

# AUDIT AND GOVERNANCE COMMITTEE

## Minutes of the meeting held on 27 June, 2018

- PRESENT:** Councillor Peter Rogers (Chair)  
Councillor R. Llewelyn Jones (Vice-Chair)
- Councillors John Griffith, G.O. Jones, Dylan Rees, Margaret Roberts.
- Lay Members: Dilwyn Evans and Jonathan Mendoza
- IN ATTENDANCE:** Chef Executive  
Assistant Chief Executive (Partnerships, Community and Service Improvement)  
Head of Function (Resources) and Section 151 Officer  
Head of Function (Council Business)/Monitoring Officer (for item 4)  
Head of Internal Audit & Risk (MP)  
Corporate Information Governance Manager (HP) (for item 4)  
Committee Officer (ATH)
- APOLOGIES:** Councillors Richard Griffiths, Alun Roberts, Robin Williams (Portfolio Member for Finance)
- ALSO PRESENT:** Councillor Llinos Medi Huws (Leader), Councillor Carwyn Jones (Portfolio Member for Major Projects and Economic Development) (for item 6) Accountancy Services Manager (BHO), (for item 3), Mr Huw Lloyd Jones (Wales Audit Office), Mr Gwilym Bury (Performance Audit Lead - Wales Audit Office)
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### 1. DECLARATION OF INTEREST

No declaration of interest was received.

### 2. MINUTES OF THE 9<sup>TH</sup> FEBRUARY, 2017 MEETING

The minutes of the previous meetings of the Audit and Governance Committee held on the dates noted below were presented and were confirmed as correct –

- 24<sup>th</sup> April, 2018

Arising thereon – The Committee sought an update on the position with regard to the review of the Committee's terms of reference, the task having been postponed over the course of several meetings due to the delay in the publication of new CIPFA guidance.

The Head of Audit and Risk said that it was planned that the review would take place at the Committee's July meeting; however due to the proximity of the Committee's meetings in June and July, it is unlikely that the timescale for the July meeting will be met. The review is now scheduled to take place at the Committee's September meeting. The Officer said that the Committee's two Lay Members have indicated that they are happy to look at a first draft of the revised terms of reference with the aim being to forward the documentation to them in the next few weeks.

- 15<sup>th</sup> May, 2018 (election of Chair/Vice-Chair)

### **3. STATEMENTS OF ACCOUNTS 2017/18 AND ANNUAL GOVERNANCE STATEMENT**

The report of the Head of Function (Resources) and Section 151 Officer incorporating the draft pre-audit Statement of Accounts for the 2017/18 financial year along with the draft Annual Governance Statement for 2017/18 was presented for the Committee's consideration.

The Head of Function (Resources) and Section 151 Officer reported that the Council has a statutory duty to approve and publish a Statement of Accounts for each financial year. Before External Audit can commence, the Section 151 Officer is required to sign the Statement of Responsibilities for the Statement of Accounts prior to the statutory deadline of 30<sup>th</sup> June each year. The Statement of Accounts for 2017/18 was completed well in advance of this date in readiness for the earlier closedown of accounts in 2018/19 when the legal deadline for the completion of the draft accounts becomes 15<sup>th</sup> June, 2019. As from 2020/21 onwards, the legal deadline for completing and signing the draft Accounts will again be brought forward to 31 May. The Officer said that the structure and contents of the accounts have not materially changed with the prefatory narrative report, which is a key section of the accounts, providing a guide to the most significant matters reported in the accounts in an accessible and easy to understand way along with contextual information about the Isle of Anglesey County Council. The format of the Statement is prescribed by accounting regulations and practices and contains the Comprehensive Income and Expenditure Statement, the Expenditure and Income Analysis; the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement and the Notes to the Accounts which elaborate in an explanatory way on the figures in the main accounts. Also included are the Housing Revenue Account and accompanying notes and the Annual Governance Statement for 2017/18.

