

GOVERNANCE AND AUDIT COMMITTEE

Minutes of the hybrid meeting held on 18 April, 2023

PRESENT:	Mr Dilwyn Evans (Lay Member) (Chair) Councillor Euryrn Morris (Deputy Chair) Councillors Dyfed Wyn Jones, Geraint Bebb, Dafydd Roberts, Keith Roberts, Margaret M. Roberts, Liz Wood. Lay Members: William Parry, Sharon Warnes, Michael Wilson
IN ATTENDANCE:	Director of Function (Resources) and Section 151 Officer Head of Audit and Risk Principal Auditor (NW) Risk and Insurance Manager (JJ) (for item 8) Programme, Business Planning and Performance Manager (for items 3 and 4) Service Manager (Community Housing) (LIW) (for item 7) Committee Officer (ATH)
APOLOGIES:	Councillor Alun Roberts (Portfolio Member for Adults' Services and Community Safety)
ALSO PRESENT:	Councillor Robin Williams (Portfolio Member for Finance), Councillor Neville Evans (Portfolio Member for Leisure, Tourism and Maritime), Alan Hughes (Performance Audit Lead – Audit Wales), Yvonne Thomas (Financial Audit Manager – Audit Wales), Bethan H. Owen (Accountancy Services Manager), Andrew Lewis (Senior Auditor), Bryn Owen (Senior Auditor)

1. DECLARATION OF INTEREST

No declaration of interest was received.

2. MINUTES OF THE PREVIOUS MEETING

The minutes of the previous meeting of the Governance and Audit Committee held on 7 February, 2023 were presented and were confirmed as correct.

With regard to the further action under item 8 on the minutes with regard to the status of the Strategic Risk Register as an exempt or public item on the Committee's agenda, the Head of Audit and Risk confirmed that having taken advice from the Chief Executive and Director of Function (Council Business)/ Monitoring Officer as requested, the Strategic Risk Register will in future be discussed in open session.

3. EXTERNAL AUDIT: ISLE OF ANGLESEY COUNTY COUNCIL – ANNUAL AUDIT SUMMARY 2022

The report of Audit Wales summarising the work completed by Audit Wales since the last Annual Audit Summary in 2021 was presented for the Committee's information. The

summary forms part of the Auditor General for Wales' duties encompassing continuous improvement; audit of accounts; value for money and the sustainable development principle.

Yvonne Thomas, Audit Wales Financial Audit Manager provided an overview of the financial audit work undertaken during the period confirming that the Auditor General gave an unqualified true and fair opinion on the Council's financial statements on 31 January, 2023. The Auditor General also has responsibility for the certification of a number of grant claims. The audit of the Teachers' Pension and Non-Domestic Rates returns have by now been completed. The 2019-20 Housing Benefit Subsidy was certified on 22 December, 2022 and significant progress has now been made on auditing the 2020-21 Housing Benefits Subsidy.

Alan Hughes, Audit Wales' Performance Lead referred to work carried out to review the Council's value for money arrangements which focused on aspects relating to the Local Government and Elections Act (Wales) 2021 and Carbon reduction plans. During 2021-22 work to examine how councils are strengthening their ability to transform, adapt and maintain the delivery of services was undertaken with the focus on Anglesey on the Council's strategic management of its assets and workforce through the Springing Forward review. Also reviewed was the Council's progress to accurate processing and timely certification of the Housing Benefit Subsidy claim. With the exception of the Local Government and Elections Act (Wales) 2021 Letter, the findings of the review work and the Council's response to them have been reported to the Governance and Audit Committee and an update on the outstanding item will be provided in due course. In addition to local work at each council, studies across the local government sector are carried out in order to make recommendations for improving value for money with councils expected to consider those recommendations and apply them where relevant; the studies published since the last annual improvement report are set out in the report.

In considering the audit summary report the Committee raised the following points specifically in relation to the statement of key facts –

- Clarification of the second key fact wherein it was stated that the Isle of Anglesey County Council has 2.3% of its 44 areas considered to be within the most deprived 10% of areas in Wales.
- The potential impact of a declining population – the Island's population being projected to decrease by 1% between 2020 and 2040 – on service planning and provision.
- Recognition that a predicted 23% increase in the number of people aged 65 or over is likely to pose a challenge for local authority service provision

The Committee was advised that the Isle of Anglesey Local Authority has 44 "areas", also referred to as Lower layer Super Output Areas (LSOAs). One of the 44 LSOAs in Anglesey is within the most deprived 10% of areas in Wales which equates to 2.3%. It was confirmed that the figures are based on the best available information and that population numbers do fluctuate and are influenced by a number of factors and events including economic prosperity which in turn have a bearing on migration.

