

AUDIT AND GOVERNANCE COMMITTEE

Minutes of the virtual meeting held on 21 July, 2020

PRESENT:	Councillor Peter Rogers (Chair) Mr Jonathan Mendoza (Lay Member) (Vice-Chair) Councillors John Griffith, G.O.Jones, R.Llewelyn Jones, Dylan Rees, Alun Roberts, Margaret Roberts. Lay Member: Mr Dilwyn Evans
IN ATTENDANCE:	Head of Function (Resources) and Section 151 Officer Head of Internal Audit & Risk (MP) Programme, Business Planning and Performance Manager (GM) (for item 4) Committee Officer (ATH)
APOLOGIES:	Councillor Richard Griffiths
ALSO PRESENT:	Councillor Llinos Medi (Leader), Councillor Robin Williams (Portfolio Member for Finance), Mr Alan Hughes (Audit Lead – Audit Wales), Chief Executive, Accountancy Services Manager (BHO), Finance Manager (CK), Principal Auditor (NRW), Senior Auditor (BJ), Head of Democratic Services, Mr Gareth Wyn Williams (Local Democracy Reporter)

The Chair welcomed all those in attendance to this virtual meeting of the Audit and Governance Committee following which introductions were made and the apology for absence was noted.

1. DECLARATION OF INTEREST

No declaration of interest was received.

2. MINUTES OF THE PREVIOUS MEETING

The minutes of the previous meeting of the Audit and Governance Committee held on 11 February, 2020 were presented and were confirmed as correct.

Arising thereon –

The Committee sought an update on the availability of the report of Audit Wales on the financial sustainability of the Council which was one of 22 such assessments of local authorities in Wales being undertaken by the Audit Wales. The Director of Function (Resources)/ Section 151 Officer advised that the first draft of the report was received for factual verification in late January/early February following which a second version updated to reflect the comments made was received towards the end of March, 2020 at the outset of the lockdown period after which it was set aside as the Council moved to respond to the emerging Covid-19 pandemic crisis. The Officer confirmed that the second draft was cleared for acceptance last week and that it is anticipated that the formal report will be published

definitively in the near future. In terms of substance, the report which was more advisory in nature and compared local authority practice and approach, has been overtaken by events with the situation having changed significantly since the draft version was issued. One of the points raised with regard to Anglesey Council was its level of financial reserves which at the time was expected to reduce further but which has since improved as the Statement of Accounts testifies to. Additionally, the Council's lack of commercial income was noted although it was recognised that the opportunities available to the Council for generating such income was limited compared to larger councils in urban areas. The Officer commented that given the situation in which councils now find themselves, the fact that the Council in Anglesey is not reliant for its financial well-being on commercial income might prove an advantage as those income streams have greatly reduced in the wake of the Covid-19 crisis. However, the Council is likely to be affected financially by the Covid-19 pandemic including by a loss of income.

3. ANNUAL TREASURY MANAGEMENT REVIEW 2019/20

The report of the Director of Function (Resources)/Section 15 Officer incorporating the Treasury Management Review for 2019/20 was presented for the Committee's consideration. The review provided a synopsis of the Council's treasury activities during the 2019/20 financial year including its approach to borrowing and investment.

The Director of Function (Resources)/Section 151 Officer highlighted the following -