The Officer highlighted the following as main points of consideration within the Statement of Accounts for 20-17/18:

- That although the Statement of Accounts is meant to give electors, local taxpayers, member of the Council, employees and other interested parties clear information about the Council's finances, it is a complicated and technical document which is set out in accordance with the Code of Practice on Local Authority Accounting - compliance with the requirements of the Code in preparing the accounts being one of the factors which the External Auditor assesses in conducting the audit of the accounts.
- That paragraph 3.4 of the narrative report gives a summary of the Council's financial performance for the financial year ending 31 March, 2018 including its revenue and capital expenditure. In 2017/18, the Council reported an overspend of £1.78m against a planned activity of £126.2m (net budget) and achieved £1.704m of savings. The table in paragraph 3.4.1 reflects the final budget for 2017/18 and the actual income and expenditure against it by service. The Capital Budget was underspent in the year with the total spend amounting to £29.355m against a Capital Budget of £52.572m. The Capital Programme has made steady progress in the year achieving a delivery rate of 55.73%. It is expected that the remaining schemes will be delivered over the coming few years. The information presented in section 3.4 is in line with that provided in financial monitoring reports presented to the Council's Executive in May and June, 2018.
- That the Comprehensive Income and Expenditure Account Statement (CIES) shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices rather than the amount to be funded from taxation. The CIES for 2017/18 shows a deficit on continuing operations of £143.869m compared to £122.889m in 2016/17 the main variance being in Lifelong Learning net expenditure which is £18m

higher than in 2016/17 but which includes an item of capital which does not have an impact on how the Council is funded. The total comprehensive income and expenditure for 2017/18 was a surplus of £21.764m compared with a deficit of £9.242m in 2016/17 the additional income being attributable to the revaluation of non-current assets (£43.058m) and the re-measurement of net pension liability (£7.413m). These are items which are included in the accounts because of accounting requirements as opposed to being items which are funded from local taxation.

- That the **Expenditure and Funding Analysis** for 2017/18 shows the closing Council Fund Balances (usable reserves) and HRA Balance to be £27.856m down from £31.345m for 2016/17.
- That the **Movement in Reserves Statement** shows movement in the year to and from the reserves held by the Council divided into usable reserves (i.e. those that derive from the Council's activity and can be spent) and other unusable reserves (those deriving from accounting adjustments and cannot be spent). The surplus/(deficit) on the provision of services line reflect the true economic cost of providing the Authority's services more details of which are provided by the CIES. The Statement shows that the General Council Reserve reduced by £2.003m for 2017/18 resulting in a total general reserve of £6.352m due primarily to the Revenue Budget overspend of £1.7m referred to earlier. The Earmarked Reserves Fund has also reduced from £13.357m to £11.910m as has the Housing Revenue Account (HRA) in the amount of £139k making a balance of £7.405m as at 31 March, 2018. The Capital Receipts Reserve has generated a surplus of £320k whilst School Balances have reduced from £2.089m to £1.869m mostly within the primary sector with secondary sector balances having increased marginally. The Council's total usable reserves as at 31 March 2018 were £27.856m whereas the total unusable reserves stood at £158.727m.
- That the **Balance Sheet** shows the value of the assets and liabilities recognised by the Authority as at the Balance Sheet date i.e. 31 March, 2018. The net assets are matched by reserves held by the Authority. The Balance Sheet shows that the value of the Council's assets has risen from £164.819m as at 31 March, 2017 to £186.583m as at 31 March, 2018 due mainly to an increase in the value of the Council's property, plant and equipment (line 1 of the Balance Sheet). The Council's cash and cash equivalent balances have reduced from £14.949m as at 31 March, 2017 to £7.789m as at 31 March, 2018. However, the Balance Sheet provides a snapshot only of the Council's financial position at a specific point in time showing the value of its assets and its liabilities as at 31 March, 2018. It does not provide a true reflection of the Council's financial standing.
- That the **Cash Flow Statement** shows the changes in cash and cash equivalents of the Council during the reporting period. The decrease in the Council's cash balances tallies with the Treasury Management Strategy as approved by Council of using available cash balances to minimise borrowing requirements as the cost of borrowing is higher than the returns on investments.
- That the **Notes to the core Financial Statements** provide more details about the Council's accounting policies, items and the figures contained within the main financial statements referred to above. They clarify items that are included in the accounts because of accounting rules as well as providing additional information about items such as grant income, officer remuneration, the local government pension scheme and contingent assets and liabilities (possible income which the Council may receive and/or possible costs which it may incur) The Officer highlighted the notes likely to be of main interest to the Council's stakeholders in reading the statements.
- The **Annual Governance Statement for 2017/18** – this sets out the processes, systems, principles and values by which the Authority is directed and controlled. The Statement enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost

effective services. It also set out the arrangements that have been put in place to manage and mitigate the risks it faces in undertaking its activities and responsibilities.

The Committee considered the information presented in the accounts and raised the following points –

- The Committee noted that the draft Accounts for 2017/18 had been prepared in a timely way and well in advance of the current statutory deadline of 30 June.
- The Committee noted that the narrative foreword provides a fair and understandable summary of the Council's financial performance and financial position for the financial year ending 31 March, 2018 and that it sets out the key events and their effect on the financial statements.
- The Committee noted that the Table in 3.4.1 of the narrative report shows the final budget outturn for each service for 2017/18. The Committee sought clarification of whether it is possible to trace the figures in Table 3.4.1 to the financial statements.

