber Security Awareness. This module has specific sections on the dangers of malicious emails and in particular Phishing. Staff also review and record their acceptance of an IT Security Policy which notes the dangers posed by malicious emails.

4. WHAT ASSURANCES ARE IN PLACE?

This section of the report details some of the checks in place to ensure that the protective measures the Council has in place are adequate enough to reduce the risk of a successful Cyber Attack to a reasonable level.

Cabinet Office PSN Accreditation



The Public Sector Network (PSN) is a high-speed Government network used by public sector to exchange data in a secure manner. As the PSN effectively allows connection to Cabinet Office and Department for Work and Pensions systems, the Council must undergo a rigorous independent assessment on an annual basis. Failure to achieve the required Cyber Security standard results in disconnection and an inability to process benefits subsidies.

The Council has successfully passed the annual PSN assessment every year since it became a requirement.

Cyber Essentials+ and IASME Accreditation



Through a programme funded by Welsh Government and managed by the WLGA, local authorities have been testing their cyber security and information governance arrangements against the best practice.



IASME Consortium®

After a rigorous audit process, the Council is one of only seven authorities in Wales to have achieved Cyber Essentials Plus and the full IASME Accreditation.

The accreditation included security testing of all IT systems and devices which was a akin to a cyber-attack, as well as a rigorous onsite audit which covered IT security and information governance policies and required significant contribution from colleagues in HR and Information Governance.

Internal Audit

As Cyber Threats are recorded on the Corporate Risk Register, the Council's arrangements in this area are subject to review by Internal Audit. During 2018/19 the Internal Audit team carried out a review to establish whether the Council has "adequate protection, detection and response arrangements in place to mitigate the risk to the Council's network, systems, information and services from a cybersecurity breach".

As a result of the review it was concluded that the Council has a number of effective, operational controls in place to manage the risk to cybersecurity and to prevent and reduce the impact to Council services, systems and information of malicious, external attacks.

5. WHAT ARE THE CHALLENGES GOING FORWARD

To date, the Council has been able to demonstrate and provide assurance that reasonable measures in place to manage Cyber Threats to an acceptable level, however as the volume and sophistication of these threats grows, so also does the burden in terms of;

- Researching emerging threats and developing protective measures
- Funding, operating and monitoring the ever-increasing number of threat protection technologies which are required.
- Liaising with security colleagues within WARP and NCSC to share intelligence.
- Resourcing the development of policy, awareness and compliance monitoring

These challenges are not unique to the Council and resourcing requirements will continue to monitored, supported by bids for additional funding when required.

6. RECOMMENDATION

It is recommended to note the assurance provided in the report.

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ISLE OF ANGLESEY COUNTY COUNCIL	
REPORT TO:	AUDIT COMMITTEE
DATE:	3 DECEMBER 2019
SUBJECT:	TREASURY MANAGEMENT MID-YEAR REVIEW REPORT 2019/20
PORTFOLIO HOLDER(S):	COUNCILLOR ROBIN WILLIAMS
HEAD OF SERVICE:	MARC JONES, DIRECTOR 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 was taken to the Executive Committee on 18 February 2019, and a revised Strategy for 2020/21 will be taken to the full Council before 31st March 2020.

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 2019/20 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 2019/20;
- A review of the Council's borrowing strategy for 2019/20;
- A review of any debt rescheduling undertaken during 2019/20;
- A summary of activity since Quarter 2; and
- A review of compliance with Treasury and Prudential Limits for 2019/20.

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 2019	Mar 2020	Jun 2020	Sep 2020	Dec 2020	Mar 2021	Jun 2021	Sep 2021	Dec 2021	Mar 2022
Bank Rate (%)	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.00%
5yr PWLB rate (%)	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%
10yr PWLB rate (%)	2.60%	2.70%	2.70%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%
25yr PWLB rate (%)	3.20%	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%
50yr PWLB rate (%)	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%	3.80%

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 2019/20 was approved by the full Council on 27 February 2019. 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 2019/20

- 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 £18.551m of investments as at 30 September 2018 (£14.333m at 31 March 2019) and the investment portfolio yield for the first six months of the year was 0.62%. A full list of investments as at 30th September 2019 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 2019/20.
- 5.4 The Council's budgeted investment return for the whole of 2019/20 is £0.031m and performance for the year to date exceeds the budget, with £0.041m received to the end of Quarter 2. The reason for this is that we invest surplus cash in other Local Authorities, creating a better investment return than a bank call account.
- 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.
- 5.7 The table below shows a list of investments made to other Local Authorities during the first half of this financial year. Given that security of funds is the key indicator of this Council, other Local Authorities is seen as the most secure way of investing funds, and this gives a greater rate of return than most bank call accounts.

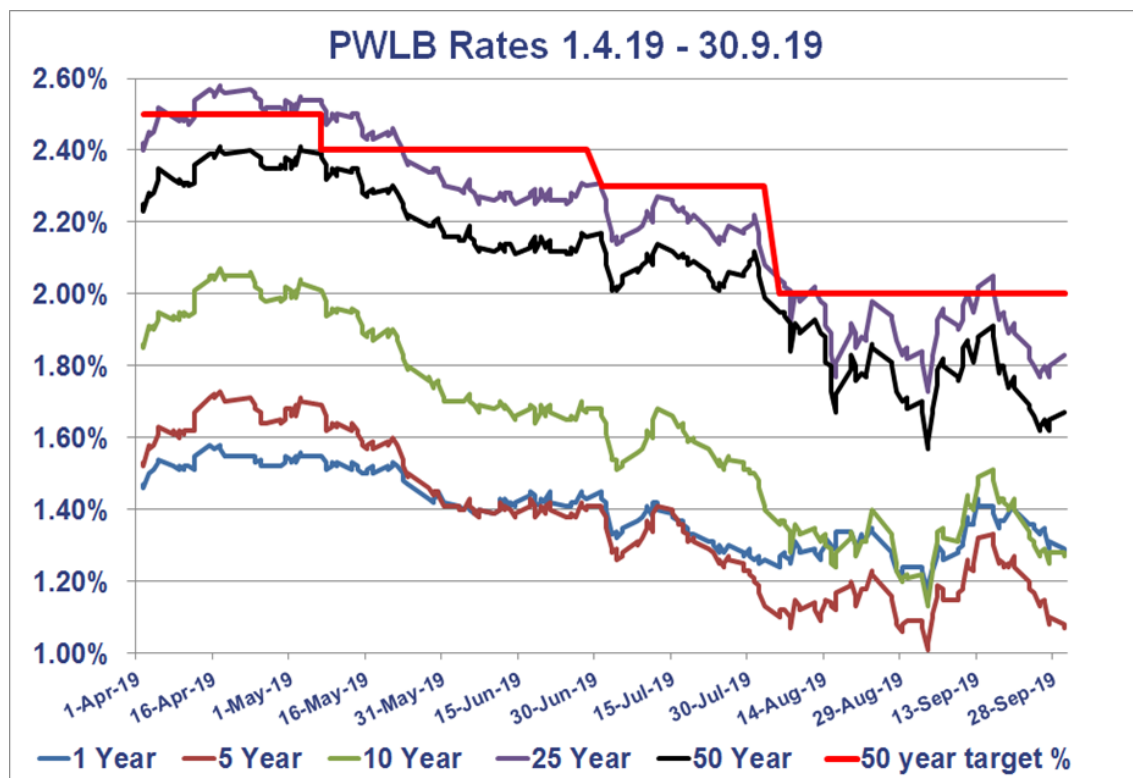
Local Authority	Start Date	End Date	Interest Rate %	Amount (£)
Central Bedfordshire Council	04/04/2019	05/07/2019	0.75%	5,000,000.00
Cheltenham Borough Council	21/08/2019	20/09/2019	0.68%	5,000,000.00
Cheltenham Borough Council	20/09/2019	25/10/2019	0.63%	5,000,000.00
Wirral Council	31/07/2019	30/08/2019	0.68%	2,000,000.00
Wirral Council	30/08/2019	30/09/2019	0.63%	2,000,000.00
Wirral Council	30/09/2019	29/10/2019	0.63%	2,000,000.00
Sutton London Borough Council	29/08/2019	25/09/2019	0.60%	5,000,000.00
Mid Suffolk District Council	24/09/2019	25/11/2019	0.65%	3,000,000.00

6. Borrowing

- 6.1 The projected capital financing requirement (CFR) for 2019/20 is £140.2m. 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 £127.6m and will have used £12.6m 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, and, it is not anticipated that any additional external borrowing will need to be undertaken during the second half of the financial year. There will be a borrowing requirement to fund a part of the 2019/20 capital programme, but this will be through internal borrowing (drawing down cash balances).

