

GOVERNANCE AND AUDIT COMMITTEE

Minutes of the hybrid meeting held on 7 December 2023

- PRESENT:** Mr Dilwyn Evans (Lay Member) (Chair)
Mrs Sharon Warnes (Lay Member) (Deputy Chair for this meeting only)
- Councillors Geraint Bebb, Dyfed Wyn Jones, Keith Roberts, Margaret M. Roberts, Ieuan Williams.
- Lay Members: Michael Wilson, William Parry
- IN ATTENDANCE:** Director of Function (Resources) and Section 151 Officer
Director of Education, Skills, and Young People (for item 3)
Head of Audit and Risk
Head of Profession (HR) and Transformation (for item 4)
Principal Auditor (NW)
Insurance and Risk Manager (for item 8)
Schools Data Protection Officer (EW) (for item 3)
Committee Officer (ATH)
- APOLOGIES:** Councillors Euryrn Morris (Deputy Chair), Trefor Lloyd Hughes, MBE, Liz Wood.
- ALSO PRESENT:** Councillor Robin Williams (Deputy Leader and Portfolio Member for Finance), Councillor Dafydd Roberts (Portfolio Member for Education and the Welsh Language), Yvonne Thomas (Financial Audit Manager – Audit Wales), Alan Hughes (Performance Audit Lead – Audit Wales), Sabel Williams (Audit Wales), Bethan H. Owen (Accountancy Services Manager) Claire Klimaszewski (Finance Manager)
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In the absence of the Deputy Chair, Councillor Euryrn Morris, Mrs Sharon Warnes was elected to serve as Deputy Chair for this meeting of the Committee.

On behalf of the Committee's members, the Chair extended his best wishes to Councillor Trefor Lloyd Hughes, MBE who was unable to attend due to illness.

The Chair announced that with the agreement of the Committee, he would be varying the order of business on the agenda to bring forward items 3 and 9 to allow Audit Wales's Officers to attend to other commitments. The Committee agreed to the change in the order of business.

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 21 September 2023 were presented and were confirmed as correct.

Arising thereon –

In response to queries raised by the Committee regarding the progress of actions specified in the minutes in relation to a review of the Customer Services training for public facing staff to be conducted by the Leadership Team as per item (3) and the development of a training needs assessment and rollout of suitable training in response to issues raised by the Public Service Ombudsman for Wales as per item (4), the Director of Function (Resources)/ Section 151 Officer advised that he would follow up on the Committee's queries and report back on the position with regard to progressing those two items.

Additional Action - Director of Function (Resources)/ Section 151 Officer to follow up on the progress of the actions as specified.

3 ANGLESEY SCHOOLS ANNUAL INFORMATION GOVERNANCE ASSURANCE REPORT 2022/23

The report of the Schools Data Protection Officer incorporating an analysis of the key information governance issues and priorities in relation to Anglesey's schools for the period February 2023 to November 2023 was presented for the Committee's consideration.

The report was introduced by the Director of Education, Skills and Young People as providing the Schools Data Protection Officer's statement along with an overview of Anglesey primary, secondary and special schools' compliance with legal requirements in handling information including with the UK's General Data Protection Regulations (UK GDPR), Data Protection Act 2018 and relevant codes of practice. Also included within the report were details of actions taken since the last report in January 2023 and achievements under the Schools Data Protection Development Strategy 2022/23 as well as actions identified for the Schools Data Protection Strategy 2023/24 and progress to date.

The Schools Data Protection Officer confirmed the progress made by schools since the previous report to the Committee with schools having formally adopted the majority of policies and begun the process of monitoring and evidencing their compliance with all data protection policies. More schools have received data protection training during the period both individually and by catchment area which has helped schools improve their practices. More school governors have also received training or have received a data protection presentation by the Schools Data Protection Officer with 25 governing bodies having received such a presentation which highlights the main requirements and expectations on schools as regards data protection obligations. Significant progress has been made in ensuring that appropriate Data Protection Agreements are in place with regard to the systems, programmes and apps used by schools. Most schools now have suitable and up to date Privacy Notices which have been shared with parents or in the case of general and children and young people's versions, have been posted on the school's website. The Schools Data Protection Officer continues to undertake audit visits to individual schools to review data protection compliance and arrangements with 44 of the 45 schools having been visited in the period between March and October 2023. The 45th school has scheduled a visit for next month.

