

GOVERNANCE AND AUDIT COMMITTEE

Minutes of the hybrid meeting held on 7 February 2023

- PRESENT:** Mr Dilwyn Evans (Lay Member) (Chair)
- Councillors Geraint Bebb, Neville Evans, Aled M. Jones, Dafydd Roberts, Keith Roberts.
- Lay Members: William Parry, Sharon Warnes, Michael Wilson
- IN ATTENDANCE:** Director of Function (Resources) and Section 151 Officer
Head of Audit and Risk
Head of Adults' Services (for item 7)
Principal Auditor (NW)
Risk and Insurance Manager (JJ) (for item 9)
Schools Data Protection Officer (EW) (for item 3)
Committee Officer (ATH)
- APOLOGIES:** Councillors Dyfed Wyn Jones, Margaret M.Roberts, Euryrn Morris
- ALSO PRESENT:** Councillor Robin Williams (Portfolio Member for Finance, Corporate Business and Customer Experience), Alan Hughes (Performance Audit Lead – Audit Wales), Yvonne Thomas (Financial Audit Manager – Audit Wales), Bethan H. Owen (Accountancy Services Manager), Andrew Lewis (Senior Auditor), Mr Nick McCavish (Strategic Regional Manager Galw Gofal)
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The Chair welcomed everyone present to this meeting of the Governance and Audit Committee and he extended a particular welcome to Councillor Aled M. Jones as a new member of the Committee.

1 **DECLARATION OF INTEREST**

No declaration of interest was received.

2 **MINUTES OF THE PREVIOUS MEETING**

The minutes of the previous meeting of the Governance and Audit Committee held on 18 January, 2023 were presented and were confirmed as correct subject to amending the reference to “30 November, 2021” in the paragraph following the first bullet point under item 3 to read “30 November, 2022.”

In response to a request by the Chair for an update on the accounts position, the Director of Function (Resources)/Section 151 Officer confirmed that the Authority's accounts were formally signed off by Audit Wales on 31 January, 2023 and that there had been no material changes to the accounts nor the ISA 260 report.

ANNUAL INFORMATION GOVERNANCE IN SCHOOLS REPORT 2021/22

The report of the Schools Data Protection Officer setting out the key information governance issues in schools for the period November, 2021 to January, 2023 along with current priorities was presented for the Committee's consideration. The report provided the Schools Data Protection Officer's statement and overview of Anglesey primary, secondary and special schools' compliance with legal requirements in handling information during the period including compliance with the United Kingdom's General Data Protection Regulations (UK GDPR), the Data Protection Act 2018 and relevant codes of practice.

The Schools Data Protection Officer in presenting her analysis of the position confirmed that since the last report was issued in November, 2021 significant progress had been made in ensuring that schools have the necessary policies and procedures in place to be compliant with requirements under data protection legislation. The day-to-day information management practices within the schools have continued to improve and schools now show that they understand their responsibilities and implications as the data controller and the legal expectations that come as a result. Most school staff have received data protection training in the past year which has supported schools in improving their practices, and twenty school governing bodies have also received a data protection presentation. Schools have formally adopted the majority of policies and are in the process of adopting the final policies package which should ensure they are able to address the accountability requirements of GDPR. Whilst based on her assessment, the School's Data Protection Officer is able to provide a Reasonable assurance opinion with regard to school compliance with data protection legislation and requirements, further work needs to be done as detailed within the report specifically in relation to managing the data protection risks arising from the use of different systems and reviewing arrangements with data processors including ensuring that agreements by providers meet requirements.

The Committee welcomed the report as comprehensive and informative, and the following issues were raised during the ensuing discussion –

- That the inclusion of a glossary of acronyms/terms in future annual reports would be most helpful
- The timescale for the completion of the further work identified and whether all the Island's schools have now been assessed and are signed up to receive support and guidance via a Service Level Agreement.

The Schools Data Protection Officer confirmed that the 45 schools to which reference is made in the report covers all Anglesey primary and secondary schools along with Canolfan Addysg y Bont with the exception of Ysgol Caergeiliog Foundation School. She advised that the schedule contained in the Anglesey Schools Data Protection Development Strategy in Appendix B sets out the target completion dates for the activities outlined with the aim being that all the main elements will have been completed by the end of the current school year.