- The external context and the wider factors that have influenced treasury management decisions including the state of the UK economy; interest rate performance during the year; the continued uncertainty over Brexit – especially a no-deal Brexit - and the impact of Covid-19.
- The internal factors including :
 - **The performance of capital expenditure** – the table at 3.1 shows the actual capital expenditure and how this was financed. Actual General Fund capital expenditure financed by borrowing was £2m against a projected £7m at the start of the year. The main reason for the underspend was the large underspend on the projects as listed and in particular the £4.547m underspend on 21st Century Schools programme which has been delayed by further consultation on the schemes in the Llangefni area.
 - **Reserves and cash balances** – the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources are set out in the table at 3.2 of the report and include the Council Fund General Reserve which increased from £5.912m as at 31 March, 2019 to £7.060m as at 31 March, 2020. The Council's total usable reserves and provisions stood at £31.124m at 31 March, 2020 (compared to £30.078m at 31 March, 2019).
 - **Borrowing taken out by the Council** – in March, 2020 the Council took out one short-term borrowing with the PWLB to fund planned capital expenditure to the end of the financial year. On 18 March, 2020 the Council made a borrowing of £10m (unplanned at the start of the year) with an interest rate of 2.05% to ensure it had sufficient cash in the bank going into the Covid 19 crisis in light of the uncertainty surrounding that period.
 - **Gross borrowing and the Capital Financing Requirement (CFR)** – the gross borrowing of £139.2m as at 31 March, 2020 is above the CFR as at 31 March, 2019 but is within the forecast CFR for the following two years (table 3.3.1 refers). The year end-position has exceeded the CFR because of the £10m borrowing taken out in March, 2020; also the global pandemic has meant that capital expenditure in the final month of the year was less than anticipated resulting in external borrowing

exceeding the CFR. This is for the short-term as the level of external borrowing will fall below the CFR in 2020/21 as external borrowing is repaid and capital expenditure incurred.

- **Internal borrowing** – at the beginning of the year, the internal borrowing position whereby the Council uses its own cash reserves to fund capital expenditure was £6.2m. By taking out the new £10m PWLB loan, the internal borrowing position as at 31 March, 2020 was reduced thereby putting the Council in an overfunding of CFR position meaning it held £2.3m of unused capital borrowing.
- **Other borrowings** – the Council did not enter into any other short-term borrowings. An interest free Welsh Government loan of £1.878m was received during 2019/20 to fund capital expenditure on energy saving projects and will be repaid in annual instalments.
- **Debt repayments** – a PWLB loan for £5m matured during the year on 20 May, 2019.
- **Investments** – investment activity during the year conformed to the approved strategy which puts the security of capital first followed by liquidity and then yield. Most of the Council's deposits were held in no notice deposit accounts whilst there were two loans to other local authorities. The strategy on investing surplus cash would be to borrow short term with other local authorities as a secure way to maximise returns.
- **Treasury Management Prudential Indicators** – an analysis of the difference between the actual and the forecast Prudential Indicators for 2019/20 as approved in the Treasury Management Strategy Statement for 2019/20 is provided in section 6 of the report. The key data for actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year is contained within the table at 6.1 of the report. During 2019/20 the Council complied with its legislative and regulatory requirements.
- The Council's treasury management performance during the year was in line with the strategy of low risk, low return on investments and a planned approach to borrowing to minimise interest charges. Performance against the strategy takes into account the external economic factors and is kept under regular review to ensure the strategy remains the most appropriate.
- Moving forward into 2020/21 there is a great deal of uncertainty regarding how the financial impact of the Covid-19 pandemic will unfold over time. The Council has sought to keep its cash balances at a reasonably high level of between £45m and £55m during the crisis; it has received RSG funding in advance and has continued to collect Council Tax from those who can pay meaning that its cash flow is in a healthy position. Consideration will now be given to what return can be obtained from investing any surplus cash while ensuring the security of the capital invested.

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

- That with regard to the importance of investing in business to give people encouragement and to signal that a corner has been turned in relation to the pandemic, as the country moves forward into the recovery period, organisations including local government will have a critical role in delivering the Government's aspirations and spending plans for infrastructure projects to boost the economy post lockdown. It is also likely that additional grants and capital expenditure will be made available over the course of the next few years.
- That with regard to the appropriateness of the PWLB being the Council's primary source of funding given that its average rate is 4.5% compared to the average Bank Rate at 0.1%, the average rate is based on all the Council's loans which are outstanding over a number of years dating back to a period when interest rates were considerably higher. The current rate for PWLB loans is around 2.2% and was raised by 1% late last year.