It is the Schools Data Protection Officer's view that schools continue to show that they understand their responsibilities and implications as the data controller and the legal expectations that come as a result. Schools also continue to demonstrate that they have a better understanding of the data protection obligations and have been giving more priority to ensuring that actions are taken to comply with requirements under data protection legislation. Further specific pieces of work need to be completed to ensure that all schools are on the same level of compliance and are closer to be fully compliant and can evidence

this. As such, the Schools Data Protection Officer is able to provide reasonable assurance with regard to schools' compliance with data protection requirements.

In considering the report the Committee noted the following –

- That most but not all schools have adopted the key data protection policies and are monitoring their compliance with individual policies. The Committee wanted to know what the arrangements were for ensuring that all schools adopt the policies.

The Committee was advised that a data compliance management system is in place whereby the policies adopted by schools are formally recorded. The Schools Data Protection Officer also meets regularly with schools to oversee compliance. Based on the audit visits to schools it can be confirmed informally that most schools have adopted the policies as required and that of those schools that have not as yet reached that point, most are in the process of doing so with some about to submit the final policy documents for adoption by their governing bodies.

- Accepting that there are many demands on schools, the Committee sought assurance about the arrangements for monitoring and evidencing compliance with data protection requirements in practice on a day-to-day basis as well as the questions elected members in their role as school governors should be asking of schools to ensure that they are complying with data protection legislation and that compliance is evidenced.

The Committee was advised that schools have been provided with a Data Protection Policies Checklist document to support them with monitoring compliance with key actions within individual data protection policies and are expected to use the document as a monitoring tool. The Schools Data Protection Officer will be reviewing the use schools have been making of the Data Protection Policies Checklist during the 2024 audit visits. Likewise a guidance document for school governors has been prepared to help them to understand how to monitor and review compliance. Whilst data protection is one aspect of school life, it is an important one and the Schools Data Protection Officer endeavours to ensure that data protection and the obligations attached to it remain at the forefront of schools' business. Schools continue to seek advice and guidance on data protection issues from the Schools Data Protection Officer.

- Whether the key dates for schools to action the tasks in the Schools Data Protection Strategy for 2023-24 are attainable

The Committee was advised that although some actions may not be fully completed by the due date, many are of an ongoing nature and are evolving as more information and programmes are issued meaning that some target dates will need to be reviewed. Most key actions are in progress with the next significant step being to ensure that each individual school has a Record of Processing Activities (ROPA) and to this end a pre-populated ROPA template for primary and secondary schools has been created which schools can adapt to their individual needs.

- Whether in terms of assurance status, there are individual schools in different categories and at different stages of progress and whether all schools are on track to complete the requirements and become fully compliant.

The Committee was advised that the schools are generally at the same level of achievement and are working to an agreed development plan. Although a few schools may be more advanced in the work than others, the reasonable assurance opinion applies to most and none are a cause of any significant concerns. The annual audit

visits are conducted to review progress and compliance. Whilst all schools are currently working towards becoming fully compliant, the day-to-day information management practices within schools have progressed over the last year.

It was resolved –

- **To accept the Schools Data Protection Officer’s report and statement and**
- **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.**

Additional Action: Schools Data Protection Officer to circulate a copy of the Data Protection Guidance document for school governors to all the Council’s Elected Members.

4 STATEMENT OF THE ACCOUNTS 2022/23 AND ISA 260 REPORT

- The report of the Director of Function (Resources)/Section 151 Officer incorporating the Final Statement of the Accounts for 2022/23 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 audited accounts for the 2022/23 financial year was extended to 31 December, 2023 for all Welsh councils. The Isle of Anglesey County Council’s draft Statement of Accounts 2022/23 was presented to the Council’s external auditors, Audit Wales for audit on 30 June. The detailed audit work has now been substantially completed subject to a final review of the post audit amendments made to the accounts. The financial position of the Council is not expected to change further but should any significant issues arise from the review, then Audit Wales will provide a verbal update to the Full Council and retrospectively to this Committee at a future date. Audit Wales conducted a thorough review, testing and audit of the financial transactions in relation to 2022/23 and the draft Statement of Accounts. The audit testing identified some changes needed and some errors which the Audit team recommended were amended to ensure that the accounts are materially correct. These are documented in Appendix 3 of Audit Wales’s ISA 260 report as a separate item on the agenda. Aside from those, it is the Auditors’ conclusion that the accounts have been prepared in accordance with legislative requirements and the CIPFA Code of Practice on Local Authority Accounting 2022/23; that they give a true and fair view of the financial position of the Isle of Anglesey County Council as at 31 March 2023 and of its income and expenditure for the year then ended and that it is the Auditors’ intention to issue an unqualified opinion on the 2022/23 accounts. Some of the changes to the accounts include the following –