- What the further work with schools entails in order to ensure they are fully compliant with data protection regulations and requirements.

The Schools Data Protection Officer advised that part of her role involves conducting an annual data protection audit of each of the 45 individual schools to review data protection compliance and arrangements with two such audits of all the schools having been completed to date. For the 2023 audit visit, she would be focusing on ensuring that all schools have an accurate and up to date Record of Processing Activities (RoPA); that they are monitoring and can evidence their compliance with all data protection policies; that they have appropriate data protection agreements in place with data processors i.e.

those companies from which they procure systems, programmes and apps and that Data Protection Impact assessments have been completed for high risk data processing areas such as CCTV cameras.

- The provision of training specifically, the number of school staff who have received the necessary data protection training and whether there are any schools that have not as yet received training.

The Schools Data Protection Officer confirmed that the majority of schools have now been provided with data protection training with most having been conducted online and the schools themselves maintaining a record of attendees for each session. As the arrangements have been made either on a catchment or individual school basis, she could not say how many staff had attended; she was however aware that a few schools had not received the basic session and that she would be following this up to ensure that all remaining schools are provided with training on all the key data protection elements.

- The role of Cwmni CELyn. The Schools Data Protection Officer clarified that the company is an independent Caernarfon based company which provides specialist advice on information governance and data protection to this and other councils.
- Whether schools have the autonomy to procure software packages according to their needs and whether in that case there are any measures and/or assessment to ensure such software is appropriate and compliant with GDPR and the Data Protection Act.

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The Schools Data Protection Officer advised that she had completed in-depth assessments on Data Processing Agreements for the systems, programmes and apps that the majority of schools use in order to provide an overall risk assessment for schools regarding the current agreements they have. Normally, should a school wish to sign up to an app the Schools Data Protection Officer would first assess the agreement with the provider to ensure it covers all the required data protection components. She confirmed in response to a further query that although schools do have independence as a data controller because they are connected to the HWB network, the IT Service would have to be consulted before schools are able to upload/install any programme or system.

It was resolved –

- **To accept the Schools Data Protection Officer's report and statement.**
- **To endorse the Schools Data Protection Officer's proposed next steps – the Schools Data Protection Plan in order to enable schools to fully operate in accordance with data protection requirements.**

No further action required.

4 TREASURY MANAGEMENT STRATEGY STATEMENT 2023/24

The report of the Director of Function (Resources)/Section 151 Officer incorporating the Treasury Management Strategy Statement for 2023/24 was presented for the Committee's consideration. The report was presented to ensure that the Council is implementing best practice in accordance with CIPFA's Code of Practice on Treasury Management and included the Annual Investment Strategy, the annual MRP Policy Statement, the annual Treasury Management Policy Statement, and the Treasury Management Scheme of Delegation.

The Treasury Management Strategy sets out the Council's strategy and approach as regards borrowing and investment, the constraints on borrowing, determines a set of prudential indicators and determines the Council's risk appetite and strategy in respect of investments. It covers the following two main areas –

- Capital issues including the Council's capital expenditure plans and prudential indicators along with the Minimum Revenue Policy Provision (MRP) Statement and,
- Treasury management issues including the Council's current treasury position, the prospects for interest rates, the Council's Borrowing and Investment Strategies; the Policy on Borrowing in Advance of Need; Debt Re-scheduling, the Creditworthiness Policy and the arrangements for governance and control over treasury management processes, decisions and performance.

The report also included a commentary on the wider economic background and outlook and how these influence treasury management decisions.