The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date. PWLB rates have been on a falling trend during this period and longer rates have almost halved to reach historic lows. The 50 year PWLB target (certainty) rate for new long term borrowing fell from 2.50% to 2.00% during this period: -



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.17%	1.01%	1.13%	1.73%	1.57%
Date	03/09/2019	03/09/2019	03/09/2019	03/09/2019	03/09/2019
High	1.58%	1.73%	2.07%	2.58%	2.41%
Date	15/04/2019	17/04/2019	17/04/2019	17/04/2019	17/04/2019
Average	1.40%	1.37%	1.62%	2.20%	2.07%

6.3 On 9 October 2019, the Treasury and PWLB announced an increase in the borrowing rate by 100 basis points (1%). There was no prior warning that this would happen and it now means that every local authority has to fundamentally reassess how to finance their external borrowing needs and the financial viability of capital projects in their capital programme due to this unexpected increase in the cost of borrowing. Representations are going to be made to HM Treasury to suggest that areas of capital expenditure that the Government are keen to see move forward, e.g. housing, should not be subject to such a large increase in borrowing.

Whereas this Authority has previously relied on the PWLB as its main source of funding, it now has to fundamentally reconsider alternative cheaper sources of borrowing. At the current time, this is a developmental area as this event has also taken the financial services industry by surprise. We are expecting that various financial institutions will enter the market or make products available to local authorities. Members will be updated as this area evolves.

It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. This Authority may make use of this new source of borrowing as and when appropriate.

- 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. The 100bps increase in PWLB rates from 9 October 2019 only applied to new borrowing rates, not to premature repayment rates.

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	2019/20 Original Estimate	Position as at 30 September 2019	2019/20 Current Estimate
	£'000	£'000	£'000
Council Fund	25,910	5,768	16,823
HRA	14,117	5,267	14,307
Total	40,027	11,035	31,130

7.2.1 The projected expenditure shows that the majority of projects are on target to be completed within budget but there are 3 major projects (Gypsy and Travellers Sites, 21st Century School Band A modernization and Holyhead Strategic Infrastructure) which are expected to significantly underspend the budget in 2019/20, and this is reflected in the above table. A full breakdown on the planned capital expenditure for 2019/20 is provided in the Capital Budget Monitoring Report Q2, presented to the Executive on 25 November 2019.

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 the table below. The main reason for the change is as noted in paragraph 7.2.1, there will be significant underspend on three capital schemes in 2019/20. However, these three schemes will slip into 2020/21 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	2019/20 Original Estimate £'000	2019/20 Revised Estimate £'000
Capital Grants	22,684	14,381
Capital Receipts	774	1,612
Reserves	186	186
Revenue Contribution	9,952	10,142
Supported Borrowing	5,973	3,942
Unsupported Borrowing	454	863
Loan	4	4
Total	40,027	31,130

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 is set annually by the Council as part of the Treasury Management Strategy Statement.

7.4.2 Prudential Indicator – Capital Financing Requirement

	2019/20 Operational Boundary as per TMSS 2018/19 £000	2019/20 Opening Borrowing Position £000	Amount Within the Boundary £000	2019/20 Estimated Borrowing Position £000	Amount Within The Boundary £000
<i>Prudential Indicator – External Debt/ The Operational Boundary</i>					
Borrowing	170,000	132,549	37,451	126,404	43,596
Other long term liabilities	3,000	1,133	1,867	1,214	1,786
Total Debt 31 March	173,000	133,682	39,318	127,618	45,382

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.

	2019/20 Original Estimate £000	2019/20 Revised Estimate £000
<i>Prudential Indicator – Capital Financing Requirement</i>		
CFR – Council Fund	104,103	100,171
CFR – HRA	40,998	39,998
Total CFR	145,101	140,169
Net movement in CFR	3,910	1,509

Original CFR Forecast	145,101
Reduced MRP due to underspend in Borrowing in 2018/19	154
Underspend in Unsupported Borrowing for HRA in 2019/20	-1,000
Increase in Unsupported Borrowing in 2018/19 and 2019/20 due to higher weighting of funding through unsupported borrowing in the 21 st Century Schools programme. Also, an additional 2 leisure schemes funded by Unsupported Borrowing in 2018/19 capital programme.	915
Underspend in Supported Borrowing in 2018/19 due to additional grant received in 2018/19 as substitute funding which reduced the need for Supported Borrowing. Also there was a reduced weighting of funding through Supported Borrowing in the 21 st Century Schools programme.	-5,001
Revised CFR Forecast	140,169

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 2019/20 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. The current borrowing position is £126.409m, which is below the CFR forecast for this and the next two financial years (see table below), therefore, this indicator has not been breached.

	2019/20 £000	2020/21	2021/22 £000
CFR (year-end forecast)	140,169	158,469	174,821

	2019/20 Original Estimate £000	Current Position at 30 September 2019 £000	2019/20 Revised Estimate £000
External Borrowing	132,549	126,409	126,404
Internal Borrowing	11,338	12,546	12,551
Plus other long term liabilities	1,214	1,214	1,214
CFR (year-end position)	145,101	140,169	140,169

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 £178m. 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	2019/20 Original Indicator	Current Borrowing Position as at 30 September 2019 £'000	Estimated Borrowing Position as at 31 March 2020 £'000
Borrowing	175,000	126,409	126,404
Other long term liabilities	3,000	1,214	1,214
Total	178,000	127,623	127,918

8. Recommendation

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

MARC JONES
DIRECTOR OF FUNCTION (RESOURCES) & SECTION 151 OFFICER

20 NOVEMBER 2019

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

United Kingdom - This first half year has been a time of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on or 31 October, with or without a deal. However, in September, his proroguing of Parliament was overturned by the Supreme Court and Parliament carried a bill to delay Brexit until 31 January 2020 if there is no deal by 31 October. MPs also voted down holding a general election before 31 October, though one is likely before the end of 2019. So far, there has been no majority of MPs for any one option to move forward on enabling Brexit to be implemented. At the time of writing the whole Brexit situation is highly fluid and could change radically by the day. Given these circumstances and the likelihood of an imminent general election, any interest rate forecasts are subject to material change as the situation evolves. If the UK does soon achieve a deal on Brexit agreed with the EU then it is possible that growth could recover relatively quickly. The MPC could then need to address the issue of whether to raise Bank Rate at some point in the coming year when there is little slack left in the labour market; this could cause wage inflation to accelerate which would then feed through into general inflation. On the other hand, if there was a no deal Brexit and there was a significant level of disruption to the economy, then growth could weaken even further than currently and the MPC would be likely to cut Bank Rate in order to support growth. However, with Bank Rate still only at 0.75%, it has relatively little room to make a big impact and the MPC would probably suggest that it would be up to the Chancellor to provide help to support growth by way of a fiscal boost by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy.

The first half of 2019/20 has seen UK **economic growth** fall as Brexit uncertainty took a toll. In its Inflation Report of 1 August, the Bank of England was notably downbeat about the outlook for both the UK and major world economies. The MPC meeting of 19 September reemphasised their concern about the downturn in world growth and also expressed concern that prolonged Brexit uncertainty would contribute to a build-up of spare capacity in the UK economy, especially in the context of a downturn in world growth. This mirrored investor concerns around the world which are now expecting a significant downturn or possibly even a recession in some major developed economies. It was therefore no surprise that the Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.75% throughout 2019, so far, and is expected to hold off on changes until there is some clarity on what is going to happen over Brexit. However, it is also worth noting that the new Prime Minister is making some significant promises on various spending commitments and a relaxation in the austerity programme. This will provide some support to the economy and, conversely, take some pressure off the MPC to cut Bank Rate to support growth.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell to 1.7% in August. It is likely to remain close to 2% over the next two years and so it does not pose any immediate concern to the MPC at the current time. However, if there was a no deal Brexit, inflation could rise towards 4%, primarily as a result of imported inflation on the back of a weakening pound.

With regard to the **labour market**, despite the contraction in quarterly GDP growth of -0.2% q/q, (+1.3% y/y), in quarter 2, employment continued to rise, but at only a muted rate of 31,000 in the three months to July after having risen by no less than 115,000 in quarter 2 itself: the latter figure, in particular, suggests that firms are preparing to expand output and suggests there could be a return to positive growth in quarter 3. Unemployment continued at a 44 year low of 3.8% on the Independent Labour Organisation measure in July and the participation rate of 76.1% achieved a new all-time high. Job vacancies fell for a seventh consecutive month after having previously hit record levels. However, with unemployment continuing to fall, this month by 11,000, employers will still be having difficulty filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to a high point of 3.9% in June before easing back slightly to 3.8% in July, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.1%. As 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. The latest GDP statistics also included a revision of the savings ratio from 4.1% to 6.4% which provides reassurance that consumers' balance sheets are not over stretched and so will be able to support growth going forward. This would then mean that the MPC will need to consider carefully at what point to take action to raise Bank Rate if there is an agreed Brexit deal, as the recent pick-up in wage costs is consistent with a rise in core services inflation to more than 4% in 2020.

In the **political arena**, if there is a general election soon, 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 although, conversely, a weak international backdrop could provide further support for low yielding government bonds and gilts.

United States of America - President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of strong growth to 2.9% y/y. Growth in 2019 has been falling back after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2. Quarter 3 is expected to fall further. The strong growth in employment numbers during 2018 has reversed into a falling trend during 2019, indicating that the economy is cooling, while inflationary pressures are also weakening. The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August, (reducing its holdings of treasuries etc). It then cut rates again in September to 1.75% - 2.00% and is thought likely to cut another 25 bps in December. Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs. President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This trade war is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China.