- A reduction of £72k in the amount of the value held in creditors for the value of cash the Council holds on behalf of the Isle of Anglesey Welsh Church Act Fund which has impacted on the Council’s revenue outturn for 2022/23 in increasing the underspend for the year from £1.212m to £1.284m.
- An amendment to Note 5 in the accounts in relation to events after the reporting period to include information about the two schools affected by RAAC which emerged at the start of the 2023/24 academic year.
- The treatment in the accounts of the net asset position of the Local Government Pension Scheme. The local government pension scheme remeasurement resulted in a net pension asset rather than a significant net liability as has been the case in previous years as a result of the impact of increased interest rates on the discount factor used by the actuary. This was correctly reported on the balance sheet as nil

in line with accounting rules and resulted in a write off of the net pension asset of £19.814m which was included in the other comprehensive income and expenditure line on the Comprehensive Income and Expenditure Statement (CIES). The Auditors highlighted that this value should be shown separately as an exceptional material event which was therefore amended on the CIES.

The Director of Function (Resources)/Section 151 Officer thanked the Accountancy Services Manager and her team for their work in preparing and completing the accounts within timescale and he also thanked Audit Wales for their approach and support in facilitating the audit process.

- The report of the Head of Profession (HR) and Transformation incorporating the Annual Governance Statement for 2022/23 was presented for the Committee's consideration and endorsement. The Annual Governance Statement (the draft version of which was presented to the Committee for comment at its 27 July, 2023 meeting) seeks to provide assurance that the Council had in place during 2022/23 appropriate arrangements for conducting its business according to the law and proper standards and for ensuring that public money was safeguarded and properly accounted for and was used economically, efficiently, and effectively. The Annual Governance Statement will form part of the final 2022/23 Statement of the Accounts.

The Head of Profession (HR) and Transformation confirmed that the comments and suggestions made by the Committee when reviewing the draft Annual Governance Statement in July were supported and have been incorporated within the final version.

There were no further comments by the Committee with regard to the Annual Governance Statement for 2022/23.

- The report of External Audit on the audit of the Financial Statements for 2022/23 (ISA 260 report) was presented for the Committee's consideration.

Yvonne Thomas, Audit Wales Financial Audit Manager reported on the main findings from the audit of the Council's accounts for the 2022/23 financial year as follows –

- That auditors can never provide complete assurance that accounts are correctly stated and work instead to a level of materiality. This level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled. For the 2022/23 audit the level of materiality was set at £2.979m. A lower materiality level was set for related party transactions (for individuals) (£10,000) and for Senior Officer Remuneration (£1,000).
- That the audit is now substantially complete subject to completion of the final audit procedure steps after which the final ISA 260 report will be issued for submission to Full Council.
- That it is the Auditor General's intention to issue an unqualified audit opinion on this year's accounts once the Council has provided a Letter of Representation based on that set out in Appendix 1 to the report. An unqualified opinion means there are no material concerns about any aspects of the accounts.
- The proposed audit report is set out in Appendix 2 to the report and confirms the independent auditor's view that the financial statements give a fair view of the financial position of the Council as at 31 March, 2023 and of its income and expenditure for the year then ended and that they have been properly prepared in accordance with legislative requirements and international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the UK 2022/23.
- There are no misstatements identified in the accounts which remain uncorrected.

- There were initially misstatements in the accounts that have now been corrected by management. These are set out with explanations in Appendix 3 to the report and relate principally to matters of disclosure and classification.
- That in the course of the audit, the auditors consider a number of matters relating to the accounts and report on any significant issues arising thereon; there were no such matters to report for this year's audit.

Yvonne Thomas thanked the Council's Accountancy Services team for their co-operation and assistance with this year's audit process.