The Head of Function (Resources)/Section 151 Officer said that the figures are traceable through the Comprehensive Income and Expenditure Statement (CIES) as well as explanatory Note 1 (a) and Note 11. The CIES contains items which are included because of accounting requirements e.g. pensions liability and depreciation which are then removed from Council Tax setting because as accounting items, they do not have a bearing on how Council services are funded and are therefore not actual costs which affect the Council's General Fund balances. The explanatory notes do the job of removing these accounting adjustments and re-inserting the items that are funded from taxation thereby giving a clearer view of the Council's financial position. The narrative report is the Management Accounts i.e. figures that are based on the Council's activities and the cost of services whilst the financial statements are the statutory accounts which are prepared to a set format according to regulations and which include items that are not directly related to how the Council is funded.

The Committee requested that it be provided with information that shows how the figures in table 3.4.1 are reconciled to the financial statements.

- The Committee noted that the Council is approaching its minimum reserves threshold and that £1.78m was taken from the General Reserves in 2017/18 to fund the over expenditure on the Revenue Budget due mainly to overspending by Children and Families Services on out of county placements for looked after children. The Committee further noted that the narrative report acknowledges that increasing numbers of looked after children and other social care demands are a considerable risk to the Council's balances due to the high cost of placements (as much as £250k per looked after child per annum) for individuals with complex needs. Given this context therefore and the recognised risk, the Committee sought clarification of whether the Council should be making a separate contingency provision for the very real likelihood of these pressures continuing and their implications for the Council's financial position.

The Head of Function (Resources)/ Section 151 Officer said that the Council was in the fortunate position of having £8.3m general reserves at the beginning of the 2017/18 financial year. The Section 151 Officer is required to come to an assessment based on a number of factors including the Council's financial standing and management and the risks it faces, of the prudent level of reserves which the Council should hold. For 2017/18 the minimum level of reserves which the Section 151 Officer assessed as adequate was in the region of £6m to £6.5m. Although due to the overspend on the Revenue Budget the level of reserves has dropped and is now approaching the minimum value, it does not necessarily follow that the Section 151 Officer will not countenance any further drop

and could allow the reserves to dip below the threshold providing he is satisfied that there is a plan to then restore the balances to a desired level through a budget provision. The Head of Function (Resources) said that the sum of £1.3m has been incorporated within the Council's Medium Term Financial Plan (MTFP) to cover the additional cost of placements for looked after children together with the cost of the education provision that comes with the placements if they are out of county. Both Children's Services and the Lifelong Learning Service are working on various projects to in an effort to reduce the costs. At the root of the matter is the lack of provision locally be that through foster carers or specialised residential placements. The Service is seeking to increase the number of foster carers on Anglesey which would then allow more of the Authority's looked after children to remain in mainstream education on the Island thereby reducing the need and therefore the cost of out of county provision. It is however recognised that the strategy of reducing the average placement cost by increasing local provision might not be sufficient to bridge the whole of the £1.7m budget gap, so the MTFP allows for a budget increase as well. Other relevant factors are the value of the local government settlement and the Welsh Government's spending priorities when it comes to allocating funding. The Council is planning on the basis of a worst case scenario i.e. a £10m budget shortfall over the next 3 years but which allows for additional funding for Children's Services.

The Leader and Portfolio Member for Social Services gave an example of the kind of specialist therapy and provision a looked after child with a troubled background might require the costs of which can quickly escalate. She said that as a demand led service, it is difficult to project costs for the Looked-After Children's budget and although the Authority is seeking to develop local solutions as far as possible, the steady increase in the number of looked after children is a national phenomenon and needs to be addressed at national level.

- The Committee noted that that the net liability on the Local Government Pension Scheme is £104.633m. The Committee sought clarification of whether this is a matter that the Council should be concerned about in terms of being able to meet its liabilities and also in terms of the potential future effect on the Council's financial standing. The Committee sought assurance that it is a risk that the Council is able to manage.

