

# GOVERNANCE AND AUDIT COMMITTEE

## Minutes of the hybrid meeting held on 8 December, 2022

- PRESENT:** Mr Dilwyn Evans (Lay Member) (Chair)  
Councillor Euryrn Morris (Deputy Chair)
- Councillors Geraint Bebb, Neville Evans, Dafydd Roberts, Keith Roberts, Margaret M. Roberts.
- Lay Members: Sharon Warnes, William Parry, Michael Wilson
- IN ATTENDANCE:** Chief Executive  
Director of Function (Resources) and Section 151 Officer  
Head of Internal Audit & Risk (MP)  
Head of Profession (HR) and Transformation  
Climate Change Manager (RW)  
Programme, Business Planning and Performance Manager (GM)  
Committee Officer (ATH)
- APOLOGIES:** Councillors Dyfed Wyn Jones, Liz Woods
- ALSO PRESENT:** Councillor Robin Williams (Portfolio Member for Corporate Business and Customer Satisfaction), Councillor Nicola Roberts (Portfolio Member for Planning, Public Protection and Climate Change), Alan Hughes (Performance Audit Lead – Audit Wales), Rhys Hughes (Deputy Chief Executive), Bethan H. Owen, (Accountancy Services Manager), Nanette Williams (Principal Internal Auditor), Andrew Lewis (Senior Internal Auditor)
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### 1. DECLARATION OF INTEREST

No declaration of interest was received.

### 2. MINUTES OF THE PREVIOUS MEETING

The minutes of the previous meetings of the Governance and Audit Committee held on 28 September, 2022 and 20 October, 2022 were presented and were confirmed as correct subject to the following –

- Arising on the minutes of the 28 September, 2022 meeting –
  - With regard to the Public Services Ombudsman for Wales's Annual Letter, the Head of Audit and Risk stated that she would make enquiries to confirm whether a letter had been sent to the Public Services Ombudsman for Wales to provide the assurances requested by her Office including that the Annual Letter had been considered by the Governance and Audit Committee.

- With regard to the Authority's 2021/22 financial statements and the unresolved issues previously reported which were delaying the completion of the audit of this and other local authorities in Wales's financial statements, the Director of Function (Resources)/Section 151 Officer provided an update on the position and the steps that had been taken to date to overcome those issues and confirmed that the measures taken involved the implementation of a change to the Code of Practice by CIPFA and the issuing of a Statutory Instrument by Welsh Government to allow non-compliance with the Code in relation to one of the issues which would allow the accounts to be signed off. Consequently, it is anticipated that the audit of the Authority's accounts will be concluded by early January, 2023 and the accounts confirmed in time for Welsh Government's new revised end of January deadline.
- Arising on the minutes of the 20 October, 2022 meeting –

Mr Alan Hughes, Audit Wales clarified with regard to the third bullet point under the matters raised by the Committee in relation to External Audit's Springing Forward report that the Springing Forward review had been conducted in all 22 local authorities in Wales and a local report had been issued in each case. The report and recommendations presented to the 20<sup>th</sup> October meeting were therefore specific to the Isle of Anglesey County Council. Mr Hughes said that having not been present at the meeting when the report was presented he was available to respond to questions on the report at a future meeting or otherwise should the Committee so wish.

The Chair thanked Mr Alan Hughes for the clarification and asked Members to address any questions they might have on the Springing Forward report directly to Mr Hughes outside of this meeting.

### **3. REVIEW OF AUDIT WALES AND ZURICH RISK ENGINEERING REPORTS RELATING TO CLIMATE CHANGE RESPONSE IN THE PUBLIC SECTOR AND THE ISLE OF ANGLESEY COUNTY COUNCIL**

The report of the Chief Executive setting out the Council's analysis of the recommendations made in Audit Wales and Zurich Risk Engineering reports in relation to climate change response along with the actions identified by the Council to strengthen its approach to climate change was presented for the Committee's consideration. Also attached was a letter by Audit Wales which provided an update and summary of the Council's decarbonisation progress.