The Director of Function (Resources)/Section 151 Officer and Audit Wales's Financial Audit Manager responded to points raised by the Committee in relation to the Statement of the Accounts and Audit of Accounts report as follows –

- Confirmed that the financial landscape for the Council in 2024/25 and beyond is challenging due to increased costs and because the demand for Council services continues to rise at a greater rate than the rise in funding. Those risks also remain in 2023/24 and must be managed to reduce any overspend for the year to a minimum. Initial work to develop the budget for 2024/25 indicates that the Council's budget will have to increase by £15m to meet all inflationary and demand pressures and that any shortfall will have to be met by raising Council Tax, reducing services and/or drawing on the Council's reserves mindful that £3.78m of reserves have already been used to balance the budget in 2023/24. The Director of Function (Resources)/Section 15 Officer referred to councils in England which had run into financial difficulties some of which had effectively declared bankruptcy and he explained the practical implications of having to issue a Section 114 notice and what that meant as regards the day to day running and decision-making for councils in that position.
- Clarified that the disclosure of information about the RAAC issues in two of the Council's schools in Note 5 of the accounts as a post balance sheet event although those issues arose in the current financial year, is to provide readers of the accounts with information about an event that has arisen subsequently which might potentially affect the future financial standing of the Council. The remedial work undertaken to date to make safe the roofs of the RAAC affected buildings so that they can continue to operate has entailed significant capital expenditure. In addition the temporary closure of the two schools, the implementation of distance learning arrangements and identifying suitable alternative accommodation have had implications for revenue expenditure. Whilst the RAAC issue does not require any adjustments to be made to the 2022/23 accounts it is highlighted as an event that may impact the Council financially at a future date.
- Explained the Council's redundancy and redeployment policies in the context of queries about Note 28 in relation to staff exit costs and vacancies confirming that individuals whose posts are at risk of being made redundant are offered suitable alternative employment where they meet the criteria or they may be redeployed in another post in accordance with HR processes. However if no redeployment opportunity is available the individual will be made redundant. A post that is redundant will not be re-advertised as the funding for the post ceases at that point.
- Clarified that the statement at page 11 of the ISA 260 which reads "As part of that discussion [i.e. in relation to where fraud might occur in the financial statements] I identified potential for fraud in the posting of unusual journals" links back to one of the financial statement risks identified in the External Audit Plan presented to the Committee in July in relation to management override of controls and the checks that the auditors would undertake as part of their planned response to the risk which include testing the appropriateness of journal entries. No evidence of fraud was identified during the audit.
- Confirmed that the adjustment made in relation to the Isle of Anglesey Welsh Church Act fund referred to in the Section 151 Officer's report is not reported by the auditors in

the ISA 260 report as it is not of a significant value and is one of several insignificant adjustments made.

- Confirmed that the accounts are still being reviewed and that any changes including minor errors and/or inconsistencies will be corrected for the Full Council meeting.

It was resolved –

- **To recommend to the County Council that it confirms acceptance of the 2022/23 Final Statement of the Accounts as presented in Appendix 1 to the report of the Director of Function (Resources)/Section 151 Officer.**
- **To note that any subsequent changes to the Statement of Accounts will be agreed by the Director of Function (Resources)/Section 151 Officer and reported to the Full Council prior to the formal acceptance of the 2022/23 Statement of Accounts.**
- **To approve the Annual Governance Statement that will form part of the 2022/23 Statement of the Accounts.**
- **To note External Audit's ISA 260 Report on the Financial Statements for 2022/23.**

5 ANNUAL COUNTER FRAUD, BRIBERY AND CORRUPTION REPORT 2022/23

The report of the Head of Audit and Risk incorporating the Counter Fraud, Bribery and Corruption Annual Report for 2022/23 was presented for the Committee's consideration. The report set out the activity carried out by Internal Audit during 2022/23 to minimise the risk of fraud, bribery, and corruption within and against the Council, highlighting some of the current and emerging areas of fraud risk and providing a conclusion on the effectiveness of the Council's arrangements to minimise the risk of fraud.

The Head of Audit and Risk provided an overview of the report highlighting that at a time of increasing financial pressures, it is more important than ever for all public bodies in Wales to seek to minimise the risk of losses through fraud and support financial sustainability. She referred to the Council's counter fraud arrangements which were assessed against the five principles contained in CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption, namely, acknowledging responsibility for countering fraud and corruption; identifying fraud and corruption risks; having in place a counter fraud and corruption strategy; providing resources to implement the strategy and taking action in response to fraud and corruption. The report noted that during 2022/23 28 days of the Internal Audit team's work was involved in counter fraud activities including 8 days undertaking work for the National Fraud Initiative and 20 days involved with proactive fraud work, general fraud queries and investigations. The report also cited instances of fraud attempted against the Council during 2022/23, how those were dealt with and the actions taken to prevent reoccurrence in future.