The Head of Function (Resources)/Section 151 Officer said that the deficit on the Pension Scheme is historical with local government reorganisation in 1996 being a factor in contributing to it. At that time, a large number of council employees were allowed to retire early as a result of the restructuring some of whom were made redundant and some of whom took early retirement. This puts a strain on pension costs as does longevity as individuals live longer in retirement meaning they are paid pension benefits for a longer period. However as their pension contribution would have been lower in the early part of their employment the deficit in the Fund builds over time. Over the past 10 year the Pension Scheme has been remodelled with reforms taking place in 2008 and again in 2014 when the scheme became a Career Average scheme rather than a Final Salary Scheme. The reforms should mean that the deficit does not grow. Also, based on the evaluation made by the Pension Fund's Actuary, the Council as employer has been making higher contributions to the Fund, and it pays an annual lump sum as a deficit contribution. The Officer confirmed that he did not consider the Pension Fund deficit to be a matter of concern because the Council is making higher contributions to the Fund to bring down the deficit, because the Pension Fund has been reformed and because the Scheme is ongoing meaning that its liabilities are not going to all crystallise at the same time.

- The Committee noted that the Council as at 31 March 2018 had a short-term net debtor balance of £24.594m and that a review of arrears balance suggested that impairment of

doubtful debts of £5.377m is appropriate leaving the Council therefore with a short-term debt balance of approximately £19m. The Committee sought clarification of whether this approach means the Council is confident of being able to recover the monies owing and also whether this approach is appropriate given that the accounts also state that any differences between the impairment level applied and the actual arrears position will reflect in future spending patterns.

The Head of Function (Resources)/Section 151 Officer said that the Council's approach is in accordance with the Code. In considering debt the Council will have regard to the debt type, the debt value, the age of the debt following which it assesses the amount of debt it is likely to be able to recover. Whereas the Council is very proficient in collecting Council Tax and Non-Domestic Rates with an approximately 98% collection rate in-year and an approximately 99% collection rate over a period of 3 years - writing off less than 1% of the council tax debt each year – it is less proficient in collecting other sundry debts. This is because Council Tax collection is easier because of the procedures including legal procedures, underpinning the recovery process. The impairment provision represents the worst case scenario and it is very possible that the Council will collect more than the sum shown as impairment.

- The Committee noted that the External Audit fee for 2016/17 was £88k and that for 2017/18 it is £182k; the Committee sought clarification of the higher than expected increase.

The Head of Function (Resources)/Section 151 Officer said that the increase in the audit fee is due to the work undertaken by External Audit on the Housing Benefit Subsidy Grant claim and is subject to the number of errors identified. The Authority was also overcharged in the changeover of external auditors from PwC to Deloitte. The refund will be shown in next year's accounts.

Mr Gwilym Bury, WAO confirmed that the only variable in the External Audit fee is the grant related work and in particular the Housing Benefit Subsidy Grant claim which is a complex item and which can lead to additional work thereby incurring additional charges.

**It was resolved that the Audit and Governance Committee -**

- **Accepts and notes the draft Statement of Accounts for 2017/18 prior to its review by External Audit.**
- **Accepts the Annual Governance Statement for 2017/18 as a fair reflection of the Council's operations over the year.**

**ADDITIONAL ACTION: The Committee to be provided with information on how the Budget outturn figures in paragraph 3.4.1 of the narrative report are reconciled to the financial statements.**

#### **4. INTERNAL AUDIT PROGRESS UPDATE**

The report of the Head of Audit and Risk setting out the progress as at the 8 June, 2018 with regard to the Internal Audit (IA) reports issued since the Committee's previous meeting in April, 2018 was presented for the Committee's consideration. The report provided an update on the IA reports issued since 26 April, 2018; the outcome of follow up of previous IA reports; implementation of Management actions; progress in delivering the IA Annual Plans for 2017/18 and 2018/19 as well as the timeline for the review of the Committee's terms of reference.