Councillor Nicola Roberts, Portfolio Member for Planning, Public Protection and Climate Change presented the reports which included a report by the Auditor General for Wales on public sector readiness for net zero carbon by 2030 and a climate health check report by Zurich Risk Engineering which was commissioned by the Council as an initial assessment of the Authority's response to climate change. She welcomed both reports and highlighted the Council's response which identifies changes to be implemented over the short, medium and long-term to ensure that its approach to climate change is fit for purpose.

Overall, it is fair to conclude that the Council is on the right track with its approach to delivering net zero at this point and the Council's Towards Net Zero Plan identifies the path ahead for the Council with its specific programme areas. This conclusion however must be qualified by keeping in mind that significant actions and changes are still required for the Council to realistically reach its net zero target.

The Chief Executive set the context saying that in September, 2020 the Council declared a Climate Emergency and made a commitment to become a net zero Council by 2030. As part of that commitment a Net Zero Plan was adopted by the Council in March, 2022; funding has been also earmarked for climate change purposes and a Climate Change Programme Manager role has been created to co-ordinate and drive the changes forward at a corporate level. Although significant progress has been made the Council recognises that it is at an early stage of the journey towards achieving net zero. Notwithstanding its determination and desire to take action and to contribute to decarbonisation, the Council also acknowledges that due to the challenging financial situation achieving the net zero target will be difficult and consequently it cannot predict with any certainty that the target will be met by 2030 although the Committee can be assured that the Council will continue to strive to deliver that outcome. A critical piece of work that is underway is creating a baseline which will help the Council establish its current position and on that basis develop specific targets and monitor progress; further as it prioritises interventions, investments and changes the baseline will help gauge their impact in terms of carbon emissions and the environment. Embedding climate action within the Council's day to day activities and processes involves a culture change and introduces a new element to the Council's operations. A carbon literacy training programme is to be rolled out in the New Year.

The Chief Executive's assessment was affirmed by the Climate Change Manager.

In considering the documentation, the Committee discussed the following –

- The energy savings from measures already taken e.g. the installation of solar panels on Council buildings. The Climate Change Manager confirmed that investments to improve the energy efficiency of buildings will bring benefits and savings in the long term and are part of the business case.
- The metrics used to measure progress and whether those will be bespoke and developed internally within the Council or already available and off the shelf. The Climate Change Manager advised that the intention is to follow the guidelines issued by Welsh Government in the form of the Welsh Public Sector Net Zero Carbon Reporting Guide and Spreadsheet and that the baseline and general picture which the Council are developing will be on that basis too.
- The short and medium-term costs of achieving the net zero target and whether the Council has begun to estimate those costs, and in light of the recognition by Wales Audit that finance is cited by public sector bodies as the greatest barrier to achieving the net zero ambition, whether additional funding will be made available by Welsh Government the thinking being that the costs of meeting the net zero target should not be met from the Council's core funding.

The Chief Executive advised that while it is impossible to estimate the costs in their totality, the work of assessing costs has begun in a number of areas where that is feasible, for example replacing the Council's fleet vehicles with electric powered vehicles and making the Council's housing stock carbon neutral. Assessing cost is further complicated by rising inflation which is why it is important in forward planning to focus on the next two to three years and to use the baseline to identify where the Council can invest to secure the greatest benefits in terms of the environment while being mindful of the longer term requirements and financial implications. As part of the process, a change of mind-set is needed to use the many grants which the Council is awarded for various purposes to also move the net zero agenda forward as opposed to letting the cost fall on the Council's core budget. As regards funding the issue for the Council is determining its priorities in the midst of a cost of living crisis which is the latest in a number of crisis situations it has had to deal with including the pandemic and climate change. Should there be no additional financial support to progress the decarbonisation programme then

the Council will have to do the best it can within the resources available to it. Public sector bodies received additional funding to carry out the extra work that was needed to respond to the pandemic and while grants are available for various aspects of decarbonisation work, the funding is not on the same level as that provided for the Covid-19 emergency.

The Director of Function (Resources)/Section 151 Officer advised that the Council's foremost priority is funding the services it provides and safeguarding those services as the budget situation worsens as it is expected to do in the next two years. Making additional investment in decarbonisation initiatives is therefore difficult in those circumstances and while the delivery of services is likely to be prioritised, the Council will still have to find ways of moving towards achieving the 2030 net zero target. Given the current financial crisis, the challenge would be significant even with additional support but without it, the target is unlikely to be met.