The Head of Audit and Risk concluded that good progress is being made with delivering the Counter Fraud, Bribery and Corruption Strategy 2022-25. The continued delivery of the Action Plan (attached as Appendix 1 to the report) will ensure the Council is successful in fighting fraud. A key next step is the development of a Council wide fraud risk assessment which will help improve the Council's ability to identify potential instances of fraud as well as any weaknesses in its counter-fraud arrangements or areas at higher risk of fraud. This will allow the Council to better target its limited resources and activities appropriately, especially if and when new fraud risks emerge.

In the ensuing discussion the following matters were raised –

- In accepting the importance of raising awareness of fraud and of having policies to that effect, the Committee wanted to know what controls are in place to prevent fraud occurring in the first place on a day-to-day basis e.g. mandate fraud whereby an attempt is made to change an individual or company's bank details.
- The avoidance of the second homes premium payment whereby the second home is cited as the main residence.
- The occurrence of fraud in relation to Disabled Facilities Grants and how it is perpetrated with regard to the grant.

The Committee was advised that every Internal Audit review examines the controls in place for the area reviewed and makes recommendations for improvement where shortcomings or weaknesses have been identified. Counter Fraud Working Group activity will also help ensure that the issue of fraud and possibility of fraud will be at the forefront of people's minds and awareness as they conduct their everyday business. Additionally staff have been instructed to conduct due diligence checks and to verify contact details in the form of e-mail addresses and telephone numbers to avert bank mandate fraud and in re-contracting for the Bacs software, the Council will ensure that the software incorporates identity authentication as a matter of course. Disabled Facilities grant fraud can occur when the recipient of the grant moves house after the property has been adapted without repaying the grant or where works have not been completed to required standards or not at all or in the case of inflated quotations for the work.

With regard to second homes, as legislation does not specify the criteria for what constitutes a main residence the onus is on the Council to form its own view supported by information obtained about the individual's lifestyle e.g. place of work, GP surgery address, children's schools to build a picture of where the individual lives and to come to a determination on that basis. The Council's decision can be challenged by way of an appeals process. However, as an increasing number of councils in England decide to levy a second homes premium, avoidance/fraud of this type is likely to reduce.

It was resolved to note the Annual Counter Fraud, Bribery and Corruption Report for 2022/23 and the activity carried out during the year to minimise the risk of fraud, bribery and corruption occurring within and against the Council.

6 NATIONAL FRAUD INITIATIVE OUTCOMES REPORT 2022-23

The report of the Head of Audit and Risk setting out the Council's current outcomes in respect of the National Fraud Initiative (NFI) 2022/23 exercise was presented for the Committee's consideration.

The Head of Audit and Risk provided an overview of the NFI exercise process and purpose which is a data matching exercise conducted every two years by the Cabinet Office that aims to detect and prevent fraud and error. The Council along with other local authorities and public sector bodies is mandated to participate. Participants submit data to a secure NFI website at the end of the designated calendar year after which the NFI system matches data in and between public sector bodies to identify anomalies. Potential anomalies called matches are reported to participants to review, investigate, and record outcomes which are then collected and reported on nationally by the Auditor General. Data matches do not in themselves indicate fraud or error but rather identify cases which may require further analysis. For the 2020/21 NFI exercise seven service areas generated almost 97% of the £6.5m of fraud and error identified for Wales with Council Tax discounts (£2.6m) and Blue Badges (£1.4m) being the foremost of those. As part of the 2022/23 NFI exercise, the Council submitted data in relation to Housing, Taxi driver licences, Payroll, Creditors payment history and standing data, Council Tax Reduction Scheme and Council

Tax and the Electoral Register. Additionally, the DWP submitted benefit recipient details and the Blue Badge Digital Service submitted Blue Badge Holder details.

Between January and March 2023 the Council received a total of 66 separate reports which contained a total of 2,638 individual matches. To date 8 days have been invested providing the data to the Cabinet Office, analysing, and evaluating matches and working with services to investigate the matches and improve their processes. The report sets out the reports which Internal Audit has analysed and/or co-ordinated the evaluation of which and the service areas to which they relate. The outcomes of that work are detailed in Appendix 1 including the monetary savings made as with duplicate creditor payments (£13,343.21) or estimated as with Housing Waiting List fraud (£4,283) and Blue Badges not cancelled (£194,350). With regard to the latter, following discussions with the senior officer responsible for Blue Badge administration all the 299 NFI matches for this category were identified as examples of a lack of communication between services with Blue Badges not having been closed on the system because the team had not been informed of the permit holder's death. It was noted in this regard that a further complication is that deaths are registered in the county in which they occur meaning that deaths in Ysbyty Gwynedd including those of Anglesey residents are registered in Gwynedd County. However, that information is not necessarily passed onto the Council in Anglesey through the Gwynedd Tell Us Once process or otherwise with the result that Blue Badges then remain open on the system after the permit holder has passed away.