The Council has not undertaken any borrowing apart from the £10m with PWLB in March which was on a short-term basis to March, 2021. Should the Council wish to take out any long-term borrowing then it would consult with its Treasury Advisors to establish whether PWLB is the best option in those circumstances.

- That as regards the Council being in a more advantageous position because it is not dependent on commercial income for its financial health, the Council's opportunities for commercial investment are fewer than those for urban councils. However, councils that have invested heavily in commercial premises such as theatres, retail development and airports and rely on them for income are now likely to be facing greater hardship because the income from those sources has diminished significantly as they have ceased to operate over the lockdown period. Although Anglesey has experienced a loss of income because of the crisis, it is to a lesser extent than that of the larger councils in Wales and will be covered in part by its share of the £78m which Welsh Government has set aside to compensate councils for loss of income.
- With regard to the collection of Council Tax, the rate of collection was 1.5% lower in May, 2020 compared to that for May, 2019 which is due to taxpayers being allowed to defer payment of the first instalment of Council Tax from May to June this year and to the Council not having instigated any recovery action to date. Added to this is the increased costs of the Council Tax Reduction Scheme as the number of claimants rises. The true effect of the pandemic on Council Tax revenue is not likely to be felt until such point at which consideration is given to debt write-offs.

It was resolved –

- **To note that the outturn figures in the report will remain provisional until the audit of the 2019/20 Statement of Accounts is completed and signed off; any resulting significant adjustments to the figures included in the report will be reported as appropriate.**
- **To note the provisional 2019/20 prudential and treasury indicators in the report.**
- **To accept the Treasury Management Annual Review report for 2019/20, and to recommend it to the Executive without comment.**

4. DRAFT STATEMENT OF THE ACCOUNTS AND DRAFT ANNUAL GOVERNANCE STATEMENT 2019/2020

The report of the Director of Function (Resources) and Section 151 Officers incorporating the draft pre-audit Statement of the Accounts for the 2019/20 financial year along with the draft Governance Statement for 2019/20 was presented for the Committee's consideration.

The Director of Function (Resources)/Section 151 Officer prefaced his presentation of the draft Statement of Accounts by thanking the Finance Service's Accounts team for their work in successfully completing the draft accounts in line with the statutory deadline which since last year has been brought forward to the 15 June. The task this year has been made especially difficult by circumstances with the majority of staff working remotely from their homes because of the pandemic as well as contributing to the Covid-19 crisis response. The Statement of Accounts has been prepared and set out in accordance with accounting regulations and practices and is produced annually to give electors, local taxpayers, Members of the Council, employees and other interested parties information about the Council's finances and how it spends public money. The Statement in setting out information about the financial performance of the Council in a way prescribed by accounting regulations is a long and a complex document and despite the need for simplification being highlighted with CIPFA the format remains unchanged from last year.

The Officer referred to the Explanatory Narrative Report which provides background information about the Isle of Anglesey County Council and sets its financial performance in the context of the year's key achievements, issues, challenges and risks. In 2019/20, the Council reported an underspend of £0.308k against a planned activity of £135.210m (net budget) and achieved £2.205m of savings. The table at 3.4.1 reflects the final budget for 2019/20 and actual income and expenditure against it. The impact of the underspend means that the Council increased its general reserves by £0.308k to £7.060m which is 4.9% of its net revenue budget for 2020/21. The Capital Budget was underspent in the year with the total spend amounting to £30.015m against a total Capital Budget for 2019/20 of £43.907m. The subsequent main financial statements comprise the following –