In following up the responses the Committee wanted to know whether the Council is at risk of losing grant funding if it is not able to demonstrate progress in moving towards the 2030 net zero target.

The Chief Executive confirmed that Welsh Government is soon likely to be looking for evidence of carbon reduction in assessing projects for grant funding which makes having a baseline in place to be able to measure progress and record milestones all the more important. Although it is not thought the Council will face criticism on account of its current position since it already has undertaken considerable work with regard to its schools estate and housing for example, the risk is in missing out on grant opportunities which are increasingly likely to come from a green perspective meaning that it is essential that the Council is able to show the positive impact of its work on the environment and on reducing carbon emissions.

- Whether the Council has considered enlisting the support, expertise and experiences of third parties to achieve its net zero ambition.

The Chief Executive advised that the Council's immediate priority is to establish its own position and to identify how and where its efforts need to be targeted to make a difference; this will be driven by the baseline which in turn will drive options including bringing in third parties. Aside from that the Council has an important role as a community leader to be influencing actions and would like in due course to see a community based net zero environmental enhancement programme being implemented which would open up opportunities for third party partnerships.

In response to a question by the Chair about the steps the Council is going to take to achieve its net zero ambition, the Chief Executive advised that the baseline will act as the foundation for all other actions; creating a dashboard version of the baseline will provide a visual representation that makes it easier to identify trends and changes with the aim being to develop an automated baseline that can be easily updated. He suggested that the Committee be updated on progress in the spring, 2023 with the aim also of bringing the baseline and dashboard to the Committee to enable it to gain a better sense of the impact of the Council's work in responding to climate change.

**It was resolved to note the Wales Audit and Zurich Risk Municipal reports and to note also that the Committee takes assurance that both reports have been reviewed and changes identified to improve the Council's approach in responding to climate change.**

**Other Action – the Committee to be updated on progress in spring 2023.**

#### **4. COUNTER FRAUD, BRIBERY AND CORRUPTION STRATEGY 2022-2025**

The report of the Head of Audit and Risk incorporating the Counter Fraud, Bribery and Corruption Strategy 2022-2025 was presented for the Committee's consideration. The report set out the activity that Internal Audit will carry out during 2022-25 to minimise the risk of fraud, bribery and corruption occurring within and against the Council.

The Head of Audit and Risk in presenting the report said that the purpose of the strategy is to ensure that the Isle of Anglesey County Council does all that it can to address this threat and minimise the risk of fraud and corruption occurring; at a time of increasing financial pressure, it is more important than ever for all public bodies in Wales to seek to minimise the risk of losses through fraud. She provided an overview of current and emerging fraud risk areas with cyber related fraud considered to be among the highest risk areas; this has been recognised by the Isle of Anglesey County Council and as such has been included on the Council's strategic risk register. In formulating the strategy consideration was given to CIPFA's 2014 Code of Practice on Managing the Risk of Fraud and Corruption which sets out best practice for counter-fraud work in local government based on five principles which are outlined in the report. The strategy also has regard to a more recent publication also endorsed by CIPFA which is the Fighting Fraud and Corruption Locally: A Strategy for the 2020s document which is the overarching counter fraud and corruption strategy for local government in England and which has been used to underpin the Authority's strategic focus. Progress against the strategy and the activities required to achieve its objectives as detailed at Appendix 2 will be reported to the Governance and Audit Committee and will be subject to continuous review.

In response to questions by the Committee, the Head of Audit and Risk confirmed that as with many other local authorities, cyber related risks are those to which the Authority is most exposed. She referred to an Audit Wales report which cautioned against complacency on account of the size of the authority highlighting that cyber threats are pervasive and continually evolving. Similarly with schools where cyber-attacks also pose the highest high risk meaning that ensuring systems are regularly patched and upgraded and school personnel are trained to be aware of and alert to scams are vitally important.

The Chair suggested that "detection" might usefully be included in the strategic objectives also.

**It was resolved to accept and to note Internal Audit's strategy for countering fraud, bribery and corruption for 2022-2025.**

#### **5. TREASURY MANAGEMENT MID-YEAR REVIEW 2022/23**

The report of the Director of Function (Resources)/Section 151 Officer incorporating the mid-year review of treasury management activities and position was presented for the Committee's consideration. The report was written in accordance with the requirements of CIPFA's Code of Practice on Treasury Management (revised 2017) and provided an update on the position in light of the updated economic position and budgetary changes already approved.