In providing an overview of the report the Director of Function (Resources)/Section 151 Officer highlighted the following –

- That any surplus cash which the Council has is currently invested in short-term deposit accounts, Call accounts and with other UK local authorities. The balance invested in these accounts was £46.2m as at 31 December, 2022. It is envisaged that this balance will reduce to around £38m and that an investment due to mature in February 2023 will not be reinvested but will instead return to the Council Fund to be used to support cash flow requirements and fund capital expenditure at the end of the financial year.
- The Council's capital expenditure plans and how these are to be financed (Table 3 of the report). The borrowing need for capital expenditure for 2023/24 is £26.118m.
- The impact of the Council's capital expenditure plans and the MRP charge on the level of external and internal borrowing as set out in Table 4 of the report.
- A change to the Minimum Revenue Provision Policy. In 2018 the Council revised its MRP policy and adopted the Equal Instalment Asset Life method to calculate its MRP charge for both supported and unsupported borrowing. The revised policy from 1 April, 2022 adopts an annuity method following a similar method to a standard repayment mortgage where the combined repayment sum of principal repayment and interest remains constant and as a result, the amount of principal repaid in the early years is low and increases over time. Therefore, under the annuity method, the MRP charge is low in the initial years and increases over time. Although the actual sum charged remains the same with both methods, when the value of future charges is discounted back to current prices, the Annuity method provides a positive Net Present Value compared to the Equal Instalment Asset Life method. This is considered to be a more prudent approach.
- The need to adopt an agile investment strategy for 2023/24 in order to optimise returns. The Committee was advised that if the Bank Rate continues to rise, then new deposits will be on a short-term basis. Conversely if the Bank Rate falls consideration will be given to locking in higher rates obtainable for a longer period. However, investing the Council's surplus cash means that the money is not available for day-to-day purposes or to fund capital expenditure, so the Council has to borrow. The challenge lies in maintaining a balance between obtaining the best from investments while avoiding borrowing at a high rate – the strategy therefore is to go longer term with investments while keeping borrowing short term.
- That the Council's investment priorities remain security first, portfolio liquidity second and then yield (return) although a more nuanced approach will be taken to liquidity and yield and where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investment will be carefully assessed.

In response to points raised by the Committee on the contents of the report, the Director of Function (Resources)/Section 151 Officer clarified the following –

- That any minor amendments/corrections will be made to the Strategy Statement ahead of its submission to the Executive and Full Council.
- That although the capital budget is set in a way that shows how elements of it will be funded whether through grants, receipts, reserves and/or borrowing, on a day to day basis borrowing is undertaken to meet the Council's cash flow requirements and to replenish cash balances but is not specifically linked to any particular item of capital expenditure.
- That Link Group has been acting as the Council's Treasury Advisors for a number of years and were successful when the contract was last tendered in 2018/19.
- That borrowing is increasing because the Council has reached the limits of internal borrowing meaning that ongoing capital expenditure has to be funded from external borrowing. The Housing Revenue Account generates the greatest amount of borrowing need, and this is in order to meet the housing development priorities set out in the HRA Business Plan. Whilst HRA reserves have been used to fund this expenditure, as these are run down to a level which the Council deems is appropriate, any new capital expenditure has to be financed by external borrowing. With regard to repayments, the principal of a loan taken out is not paid back on an annual basis in the same way as a mortgage but is repaid when the loan term comes to an end. Appendix 5 to the report provides a loans maturity analysis from 2023/24 onwards. However, as part of any decision on future borrowing the Council will aim to ensure that the repayment date is arranged so as to smooth out repayments as far as possible.
- With regard to the decrease in non HRA/General Fund capital expenditure over the course of the next three years, this is funded as part of the annual settlement from Welsh Government and includes the General Capital Grant which can be spent as the Council wishes and supported borrowing where the revenue costs of borrowing are funded by Welsh Government through the annual revenue settlement. While these funding streams have remained at much the same level for a number of years and are not expected to increase significantly in future, Welsh Government is increasingly using grant funding to drive projects in areas where it wishes to see improvements and/or change e.g. school modernisation. The capital allocation for 2023/24 therefore includes a provision for grant funding from Welsh Government which the Council knows will be forthcoming while for the following two years the allocation covers the core funding only. However, when the Strategy is reviewed next year, it is likely that further capital grant funding will have been made available by Welsh Government which means that the figures for 2024/25 and 2025/26 can be revised upwards. It is also expected that an increasing amount of Welsh Government grant funding in future years will come with net zero conditions. In addition, the scale of the Council's capital programme is reducing because the funding now buys less. Given that the core capital funding is presently just about sufficient to cover the maintenance of the Council's existing assets, the Council is reliant on grant funding to support any additional capital expenditure.