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

- That the Internal Audit Service finalised three reports during the period referred to; these were in relation to the Recruitment and Retention of Foster Carers which resulted in a Reasonable Assurance opinion as did the review report on Corporate Health and Safety. The third report which was in relation to the Council's Preparation for the General Data Protection Regulations resulted in a Limited Assurance opinion with 6 major, 1 moderate and 1 minor risks/issues being raised.
- That no follow-up reviews were undertaken during the reporting period, although six are scheduled over the next six months.
- That the Council has steadily improved its performance in implementing IA recommendations and/or addressing risks raised by IA over the last 17 months as shown by the table in paragraph 22 of the report. As at 8 June, 2018, 90% of High/Red/Amber issues had been addressed, 92% of Medium/Yellow issues and 91% of Low/Green issues.
- That due to the significant slippage of work from 2016/17 and loss of staff because of a retirement, sickness absence and a resignation, the resource available to complete the Operational Plan for 2017/18 was significantly reduced and the Plan was revised accordingly. The revised Plan has been delivered and some audits rolled forward dependent on their priority. Although progress in delivering the 2018/19 Operational Plan (attached at Appendix A to the report) has been slow as a result of two vacancies and a long-term sickness absence, the Service has completed one Final Account Verification and commenced work in four areas as well as being involved in three ongoing investigations. The Operational Plan has been revised in accordance with the revision to the Corporate Risk Register approved by the Senior Leadership Team on 12 February, 2018.
- That the resource available to deliver the current plan has significantly reduced due to the vacancies and the absence. This has been managed by reducing coverage where possible and by the use of contingency. However, there remains a shortfall of 50 days and it is unlikely that the Service will achieve 100% coverage of the Red and Amber Residual Risks in the Corporate Risk Register. The Plan will therefore be further prioritised to ensure that the areas of greatest risk to the organisation are covered first.
- That the Committee's terms of reference were originally due to be reviewed at its September, 2017 meeting. However, at this and subsequent meetings, the Committee approved the postponement of the review until the publication of the new CIPFA guidance. This was published in May 2018 and was circulated to the Committee's members on 25 May. A workshop with members of the Committee on the new guidance was subsequently held in June; the Committee's two Lay Members have agreed to look at a draft of the new terms of reference. These will now be formally reviewed by the Committee at its September, 2018 meeting.

The Officer expanded on the IA review report on the **Council's Preparation for GDPR** which as a Limited Assurance Report, was provided to the Committee's members in full under separate cover. She said that the audit followed an interim audit of GDPR preparedness undertaken earlier in the year. The audit report back in November, 2017 provided reasonable Assurance that the Council was on track to achieve compliance with GDPR by May, 2018. The purpose of the latest audit review was to provide assurance of whether the Council had continued work implementing its plans and undertaken enough work to be in a position of compliance with GDPR by 25 May, 2018. As at the beginning of May, 2018 IA's review of the Corporate Implementation Plan and implementation of the five step Action Plan distributed to Heads of Service confirmed that services had not demonstrated enough progress in completing all the actions and the Council would be unlikely to be able to report a position of full compliance by 25 May, 2018. It was found that services had not evidenced that they had implemented the

actions required in the Action Plan in accordance with the target dates; the Council should have mapped its data and reviewed its privacy notices and policies by April, 2018. In addition, the Council should have provided training to its high-risk services. From information provided by the Corporate Information Governance Manager, it is likely that few public sector organisations will be 100 percent compliant by 25 May, 2018. However, it is vital that the Council is able to demonstrate to the Information Commissioner's Office that reasonable steps have been taken towards GDPR compliance, which will be seen as positive and less likely to incur fines. A follow-up review of this area will be undertaken in August, 2018.

The Committee considered the information presented and made the following points –

- The Committee noted that the Internal Audit review of the Council's Preparation for GDPR provided Limited Assurance only; this despite a previous interim review having provided Reasonable Assurance as to the Council's likely compliance by 25 May, 2018. The Committee noted that the Council will have been aware of the impending Regulation for a length of time and yet from the audit report, it appears to be some way off full compliance. In view of the penalties for non-compliance which can be severe both in a financial and a reputational sense and the high risk which GDPR therefore represents, the Committee sought assurance that addressing this matter is being expedited at a corporate level and that there is a plan and timescale for ensuring that the Council becomes fully compliant.

The Head of Function (Council Business)/Monitoring Officer and Senior Information Risk Owner (SIRO) (*whose report on the implementation of GDPR and the Data Protection Act 2018 (DPA 2018) across all services in the Council as at 25 May, 2018 was appended to the IA Update report*) said that although the Council along with other organisations knew that GDPR was coming into force in May, 2018 it was not published until 14 September, 2017 meaning that the contents were not known until that date. A Corporate Plan was then created to implement GDPR within the resources available. The Plan was summarised into a five stage plan intended to assist the Council's services to work towards compliance with the new legislation and to do so incrementally so as to better manage the process. The first stage of the Plan was rolled out in November 2017. The matrix at Table 1 of the SIRO's report summarises the position on 25 May, 2018 in respect of the plan by service. All the services marked Green and Amber on the list did comply with the three steps in the project in advance of the deadline ( i.e. work on fair processing notices, data mapping and retention schedules) and provided the corporate centre with the opportunity to undertake a quality assurance assessment of the work undertaken. The three services showing as Amber (Resources, Economic Development and Transformation) are likely to remain as Amber because of the nature and extent of the sensitive data they hold. With regard to the four services showing as Red, the Education Service did comply within the deadline but did so on the line on the day meaning that a quality assurance assessment of the work to verify that it meets the expectations of the ICO was not possible. Social Services (comprising Adults' Services and Children's Services) were undertaking work to secure their compliance through a dedicated officer in liaison with the Corporate Information Governance Manager; however due to the sickness absence of the Officer within the service, Social Services were not able to comply by the deadline. Since 25 May, Social Services have completed the Fair Processing Notices which have been quality assessed and confirmed as meeting the standards. They have also completed data mapping and the retention schedules but it is not yet known whether these are to corporate standards meaning there is further work to be done in these areas. The Housing Service is in a similar situation in not having met the deadline but having completed the three steps which work is now subject to a quality assurance assessment. For the services showing as Red