The Director of Function (Resources)/Section 151 Officer advised that the Council's investment strategy remains to ensure security of capital and liquidity and to obtain an appropriate level of return which is consistent with the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs but also to seek out value available in periods up to 12 months with high credit rated financial institutions. A full list of investments as at 30 September, 2022 was provided at Appendix 3 with a summary of investments and rates at Appendix 4. The table at 5.7 of

the report shows a list of investments made during the first half of the financial year and given that security of funds is a key indicator for the Council and the lack of demand from other local authorities, bank call accounts are seen as the most secure way of investing funds. The approved limits within the Annual Investment Strategy were not breached during the first six months of the year; however it is being requested that in light of increased cash balances and demand from other local authorities, the limit for lending to other local authorities is increased from £5m to £10m in order to avail of the best possible investment opportunities. The Council's investment return to the end of Quarter 2 is £200k with the budget projected to overachieve at year end. The rise in interest rates has led to improved returns and will increase the level of investment income the Council is able to budget for and achieve in 2023/24.

The Council continues to maintain a strategy of using available cash balances where possible to support capital expenditure. The Council has projected year end borrowings of £122.7m and will have used £24.2m of cash flow funds in lieu of borrowing. No borrowing was undertaken in the first half of the financial year and it is not anticipated that any additional borrowing will need to be undertaken during the second half of the financial year. The capital programme is being kept under regular review due to the effects of inflationary pressures and shortages of materials and labour and the Council's borrowing strategy will also be regularly reviewed and then revised if necessary in order to achieve optimum value and risk exposure in the long-term.

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30 September, 2022 the Council has operated within the treasury and prudential indicators set out in the Council's 2022/23 Treasury Management Strategy Statement and no difficulties in complying with these indicators are envisaged for the current or future years.

The Committee in considering the report raised the following issues –

- The reasons for and security of lending and borrowing between local authorities and whether increasing the limits for lending to other local authorities to £10m is a credit risk given that many authorities are under financial pressure and given that income from interest earned in the markets generally is forecast to be much higher in 2023/24 thereby reducing the need for exposure to a sector that is thought to be cash strapped.

The Director of Function (Resources)/Section 151 Officer advised that the Council undertakes due diligence with regard to the local authorities to which it provides loans by examining their most recent accounts, and that its lending is predominantly with other local authorities in Wales. Lending between authorities is generally regarded as a safe and low-risk option and as such it benefits the lending authority while the borrowing authority is able to obtain a better rate than might be found with other sources such as the PWLB especially in the short term for specific projects or for cash flow purposes at certain times of the year. The improved end of year investment income forecast includes the returns to be gained from investing with other local authorities. While the increased £10m limit will expand investment opportunities, the Council's strategy remains to protect its capital and ensure sufficient liquidity ahead of maximising returns and it will not use the increased maximum limit simply to pursue returns for their own sake nor would it necessarily use the limit straightaway. The Section 151 Officer said that the risk of a local authority failing financially and being unable to repay its debts is very low.

- Whether the Council's estimates for capital expenditure are realistic given the regular underspend on the capital budget with only £17.465m spent as at 30 September, 2022 leaving £28.8m remaining to be spent in the second half of the financial year.

The Director of Function (Resources)/Section 151 Officer advised that the point raised previously about slippage has been noted; the Housing Revenue Account budget has been reviewed following which the Executive has agreed a reduction in the budget on the basis that there were not enough housing development schemes to take up the provision in the HRA Business Plan. While the underspend on the capital budget was in the region of 40% for 2021/22 it will be nearer 11% for 2022/23 which is a significant improvement. Issues have arisen this year around high tender prices which has made it necessary in some cases to review contract specifications leading to delays; weather issues linked to the winter period can also delay the progress of capital projects.