It was resolved to accept and to note the Treasury Management Strategy Statement for 2023/24 and to forward the report to the Executive without further comment.

No further action required.

5 REVIEW OF THE GOVERNANCE AND AUDIT COMMITTEE'S TERMS OF REFERENCE

The report of the Head of Audit and Risk incorporating the Committee's current terms of reference was presented for consideration. Good practice suggests that committees should periodically review their terms of reference for appropriateness. The Governance and Audit Committee last approved fully revised terms of reference in April, 2022 following changes made as a result of the Local Government and Elections (Wales) Act 2021.

The Head of Audit and Risk confirmed that although the Chartered Institute of Public Finance and Accountancy (CIPFA) issued updated sector-specific guidance in December 2022, it does not contain any changes that affect the Committee's terms of reference therefore no changes are required.

It was resolved to approve the Committee's existing terms of reference.

No further action required.

6 REVIEW OF FORWARD WORK PROGRAMME

The report of the Head of Audit and Risk incorporating the Committee's Forward Work Programme and Training Schedule was presented for the Committee's consideration.

The Head of Audit and Risk advised that the review of the Risk Management Framework had been deferred to the Committee's April, 2023 meeting pending the implementation of a new Version 2 of the Risk Management software.

It was resolved to accept the Forward Work Programme for 2022/23 with the change outlined as meeting the Committee's responsibilities in accordance with its terms of reference.

No further action required.

7 INTERNAL AUDIT UPDATE

The report of the Head of Audit and Risk providing an update as at 31 January, 2023 on the audits completed since the previous update to the Committee as at 30 November, 2022 was presented for the Committee's consideration. The report also set out the current workload of Internal Audit and its priorities for the short to medium term going forward. Members of the Committee were provided with copies of the four pieces of assurance work completed in the period in relation to the UK Community Renewal Fund (Grant Audit) (Reasonable Assurance); IT Vulnerability Management (First Follow-Up) (Reasonable Assurance), Council Tax Direct Debit Error (assurance opinion not applicable) and Galw Gofal (Partnership Governance Arrangements) (Limited Assurance) under separate cover.

The Head of Audit and Risk provided an overview of the report including a summary of the outcome of the work completed and the areas of work currently in progress as at the table at paragraph 23 of the report. She referred to the recruitment challenges which the Service was experiencing in seeking to fill two vacant posts at Senior Auditor level and she confirmed that the service is continuing to deliver the Annual Internal Audit Strategy for 2022/23 as approved by the Committee with priority being given to reviewing the red and amber residual risks not yet reviewed or not reviewed in the last two years. Three strategic risks remain to be reviewed before the end of the year.

In considering the report, the Committee discussed the following matters –

- The audit of the Local Government Pension Scheme which had been prompted by concerns raised during the Teachers' Pensions audit. Further assurance was sought that the issue of gaps in teachers' pensionable service had been resolved and errors corrected.

The Head of Audit and Risk confirmed that Internal Audit had conducted an audit of Teachers' Pensions last year which examined what had caused the problem with the administration of teachers' pensions and whether the arrangements to accurately pay pension contributions and account for teachers' pensionable service information to the Teachers Pensions Service are effective. The issues/risks raised by the audit were incorporated in an Action Plan the progress of which is due to be followed up by Internal Audit.

The Director of Function (Resources)/Section 151 Officer advised that the issue was not isolated to the Isle of Anglesey with widespread problems of inaccuracies/gaps in teachers' service records having been reported. He explained the arrangement for submitting information to the Teachers' Pension Service (TPS) which involved the preparation of two data files the one in relation to the monthly service record and the other in relation to employee and employer contributions. Although the TPS validates the information it receives, issues arose with the reporting of discrepancies which meant that errors were not actioned. An additional resource to deal with pension queries and records has since been obtained. The TPS is implementing a new data collection process whereby the information which the Council is required to submit is consolidated into one single file. However, issues with upgrading the Council's system have meant a delay of several months in the submission of information to the TPS. The Council has reverted to the previous system and is now in the process of catching up; once the software issues have been successfully resolved, it is hoped records can be updated and any gaps addressed. It should be noted that all contributions deducted from teachers' pay have been paid into the pension scheme and that an annual return of information and declaration of pension contributions is submitted which is subject to external audit verification.