therefore all the material is in place, but needs to be corporately assessed to confirm it meets the requirements.

- The Committee sought clarification of the progress in addressing the specific risks raised by Internal Audit which it deemed amounted to more than a checklist that can be ticked off. The Committee further noted that after 25 May, the expectation is that GDPR is implemented as part of the Council's day to day operations meaning that it has to be part of everyday life for its employees; it sought assurance therefore that the Council is confident that it is on the way to making GDPR a normal part of its business and that Managers understand what is required of them.

The Head of Function (Council Business)/Monitoring Officer and SIRO said that the way the corporate plan was designed to answer GDPR involves five stages the completion of which will lead to compliance. The first three stages reported on above are ones for which the services are themselves responsible. The fourth stage is in relation to the policies and processes which need to be developed in order to comply with the legislation – a list of those developed to date is contained within the report; the fifth stage relates to training. The training material on GDPR is available on the Council's E-Learning Platform and will close on 30 June after which date the Senior Leadership Team and Heads of Service group (Y Penaethiaid) will be updated on the level of compliance with the training programme. The aim is to achieve full compliance with GDPR by the end of August by which time stages one to four will have been completed. The extent of compliance with training (Stage 5) will become apparent shortly, and some additional training may be required to be targeted at high risk services. Full compliance will be achieved when the five stages have been completed with the substantive work now having been done.

The Corporate Information Governance Manager said that GDPR is very complex legislation which was added to two days prior to 25 May when the Westminster Government published the final version of its Data Protection Bill implementing the Data Protection Act 2018. Therefore, as well as working on the five stages towards GDPR compliance the Authority has also had to respond at short notice to the requirements of the Data Protection Act. The Officer assured the Committee that the Council is living within the environment of GDPR and the Data Protection Act 2018 and is compliant with the legislation in as far as the Council is responding to any individual seeking to exercise his/her statutory rights. The Officer stressed that it is important to understand that compliance is not about hitting a target date and then forgetting about it as that in itself could create a risk by way of complacency; compliance is ongoing and the risk is one of not realising that an organisation is only as good as its last data breach. As regards Managers' understanding of the subject, it was sufficient for service managers to understand what was required of them under the first three stages of the Plan without having to understand the legislative details. The Council realises that it is now working in a new environment and is using the opportunity to meet with Heads of Service to check on ongoing progress and to identify any gaps and/or risks, to ensure that the first three stages complement each other and that the policies and procedures under the fourth stage are being implemented and applied.

The Head of Function (Council Business)/Monitoring Officer and SIRO said that Heads of Service are also the Information Asset Owners of the information held by their service. As the bulk of the work under the first three stages was primarily administrative it might have been a case of some services not having allocated resources soon enough to achieve the required objectives. The report has been helpful in concentrating minds and in creating sense of urgency in the run-up to the

25<sup>th</sup> May; when services' attention was focused on the work that needed to be done, they achieved the objectives with most doing so at a high and capable level.

- The Committee noted that the IA audit review report on GDPR is a cross-service report involving a number of personnel. The Committee also noted that the lines of accountability were not clear to it as regards where the responsibility for implementing the Action Plan lies. The Committee noted further that in a report of this kind affecting services across the Council a mechanism is needed to co-ordinate the action planning otherwise there is a risk of drift and of actions remaining unimplemented.

The Head of Audit and Risk said that the Action Plan highlights the responsible officer for each issue raised who are expected to report back to Internal Audit on the actions taken via the recommendations tracking software. It is Management's responsibility to ensure that the action plan is implemented; Internal Audit will chase up on Management for updates and to ensure that the recommendations are being implemented and that there is sufficient evidence thereof. If that is not the case, then the matter will be reported back to the Committee.

The Head of Function (Council Business)/Monitoring Officer and SIRO confirmed that the Corporate Information Governance Manager is responsible corporately for implementing the Action Plan.