Due to a combination of competing priorities and insufficient resources, the Revenues Team has yet to analyse matches in relation to Council Tax reduction and Housing Benefit and the Council Tax Single Person Discount. The Team intends to use an external provider to conduct a managed bulk review of their discounts and exemptions before the end of 2023/24. Whilst it is considered that the NFI exercise has provided a good return on investment, there are apparent weaknesses in the formulas used by the NFI to calculate outcomes e.g. the inflated value of a Blue Badge remaining in circulation and lost income to the Council. However, the opportunity to identify internal control weaknesses and to discuss ways to strengthen processes with management is one unquantifiable benefit of the exercise that is not reflected in NFI financial outcomes. Ways of improving the process of analysing matches to ensure greater efficiency and effectiveness will be discussed with Heads of Service and Senior Management moving forward so that future exercises provide a greater return on investment.

In considering the report the Committee discussed the following –

- The distortion of the outcomes report and income lost to the Council by the Blue Badge errors and its reflection on the Council especially if the badges have not been misused. The Committee particularly noted the challenges and complications arising for Blue Badges and potentially for other services as well as a result of the Council's not being informed of deaths that occur outside its boundary, most obviously in Ysbyty Gwynedd. The Committee further noted that it places the Council at a disadvantage in relation to processes such as the NFI exercise.

The Committee was advised that management has provided assurance that internal control processes will be strengthened to ensure that Blue Badge administrators are able to proactively cross reference permit holders' details with deceased records, ensuring that the badges are cancelled promptly. Additional work is also being undertaken to establish a direct communication process between Social Services and Contact Môn.

- The recovery of monies which the NFI exercise indicate may have been lost to fraud e.g. in relation to the Council Tax Single Person discount and whether loss/non-collection of Council Tax income is accounted for in drawing up the budget.

The Committee was advised that the external provider engaged by the Council to review Council Tax discounts and exemptions seeks to verify sole occupancy in the case of Single Person Discount claimants and if there is evidence to suggest that a claimant does not live alone then the account is adjusted accordingly and a new Council Tax bill is generated and sent to the claimant which may result in the Council Tax being paid or the claimant providing proof of sole occupancy. The Council has increased the debit raised by cancelling claims that were not valid. The Committee was further advised of the process for setting the Tax Base, as well as the collection rate and the factors involved including the number of discounts and exemptions granted. In a normal year approximately 97% of Council Tax income is collected in-year and 99.3% over three years.

It was resolved to note the NFI Outcomes report and to confirm that the Governance and Audit Committee takes assurance from the contents of the report that the Council is seeking to actively embrace opportunities provided by the National Fraud Initiative to use data analytics to strengthen both the prevention and detection of fraud.

7 INTERNAL AUDIT UPDATE

The report of the Head of Audit and Risk providing an update as at 30 November, 2023 on the audits completed since the previous update as at 13 September 2023 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 under separate cover with copies of the three internal audit reports finalised since the last update in relation to the Administration of Teachers' Pension (First Follow-Up) (Reasonable Assurance); Organisational Resilience (Strategic Risk YM7) (Reasonable Assurance) and the Local Government Pension Scheme (Reasonable Assurance). Two other pieces of work were completed in the period involving an investigation of a contract overpayment and an investigation of internal fraud for which an assurance opinion was not applicable.

The Head of Audit and Risk provided an overview of the reviews completed and their conclusions including the risks/issues identified and actions recommended. She referred to the pieces of work in progress as per paragraph 24 of the report and confirmed with regard to outstanding actions that as at 30 November, two moderate-rated issues/risks were overdue with both being in the Resources service. The Internal Audit service is currently carrying two vacant posts as a result of the departure of a Senior Auditor to a post within Resources and the continuance of a long-term secondment. Nevertheless, good progress has been made with implementing the Annual Internal Audit Strategy for 2023/24 and the Counter Fraud, Bribery and Corruption Strategy 2022-25. Work is also in progress with Zurich Risk Engineering UK to undertake an independent assessment of the Council's Risk Management Framework which is expected to report in February 2024. Internal Audit is also currently working with the Council's Training and Development Team to provide counter fraud awareness training across the Council.