In response to further questions, the Section 151 Officer clarified that while Gwynedd Council is responsible for payroll records pre-dating 1996, Anglesey Council will provide assistance where it can. The Teachers' Pension scheme is an unfunded scheme administered by the Department for Education; the liability for the scheme lies with the UK Government. Unlike the Teachers' Pension Scheme, the Local Government Pension Scheme is a funded scheme with the Council and employees making contributions into a fund calculated at a level intended to balance the pension's liabilities with investment assets. In the past the fund's liabilities exceeded the value of its assets meaning the Council was contributing additional funding to cover the past deficit on the fund as well as future service costs. The valuation that will take effect from April, 2023 shows a slight increase in the employer contributions to cover future service costs as Anglesey's part of the fund is now 110% funded with the value of the assets exceeding the liabilities. The Council is liable for its share of the Gwynedd Pension Fund, but that liability is unlikely to crystallise as the fund is ongoing and employer contribution adjustments control the level of under or overfunding.

- The staffing position within Internal Audit and the potential impact of the two vacant posts on the Service's assurance provision. Questions were asked about the steps that could be taken to overcome current recruitment challenges.

The Head of Audit and Risk advised that while the Service will again run the recruitment process for the two vacant posts within the section, in the meantime it is utilising the budget savings to commission additional external support in complex areas including

technical IT audit from the IT Audit Team at Salford Council. She assured the Committee that the progress made on delivering the Internal Audit Strategy for 2022/23 meant that she would be in a position to provide an annual audit opinion.

- The Council Tax Direct Debit Error. While the Committee accepted that steps had been taken and improvements made to ensure that the error would not be repeated, assurance was sought that the Council has in place appropriate processes to prevent its accounts being emptied and the funds transferred to the wrong beneficiary and/or destination.

The Director of Function (Resources)/Section 151 Officer explained the processes in place for direct debit collection and for making payments including the checks involved for each transaction. As the Internal Audit review confirms, the Council Tax direct debit error was the consequence of human error made possible by unique circumstances over the Christmas and New Year bank holiday period whereby the direct debit files for three payment due dates were processed in advance causing confusion and error. As a result of the incident, the Service is implementing a more robust authorisation process so that an independent officer checks all Council Tax and NNDR direct debit files prior to their release with all the checks to be supported by documentation. The Section 151 Officer also outlined the swift action that was taken to rectify the situation as confirmed by the Internal Audit review and what that had entailed. The Section 151 Officer said that he was confident that the Council has appropriate processes in place to prevent its accounts from being emptied and monies transferred to an unauthorised destination.

- The Internal Audit Limited review of the Galw Gofal (Partnership Governance Arrangements). *(This report was taken at the end of the meeting in closed session as it was resolved that under Section 100 (A) (4) of the Local Government Act 1972, the press and public should be excluded from the discussion of the report on the grounds that it involved the disclosure of exempt information as defined in paragraph 14 of Schedule 12A to the said Act).*

The Head of Audit and Risk clarified that it was recommended that the matter be considered in private session as the review refers to the business affairs of the Council which could prejudice the interests of the Council commercially, financially, and legally. Additionally, Galw Gofal provides services to other organisations which raises issues of commercial sensitivity. She referred to the scope of the review which examined whether Galw Gofal's partnership governance is fit for purpose to ensure governance, performance and financial stability are adequate, and to its outcome in a Limited Assurance opinion. The audit review raised five issues/risks which have been incorporated within an Action Plan and agreed by the Partnership Board. She confirmed that there were no concerns about the service being provided to individuals or about the use that the Isle of Anglesey County Council's Housing Service makes of Galw Gofal as an out of hours call centre, but there were issues around GDPR compliance, and a number of governance control weaknesses were identified in connection with data protection obligations.