Eurozone - Growth has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1 and then fell to +0.2% q/q (+1.0% y/y) in quarter 2; there appears to be little upside potential to the growth rate in the rest of 2019. German GDP growth fell to -0.1% in quarter 2; industrial production was down 4% y/y in June with car production down 10% y/y. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars. The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it said that it expected to leave interest rates at their present levels "at least through the end of 2019", but that was of little help to boosting growth in the near term. Consequently, it announced a third round of TLTROs; this provides banks with cheap borrowing every three months from September 2019 until March 2021 which means that, although they will have only a two-year maturity, the Bank is making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum so at its meeting on 12 September, it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a resumption of quantitative easing purchases of debt. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and unsurprisingly, the ECB stated that governments will need to help stimulate growth by fiscal policy. On the political front, Austria, Spain and Italy are in the throes of forming coalition governments with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The recent results of two German state elections will put further pressure on the frail German CDU/SPD coalition government.

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. Progress also still needs to be made to eliminate excess industrial capacity and to switch investment from property construction and infrastructure to consumer goods production. The trade war with the US does not appear currently to have had a significant effect on GDP growth as some of the impact of tariffs has been offset by falls in the exchange rate and by transshipping exports through other countries, rather than directly to the US.

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.

World Growth - The trade war between the US and China is a major concern to financial markets and is depressing worldwide growth, as any downturn in China will spill over into impacting countries supplying raw materials to China. Concerns are focused on the synchronised general weakening of growth in the major economies of the world compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns have resulted in government bond yields in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US), and there are concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been sub 50 which gives a forward indication of a downturn in growth; this confirms investor sentiment that the outlook for growth during the rest of this financial year is weak.

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

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

It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit. In its meeting on 1 August, the MPC became more dovish as it was more concerned about the outlook for both the global and domestic economies. That's shown in the policy statement, based on an assumption that there is an agreed deal on Brexit, where the suggestion that rates would need to rise at a "gradual pace and to a limited extent" is now also conditional on "some recovery in global growth". Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. If there were a no deal Brexit, then it is likely that there will be a cut or cuts in Bank Rate to help support economic growth. The September MPC meeting sounded even more concern about world growth and the effect that prolonged Brexit uncertainty is likely to have on growth.

Bond yields / PWLB rates - There has been much speculation recently that we are currently in a bond market bubble. However, given the context that there are heightened expectations that the US could be heading for a recession, and a general background of a downturn in world economic growth, together with inflation generally at low levels in most countries and expected to remain subdued, conditions are ripe for low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last thirty years. We have therefore seen over the last year, many bond yields up to ten years in the Eurozone actually turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby ten year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities. However, stock markets are also currently at high levels as some investors have focused on chasing returns in the context of dismal ultra-low interest rates on cash deposits.

What we saw during the last half year up to 30 September is a near halving of longer term PWLB rates to completely unprecedented historic low levels. (*See paragraph 7 for comments on the increase in margin over gilt yields of 100bps introduced on 9.10.19.*) There is though, an expectation that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but due to a correlation between US treasuries and UK gilts, which at various times has been strong but at other times weaker, in the UK. However, forecasting the timing of this and how strong the correlation is likely to be, is very difficult to forecast with any degree of confidence.

One potential danger that may be lurking in investor minds is that Japan has become mired in a twenty year bog of failing to get economic growth and inflation up off the floor, despite a combination of massive monetary and fiscal stimulus by both the central bank and government. Investors could be fretting that this condition might become contagious.

Another danger is that unconventional monetary policy post 2008, (ultra-low interest rates plus quantitative easing), may end up doing more harm than good through prolonged use. Low interest rates have encouraged a debt fuelled boom which now makes it harder for economies to raise interest rates. Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending. Banks could also end up holding large amounts of their government's bonds and so create a potential doom loop. (A doom loop would occur where the credit rating of the debt of a nation was downgraded which would cause bond prices to fall, causing losses on debt portfolios held by banks and insurers, so reducing their capital and forcing them to sell bonds – which, in turn, would cause further falls in their prices etc.). In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.

One risk that is both an upside and downside risk is that all central banks are now working in very different economic conditions than before the 2008 financial crash. There has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for eleven years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could, therefore, over or under-do increases in central interest rates.

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

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England** takes action too quickly, or too far, 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. In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new unlikely alliance of two very different parties will endure.
- Weak capitalisation of some European banks, particularly Italian banks.
- **German minority government**. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD had a major internal debate as to whether it could continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018. However, this makes little practical difference as she has continued as Chancellor, though more recently concerns have arisen over her health.
- **Other minority EU governments**. Austria, Sweden, Spain, Portugal, Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Italy, Austria, the Czech Republic and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.
- **Geopolitical risks**, for example in 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

- **Brexit** – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- **The Bank of England** is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary 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 2019/20
Borrowing and Investment Summary – Quarters 1 and 2 2019/20

	30 Medi / Sept 2019		30 Mehefin / June 2019	
	£m	% (paid on borrowing and received on investment)	£m	% (paid on borrowing and received on investment)
Benthycyca – graddfa sefydlog Borrowing – fixed rate	126.4	4.73	126.4	4.73
Benthycyca – graddfa amrywiol Borrowing – variable rate	Dim / Nil	d/b / n/a	Dim / Nil	d/b / n/a
Adneuron – galw hyd at 30 diwrnod Deposits – Call to 30 days	8.5	0.57	12.3	0.49
Adneuron – Tymor sefydlog < 1 bl. Deposits – Fixed Term < 1 year	10.0	0.64	5.0	0.75
Adneuron – Tymor sefydlog 1 bl. + Deposits – Fixed Term 1 year +	Dim / Nil	d/b / n/a	Dim / Nil	d/b / n/a
Cyfanswm Adneuron Total Deposits	18.5	0.61	17.3	0.57
Adneuron Uchaf yn y Chwarter Highest Deposits in the Quarter	26.1	d/b / n/a	27.1	d/b / n/a
Adneuron Isaf yn y Chwarter Lowest Deposits in the Quarter	14.0	d/b / n/a	13.7	d/b / n/a
Cyfartaledd Adneuron yn y Chwarter Average Deposits in the Quarter	20.9	0.54	22.9	0.54

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 2019*
Credit ratings of investment counterparties and deposits held with each as at 30 September 2019*

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	7.494	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	0.20	A+	F1	A1	P-1	A	A-1	Glas - 12 mis / Blue - 12 months
The Royal Bank of Scotland Group plc	National Westminster Bank Deposit	1.055	Galw/ Call	n/a	0.30	A+	F1	A1	P-1	A	A-1	Glas - 12 mis / Blue - 12 months
Cheltenham Council	Cheltenham Council	5.000	Sefydlog/ Fixed	20/09/19 - 25/10/19	0.63	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Mid Suffolk Council	Mid Suffolk Council	3.000	Sefydlog/ Fixed	24/09/19 – 25/11/19	0.65	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Wirral Council	Wirral Council	2.000	Sefydlog/ Fixed	30/09/19 – 29/10/19	0.63	n/a	n/a	n/a	n/a	n/a	n/a	n/a

* Ceir y Rhestr Benthycu Cymeradwyedig yn Atodiad 6 o'r Datganiad Strategaeth Rheoli Trysorlys 2019/20/Strategaeth Buddsoddi Blynnyddol/The Approved Lending List can be found at Appendix 6 of the 2019/20 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.