**It was resolved –**

- **To recommend to the Executive that the change in counterparty limit to other local authorities as per section 5.3 of the report is put forward by the Executive and approved by the Full Council.**
- **To note the Treasury Management Mid-Year Review report 2022/23 and to forward the report to the Executive without further comment.**

## **6. INTERNAL AUDIT UPDATE**

The report of the Head of Audit and Risk providing an update as of 30 November, 2022 on the audits completed since the previous update to the Committee in September, 2022 was presented for the Committee's consideration. The report also set out the current workload of Internal Audit and its priorities for the short to medium term going forward. Members of the Committee were provided with copies of the three pieces of assurance work completed in the period in relation to Financial Resilience (Reasonable Assurance); Cash Handling at Cyswllt Môn (Reasonable Assurance) and Council Tax and Non Domestic Rates Refunds (Reasonable Assurance) under separate cover. A fourth report in the form of a Climate Change Health Check was issued by Zurich Municipal Risk Engineers who were commissioned to review this area of the Council's work in order to help it gain a better understanding of the key risk exposures and improvements required to manage this risk and to support the Council's objective of achieving net zero status by 2030. The health check report was the subject of a separate agenda item.

The Head of Audit and Risk highlighted the Financial Resilience assurance report as a key area and an identified strategic risk on the corporate risk register, and she explained that the internal audit review had sought to establish whether the Council has adequate arrangements in place to manage the implications of real term funding reductions to ensure that it continues to achieve its priorities and delivers quality services. The review found that within the scope of its control, the Council does have a framework of effective controls in place to manage the implications of real term funding reductions but despite this, it is clear that the Council faces difficult decisions over the next two years due to the current challenging and unpredictable economic climate. This conclusion was reached on the basis that the Council operates an effective budget monitoring process as well as a policy to retain 5% of its net revenue budget in general reserves which helps mitigate against financial risks; it has a fully developed Medium Term Financial Plan which projects the Council's likely resource requirements and funding availability over a two year period, and it has outlined a number of key financial performance indicators which are tracked through the quarterly corporate scorecard. However, the Council could benefit from utilising CIPFA's five indicators of public sector financial resilience as shown in Appendix 1 to the review report in order to help it assess its longer term financial resilience.

The Committee considered the internal audit update report and in the context of the Financial Resilience review the issue of school reserves was discussed, specifically whether

excess balances held on school budgets can be transferred and used elsewhere. The Director of Function (Resources)/Section 151 Officer explained the process for managing school surplus balances and confirmed that schools can retain an underspend on their annual budget unless the figure exceeds a 10% threshold and the school is not able to demonstrate that it has plans to use the surplus. In that case the Authority would be able to claw back any funding above the threshold and all such funding would be returned to the schools budget to be re-allocated through the funding formula meaning that schools with little or no reserves cannot be targeted for support. Schools have balances for a number of reasons for example to manage unexpected circumstances and fluctuations in expenditure. The funding formula can be affected by the size of a school's pupil population be that a reduction or expansion in number; where a school in any one year is reducing in pupil numbers, it is reasonable that it should draw on its reserves to smooth the impact in the short-term.

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

## **7. INTERNAL AUDIT CHARTER**

The report of the Head of Audit and Risk incorporating the Internal Audit Charter was presented for the Committee's consideration. The Internal Audit Charter defines the purpose, authority and responsibility of the internal audit activity within the Council.

The Head of Audit and Risk advised that the Public Sector Internal Audit Standards (PSIAS) require the internal audit activity to implement an Internal Audit Charter approved by the Governance and Audit Committee. The Governance and Audit Committee last reviewed and approved the Charter in December, 2021. The Head of Audit and Risk has undertaken a review to ensure continued appropriateness which has not identified any significant changes.

The Committee in reviewing the Charter, queried the appropriateness of the term "customers" to define the recipients of Internal Audit's services with its suggestion that the services are being paid for by local taxpayers. The Committee was advised that in this context the term is being use in an all-encompassing way and applies to those who benefit from the work of Internal Audit which includes the Council in general and its other services, the Strategic Leadership Team, Heads of Service and the Governance and Audit Committee who receive the annual audit opinion on the overall adequacy and effectiveness of the Council's risk management, control and governance processes. It is then part of the Governance and Audit Committee's role to ensure for local taxpayers that the Council is using its resources wisely and that its arrangements for securing value for money are effective.

The Head of Audit and Risk said that she would review the sentence in which the term "customer" is used to clarify whom it refers to.