The Head of Adults' Services and Mr Nick McCavish, the Galw Gofal Regional Strategic Manager provided assurance that the matters raised by the audit are being addressed and they outlined the steps being taken to expedite that process. The Regional Strategic Manager advised that those matters are being prioritised and while it is expected that most of the issues/risks raised will be addressed within timescale, evaluating the value for money aspects of the partnership may take longer as he would wish that undertaking to be conducted thoroughly and comprehensively. The Committee was further advised that the review had found no data protection breaches with the robustness of data protection arrangements and controls being the main issues raised.

In considering the Internal Audit review report, the Committee deemed that it raised important questions about the governance of partnerships generally and it concurred with the comment made in the review that the outcome prompts a need to consider and review governance and data protection arrangements of the other partnerships that the Council is involved in according to their level of risk. The Committee thought that it should be giving time to reviewing the effectiveness of partnership governance as part of its work plan. The Committee further highlighted a lack of clarity around lines of responsibility within the Galw Gofal Partnership which it considered needed to be addressed as part of ensuring good governance.

The Regional Strategic Manager confirmed that the Section 101 agreement will set out the responsibilities of each organisation within the partnership.

It was resolved to accept the update report and to note Internal Audit's assurance provision and priorities going forward.

No further action required.

8 EXCLUSION OF THE PRESS AND PUBLIC

Consideration was given to excluding the press and public for the following item on the grounds that it may involve the disclosure of exempt information as defined in Schedule 12A of the Local Government Act 1972 and in the Public Interest Test as presented.

A query was raised on the necessity of excluding the Strategic Risk Register in its entirety from being discussed in open session on the basis that it was deemed there were elements of the Register which were of public interest.

The Head of Audit and Risk advised that the Strategic Risk Register contains information about the business affairs of the Council which could prejudice the Council commercially, financially and legally and it is therefore recommended that the matter be discussed privately.

While the explanation was accepted for this meeting it was subsequently agreed that the treatment of the Strategic Risk Register for future meetings in terms of whether it should be considered in open or private session or a combination of both be referred to the Chief Executive and Monitoring Officer for further guidance and clarity.

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 paragraphs 14 and 16 of Schedule 12A to the said Act and in the Public Interest Test presented.

Further action – Head of Audit and Risk to seek the advice of the Chief Executive and Monitoring Officer on the private and/or public status of the Strategic Risk Register.

9 STRATEGIC RISK REGISTER

The report of the Head of Audit and Risk incorporating the Strategic Risk Register was presented for the Committee's consideration. The report provided an update on the amendments to the Strategic Risk Register since it was last presented to the Committee in September, 2022.

The Insurance and Risk Manager reported that all but two of the thirteen risks currently on the strategic risk register are directly aligned to the Council's corporate priorities. The two risks not directly linked to the corporate priorities - YM1 (funding related) and YM4 (cyber related) have been included because they are considered fundamental to the Council's ability to deliver services that underpin the corporate priorities. With the exception of YM12 (corporate safeguarding) each of the risks have been reviewed at least once since the last report to this Committee; no new risks have been identified in that time. Since reporting to the Committee in September, 2022 the following changes have been made –

- Upon review in January, 2023, risk YM6 (Covid related) was closed on the basis that the pressures brought about by the Covid pandemic have now receded and are covered by risk YM7 (changes beyond the Council's control). Therefore, Covid is still covered by the Strategic Risk Register but not as a risk in its own right.
- Following its review in October, 2022 the residual risk rating of risk YM1 (funding related) was updated to reflect the uncertainty in the UK economy and financial markets at the time.
- Following its review in September, 2022, the risk description of risk YM5 (Schools' Modernisation Project) was amended to more accurately reflect the current situation as there is no longer a schools' modernisation project and it now refers to the suitability of the Island's schools in terms of their being able to meet future educational challenges and maintain standards.

The Strategic Risk Register will be reviewed in its entirety once the Council adopts its new strategic priorities/Corporate Plan. It was confirmed that the new Council Plan is due to be presented for approval to Full Council in March, 2023.

It was resolved to note the amendments made to the Strategy Risk Register and to take assurance that the Leadership Team has recognised and is managing the risks to the achievement of the Council's priorities.

**Mr Dilwyn Evans
Chair**