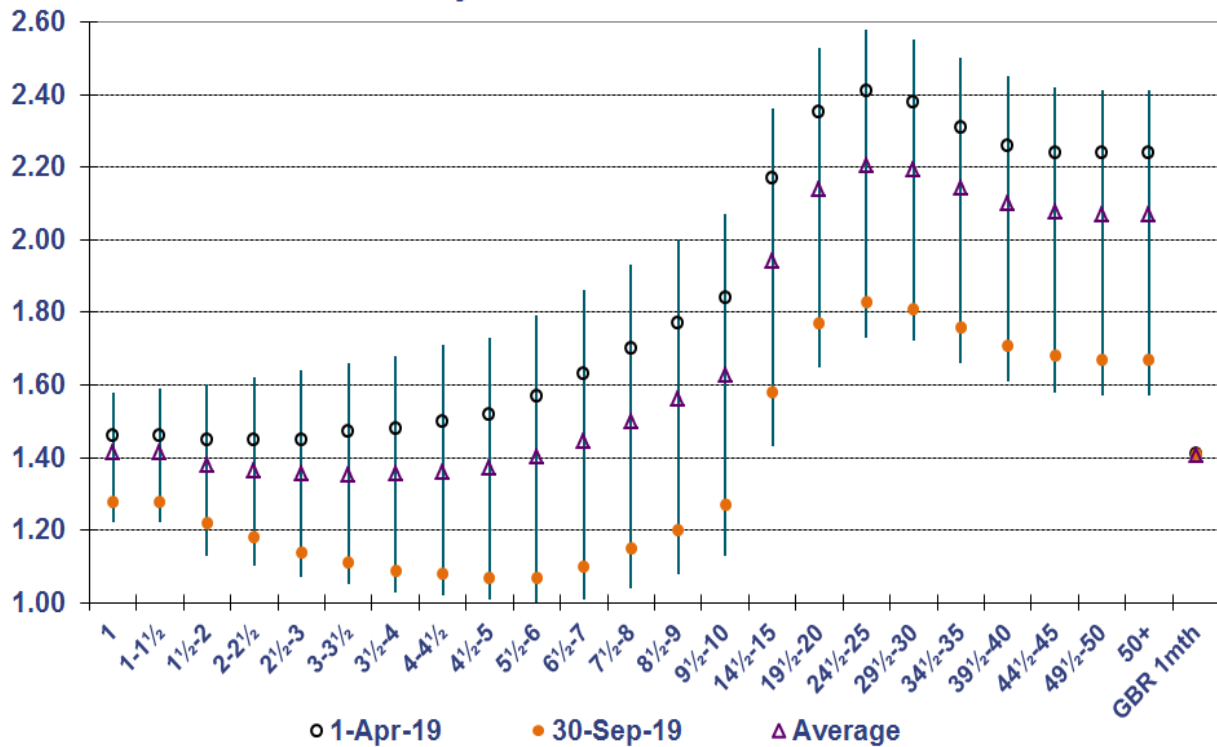
AA-

- Belgium
- Qatar

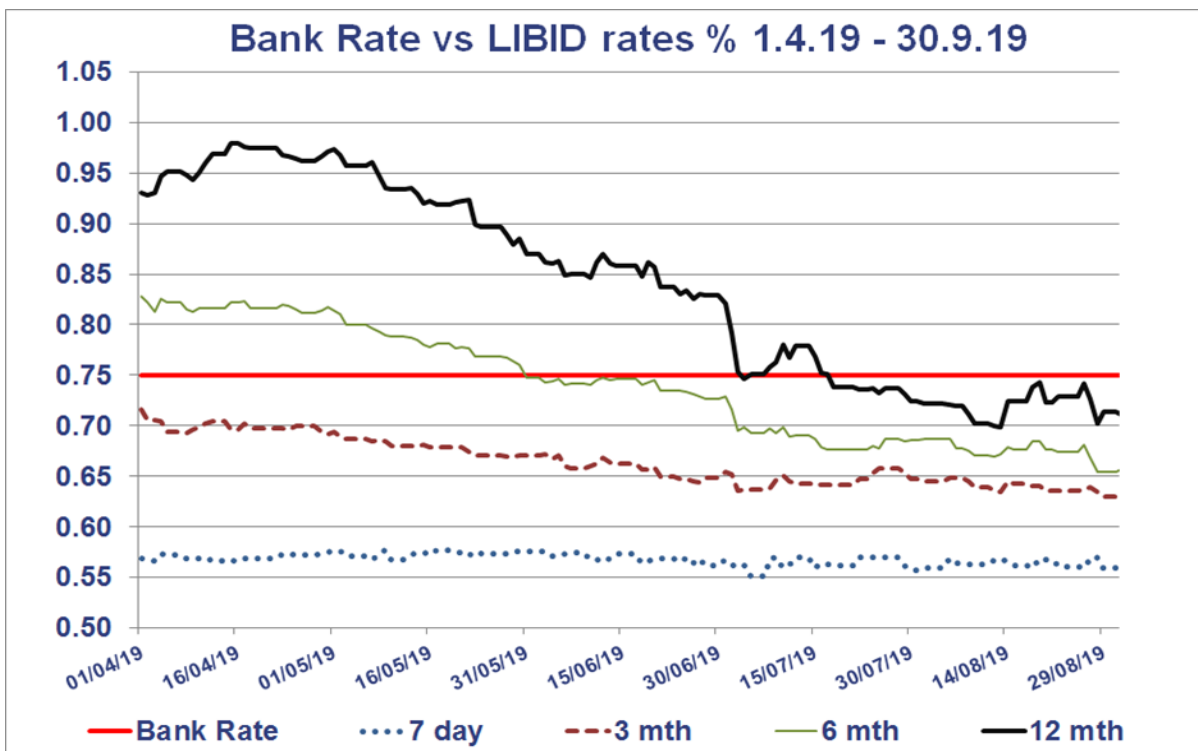
Graffiau Ychwanegol / Additional Graphs

Comparison of borrowing parameters to actual external borrowing

PWLB Certainty Rate Variations to 30.9.2019



Bank Rate vs LIBID rates % 1.4.19 - 30.9.19



ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	Audit and Governance Committee
Date:	3 December 2019
Subject:	Internal Audit Update
Head of Service:	Marc Jones Director of Resources and Section 151 Officer 01248 752601 MarcJones@ynysmon.gov.uk
Report Authors:	Marion Pryor Head of Audit and Risk 01248 752611 MarionPryor@ynysmon.gov.uk
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.	

1. INTRODUCTION

1.1. The report provides an update as at 10 November 2019 on:

- Internal Audit reports issued since 11 August 2019
- Follow up of internal audit reports
- Addressing 'Issues/Risks'
- Progress in delivering the Internal Audit Operational Plan 2019/20

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.



INTERNAL AUDIT UPDATE DECEMBER 2019

Marion Pryor BA MA CMIIA CPFA, Head of Audit & Risk

MarionPryor@YnysMon.gov.uk

01248 752611



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INTERNAL AUDIT REPORTS 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 accordance with the new audit approach, members of the committee and the relevant portfolio holder have received full copies of the report separately.
2. We have finalised **four** reports in the period, summarised below:

Title	Assurance Level	Critical	Major	Moderate	Total
Grant Final Report - Pupil Development Grant - Looked After Children Allocation	Substantial Assurance	0	0	0	0
Grant Final Report - Teachers Pay Award & Cost Pressures	Substantial Assurance	0	0	0	0
Grant Final Report - Pupil Development Grant - Access	Substantial Assurance	0	0	0	0
Grant Final Report - Ethnic Minority & Gypsy Roma Traveller Learners	Substantial Assurance	0	0	0	0
Grant Final Report - Additional Free School Meals Costs due to rollout of Universal Credit	Reasonable Assurance	0	0	0	0

Grant Final Report: Pupil Development Grant – Looked After Children Allocation

Substantial Assurance	Issues/Risks	
	0	Critical
	0	Major
	0	Moderate

3. Our review sought to answer the following key question:

Does the council comply with the relevant terms and conditions of grant, and can we provide assurance that, in respect of the claim for payment:

- entries were fairly stated
- expenditure has been properly incurred in accordance with the offer of grant

Our review also sought to provide assurance that the council maintains clear accounting records, which identify all income and expenditure in relation to the grant.

4. Overall, from our review of the grant controls and records, we can provide assurance that the council has maintained adequate and proper controls and records in respect of the grant for the period 1 April 2018 - 31 March 2019.
5. We can also confirm that our testing provides assurance that the expenditure claimed was eligible in line with the terms and conditions of the grant, which the council has fairly stated in its accounts and the claim submitted to the Welsh Government.
6. We did not identify any risks for management attention.

Grant Final Report: Teachers Pay Award & Cost Pressures

	Issues/Risks	
Substantial Assurance	0	Critical
	0	Major
	0	Moderate

7. Our review sought to answer the following key question:

Does the council comply with the relevant terms and conditions of grant, and can we provide assurance that, in respect of the claim for payment:

- entries were fairly stated
- expenditure has been properly incurred in accordance with the offer of grant

Our review also sought to provide assurance that the council maintains clear accounting records, which identify all income and expenditure in relation to the grant.

8. Overall, from our review of the grant controls and records, we can provide assurance that adequate and proper controls and records have been maintained in respect of the grant for the period 1 April 2018 - 31 March 2019.
9. We can also confirm that our testing provides assurance that the expenditure claimed was eligible in line with the terms and conditions of the grant, and has been fairly stated in the accounts of the Authority and the claims submitted to the Welsh Government.
10. We did not identify any risks for management attention.

Grant Final Report: Pupil Development Grant – Access

Substantial Assurance	Issues/Risks	
	0	Critical
	0	Major
	0	Moderate

11. Our review sought to answer the following key question:

Does the council comply with the relevant terms and conditions of grant, and can we provide assurance that, in respect of the claim for payment:

- entries were fairly stated
- expenditure has been properly incurred in accordance with the offer of grant

Our review also sought to provide assurance that the council maintains clear accounting records, which identify all income and expenditure in relation to the grant.

12. Overall, from our review of the grant controls and records, we can provide assurance that adequate and proper controls and records have been maintained in respect of the grant for the period 1 April 2018 - 31 March 2019.
13. We can also confirm that our testing provides assurance that the expenditure claimed was eligible in line with the terms and conditions of the grant, and has been fairly stated in the accounts of the Authority and the claims submitted to the Welsh Government.
14. We did not identify any risks for management attention.

Grant Final Report: Ethnic Minority & Gypsy Roma Traveller Learners

Substantial Assurance	Issues/Risks	
	0	Critical
	0	Major
	0	Moderate

15. Our review sought to answer the following key question:

Does the council comply with the relevant terms and conditions of grant, and can we provide assurance that, in respect of the claim for payment:

- entries were fairly stated
- expenditure has been properly incurred in accordance with the offer of grant

Our review also sought to provide assurance that the council maintains clear accounting records, which identify all income and expenditure in relation to the grant.