- Comprehensive Income and Expenditure Statement (page 21 of the accounts) – shows the cost of providing the Authority's services during the year in accordance with accounting practices rather than the amount to be funded from taxation hence the figure of £28.161m surplus. The amount that is chargeable to council tax requires a number of adjustments which are explained in Note 1a (Note to the Expenditure and Funding Analysis 2019/20) and Note 7 (Adjustments between accounting basis and funding basis under regulations). The CIES also shows gains or losses with regard to the authority's assets and liabilities including pension liability and changes as a result of the revaluation of assets.
- Summary of Movements in Council Reserves (page 23 of the accounts) – shows the movement in the year on the different reserves held by the Council analysed between usable and unusable reserves. The Council's General Fund Balance stood at £7.06m at the end of the year; the Earmarked Reserve Fund Balance was £8.76m; the HRA Balance was £8.697m; the Capital Receipts Fund was £1.33m and School Balances amounted to £197k. The Council's total usable reserves as at 31 March, 2020 were up on the previous year's total by £1.1m standing at £25.944m.
- The Balance Sheet (Page 24 of the accounts) – shows the value of the assets and liabilities (what the Council owns and what it owes excepting highways and bridges) recognised by the Council on the Balance Sheet date of 31 March, 2020. The Balance Sheet reflects a good financial position at year end giving the Council a net value of £190.618m which is an increase of £28.162m on the previous year. The Balance Sheet also includes the figure for pension liability which although it does not come out of that year's budget is a liability that the Authority has incurred which will have to be funded in the long-term.
- The Cash Flow Statement – shows the changes in the Council's cash and cash equivalents during the financial year divided into operating, investing and financing activities.
- Notes to the core Financial Statements – provide additional information and clarify the figures in the main financial statements. Of most interest to the taxpayer are Note 8 - earmarked reserves and their purpose; Note 9 - school balances position; Note 15 - non-current assets – property, plant and equipment; Note 16 – significant capital commitments; Note 17 – heritage assets; Note 24 – Debtors; Note 26 – Creditors; Note 27 – Provisions; Note 33 - Members' allowances; Note 34 - Officers' remuneration; Note 41- Local Government Pension Scheme; Note 48 –Council Tax and Note 49 – Non-Domestic Rates.
- Annual Governance Statement – provides an overview of the governance framework that has been in place at the Council for the year ended 31 March, 2020 along with a summary of reports and reviews which comment on governance and performance issues relating to the Council.

The Programme, Business Planning and Performance Manager referred to the draft Annual Governance Statement positioned at the end of the financial statements and explained that the Statement is a statutory document whose purpose is to show that the Council's

governance arrangements comply with the core and supporting principles contained within CIPFA/ SOLACE's Framework for Delivering Good Governance in Local Government. The Council aims to achieve good standards of governance by adhering to the seven core principles in the CIPFA/SOLACE Framework. That the Council has succeeded in adhering to those principles is supported by evidence which in turn provides assurance about the effectiveness of the Council's governance arrangements. Notwithstanding, the Statement identifies areas where improvements can be made in line with the Council's commitment to continuous improvement and these include formulating a climate change action plan and re-scoping the Council's strategic direction for the next 18 months; it also updates the progress made on governance matters identified in 2018/19. It should be noted that the Internal Audit Annual Report for 2019/20 concludes that there are no issues of significantly high risk or impact that warrant inclusion in the Annual Governance Statement.

In discussing the financial statements and the AGS, the Committee raised the following points –

- The extent of the impact on the Council of the review of the Local Government Pension Scheme benefit structure in light of the McCloud judgement which ruled that protections applied to the Firefighters Pension Scheme as part of public sector reforms were unlawful because they discriminated on the grounds of age.