It was resolved to note the Annual Audit Summary 2022.

4. EXTERNAL AUDIT: AUDIT WALES WORK PROGRAMME AND TIMETABLE – ISLE OF ANGLESEY COUNTY COUNCIL

The report of Audit Wales incorporating the quarterly update as at 31 December, 2022 on the progress of Audit Wales' work programme and timetable was presented for the Committee's consideration. Also included in the report was an update on the status of work by Estyn and Care Inspectorate Wales.

Yvonne Thomas, Audit Wales Financial Audit Manager updated the Committee on the progress of financial audit work confirming the completion of the audit of the Council's financial statements in January, 2023; the certification of Non-Domestic Rates return in March, 2023 and audit of Teachers Pension contributions for 2021-22 at the beginning of April, 2023. Certification of the Housing Benefit Subsidy Grant return for 2020-21 is still in progress and work on the Housing Benefit Subsidy Grant Return for 2021-22 has commenced.

Alan Hughes, Audit Wales' Performance Lead confirmed that most of the 2021-22 performance audit work had been completed and that work under the 2022-23 performance audit programme is at various stages of progress as documented in the report with the programme timetable having slipped slightly. However, he expected to be reporting to the Governance and Audit Committee on the outcome of the reviews as listed over the coming months.

The Committee in noting that Housing Benefits Grant Subsidy certification was still not up to date asked the Director of Function (Resources)/Section 151 Officer to clarify the situation.

The Section 151 Officer referred to the HB grant subsidy claim return certification process and explained that the outcome of the audit of one year's HB subsidy claims return influences the subsequent year's work in as much as errors identified by the auditors on the conclusion of one year's audit then means the Council being asked to carry out additional CAKE testing the following year. This involves extra work and if any further errors are identified leads to additional testing the next year in a repeating pattern that has contributed to the backlog in recent years. Also, co-ordinating external auditor and Finance Service capacity and time to enable the extra work to be done has been a challenge. While the 2019-20 HB subsidy grant claim return has now been certified, it has required further testing at the outset of the 2020-21 HB grant subsidy claim certification process; this work is now substantially complete with the auditors having also concluded their initial sample testing with some queries arising therefrom needing to be addressed. Although the Council is undertaking further testing on specific elements of errors identified from the initial sample testing it is hoped the claim can be certified by the end of May, 2023. The Council has also been simultaneously working on the 2021/22 HB subsidy claim return and has progressed elements of the CAKE testing the aim being to address the results of the auditors' sample testing over the summer months. Resources permitting, certification of the claim should be completed by the end of September. The timetable set by the DWP for the completion of the 2022/23 audit is the end of November, 2023 unless an extension to the schedule is again granted to allow for Covid related pressures. Although it is unlikely that the audit of the 2022/23 subsidy claim will be completed by this deadline, the Council will be in a much better position and will complete the audit early in 2024. Following the departure of the officer responsible for HB subsidy, agency staff have been engaged to undertake the work supported by a secondment. The staffing structure is being reviewed to strengthen the resource allocated to HB subsidy work and implement an ongoing checking regime with a view to reducing the number of errors thereby expediting the process in also reducing the amount of CAKE testing required the following year.

In response to further questions by the Committee regarding the 2022/23 audit and associated considerations, Audit Wales clarified the following –

- That revisions to ISA 315 requiring auditors to undertake a risk identification and assessment process ahead of putting together the audit plan has had a bearing on the audit cycle and means that the final detailed audit plan will not be presented to the Committee until the summer. A draft outline plan has been drawn up and shared with the Council for agreement after which it will be brought to the Committee.

- That carrying out the risk assessment work and what that entails in terms of staff resources will be reflected in a higher audit fee for 2022/23. A letter outlining the changes and what they mean for the audit timetable has been issued to the Council.
- That as regards the risk assessment work adding to the pressures on auditors and the audit process and potentially leading to slippage at a time when efforts are being made to clear the backlog with the HB subsidy claim work, the new requirements have led to a reappraisal of how the work is approached and performed across the audit sector including what skill set is required at different stages of the process and lessons will be learnt from implementing the changes in practice.
- That completion of the 2022/23 financial audit by the end of November, 2023 remains the objective.