16. Overall, from our review of the grant controls and records, we can provide assurance that adequate and proper controls and records have been maintained in respect of the grant for the period 1 April 2018 - 31 March 2019.

17. We can also confirm that our testing provides assurance that the expenditure claimed was eligible in line with the terms and conditions of the grant, and has been fairly stated in the accounts of the Authority and the claims submitted to the Welsh Government.
18. We did not identify any risks for management attention.

Grant Final Report: Additional Free School Meals Costs due to rollout of Universal Credit

Reasonable Assurance	Issues/Risks	
	0	Critical
	0	Major
	0	Moderate

19. Our review sought to answer the following key question:

Does the council comply with the relevant terms and conditions of grant, and can we provide assurance that, in respect of the claim for payment:

- entries were fairly stated
- expenditure has been properly incurred in accordance with the offer of grant

Our review also sought to provide assurance that the council maintains clear accounting records, which identify all income and expenditure in relation to the grant.

20. Our review concluded that we are able to provide reasonable assurance that the council has adequate and proper controls and records in respect of the grant for the period 1 April 2018 - 31 March 2019. In addition, we have verified that the expenditure claimed is eligible in line with the terms and conditions of the grant, and has been fairly stated in the accounts of the council and the claims submitted to the Welsh Government, subject to the amendments agreed with management.
21. We did not identify any risks for management attention.

FOLLOW UP OF INTERNAL AUDIT REPORTS

22. Currently, we follow up all reports with an assurance rating of 'Limited' or below, and others we wish to monitor going forward.
23. We have finalised **one** follow up review in this period, with the following outcome. Further details of the work undertaken follow below:

Title of Audit	Review	Follow Up Concluded	Assurance Level	Critical	Major	Moderate	Total
Sundry Debtors	Second Follow Up	October 2019	Reasonable	0	1	7	8

Sundry Debtors

24. We undertook a review of Sundry Debtors during 2017/18 with the final report issued in November 2017. This resulted in a '**Limited Assurance**' rating, with 19 recommendations.
25. A follow up review in October 2018 concluded that while management had undertaken significant work and made progress in relation to a number of the issues/risks originally raised, 13 issues/risks remained outstanding and we were unable to increase the assurance level of the report from '**Limited Assurance**'.
26. Our follow up concluded that management have undertaken much work to address the issues/risks outstanding after the first follow up. We can confirm that segregation of duties are now in place in Adult Services' Client Finance team and there are specific recovery and write off procedures for Home Care debts. The Revenue and Benefits Service Manager issued a specific sundry debtor procedural policy to Heads of Service in July 2019. The amended policy resolves some of the issues/risks that the initial audit identified, and the Revenues and Benefits Service Manager has made changes to reflect current practice.
27. The Income Section has now filled the post it was advertising during the first follow up review and the section has made progress with offering various methods of payment, with the intention of reducing the amount of debtor invoices that it raises. This process is ongoing and in time will release staff to work on other areas, such as debtors. However, the Section continues to remain significantly reliant on one member of staff, which will continue until they further streamline and automate processes, and knowledge transfer and delegation improves.
28. Responsibility for the full debtor reconciliations has now been determined and work has progressed in this area. Although not carried out on a monthly basis, the Income Team Leader has assured us this is achievable. The time taken to raise and authorise debtor accounts has improved and is now in line with policy guidance. However, we found some instances that fall outside the targets in the guidance. Recovery times have significantly improved since our last follow up and are now in accordance with the policy guidance.
29. Of the 13 issues/risks outstanding after the first follow up in October 2018, five have now been addressed, leaving eight in progress of being addressed, of which one has had its completion date extended and is not yet due. Where work is in progress and this has reduced the likelihood of the risk, we have reflected this in the risk rating. We have therefore been able to increase the assurance provided to '**Reasonable**'. However, in light of the number of issues/risks that remain

outstanding and the potential impact these would have in this area, we will formally follow up the action plan again in May 2020.

Follow Ups in Progress

30. We have **two** follow ups of reports with a '**Limited Assurance**' rating currently in progress, with a further follow up of a health check conducted by an external consultant, for which an assurance rating was not provided:

Title of Audit	Review	Date of Follow Up	Assurance Level	Critical	Major	Moderate	Total
Primary Schools – Income Collection	First Follow Up	Jun-19 ¹	Limited	0	2	1	3
Direct Payments	First Follow Up	Sep-19	Limited	0	0	5	5
Schools Information Governance Health Check	First Follow Up	November 2019	Not applicable	n/a	n/a	n/a	n/a

Follow Ups Scheduled

31. Currently, we have **two** follow ups scheduled for the next six months. These may be added to dependent on the assurance provided for reviews we conduct throughout the year:

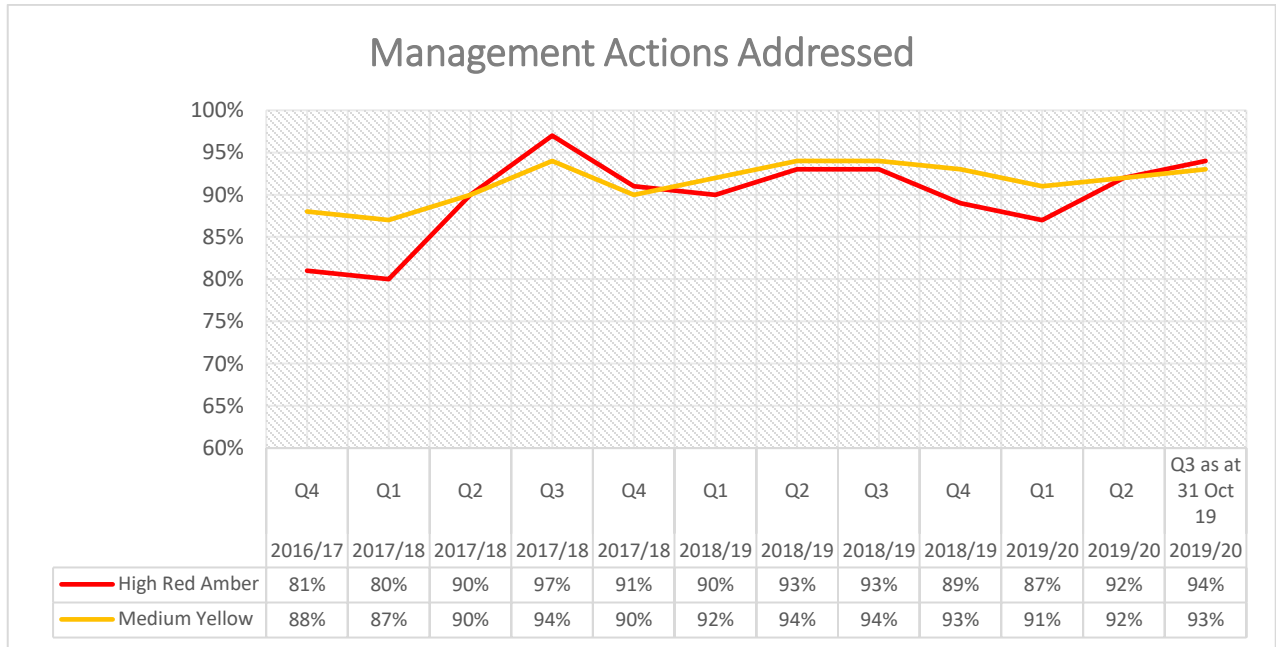
Title of Audit	Review	Date of Follow Up	Assurance Level	Critical	Major	Moderate	Total
System Controls – Logical Access and Segregation of Duties	Fourth Follow Up	Jul-19 April 2020 ²	Limited	0	3	2	5
Sundry Debtors	Third Follow Up	May 2020	Reasonable	0	1	7	8

¹ Follow up delayed due to maternity leave of officer responsible for implementing management actions and recruitment of the new Director of Education, Skills and Young People, Lifelong Learning.

² The management actions to address the 'Issues/Risks' raised in the System Controls - Logical Access and Segregation of Duties review are dependent on the restructure of the Payroll/Payments function currently in progress, with an expectation that it will be complete by March 2020.

ADDRESSING 'ISSUES/RISKS'

32. The graph and table below highlights management performance in addressing 'issues/risks' and implementing actions.



33. There are no High or Red 'issues/risks' currently outstanding, and performance in addressing Amber rated 'issues/risks' has improved since our last update to the Committee on 3 September, with the overall implementation percentage for High/Red/Amber 'issues/risks' at 94%. This is in part a consequence of the Sundry Debtors follow up, as detailed earlier in the report, where three amber-rated 'issues/risks' were either fully implemented or we re-scored at a lower risk rating following work to address the risk.
34. There has also been an improvement in performance in addressing outstanding Medium/Yellow risks. This has resulted in an overall reduction of outstanding actions by six, spread across services. Three of which were long-standing 'Medium' rated 'issues/risks', which now only leaves three of this old rating outstanding, relating to schools.
35. Progress with implementing the new and upgraded version of the action tracking system has been hampered by an IT compatibility issue, which has only recently been resolved. We are now working with the software provider to reconfigure the new system to take advantage of the extra functionality it provides, and to cleanse the historical data before going live with the new system.