The Director of Function (Resources)/Section 151 Officer explained the background to the ruling on a case brought by a member of the Firefighters Service on the basis that protections afforded by that Service's Pension Scheme to members over a specific age who took early retirement were unlawful on the grounds of age discrimination. Similar protection is provided by the Local Government Pension Scheme to eligible scheme members under the 85 year rule where early retirees dependent on when they began their service, have some or all of their benefits protected from reductions. The impact of the McCloud judgement will be felt in increased pension liabilities as the Pension Fund may have to extend the protection to a greater number of members. Hymans Robertson LLP as the Gwynedd Pension Fund Actuarial Consultants took the judgement into account in their 2019 revaluation of the Fund on which the contribution rates of each Gwynedd Pension Fund employer from 1 April, 2020 was based. The Actuary's opinion is that the impact of the judgement on the LGPS fund deficit will not be as great as that anticipated as it has been factored into their assessment and that further it will not require increased contributions by the employers. A review will take place at the next triennial re-valuation of the Fund in 2022 and whilst there will be some impact on the Pension Fund deficit, those employers within the Fund with a younger staff profile are likely to be affected to a greater extent.

- Whether the enforced closure of schools because of the pandemic will affect the school balances situation and whether it results in reducing the Council's contribution to WJEC given that no examinations have taken place.

The Director of Function (Resources)/Section 151 Officer advised that school balances have fallen over recent years as of a result of the Council's financial position and the tightening of budgets although an element of protection from budget cuts has been afforded to schools. Overall the primary sector is in a better financial position than the secondary sector where two schools are in deficit - as is required those schools have formulated plans to reverse the deficit. The fact that schools have been closed has probably helped their finances as the Authority has not held back any of the delegated funding to schools because of the closure. Neither have schools incurred examination related costs as they would have had they been open as normal during the summer term. The Officer said that he was not aware of any discussions regarding the WJEC nor the expectations regarding local authorities in relation to it.

- Whether the recurring underspend on the capital budget should be reviewed in terms of its impact on treasury management.

The Director of Function (Resources)/Section 151 Officer advised that most councils underspend on their capital programmes because with large capital projects issues can arise either prior to the commencement of, or during the implementation of schemes which can affect the schedule for their completion. In the case of the Council the underspend on the 2019/20 capital programme is due in large part to the decision made by the Executive to reconsider the schools' modernisation programme in the Llangefni area thereby delaying the planned schemes for the area. For those projects whose timetable has slipped the funding for them has been secured and will carry over with them into 2020/21. The impact of the underspend on the capital programme on treasury management can be seen in reduced borrowing which in turn means the cost to the revenue budget of servicing the debt through the Minimum Revenue Provision is also reduced.

- The level of expenditure incurred by the Council in entering into partnership on the Parc Adfer new waste recycling plant and the North Wales Growth Bid and whether the Council's participation in these schemes represents value for money.

The Director of Function (Resources)/Section 151 Officer advised that the Parc Adfer facility was constructed under a partnership between five North Wales local authorities including Anglesey with the support of Welsh Government funding. It is run by a private company. The five partner local authorities pay a gate fee for the tonnage that is disposed of by the facility and for Anglesey the fee is initially higher than the fee paid under the previous waste disposal contract. Once the operation is established and is operating to the satisfaction of the Welsh Government, the latter will pay a grant to the company running the site and the gate fee will reduce to a level below the Council's previous costs thereby generating revenue savings for the Council. The North Wales Growth Bid is still ongoing in terms of the set-up work with the partners involved. The UK Government is providing funding of £120m over the next 15 years which will be match funded by Welsh Government with contributions from the private sector also. As the funding will be paid in instalments over the course of the 15 years and the project spend is likely to occur in the first few years then the partner local authorities may have to meet the initial cost of borrowing to fund the start-up costs although this remains the subject of continuing discussions. The running cost of the North Wales Economic Ambition Board is currently being funded by the partners including the local authorities, the University and colleges on the basis of a £50k contribution by each partner. The long-term funding arrangements and how they are apportioned will form part of the final agreement between the partners.

- Whether the Annual Governance Statement could be made more readable and whether the measures used by the Council to evaluate the effectiveness of its governance arrangements and the sources that inform the assurance conclusion for each principle in the 2019/20 AGS could be clarified it being noted that the Statement is not dissimilar in content to the previous year's Statement.