It was resolved to note the Audit Wales Programme and Timetable update.

5. INTERNAL AUDIT STRATEGY 2023-24

The report of the Head of Audit and Risk incorporating the Internal Audit Strategy for 2023/24 was presented for the Committee's consideration and endorsement.

The Head of Audit and Risk provided some contextual information to the strategy stating that global events and upheavals over the past two years have shaped the risk environment for the Council meaning that a state of crisis has become the new normality. With regard to the audit approach she highlighted that Internal Audit would be taking a risk based approach in accordance with Standard 2010 of the Public Sector Internal Audit Standards aligning internal audit activity with the Council's strategic risk register with a focus on the inherent risks rated as red and where the residual risk is rated as red or amber (a list of proposed audits was provided under Appendix A to the report). An agile audit methodology has also been adopted allowing Internal Audit to respond to change as new risks emerge or as priorities change. Given that cybersecurity and data security continue to be perceived as the top threats in a survey of chief audit executives, Internal Audit proposes that during 2023/24 a programme of work covering the specific IT elements noted in the report be undertaken with the support of the IT Auditors of Salford City Council to provide the Council with assurance that its IT vulnerabilities are being effectively managed. As another high risk area, the Council's approach to counter fraud will be kept under review and the Fraud Response Plan will be updated accordingly. Other audit work planned for 2023/24 includes providing assurance with regard to managing partnership risks and assessing the Council's preparedness for the new Procurement Act.

The Head of Audit and Risk referred to the Service's capacity confirming that a recent successful recruitment exercise has provided a new member of the team meaning the service is now only carrying a vacancy (1.0 FTE) at Senior Auditor level due to secondment which is being used to commission external audit expertise. The appointment will also enable work on some of the lower priority areas outstanding from 2022/23 to resume as outlined in the report. With a productivity level of 72% approximately 700 days of audit resource are available to provide the annual assurance opinion. The service will continue to invest significantly in training and development with 115 days being earmarked to that end in 2023/24.

To ensure continuous improvement of the Internal Audit Service, a quality assurance and improvement programme has been put in place and a streamlined suite of performance measures and targets has been adopted as reflected in the table at page 16 of the report.

The Committee discussion which followed focused on the following –

- The responsibility for internally auditing partnerships. The Head of Audit and Risk advised that the internal audit responsibility in relation to local authority partnerships would be discharged by the host authority; where partnerships involve other organisations and/or separate entities in the absence of an annual report from the Partnership and Regeneration Scrutiny Committee she could not confirm who undertook the internal audit function in those cases, hence the proposed piece of work by Internal Audit on the assurance and governance arrangements of significant partnerships or collaborations in which the Council has an involvement.
- With regard to the new procurement legislation whether the programme/project management of large contracts comes within the scope of Internal Audit. The Head of Audit and Risk in confirming that they do, advised that no audit of internal programme and project management processes is planned for this year, although a related area that will be examined involves organisational resilience being the ability of the Council to respond to external changes and the arrangements it has in place to help it do so.
- Whether the absence of an annual report from the Partnerships and Regeneration Scrutiny Committee means that partnerships are not being scrutinised. The Head of Audit and Risk advised that the unavailability of an annual report is attributable to a vacancy at scrutiny officer level meaning that it has not been possible to produce the annual report for the past two years but is not reflective of a lack of scrutiny of partnerships within the committee's programme. Councillor Dafydd Roberts as a former member of the Partnership and Regeneration Scrutiny Committee referred to the availability of the minutes of the Committee's meetings which provide a record of the matters covered during the period and are published on the Council's website.
- Whether with regard to the strategic risk that the Council cannot adapt to become a carbon neutral authority by 2030, the Governance and Audit Committee should be receiving more detailed information about the processes/ arrangements that will enable the achievement of this objective. The Head of Audit and Risk advised that a Climate Change Health Check by Zurich Municipal along with Audit Wales' report on public sector readiness for net zero carbon by 2030 was presented to this Committee in December, 2022; an update on the Council's progress in working towards the 2030 target will be presented to the Governance and Audit Committee in June, 2023.

It was resolved to endorse the approach and priorities outlined in the Internal Audit Strategy for 2023-24 as fulfilling the Council's assurance needs.