PROGRESS IN DELIVERING THE INTERNAL AUDIT OPERATIONAL PLAN 2019/20

36. The Operational Plan for 2019/20 is at [Appendix A](#).

37. Work is in progress on the following audits:

- IT Resilience
- Business Continuity
- Welfare Reform - Homelessness
- Management of School Unofficial Funds
- Brexit
- Leavers' Process
- Managing the Risk of Fraud

APPENDIX A – INTERNAL AUDIT OPERATIONAL PLAN 2019/20

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Inherent)	Corporate Risk Rating (Residual)	Revised Indicative Days 2019-20	Actual Days as at 10/11/19	Notes / Assurance Rating	Date of Reporting to Committee
CORPORATE								
Corporate	Business Continuity (YM9)	Corporate Risk Register	C2	C2	10	8.75	Work in progress	February 2020 (Revised Target)
Corporate	Corporate Safeguarding (YM11)	Corporate Risk Register	C2	D2	18	18	Reasonable Assurance	December 2018 (2018/19)
							Reasonable Assurance	September 2019 (2019/20)
	CONTEST (Countering Terrorism and Preventing Radicalisation) ³ (YM11)	Corporate Risk Register			0	0	Reasonable Assurance	April 2019 (2018/19)
Corporate	Corporate Planning (YM13)	Corporate Risk Register	D2	D3	0	0	Deleted	
Corporate	Financial Resilience (YM41)	Corporate Risk Register	A1	B2	12	0	Scoping in progress	April 2020 (Target)

³ Previously a 'stand-alone' risk - YM27

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Inherent)	Corporate Risk Rating (Residual)	Revised Indicative Days 2019-20	Actual Days as at 10/11/19	Notes / Assurance Rating	Date of Reporting to Committee
Corporate	Information Governance (YM3)	Corporate Risk Register	B3	C3	0	0	Reasonable Assurance	December 2018 ⁴ (2018/19)
Corporate	Payment Card Industry Data Security Standards (PCIDSS) (YM34)	Corporate Risk Register	D1	D1	7	7	Reasonable Assurance	June 2019 (2019/20)
Corporate	Brexit	Corporate Risk Register	A2		5	1.5	Scoping in progress	February 2020 (Target)
Corporate	Leavers' Process	Concerns raised			25	0.5	Scoping in progress	April 2020 (Target)
Corporate	Risk Management	PSIAS requirement			5	0	Managed	February 2019 (ZRE) (2018/19)
Corporate	Managing the Risk of Fraud	PSIAS requirement			20	0	Work in progress	April 2020 (Target)
Corporate	Culture – Protecting Reputation and the Use of Social Media	Horizon Scanning			10	0		
RESOURCES								
Resources	Recovery and Write-offs	Key Financial System – S.151 concerns			10	0		

⁴ Assurance provided for General Data Protection Regulations previously 'stand-alone' Amber Risk (YM31)

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Inherent)	Corporate Risk Rating (Residual)	Revised Indicative Days 2019-20	Actual Days as at 10/11/19	Notes / Assurance Rating	Date of Reporting to Committee
Resources	Corporate Procurement (YM22)	Corporate Risk Register	B2	D2	0	0	Reasonable Assurance	December 2018 (2018/19)
Resources	Corporate Procurement Cards	Concerns raised			20	0		
Resources	Payroll	Key Financial System - restructure and new system; external audit assurance			0	0	Postponed until 2020/21	
TRANSFORMATION								
ICT	IT Audit - Cyber Security (YM28)	Corporate Risk Register	B1	C1	0	0	Reasonable Assurance	February 2019 (2018/19)
ICT	IT Audit - IT Resilience (YM38)	Corporate Risk Register	C1	D2	15	9.5	Work in progress	February 2020 (Revised Target)
Human Resources	Sickness Absence (YM23)	Corporate Risk Register	A2	D3	0	0	Deleted	
Human Resources	Recruitment & Retention (YM5)	Corporate Risk Register	B2	C2	0	0	Reasonable Assurance	April 2019 (2018/19)
Human Resources	Workplace Culture – Discrimination and Staff Inequality	Horizon Scanning			10	0		

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Inherent)	Corporate Risk Rating (Residual)	Revised Indicative Days 2019-20	Actual Days as at 10/11/19	Notes / Assurance Rating	Date of Reporting to Committee
REGULATION & ECONOMIC DEVELOPMENT								
Regulation & Economic Development	Infrastructure projects (YM17)	Corporate Risk Register	B2	D2	20	0.25		
Regulation & Economic Development	Leisure Services - Investment in Facilities (YM32)	Corporate Risk Register	B2	B3	15	0		
Regulation & Economic Development	Leisure Services - Governance and Control	Head of Service Request - major structural changes (carried forward from 2018/19)			2	2	Reasonable Assurance	April 2019 (2018/19)
HIGHWAYS, WASTE & PROPERTY SERVICES								
Property	Asset Management	Horizon scanning			10	0		
HOUSING								
Housing	Gypsies and Travellers (Requirements of the Housing Act 2014) (YM29)	Corporate Risk Register	B2	C2	0	0	Reasonable Assurance	April 2019 (2018/19)
Housing	Welfare Reform – Universal Credit and Housing Rent Income (YM 10)	Corporate Risk Register	B2	C2	0	7.75	Reasonable Assurance	April 2019 (2018/19)

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Inherent)	Corporate Risk Rating (Residual)	Revised Indicative Days 2019-20	Actual Days as at 10/11/19	Notes / Assurance Rating	Date of Reporting to Committee
	Welfare Reform – Homelessness (YM10)				10		Work in progress	February 2020 (Revised Target)
ADULT SERVICES								
Adults	Continuous Healthcare	Horizon scanning	n/a	n/a	10	0		
LEARNING								
Learning	Schools Modernisation (YM15)	Corporate Risk Register	C2	C2	20	0		
TOTAL AUDIT DAYS					254⁵	56.5		
CHARGEABLE NON PROGRAMMED DAYS (PRODUCTIVE)								
	Follow Up Work	Several limited assurance reports requiring follow up, includes reporting and administering 4action			60	51.25		
	General Counter Fraud Work, National Fraud Initiative (NFI)				30	3		

⁵ Previously 420 days

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Inherent)	Corporate Risk Rating (Residual)	Revised Indicative Days 2019-20	Actual Days as at 10/11/19	Notes / Assurance Rating	Date of Reporting to Committee
	Management of School Unofficial Funds	Proactive Counter Fraud			25	4		
	Referrals				20	3.5		
	Closure of Previous Year's Work				13	13		
	Grant Certification:	Grant Requirement			20	20		
	Rent Smart Wales Grant						Substantial Assurance	September 2019 (2019/20)
	Pupil Development Grant						Substantial Assurance	September 2019 (2019/20)
	Pupil Development Grant – Looked After Children Allocation						Substantial Assurance	December 2019 (2019/20)
	Teachers Pay Award & Cost Pressures						Substantial Assurance	December 2019 (2019/20)
	Pupil Development Grant – Access						Substantial Assurance	December 2019 (2019/20)
	Ethnic Minority & Gypsy Roma Traveller Learners						Substantial Assurance	December 2019 (2019/20)

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Inherent)	Corporate Risk Rating (Residual)	Revised Indicative Days 2019-20	Actual Days as at 10/11/19	Notes / Assurance Rating	Date of Reporting to Committee
	Additional Free School Meals Costs due to rollout of Universal Credit						Reasonable Assurance	December 2019 (2019/20)
	Corporate consultancy				60	51.75		
	Audit & Governance Committee, including training for members and self-assessment				60	31.75		
	Management Review				40	20		
	Contingency				60	0		
	TOTAL NON-PROGRAMMED DAYS				388⁶	198.25		
NON CHARGEABLE DAYS (NON-PRODUCTIVE)								
	Risk & Insurance				24	20.5		
	General Administration				40	28.75		
	Personal Development & Review, 121 & Team Meetings				25	7		
	Management, including liaison with External Audit and audit plan preparation				48	24.25		

⁶ Previously 440 days

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Inherent)	Corporate Risk Rating (Residual)	Revised Indicative Days 2019-20	Actual Days as at 10/11/19	Notes / Assurance Rating	Date of Reporting to Committee
	Leave, including annual, statutory, special and sick leave				517 ⁷	409.75		
	Training and Development for staff				125	77.5		
	TOTAL				779⁸	568		
	TOTAL RESOURCE REQUIREMENT				1420	823		
	RESOURCE AVAILABLE				1420⁹	823		
	RESOURCE SHORTFALL				0	0		
	PRODUCTIVITY				46%¹⁰	32%		

⁷ Previously 182 days

⁸ Previously 440 days

⁹ Previously 1,300 days

¹⁰ Previously 67%

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ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	Audit and Governance Committee
Date:	3 December 2019
Subject:	Review of the Audit and Governance Committee's Terms of Reference
Head of Service:	Marc Jones, Director of Function (Resources) / Section 151 Officer 01248 752601 MarcJones@ynysmon.gov.uk
Report Author:	Marion Pryor, Head of Audit and Risk 01248 752611 MarionPryor@ynysmon.gov.uk
Nature and Reason for Reporting: Good practice suggests that committees should periodically review their terms of reference for appropriateness. The Audit and Governance Committee last approved a fully revised terms of reference in September 2018, with approval from the Executive in October 2018 and Full Council in December 2018.	