The Programme, Business Planning and Performance Manager explained that the work on the 2019/20 AGS was undertaken at a time when members of the team responsible for the task were also engaged on the Covid-19 response meaning that drafting the AGS was lighter than usual. The Council in 2012 adopted a Local Code of Governance which is used as a basis for the annual review of governance in terms of ensuring that the CIPFA requirements are met, and also as basis for the resulting Annual Governance Statement. In response to a comment about improving the AGS, the Officer provided

assurance that the Council is always looking to improve its Annual Governance Statement as regards presentation and accessibility.

The Vice Chair raised the issue of the all-member monthly briefing sessions referred to in the AGS which are held to inform elected members about major developments, strategies and budget proposals and he requested that the Committee's Lay Members be invited to these sessions to help them keep up to date with major developments at the Council. The Programme, Business Planning and Performance Manager said that he would refer the matter for consideration by the Chief Executive/Senior Leadership Team.

Having considered the report, it was resolved to note the draft unaudited main financial statements for 2019/20.

ADDITIONAL ACTIONS PROPOSED :

- **The Local Code of Governance to be presented to the Committee in due course prior to its being reviewed and updated.**
- **The Programme, Business Planning and Performance Manager to ask the Chief Executive/SLT to consider the propriety of inviting the Committee's 2 Lay Members to the monthly all-member briefing sessions on major developments.**

5. INTERNAL AUDIT ANNUAL REPORT 2019/20

The Annual Report of the Internal Audit Service for 2019/20 was presented for the Committee's consideration. The report outlined the Internal Audit work carried out during the year ended 31 March, 2020 based on which the Head of Audit and Risk gave her overall opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control during the year which also informs the Council's Annual Governance Statement.

The Head of Audit and Risk reported that for the 12 months ended 31 March, 2020, the Isle of Anglesey's Chief Audit Executive i.e. the Head of Audit and Risk is of the opinion that the organisation had an adequate and effective framework for risk management, governance and internal control. While the Head of Audit and Risk does not consider there to be any areas of significant 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 are no qualifications to this opinion.

The Officer said that the opinion above was reached based on the work and activities undertaken by the Internal Audit Service during the year specifically with reference to the following –

- During 2019/20, the Internal Audit Service reviewed 50% of the risks in the corporate risk register with a red or amber residual risk rating (83% over a 17 month rolling period) (Appendix A refers) and was able to provide Reasonable assurance that the Council was effectively managing all but one of the risks reviewed. The review of IT Resilience finalised towards the end of 2019/20 concluded in a Limited assurance rating and has received attention from the Senior Leadership Team.
- Of the total 21 audits finalised during 2019/20, six were awarded Substantial assurance for the arrangements for governance, risk management and internal control with no significant or material risks/issues identified compared to three in 2018/19. Thirteen reviews resulted in a reasonable assurance rating (14 in 2018/19). As in the previous year, two audits received a Limited assurance rating; two reports remain with Limited

assurance after follow-up and will continue to be reviewed to monitor the implementation of the risks raised.

- No audits received “No” assurance and no Critical (red) issues/risk were raised during the year. There are no red issues/risks currently outstanding.
- Where Internal Audit has identified issues/risks, Management has accepted them all
- During 2019/20 Internal Audit found senior management at the Council to be supportive and responsive to the issues raised.
- There were no issues deemed to be of a significantly high risk or impact to warrant inclusion in the Annual Governance Statement

With regard to performance, the Internal Audit Service has in place a quality assurance, and improvement programme to ensure continuous improvement. The Service has performed well during the year against the targets agreed with the Audit and Governance Committee as part of the Strategy for 2019/20 (Appendix D) with 3 out of 5 indicators meeting or surpassing their targets. The service has performed less well in terms of the percentage of the red and amber residual risks reviewed and in respect of its staffing complement with staff lost again in the year to promotion, secondment and long-term absence. The service has also benchmarked its performance against the 22 members of the Welsh Chief Auditors Group (although only 19 participate) and despite not benefiting in terms of economies of scale with Anglesey being a small authority based on population, the service achieved top quartile performance for completing audits within planned time and for client satisfaction. An external assessment of the Council's Internal Audit Service in March 2017 provided assurance that the Service “generally conforms” with the Public Sector Internal Audit Standards which is the top assessment available to the assessor.