6. INTERNAL AUDIT UPDATE

The report of the Head of Audit and Risk providing an update as at 31 March, 2023 on the audits completed since the previous update to the Committee as at 31 January, 2023 was presented for the Committee's consideration. The report also set out the current workload of Internal Audit and its priorities for the short to medium term going forward. Members of the Committee were provided with copies of the five pieces of assurance work completed in the period in relation to Recovering Council Debts and the Impact of Covid-19 (Second Follow Up) (Limited Assurance); Gas Safety Regulatory Compliance (Housing) (Reasonable Assurance), IT Audit – Cloud Management (Reasonable Assurance); Payments supplier maintenance and duplicate payments (Reasonable Assurance) and The Council's effectiveness in managing its strategic risk YM11 – Poverty (Reasonable Assurance) under separate cover.

The Head of Audit and Risk provided an overview of the report including a summary of the outcome of the work completed and the areas of work currently in progress as at the table at paragraph 38 of the report. She referred to the Limited Assurance Second Follow Up review in relation to Recovering Council Debts and the Impact of Covid-19 which had sought to establish whether management had addressed the outstanding issues/risk raised in the Limited Assurance report dated November, 2021. Although the review found that the Service

had made some positive progress, Internal Audit was unable to increase the assurance rating from Limited the reason being that the IT consultancy firm commissioned to work with the Service to address the issues and risks raised and improve processes within the Income section has made limited progress because they had been redeployed to work on the Capita Revenue system upgrade. She confirmed the appointment of a new Senior Auditor who had commenced in post on 1 April, 2023 and advised that the budget savings from the one remaining vacant post at Senior Auditor level are being utilised to commission external support including technical IT audit from the IT Audit Team at Salford Council. Work is progressing to support services with implementing all outstanding actions with more detailed information about the status of outstanding actions provided in a separate report to the meeting.

The Committee asked for an update on the position with regard to bad debt in the context of the Limited Assurance Second Follow-Up report on Recovering Council Debt and the Impact of Covid-19.

The Director of Function (Resources)/Section 151 Officer advised that there had been a slight decrease in the collection of Council Tax in year due in all likelihood to the cost of living crisis. The collection of Council Tax is not a one year process when the range of recovery and enforcement actions and the time those take to implement are taken into account; however the sanction of imprisonment which would be pursued in the event that all other options fail is no longer available in Wales and has made dealing with problematic debts all the more difficult. The Council has increasingly introduced in advance online payments for services including green garden waste collection and planning fees and while there are debts that are still difficult to collect such as social care fees and housing benefit overpayments the Council has not experienced a significant rise in debt as yet. A staffing restructure has resulted in the creation of a dedicated Recovery Manager post and work is being undertaken to make the income recovery process through all its stages more efficient and effective including improving the service's performance indicators. In response to a further query about there being a budget for bad debt, the Section 151 Officer clarified that while there is no specific budget as such, with regard to Council Tax, the tax base is set at 98.5% of the total which allows for a 1.5% loss covering provision for bad debt as well as changes in year with regard to discounts and exemptions. As non-domestic rates are pooled centrally, the pool rather than the Council, suffers the loss for non-payment and other sundry debts are reflected in services' income budgets when those are set.

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

7. OUTSTANDING ISSUES AND RISKS

The report of the Head of Audit and Risk on progress in addressing outstanding issues and risks was presented for the Committee's consideration.

The Principal Auditor advised the Committee of the following –

- 49 outstanding actions were being tracked in the 4action system as at 31 March, 2023, 12 of which were rated "major" (amber) and 37 "moderate" (yellow) in risk priority. No "red" issues/risks were raised during the year and none are currently outstanding.
- One major rated issue/risk is now overdue and relates to an audit of Housing allocations, specifically to developing and improving the housing application process.
- That Graph 3 in the report shows the status of all outstanding actions irrespective of the date by which they were due to be addressed and shows that Management have now addressed 73% and Internal Audit has verified 70% with the remaining 3%

relating to an audit of Software Licence Management which will be followed up in April, 2023.

- The majority of actions showing as not started relate to several audits recently finalised where the actions identified have not yet reached their anticipated completion dates.
- Graph 4 shows the status of all actions that have reached their target date and shows that where due 99% have been addressed.
- Of the 49 outstanding issues/risks, one which is rated moderate or yellow in risk priority dates back to 2018/19 and relates to improving the password complexity settings for the Council's externally facing Leisure booking system. There have been delays with agreeing a go-live date with the software supplier due to technical issues which the IT team are working on resolving with the supplier.
- A detailed status update of all 12 outstanding major rated issues/risks currently being tracked in 4action can be found in Appendix 1 to the report.