1. Introduction

- 1.1. Audit committees are a key component of corporate governance and play an important role supporting local authorities. They are an important source of assurance about an organisation's arrangements for managing risk, maintaining an effective control environment and reporting on financial and other performance.
- 1.2. The Audit and Governance Committee's Forward Work Programme provides for the regular review of its terms of reference. The last review approved a fully revised and updated terms of reference, to bring them in line with the publication of the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance.

2. Consultation

- 2.1. Due to the full revision of the terms of reference in 2018, significant and wide-ranging consultation was conducted to obtain stakeholder views. As no new sector-specific guidance has been issued and there have been no other significant changes that affect the terms of reference, limited consultation was conducted with the Director of Function (Resources) and Section 151 Officer, and an adviser from the Chartered Institute of Public Finance and Accountancy. No significant changes were identified.

3. Recommendation

- 3.1. That the Audit and Governance Committee considers and approves the existing terms of reference, with only minor changes to update the Director of Function (Resources) and Section 151 Officer's job title.



Audit & Governance Committee

Terms of Reference

December 2019

Statement of purpose

1. The Audit and Governance Committee is a key component of the Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
2. The purpose of the audit committee is to provide to members of full Council (*those charged with governance*) independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. It oversees internal and external audit and other regulators, helping to ensure effective assurance arrangements are in place.
3. There is clear separation between the role of the audit committee and that of scrutiny committees. The audit committee role seeks assurance that internal control systems of the council are working and risks effectively managed, rather than the actual scrutiny of activities.

Composition and arrangements

4. The Audit and Governance Committee is a non-executive body established under the requirements of the Local Government (Wales) Measure 2011 and is a fully constituted committee of the Council operating at a strategic level. The committee will conduct its business non-politically and must abide by the rules concerning political balance, in accordance with the Local Government and Housing Act 1989.
5. The committee will consist of eight elected members and two lay members. Elected members will be politically balanced and will not be members of the executive, but the Finance Portfolio Holder is required, as far as possible, to attend all meetings of the Committee. The Chair and Vice-Chair will recommend the appointment of the two lay members to the audit committee. The lay members will serve for a fixed term to coincide with the length of the Council, i.e. five years, and will serve a maximum of two terms. All members, including the lay members, are subject to the Council's Code of Conduct and will declare any interests. The lay members will have equal status to that of the elected members in terms of access to staff and information, for the purposes of the audit committee.
6. The chair of the audit committee can be a councillor or a lay member, but must not be a member of a group that forms part of the council's executive, except where all groups are represented on the executive (in which case the chair must not be a member of the executive). The committee members will decide upon

the chair and vice-chair of the committee. All committee members, including lay members, shall have a vote.

7. Any officer or member called to attend an audit committee meeting must do so. They must answer any questions asked of them except ones that they could refuse to answer if they were in court. The committee can invite other persons to attend before it, but anyone else so invited to attend is under no compulsion to do so.
8. The committee will meet at least four times a year and must meet if the full council so decides, or if at least a third of the committee's members requisition in writing to the Chair that a meeting be held. The council will publish the committee dates annually but additional meetings can be arranged at the discretion of the Chair if the required number of days' notice is provided and that the agenda is published prior to the meeting, in accordance with regulations.
9. The Director of Function (Resources) and Section 151 Officer, as the officer with responsibility for financial administration, will advise the committee. The Committee will provide effective support to the Director of Function (Resources) and Section 151 Officer, who consequently, will have direct and unfettered access to the committee.
10. The committee may commission work from the external and internal auditors and both will advise the Committee. The Committee may additionally, seek independent advice from outside the Council, within an approved budget.
11. The external and internal auditors of the Council have the right to request the chair of the committee to consider any matter that the auditors believe should be brought to the attention of the Council.
12. All new members will receive a full induction to the committee. Members will have role descriptions and will review their knowledge and skills through a self-assessment process. They will receive appropriate ongoing training in their role in accordance with an annual training programme and will receive regular briefings on new legislation, professional guidance and research.

Accountability arrangements

13. The committee will report to full council (*those charged with governance*) on an annual basis the audit committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of the Council's governance, risk management and internal control frameworks; financial reporting arrangements, and internal and external audit functions.
14. The committee will report to full council (*those charged with governance*) on an annual basis the effectiveness of the committee in meeting its purpose and its agreed terms of reference. A regular self-assessment will be used to support the

planning of the audit committee work programme and training plans and will inform the committee's annual report.

15. The committee is subject to normal arrangements of openness. Meetings will be held in public, agendas and reports are published and available for inspection. The exception to this is where 'exempt items' are being considered, which are chiefly matters which involve discussions concerning named individuals or refer to the business affairs of the Council which could prejudice the interests of the Council commercially, financially and legally.

Governance

16. The committee will review and assess the Council's corporate governance arrangements against the good governance framework¹, including the ethical framework, and will consider the local code of governance.
17. The committee will review the Annual Governance Statement (AGS) prior to full council approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.
18. The committee will help the council to implement the values of ethical governance. It will promote measures to improve transparency and accountability and effective public reporting to the authority's stakeholders and the local community. As part of its review of governance arrangements, it will ensure there are adequate arrangements in place to enforce a strong commitment to ethical values and legal compliance at all levels.
19. The committee will review the governance and assurance arrangements available for significant partnerships or collaborations.

Treasury management

20. Full council has nominated the audit committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.
21. The committee will undertake a scrutiny role in accordance with the CIPFA Treasury Management Code of Practice, prior to approval by full council. Where it is undertaking this scrutiny role, it will endeavour to develop greater awareness and understanding of treasury matters among the members.

¹ Delivering Good Governance in Local Government: Framework, CIPFA/SOLACE, 2016

22. The committee will review the treasury management policy and procedures to be satisfied that controls are satisfactory. It will receive six-monthly reports on activities, issues and trends to support the committee's understanding of treasury management activities.
23. The committee will review the treasury risk profile and processes, and will review assurances on treasury management.

Value for money

24. The committee will support the development of robust arrangements to ensure that the council makes best use of its resources and taxpayers and service users receive excellent value for money.
25. The committee will review the council's overall approach to value for money and assess whether it is in line with governance objectives and the assurances on this to underpin the Annual Governance Statement.
26. The committee will consider assurances and assessments on the effectiveness of these arrangements, in particular, the Wales Audit Office's annual improvement reports.

Assurance framework

27. The committee will consider the council's assurance framework and ensure that it adequately addresses the risks and priorities of the council. This will support the committee's approval of the internal audit risk-based plan by identifying the extent to which it will rely on internal audit for its assurance requirements.
28. The committee will ensure there is clarity of what assurance is provided, that there is a clear allocation of responsibility for providing assurance and duplication is avoided.

Risk management

29. Assurance over risk management will be a key element underpinning the Annual Governance Statement. To this end, the committee will review and assess the effective development and operation of risk management in the council. In particular, it will:
 - Oversee the authority's risk management policy and strategy, and their implementation in practice
 - Oversee the integration of risk management into the governance and decision-making processes of the organisation

- Review the arrangements to co-ordinate and lead risk management, including the process and reporting lines
- Review the risk profile, keep up to date with significant areas of strategic risks and major operational and project risks
- Review the assurance available for managing partnership risks, including the risk profile of the Council as part of the partnership
- Review the corporate risk register and seek assurance that management appropriately own and manage risks effectively
- Seek assurance that adequate risk assessments support strategies and policies and risks are actively being managed and monitored.
- Follow up and monitor risks identified by auditors and inspectors to ensure that they are integrated into the risk management process
- Support the development and embedding of good practice in the field of risk management practice.

Countering fraud and corruption

30. The committee will review the effectiveness of the council's whistleblowing arrangements, including the policy.
31. The committee will monitor the counter-fraud and corruption strategy, actions and resources, to ensure that it meets with recommended practice, governance standards and legislation.
32. The committee will review the assessment of fraud risks and potential harm to the council from fraud and corruption. It will review the fraud risk profile to understand the level of fraud risk to which the authority is exposed and the implications for the wider control environment.
33. It will oversee any major areas of fraud, identified in an annual report from the Director of Function (Resources) and Section 151 Officer, and monitor action plans to address control weaknesses.