Going forwards, the experience from last year as well as that gained during the emergency response to Covid-19 has provided valuable learning and, together with two new members of staff, new risk management software and upgraded action tracking software, will place the Internal Audit team in a good position to ensure the delivery of its plan and to continue to support the Council as a key component of its governance structure.

The Committee considered the report and discussed the following issues –

- Further clarity on the performance measures set out in Appendix D to the report which compared performance against targets and benchmarked with the Welsh Chief Auditors Group which to the Committee appeared high and not reflective of actual performance within the twelve month period.

The Head of Audit and Risk clarified that the audits completed within planned time are those that have been completed within the timescale allocated to them i.e. 100% in 2019/20. Higher targets – agreed in February, 2020 – have been set for 2020/21 but these are now likely to prove unrealistic and to be of minimal value in light of the changed circumstances which Covid-19 has created. However, although the Service did not achieve its target of auditing 80% of the red and amber residual risks on the corporate risk register within the twelve month period of 2019/20, it did achieve 83% over the longer time timeframe of 18 months from November, 2018 to April, 2020 thereby providing the Committee with assurance that the major risk areas have been covered. The Committee was further advised that the coverage is now up to 86% with only 2 of the red/amber residual risk areas remaining unaudited.

In response to a further question about the adequacy of its staffing levels, the Head of Audit and Risk advised that half of the Internal Audit team has been redeployed to the Covid-19 emergency response meaning that two out of the five members of the team are currently undertaking audit work while the response to the Covid-19 emergency remains

live. The two full time posts advertised earlier in the year have each been filled on a part-time basis with one appointee having commenced in post in June and the other due to commence in August. Notwithstanding the reduction in capacity, the work which the Internal Audit Service has undertaken this year has been significant and has involved carrying out a review of the Council's response to the Covid-19 emergency including whether the arrangements it had in place for governance, IT provision, evidence gathering and data analysis, and engagement and collaboration were safe, robust, effective and fit for purpose. This work has also shown the Internal Audit Service to be flexible and adaptive in being able to change its plans and focus in response to the changing risk environment. Going forwards the Service will be concentrating on the immediate priority areas as agreed with the Senior Leadership Team which may mean that other aspects of work e.g. the Audit Committee's self-assessment will be delayed.

- Whether the new working environment wherein the majority of the Council's staff are working remotely from home added to reduced capacity, are likely to impact on the Internal Audit Service's ability to carry out its plans.

The Head of Audit and Risk advised that home working for the Internal Audit team is neither a new experience nor an issue in terms of productivity and does not affect the way team members do their job it not being difficult to conduct an audit in this way in terms of sharing documents. In relation to team working, working remotely has led to effective communications using technology, and more frequent team meetings have been held this way. Internal Audit and Risk Management has thrived especially as a result of the aforementioned work undertaken in relation to the emergency response team with this Authority's Internal Audit service being the only Internal Audit service nationally to conduct such a review to date. As a result CIPFA has asked the Authority to submit a case study to be shared with other internal audit teams.

- The audit review of IT resilience which resulted in Limited assurance being provided and whether the situation has since improved and whether as a connected issue, the new ways of working which the emergency has created can be supported by the Authority's IT systems going forwards.

The Head of Audit and Risk in confirming that a great deal of work had since been undertaken clarified that the limited assurance applied to the structure of the IT team with some key roles being reliant on one member of staff thereby increasing the service's vulnerability in the event that the staff occupying those roles depart or are absent. This issue has now been addressed with supporting arrangements having been put in place. A follow-up review will take place in September. In addition, as part of its review of the arrangements which the Authority had in place to respond to the Covid-19 emergency, Internal Audit looked at IT resilience including internet bandwidth and remote access capacity and found that the IT provision was effective in the context of the emergency response.