**It was resolved to note the review and to approve the continued appropriateness of the Internal Audit Charter.**

## **8. NATIONAL REVIEWS AND THEIR RELATED RECOMMENDATIONS**

The report of the Head of Profession (HR) and Transformation setting out the Council's response to recognised national reports and associated recommendations published by regulators was presented for the Committee's consideration. The report which was presented by Councillor Robin Williams, Portfolio Member for Finance, Corporate Business and Customer Satisfaction sought to provide assurance that the recommendations attached to national reports have been given due consideration by the County Council and that relevant recommendations are being implemented in a meaningful way. Updates against the



work which the Council has undertaken over the past 12 months were provided in relation to eleven reviews and four new reviews from 2022 were included along with the Council's response to the recommendations they contain. In addition, four reviews were proposed for removal as no longer requiring monitoring as in the case of the two Covid-19 related reports the circumstances no longer apply, for the Scrutiny related review the recommendations are considered as having been met and for the review in relation to the financial management and governance of Town and Community Councils, the County Council is not responsible for those councils' finances nor for implementing the recommendations of the report.

In response to a question about national reviews where relevant being considered by Scrutiny, the Programme, Business Planning and Performance Manager confirmed that depending on the content, national reviews are passed on to Scrutiny for its consideration; he further advised that the report seeks to provide assurance that recommendations arising from national reviews are dealt with appropriately by the Council in what is a rolling programme where reviews are removed once they have been addressed, and new reviews are added as they are issued.

It was suggested that where national reviews are presented to Scrutiny for consideration, it would be helpful for the action points to be highlighted. The Head of Profession (HR) and Transformation said that she noted the suggestion and that it would be brought to Scrutiny's attention.

**It was resolved to accept and to note the responses and updates provided as an accurate reflection of the County Council's annual update against the related recommendations.**

## **9. LOCAL CODE OF GOVERNANCE 2023-28**

The report of the Head of Profession (HR) and Transformation incorporating the draft Local Code of Governance 2023-2028 was presented for the Committee's consideration. The Local Code of Governance sets out the Council's approach to delivering good governance across the Council's services through the development, adoption and implementation of appropriate policies and procedures.

The report was presented by Councillor Robin Williams, Portfolio Member for Finance, Corporate Business and Customer Satisfaction who said that the Local Code had been prepared in accordance with the seven core (and supporting) principles contained within the Framework for Delivering Good Governance (CIPFA/Solace) 2016 and that the document is used as the basis for the annual review of governance for the County Council. The Portfolio Member confirmed that the Local Code of Governance has been through an internal review process during 2022/23 via the Performance and Governance Review Group (inclusive of Internal Audit) and the Leadership Team and that the sources of assurance noted against each principle have been updated.

The Committee in reviewing the document highlighted the following –

- Inconsistency in meaning between the Welsh and English versions of the document with reference to the third core principle of good governance (*Defining outcomes in terms of sustainable economic, social and environmental benefits*) where the phrasing in the Welsh version implies that only the economic benefits should be sustainable and not the social and environmental benefits as well.
- Whether the document which is forward looking and will apply to the period from 2023 to 2028 should have as a reference point the current Council Plan which comes to an end in 2022.

The Programme, Business Planning and Performance Manager in saying that he would review the phrasing of the Welsh version as regards the point made and would amend accordingly, further advised with reference to the Council Plan that the commitments set out in the document demonstrate what the Council is seeking to achieve with the evidence that these have been fulfilled provided by the sources of assurance. The evidence in terms of the new Council Plan for 2023 to 2028 is not yet in place.

**It was resolved to accept the draft Local Code of Governance as an accurate reflection subject to the minor amendment to the Welsh version as outlined.**

## **10. REVIEW OF FORWARD WORK PROGRAMME**

The report of the Head of Audit and Risk incorporating the updated Forward Work Programme for 2022-23 was presented for the Committee's consideration and the changes as regards the cancellation of the 23 November, 2022 meeting and the addition of the 18 January, 2023 meeting were noted. The non-presentation of the Partnerships and Regeneration Scrutiny Committee Annual Report 2021-22 was queried which the Head of Audit and Risk confirmed she would follow up.

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

**Mr Dilwyn Evans  
(Chair)**