In responding to questions raised by the Committee, the Head of Audit and Risk –

- Confirmed that the service continues to utilise budget savings from vacant posts to commission additional external support.

- Explained that the Committee is updated twice a year on performance in addressing audit actions including outstanding/overdue actions.
- Clarified that the piece of work in progress in relation to a complaint about waste removal (Housing Services) is about examining the procurement process in terms of value for money and contract award procedures and that the review of the Visitor Economy and Coastal Areas Income Processes also in progress is about looking at those processes from the perspective of efficiency and security.

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

8 STRATEGIC RISK REGISTER UPDATE

The report of the Head of Audit and Risk setting out the amendments to the Strategic Risk Register since it was last presented to the Committee in February 2023 was presented for the Committee's consideration.

The Risk and Insurance Manager reported that with the new Council Plan 2023-28 in place, the Leadership Team undertook a review of the strategic risk register as a whole in July 2023 to ensure that the register provided an accurate reflection of the risk to the Council's strategic objectives. In the same period the system holding the risk registers (4risk) was upgraded and the method by which risks are scored has also been changed to reflect a numeric value only with the highest risk now being 25 rather than A1. There have been some initial challenges with the upgrade process with the result that the register as presented does not have the same level of assurance detail as previously although work to resolve the issues with the software provider is ongoing. The Risk and Insurance Manager referred to the changes to the strategic risks as follows –

- The redefinition of risks YM1, YM5, YM7, YM8, YM3 and YM14 as per the table at paragraph 8 of the report and the reasons for the change.
- The closure of risk YM4 in relation to the impact of a cyber-attack on the provision of frontline and support services and its incorporation within risk YM3 in relation to IT failure and the disruption that would cause to service delivery.
- The addition of two new risks to the register namely YM15 in relation to core collaborative working and partnership arrangements and YM16 in relation to a lack of resources to update business processes affecting the Council's ability to modernise.
- The uprating at both an inherent and residual level of risk YM1 – the risk that a real term reduction in Council funding will lead to a reduction in statutory services - from 4 (Likely) to 5 (Almost Certain) because of the economic situation and the financial challenges facing the public sector.

The Committee considered the report and the following matters were discussed –

- Encouraging services to move systems to the Cloud to strengthen resiliency and eliminate the need for a second data centre as a mitigating action in respect of risk YM3 (The risk that IT failure significantly disrupts service delivery). The Committee questioned whether there might be risks in being over reliant on the Cloud and whether there were disadvantages associated with Cloud provision in terms of cost, security, and access to data. The Committee suggested that a review of Cloud services might be beneficial in providing assurance about Cloud operations.

The Committee was advised that the Council's IT auditors could be asked to undertake a review of Cloud services.

- The separation of the roles of the Governance and Audit Committee and Scrutiny in relation to risk management and the detailed evaluation of risks.

The Committee was advised that this Committee's responsibility is to be assured that management has arrangements in place to manage risk and that those risk management arrangements are effective. Should the Committee in monitoring the strategic risk register be concerned about any emerging risk or detect a pattern of risk deterioration over a period of time then it can refer those concerns to the relevant Risk Owner for action or to provide assurance. The Committee was also reminded that Zurich Risk Engineering will be undertaking an assessment of the Council's Risk Management Framework and will be reporting to this Committee on the outcome of the assessment early next year.

- The number of risks where the residual risk level after mitigation is still Red or Critical and the Council's approach to dealing with this level of risk.

The Committee was advised that although all the risks will be reviewed in detail in the coming months, there are certain risks with YM1 being an example where the scope for introducing additional controls and the impact they are likely to have in reducing the residual risk are limited because of external factors such as the wider economic situation and outlook which are beyond the Council's control.

- In noting that one of the main controls with regard to YM1 (the risk that a real term reduction in Council funding will lead to a reduction in statutory services) is to ensure that the Council retains balances of over 5% of the annual budget in reserve, the Committee asked what is the burn rate on the reserves and at what point will the Council reach a position which several councils are already finding themselves in of having run out of money.

The Committee was advised that currently the Council has approximately £11m in General reserves and £18m in Earmarked reserves these having been allocated for specific purposes (as well as there being school balances which are under the management of schools). To balance the 2023/24 budget, the Council used £3.78m of its reserves and based on the anticipated settlement, it is expected that a similar sum will be required to make up the budget shortfall in 2024/25 although the precise amount will depend on the level of Council Tax increase and/or budget cuts which Full Council determines to implement. That would indicate a burn rate of £3m to £4m per year which would deplete the General Balances within 3 years and if the Council were to deallocate the earmarked reserves for general use that would sustain the Council for a while longer. It is also anticipated that the 2025/26 financial year will be equally challenging and as the scope for savings reduces so the burn rate is likely to increase. The outlook beyond that point is uncertain as political changes could also lead to changes in the financial landscape. In the short to medium term the Council is not in danger of finding itself in such severe financial difficulties as to have to issue a Section 114 notice. However, as the Council's reserves reduce so does the impact of mitigation leading to increased risk.