In response to a question by the Chair about the schedule for reviewing YM32 – the risk of the Council being unable to provide the necessary investment in leisure facilities to maintain the current level of provision, the Head of Audit and Risk clarified that although the risk will remain on the register, there are no immediate plans to review the risk.

- Whether having issues outstanding from 2014 shows the Authority's governance arrangements in a bad light and whether these can be dealt with promptly or abandoned.

The Head of Audit and Risk clarified that the three outstanding issues/risk from 2014 relate to System Control and segregation of Duties within Payroll. The ongoing

restructure of the payroll team has now been completed with the result that 2 of the 3 outstanding issues have been signed off. The third remains the subject of discussion.

It was resolved to accept the Internal Audit Annual Report for 2019/20 and to note that the Head of Audit and Risk is satisfied with the adequacy and effectiveness of the Council's overall arrangements for risk management, governance and internal control subject to introducing and/or improving internal controls in some areas.

NO ADDITIONAL ACTION WAS PROPOSED

6. EXTERNAL AUDIT – 2020 DRAFT AUDIT PLAN

The External Audit report incorporating the proposed Audit Plan for the 2019/20 audit year was presented for the Committee's consideration. The Plan set out the work proposed to be undertaken in relation to the financial audit and matters related thereto along with an outline of the performance audit programme and a timetable for the completion and reporting of the external audit work at the Authority. Attached to the draft Plan were two supplementary letters – the one dated April, 2020 outlining potential issues with regard to the accounts and financial audit process and timetable as a result of the Covid 19 emergency and the other dated June, 2020 which updated the performance audit work programme for 2020/21 and schedule in the wake of Covid-19.

Mr Alan Hughes, Audit Lead referred to -

- The assessment of financial audit risks as set out in Exhibit 1 of the draft Plan and clarified that the risks outlined therein are common to all public bodies that are subject to audit. At the time of its writing, the draft Plan anticipated that the Covid-19 national emergency could lead to a significant delay in the preparation and publication of accounts hence its inclusion as a risk; the situation has become clearer in the period since with the Authority succeeding in completing the draft accounts on time; the financial audit is now into its third week and is progressing meaning that the risk in terms of a delay to the issuing of the draft accounts was not realised in the case of Anglesey. As regards other areas of audit attention, the auditors will be reviewing the impact of the McCloud judgment in connection with the provision made for pension liabilities.
- The performance audit work programme and confirmed that the planned examination under the Well-being of Future Generations Act focusing on the theme of "prevention" would be postponed to be replaced by a review of local and regional arrangements for recovery. External Audit also intends to discuss with the Senior Leadership Team whether the piece of work on planning and delivering savings is one it believes will be of benefit to the Council or whether attention might be more productively directed elsewhere. The report on the assessment of the Council's financial sustainability has now been finalised and will be presented to the Committee in September; although circumstances have changed significantly since the report was commissioned it contains important general principles for ensuring the financial sustainability of the local authority.

The Committee in accepting the report noted and asked for clarification of the discrepancy between the figure of £427k in the 2019/20 draft accounts for fees payable to Audit Wales and the actual figure of £362k in the External Audit draft Audit Plan. The Director of Function (Resources)/Section 151 Officer said that he would clarify the variance with Mr Alan Hughes and report back to the Committee.

It was resolved to note and accept the External Audit draft Audit Plan for the 2019/20 audit year.

ADDITIONAL ACTION - The Director of Function (Resources)/Section 151 Officer to report back in clarification of the discrepancy between the figure for audit fees shown in the 2019/20 accounts and the figure shown in the draft Audit Plan.

**Councillor Peter Rogers
Chair**

DRAFT