- With regard to delivering the Internal Audit Operational Plan for 2018/19, the Committee noted that there remains a shortfall of 50 days in the available time for audit work meaning that the Red and Amber Residual Risks in the Corporate Risk Register are not likely to receive 100% coverage. The Committee noted that this was due to reduced resources with the Service carrying two vacancies and a long-term sickness absence. This being the case, the Committee was concerned that capacity constraints are preventing the Internal Audit Service from discharging its responsibilities fully; and although the Committee acknowledged that the Service is making best efforts to manage the situation by prioritising and by use of the contingency, it remained concerned that the Service is not able to cover Red and Amber Residual risk areas with the breadth and depth that it otherwise would were it fully resourced, and was concerned also by implications of the reduced coverage for managing these risk areas and the potential for risks escalating.

The Head of Audit and Risk said that the Council's Corporate Risk Register is monitored quarterly by the Senior Leadership Team and the risks contained within it are continuously evaluated and re-evaluated as circumstances change. Senior Managers also monitor risks on an ongoing basis. As can be seen from the Operational Plan in Appendix A the corporate risk rating for some Red/Amber areas has been de-escalated and/or the risk been deleted due to the residual risk reducing. The Internal Audit Service will still maintain strategic oversight of the areas that it does not plan to cover in depth and if any issues are identified then it will make arrangements to examine those areas more closely. The Officer said that she was now able to report that the Service has recruited two new members of staff, one of whom will commence in post in August and the other in October; they are bringing to the posts experience and a diverse skills set.

**It was resolved that having considered the information and the assurance provided both verbally and via the written reports, the Audit and Governance Committee -**

- **Notes Internal Audit's latest progress in terms of its service delivery, assurance provision, reviews completed, performance and effectiveness and in driving improvement.**
- **Approves the arrangements for the review of its terms and conditions.**

**ADDITIONAL ACTION: None but the Committee notes that a planned update report on GDPR is scheduled to be presented to its September meeting.**

## **5. INTERNAL AUDIT ANNUAL REPORT 2017/18**

The Annual Report of the Internal Audit Service for 2017/18 was presented for the Committee's consideration. The report provided an analysis of the performance of the IA Service for the period from 1 April, 2017 to 31 March, 2018 and contained the annual opinion of the Chief Audit Executive (i.e. the Head of Audit and Risk) on the adequacy of the Council's risk management, control and governance processes for the reporting period.

The Head of Audit and Risk reported that based on the work and activities carried out by the Internal Audit Service during 2017/18 as documented in Appendix A she was able to confirm that for the 12 months ended 31 March, 2018 the Isle of Anglesey County Council had an adequate and effective framework for risk management, governance and internal control. While she did not consider there to be any areas of significant corporate concern, some areas require the introduction or improvement of internal controls to ensure the achievement of objectives and these are the subject of monitoring. There were no qualifications to this opinion.

With regard to performance, the Officer said that a comparison of the Service's performance against target and benchmarked with the Welsh Chief Auditors Group (Appendix D) shows that it is in the top quartile in five areas and in those areas that it performs less well by comparison e.g. cost, it is because Anglesey is a smaller sized authority. The Officer also highlighted that the Internal Audit Service places value on training and development and has invested significantly to ensure that members of the team continue their professional development and stay abreast of emerging risks and developments in the sector.

The Committee considered the information provided. The Committee noted in relation to performance that against a target of 44 (compared with a WCAG average of 69), the Service's actual performance is 29. The Committee also noted that the opinion concludes that there are no areas of significant corporate concern, despite several areas where the assurance level was limited and where progress was slow or off target having been brought to its attention over the course of the year.

In relation to the Service's performance the Head of Audit and Risk said that having checked the basis for the WCAG average, she had found that some councils define an audit differently and include the verification of information as an audit hence the higher WCAG average of 61. Benchmarked with the six North Wales authorities the performance of Anglesey's Internal Audit compares well. With regard to there being no areas of corporate concern, the Head of Audit and Risk said that there are only 4 red risks now outstanding so on the balance of all the work done she could confirm that it was her view that there were no areas of significant corporate concern. There were however areas which require improving which is also noted in the opinion.

**It was resolved to accept the Annual Report of the Internal Audit Service for 2017/18 and to accept also the Head of Audit and Risk's overall audit opinion in**

**relation to the adequacy and effectiveness of the Council's framework of governance, risk management and control for the year ending 31 March, 2018.**

**ADDITIONAL ACTION: None**

## **6. EXTERNAL AUDIT: WYLFA NEWYDD READINESS AND ITS IMPACT ON CORPORATE CAPACITY**

The report of External Audit was presented for the Committee's consideration.