It was resolved to note the amendments made to the Strategic Risk Register and to confirm that the Governance and Audit Committee takes assurance that the Leadership Team has recognised and is managing the risks to the achievement of the Council's priorities.

Additional Action – Head of Audit and Risk to request the Council's IT auditors to undertake a review of Cloud services.

9 **EXTERNAL AUDIT: AUDIT WALES PROGRAMME AND TIMETABLE QUARTERLY UPDATE**

The report of Audit Wales on its Work Programme and Timetable as of 30 September, 2023 was presented for the Committee's information. The report provided an update on the progress and status of Audit Wales's financial and performance audit work comprising of both planned and published studies and included the work of Estyn and Care Inspectorate Wales.

Yvonne Thomas, Audit Wales Financial Audit Manager confirmed with regard to the financial audit work that the audit of the accounts has been largely completed as previously reported and the certification of grant returns in relation to Teachers' Pension contributions for the 2022/23 financial year is nearing completion as is the certification of the grant return for non-Domestic rates 2022/23 with the aim being that both returns are certified this month.

Mr Alan Hughes, Performance Audit Lead reported on the progress of the Performance Audit programme and confirmed that the Assurance and Risk Assessment review is scheduled to be completed in January 2024 with the review of the Use of Performance Information having now been completed and scheduled to report in the new Year. The fieldwork for the Setting of Well-being Objectives has been completed with the draft report to be issued in the New Year, likewise the Thematic review of Unscheduled Care. Also reporting in the New Year is the Thematic review of the Council's strategic approach to Digital. The 2022/23 Performance Audit Programme is therefore on track to being completed.

In considering the report the Committee raised the following questions –

- Whether the Capital Programme Management review will include commentary on how capital projects are managed and run.

The Committee was advised that the review is currently at the scoping stage but that any specific themes which the Committee/individual members might wish the review to look at could be communicated to him and taken back to the centre.

- The intended outcomes of the review of the Council's strategic approach to Digital.

The Committee was advised that the review is looking at the extent to which the Council's strategic approach to digital has been developed in accordance with the sustainable development principle and the five ways of working required to achieve the well-being goals set out by the Well-being of Future Generations Act. As a thematic review, a short local report as well as a national outcomes report will be produced.

It was resolved to note Audit Wales's Quarter 2 2023/24 Update on its Work Programme and Timetable.

10 **REVIEW OF FORWARD WORK PROGRAMME 2023/24**

The report of the Head of Audit and Risk incorporating the Committee's Forward Work Programme and Training Programme for 2023/24 was presented for the Committee's consideration.

The Head of Audit and Risk guided the members through the changes in the Work Programme and those were noted by the Committee. She confirmed that the Work Programme is aligned with the Committee's core functions as those are set out in its Terms

of reference and she clarified that nothing was scheduled against the Performance Panel Assessment section as that assessment is only required to take place once in an electoral cycle and the assessment report then considered by this Committee.

The possibility of introducing individual self - assessment for members of the Committee by way of one-to-one conversations with the Chair was raised as means of identifying what support individual members might require and wish for in developing their skills and expertise.

The Head of Audit and Risk advised that members of the Committee have already completed a training needs assessment questionnaire on which the Committee's training programme (included in the report) is based. She suggested, and it was agreed that the questionnaire be re-circulated so that members can provide an update on what they see as their ongoing training needs.

The Chair said that he would consider the proposal regarding having a one-to-one conversation with individual members and the practicability of implementing it.

In response to further questions about the Committee's self-assessment undertaken with the support of CIPFA, the Head of Audit and Risk provided an update on progress to date and expected reporting arrangements and timetable.

It was resolved -

- **To accept the Forward Work Programme 2023/24 as meeting the Committee's responsibilities in accordance with its terms of reference and**
- **To note the changes to the dates on which reports will be submitted.**

Additional Action – Head of Audit and Risk to re-circulate the Committee's Training Needs Assessment Questionnaire.

**Mr Dilwyn Evans
Chair**