The Service Manager (Community Housing) updated the Committee on the position with regard to addressing the issues/risks identified in an audit of the Housing Application process in September, 2021 which were only 50% complete and were 12 months over the original target date of March, 2022. The Officer explained that the paper application form sent to prospective housing applicants was long and detailed and the audit found the application process to be time consuming and inefficient and recommended that it be replaced by an online system. While the aim was to incorporate the process within the Council's newly launched CRM system, the IT Service is keen to ensure that the new system is fully embedded, working effectively and any teething problems resolved before new functions are added to it. The Housing Service is looking to develop a PDF application shortly which applicants are able to overwrite on the PDF form and although the paper application process is still being used currently the application form has since been significantly reduced in length and complexity. Depending on how well the implementation of the CRM progresses, she hoped the matter could be addressed within the next six months. In the meantime, the Service is able to provide support to anyone experiencing difficulty in applying to be included on the housing register.

Responding to a query about the prospects for the Housing Application process of going onto the CRM platform anytime soon, the Head of Audit and Risk advised that the fraud reporting form is among the applications awaiting to be added to the CRM system at present and that she would be meeting with IT in the coming week to discuss the matter and gain an understanding of the position.

It was resolved to note the Council's progress in addressing the outstanding Internal Audit Issues/Risks.

8. REVIEW OF THE RISK MANAGEMENT FRAMEWORK

The report of the Head of Audit and Risk incorporating a proposed new Risk Management Policy and Strategy along with accompanying Risk Management Guidance was presented for the Committee's consideration.

The Risk and Insurance Manager referred to the main aspects of the Risk Management Policy which recognise that risks can have an impact on aims, objectives and service delivery; that they pose a threat and also provide opportunities and that they need to be identified and managed in order to inform decision-making. The Risk Management Strategy explains how the policy will be delivered and sets out the risk appetite statement which is the level of risk that the Leadership Team feels the Council aims to operate within. The Risk Management Guidance provides details of the process to be followed and explains the different considerations needed depending on the nature of the risk. The guidance includes a new section on the positive or opportunities aspects of risk. A new version of the risk

management software is being rolled out which also means a change in the way that risk is scored from the alpha numeric method of scoring risks to the traditional numeric way as outlined within the report.

In considering the documentation which the Committee acknowledged as comprehensive, the following points were raised –

- The range of risk appetite settings for the different risk categories within the Risk Appetite Statement and how these have been determined. The Risk and Insurance Manager advised that each member of the Strategic Leadership Team was asked to individually evaluate the risk appetite for each risk category after which the resulting information was collated, the highest and lowest values were discounted and the median value of the remainder was taken which produced the values as noted in the risk appetite statement.
- The approach taken to managing contract risk particularly those within the building/construction sector in order to minimise the risk of financial loss and overruns. The Director of Function (Resources)/Section 151 Officer advised that construction contracts which the Council enters into are based on an assessment of a contractor's ability to deliver as well as on price and value for money considerations and due diligence checks are made. Mitigating controls usually take the form of a performance bond which covers the cost of re-tendering and any increased costs arising therefrom in the event a contractor is unable to complete a project. Delivering a level of capital expenditure in line with the Council's aspirations e.g. building 45 new council homes each year can be difficult due to local contractor capacity issues and engaging contractors from further afield usually means higher costs. The Council does seek to work with local contractors in the spirit of contract partners and as a dependable long-term source of business.
- The lack of reference in the Risk Management Strategy to learning lessons from risks that have materialised and how that is communicated and applied across the Council. The Risk and Insurance Manager in acknowledging the point advised that learning from risks is part of the management process but consideration would be given to clarifying that aspect in the strategy.

It was resolved to note the Risk Management Policy and Strategy.

9. FORWARD WORK PROGRAMME

The report of the Head of Audit and Risk incorporating the proposed Forward Work Programme for 2023/24 based on the Governance and Audit Committee's terms of reference and responsibilities under the Local Government and Elections (Wales) Act 2021 was presented for consideration and review along with a training programme.

In response to a query about the scheduling of climate change training, the Committee was advised that the climate change training package is under review to ensure the best way of achieving the training objectives.

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

**Mr Dilwyn Evans
Chair**