Mr Huw Lloyd Jones, Wales Audit Office (WAO) reported that Welsh Government Officials have discussed with the Council the potential for the Welsh Government to provide additional support given the scale and complexity of the Wylfa Newydd project. Following discussion with both the Council and Welsh Government, it was decided that the WAO would conduct a review focusing on the Council's capacity to achieve its strategic objectives, whilst managing and mitigating the risks associated with the Wylfa Newydd project. The review looked at the Council's capacity and readiness to support the delivery of the Wylfa Newydd project within the context of the Energy Island Programme and the Council's wider strategic objectives. Consideration was given to whether the Council has the plans and capacity to maximise the opportunities and mitigate the risks associated with Wylfa Newydd without compromising its ability to deliver all its priorities and services.

The Officer said that the review found that the Council has made good progress as host authority for the Wylfa Newydd project without compromising the delivery of other priorities but that a challenging period lies ahead during which close collaboration among public sector partners will be vital. The report makes three proposals for improvement. These are in relation to the need for the Council to monitor capacity on an ongoing basis as the Wylfa Newydd project progresses; the need for the Council to work with other public sector consultees to co-ordinate the assessment of risks associated with the project and to share information to enable a common understanding of the risks and how they can be mitigated ; and the need for the Council to work with public sector partners to identify lead responsibilities for developing the supply chain and increasing training opportunities across the North Wales region.

The Committee noted that there are a number of milestones to be reached before the project comes to fruition and that this element of uncertainty represents a risk particularly in terms of the financial investment that is required in making preparations for it.

The Assistant Chief Executive (Partnerships, Community and Service Improvement) said that she welcomed the report and in particular the finding that preparing for the Wylfa Newydd project has not impacted on the Council's fulfilment of its core responsibilities. The Council fully realises the extent of the work involved in preparing for Wylfa Newydd and a dedicated team has been established and appropriate structures put in place to deal with this and with the National Grid project. Tîm Cymru comprising of representatives of all the key partners has also been set up and had its initial meeting recently. However, the Council has been liaising and working collaboratively with partner organisations on the Wylfa Newydd project for a long time and has been providing support in responding to Horizon documentation including by sharing information and key documentation templates. The Officer said that the Council recognises that sharing expertise is essential and that partnership working is a two way relationship that benefits all the partners. The Isle of Anglesey County Council has been clear from the outset that there are some responsibilities which it is appropriate for the Council to lead on in accordance with the "proximity principle" whilst there are others including the development of the supply chain that will have to be addressed on a regional basis. These discussions have commenced via the North Wales

Economic Ambitions Board. Although the final investment decision is yet to be made preparations for the Wylfa Newydd project have to continue. A key element of those preparations is investment in the North Wales labour market by way of developing skills so that both the existing workforce and the unemployed population can take advantage of the employment opportunities that will become available through the Wylfa Newydd project and other economic initiatives in development in the region.

The Chief Executive welcomed the positive tenor of the report as testimony to the work of all those within the Council be they Members, Officers or staff. The report acknowledges that although the workload on Elected Members, Senior Managers and Heads of Service is heavy, they are generally coping well. The Council recognises that there is still major work to be done as the Wylfa Newydd project progresses and that this work will be undertaken in collaboration with partners. However, the Council is keen to ensure that the project results in maximum long-term legacy benefits to the residents of the Island and beyond, and the Council will work with its partners to ensure this is achieved. The Chief Executive thanked the WAO's Officers for the discussions during the fieldwork which had been valuable and productive.

The Leader of the Council said that the report was both constructive and helpful in crystallising the position. The Council as host authority has been investing in and leading on the preparations for Wylfa Newydd over the course of many years and has made a commitment to the Energy Island Programme and to obtaining and collating the information that has brought the Authority to this point. The Authority recognises that the ongoing preparations for Wylfa Newydd involves other public sector partners; it is important therefore that each partner organisation understands its responsibilities going forwards. The Leader said that she was also grateful to her fellow Members for their commitment to the process and for leaving no stone unturned in seeking clarity along the way.

**It was resolved to accept and to note the External Audit report.**

**ADDITIONAL ACTION: None**

## **7. FORWARD WORK PROGRAMME**

The report of the Head of Audit and Risk incorporating the Committee's Forward Work Programme to April, 20120 was presented for the Committee's consideration and review.

The Head of Audit and Risk said that the Committee's Work Programme is likely to change and expand following the review of its terms of reference.

**It was resolved to accept and to note the Forward Work Programme without amendment**

**ADDITIONAL ACTION: None**

**Councillor Peter Rogers  
Chair**