Internal audit

34. The Local Government (Wales) Measure 2011 has an explicit requirement for the audit committee to oversee the council's internal audit arrangements.
35. The role of the audit committee in relation to internal audit will be to:
 - oversee its independence, objectivity, performance and professionalism

- support the effectiveness of the internal audit process
 - promote the effective use of internal audit within the assurance framework.
36. The committee will review and approve the internal audit charter, which defines the internal audit's activity purpose, authority and responsibility.
 37. If applicable, it will review proposals and make recommendations in relation to the appointment of external providers of internal audit services.
 38. The committee will approve (but not direct) the risk-based internal audit strategy, including internal audit's resource requirements and the use of other sources of assurance. It will have a good understanding of the level of assurance risk management provides when it reviews the risk-based internal audit strategy. The committee will approve significant interim changes to the strategy.
 39. The committee will make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
 40. The committee will consider an annual report from the head of internal audit on internal audit's performance, including the performance of external providers of internal audit services.
 41. The committee will consider the head of internal audit's annual report and the opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion. These will assist the committee in reviewing the Annual Governance Statement.
 42. The committee will consider the statement contained in the annual report of the level of conformance with the Public Sector Internal Audit Standards and the results of the Quality Assurance and Improvement Programme that support the statement – these will indicate the reliability of the conclusions of internal audit.
 43. The committee will consider updates on the work of internal audit including key findings, issues of concern, management responses and action in hand as a result of internal audit work. It will consider summaries of specific internal audit reports as requested, including the effectiveness of internal controls and will monitor the implementation of agreed actions.
 44. The committee will receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
 45. The committee will consider reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and

Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.

46. The committee will consider, approve and periodically review any safeguards put in place to limit impairments to independence and objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit.
47. The committee will contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years. It will oversee the qualifications and independence of the assessor.
48. The committee will consider a report on the effectiveness of internal audit to support the Annual Governance Statement, where required to do so by the Accounts and Audit (Wales) Regulations 2014.
49. The committee will support the development of effective communication with the head of internal audit. The engagement between the head of internal audit and the audit committee is a crucial component of delivering an effective internal audit service.
50. The committee will provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

External audit

51. The committee will support the independence and objectivity of external audit through consideration of the external auditor's annual assessment of its independence.
52. The committee will consider the external auditor's annual letter and the report to '*those charged with governance*'. It will contribute to the council's response to the annual audit letter.
53. The committee will oversee external audit arrangements, comment on the scope and depth of external audit work and ensure it gives value for money. It will consider external audit reports and will monitor their recommendations.
54. The committee will advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

55. There will be an opportunity for the audit committee to meet privately and separately with the external auditor, independent of those officers with whom the auditor must retain a working relationship.

Financial reporting

56. The committee will review and scrutinise the council's financial affairs, making reports and recommendations in relation to them.
57. The committee will review, prior to approval by full council, the authority's annual financial statements, including the explanatory foreword, key messages, trends, consistency with financial performance, suitability of and compliance with accounting policies and treatments and major judgemental areas.
58. The committee will consider the external auditor's report to 'those charged with governance' on issues arising from the audit of the accounts and whether they need to be brought to the attention of the council.

Other regulators and inspectors

59. The committee will receive and consider reports from any other regulators or inspectors, which will be a useful source of assurance. In respect of these, the authority will ensure there is no unnecessary duplication between the audit committee and any overview and scrutiny committee in considering such reports.

Appendix A – Reports, Regulations and Policies Considered

- Audit and Governance Committee Workshop presentation, 13 June 2018
- *Audit Committees: Practical Guidance for Local Authorities and Police*, CIPFA, 2018, available from www.cipfa.org.uk/publications
- *Position Statement: Audit Committees in Local Authorities and Police*, CIPFA, 2018, available from www.cipfa.org.uk/publications
- *Public Sector Internal Audit Standards (PSIAS)* and the supporting *Local Government Application Note* for the United Kingdom Public Sector Internal Audit Standards (LGAN)
- Internal Audit Charter (September 2017)
- Local Government (Wales) Measure 2011, in particular, Section 85
- Statutory Guidance from the Local Government (Wales) Measure 2011, Welsh Government, 2012
- Accounts and Audit Regulations (Wales) 2014
- Accounts and Audit (Wales) (Amendment) Regulations 2018
- *Statement on the Role of the Head of Internal Audit in Public Service Organisations*, CIPFA, 2010
- *Statement on the Role of the Chief Financial Officer in Local Government*, CIPFA, 2016
- Treasury Management Strategy 2018/19
- *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes*, CIPFA, 2017 Edition
- *Code of Practice on Managing the Risk of Fraud and Corruption*, CIPFA, 2014
- Isle of Anglesey County Council's Constitution

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CYNGOR SIR
YNYS MÔN
ISLE OF ANGLESEY
COUNTY COUNCIL

AUDIT & GOVERNANCE COMMITTEE

FORWARD WORK PROGRAMME

3 December 2019

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

Date	Subject	Reason for reporting	Responsible Officer (including e-mail address)
February 2020	Internal Audit Update	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
February 2020	External Audit Update	An update on External Audit's work: <ul style="list-style-type: none"> • Performance Audit • Financial Audit 	Performance Audit Lead – Wales Audit Office Alan.Hughes@audit.wales Financial Audit Manager – Deloitte cedge@deloitte.co.uk
February 2020	Outstanding Internal Audit Issues / Risks	A report of all outstanding internal audit Issues / Risks	Head of Internal Audit & Risk MarionPryor@ynysmon.gov.uk Principal Auditor NanetteWilliams@ynysmon.gov.uk
February 2020	Review of the Risk Management Strategy and Framework	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
February 2020	Corporate Risk Register	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

Date	Subject	Reason for reporting	Responsible Officer (including e-mail address)
February 2020	Progress made on External Regulatory Reports	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
February 2020	Internal Audit Strategy 2020/21	The Public Sector Internal Audit Standards (2017) requires the chief audit executive to present the Internal Audit Strategy to the Audit and Governance Committee for approval.	Head of Internal Audit & Risk MarionPryor@ynysmon.gov.uk
February 2020	Treasury Management Strategy 2020/21 and Actual Prudential Indicators for 2020/21	<p>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.</p> <p>The report will cover the actual Prudential Indicators for 2020/21 in accordance with the requirements of the Prudential Code.</p>	Director of Resources and Section 151 Officer MarcJones@ynysmon.gov.uk

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PRAWF BUDD Y CYHOEDD

PUBLIC INTEREST TEST

**Polisi Gwirio Ar Sail Risg Budd-dal Tai / Gostyngiadau'r Dreth Gyngor
Housing Benefit / Council Tax Reduction Risk Based Verification Policy**

<p>Paragraff 14 o Atodlen 12A Deddf Llywodraeth Leol 1972 Paragraph 14 of Schedule 12A Local Government Act 1972</p>	
<p>Y PRAWF – <i>THE TEST</i></p>	
<p>Mae yna fudd i'r cyhoedd wrth ddatgelu oherwydd / <i>There is a public interest in disclosure as:-</i></p> <ul style="list-style-type: none"> • <i>Mae'r polisi sydd a'r adroddiad sydd ynghlwm yn cynnwys manylion a allai roi tawelwch meddwl i'r cyhoedd fod gan y Cyngor weithdrefnau i ddiogelu'r system budd-daliadau tai rhag twyll a chamgymeriad.</i> • <i>The enclosed policy and report provides details which could reassure the public that the Council has procedures to secure benefit administration from fraud and error.</i> 	<p>Y budd i'r cyhoedd with beidio datgelu yw / <i>The public interest in not disclosing is:-</i></p> <ul style="list-style-type: none"> • <i>Mae'r wybodaeth sydd wedi ei hamlinellu yn y polisi a'r adroddiad amgaeedig yn cynnwys gwybodaeth a dadansoddiad o'r proffil hawlwr ble mae'r risg o dwyll neu gamgymeriad ar ei uchaf ac yn rhoi manylion am y prosesau a ddefnyddir i wirio hawliadau o'r fath. Byddai datgelu'r wybodaeth sydd yn yr adroddiad yn cyfyngu ar effeithiolrwydd y Cyngor wrth iddo ymgymryd â'r gwaith hwn a gall cael effaith ar gyllidebau.</i> • <i>Byddai cyhoeddi hefyd yn darparu gwybodaeth sensitif mewn perthynas â phroffil yr achosion gyda hynny'n fwy tebygol o arwain at or-daliadau a gallai landlordiaid masnachol ddefnyddio'r wybodaeth a'i gwneud yn fwy anodd i'r sawl sy'n chwilio am lety i ddod o hyd i lety addas. Gall hyn hefyd gael effaith ar gyllidebau.</i> • <i>The information contained within the enclosed policy and report includes information and analysis of the claimant profile where the risk of fraud or error is highest and details information about the processes to check such claims. Disclosing the information in the report would limit the Council's effectiveness in undertaking this work and could have an affect on budgets..</i> • <i>Publication would also provide sensitive information relating to the profile of cases more likely to result in overpayments which commercial landlords could use making it more difficult for those seeking accommodation to find</i>

suitable accommodation. This too could affect the relevant budget.

Argymhelliad: Mae'r budd i'r cyhoedd wrth gadw'r eithriad o bwys mwy na'r budd i'r cyhoedd wrth ddatgelu'r wybodaeth
Recommendation: *The public interest in maintaining the exemption outweighs the public interest in disclosing the information.*

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