

## LOCAL DEMOCRACY AND BOUNDARY COMMISSION FOR WALES

### AUDIT AND RISK ASSURANCE COMMITTEE MEETING HELD ON WEDNESDAY 26 FEBRUARY 2020 AT HASTINGS HOUSE (10:30 – 13:00)

This document is available in Welsh

**LDBCW Members Present:** Ceri Stradling (Chair), David Powell (Member), Theo Joloza (Member), Julie James (Independent Member)

**Wales Audit Office Representative Present:** Mark Jones

**Deloitte Representative Present:** Ian Howse

**Qualifications Wales Representative Present:** Sean Gaffney

**LDBCW Officers Present:** Shereen Williams (Chief Executive), David Carr (Finance Manager), David Burley (Business Support Manager)

The Chair thanked David Powell for standing in as Acting Chair for the July and November 2019 meetings and Julie May for attending the November 2019 meeting as an interim member.

#### 1. Apologies for Absence

1.1 Apologies were received from Matt Redmond (Deputy Chief Executive).

#### 2. Declarations of Interest

2.1 There were no declarations of Interest.

#### 3. Minutes of Audit Committee meeting held on 27 November 2019.

3.1 It was **resolved** to adopt the minutes of the Committee meeting held on 27 November 2019.

#### 4. Issues Arising from Previous Meeting.

4.1 The Committee noted that there were several issues still outstanding following the previous meeting.

4.2 A response was still being awaited from Welsh Government regarding the ICT internal audit reports requested by the Committee for 2017-18 despite several reminders being sent. It was **agreed** that the Secretariat would continue to request the reports from Welsh Government.

**Action:** Chief Executive **By:** 29 July 2020.

4.3 Ian Howse reminded the Committee that at the previous meeting it had been noted that the mid-year internal audit report included an observation that there were limitations in the Microsoft Online Services Service Level Agreement. The limitations were in respect of the agreement not applying to any performance or

availability issues resulting from failures in a single Microsoft Datacentre location when the LDBCW's network connectivity was explicitly dependent on that location in a non-geo-resilient manner. Therefore it needed to be understood whether the LDBCW was dependent on a single Microsoft Datacentre location. Sean Gaffney said that the issue was one of internet connectivity. He pointed out that Microsoft were only responsible for internet connectivity at their end and it was the LDBCW's responsibility to ensure that their own internet connection was maintained. It was considered that, should the LDBCW lose connectivity via their PSBA then there were other options such as staff working from home using their own WiFi connections or the LDBCW purchasing a 4G WiFi hotspot as a backup to the PSBA link. It was **agreed** that in view of the alternative connectivity options, the risk posed by the limitations in the Microsoft Online Services Service Level Agreement were minimal and could be tolerated.

## **5. Audit and Risk Assurance Committee Work Plan 2019-20**

- 5.1 The Committee noted the 2019-20 Work Plan which incorporated the changes agreed at the last meeting. No further changes were proposed.

## **6. External Audit: Audit Plan 2020**

- 6.1 Mark Jones explained that the Audit Plan for 2020 set out the proposed work for the audit of the 2019-20 financial statements. It included the materiality levels for the audit and the summary of responsibilities which concerned certifying that the Commission's financial statements were true and fair and confirming the regularity of the Commission's expenditure. He drew the Committee's attention to Exhibit 2 which identified the main audit risks which could lead to material misstatements in the accounts and would require special consideration during the audit. These were:

- The risk of management override of controls. The audit response will be testing journal entries and adjustments made to the financial statements, reviewing accounting estimates and checking significant transactions; and
- The risk regarding the weakness in the control over the approval of online bank payments identified during the previous year's audit.

- 6.2 The plan also included details of the audit team and timetable and set out the audit fee for the year, which had increased slightly by 2.9% on the previous year. It was noted that the staff undertaking the audit work were all new to the LDBCW but Mark Jones said that the WAO should be able to absorb any additional costs that directly relate to new staff taking time to familiarise themselves with the LDBCW.

- 6.3 Appendix 2 set out future changes to IFRS relevant to central government. It was noted that the change which would have the most significant effect on the LDBCW would be IFRS 16 regarding the change to the accounting treatment of operating leases which was due to be implemented for the 2020-21 accounts. It was reported that the LDBCW's accountants had been informed of the timescale for the adoption of IFRS 16.

- 6.4 The Committee noted and approved the Audit Plan for 2020.

## **7. Internal Audit: End Year Audit Report and Annual Audit Report 2019-20**

- 7.1 Ian Howse reported that the audit work carried out in January 2020 had covered Banking and Cash Management and BCW/ LDBCW reviews together with follow-up on previous years' recommendations. The audit had resulted in Moderate Audit Assurance Ratings for both Banking and Cash Management and BCW/ LDBCW reviews.
- 7.2 The Committee noted the recommendations raised, including 4 prior year's recommendations regarding the reviews, and the management responses. These audit recommendations would be dealt with in more detail at agenda item 10.
- 7.3 The report contained an observation that the LDBCW held a bank mandate set in 2015 with copies of subsequent changes and suggested that the LDBCW try to obtain a current version of the bank mandate from Barclays. It was **agreed** that the Secretariat would try to obtain a copy from Barclays.  
**Action:** Finance Manager **By:** 29 July 2020
- 7.4 The Annual Report for 2019-20 contained a summary of the audit work and its findings and gave an overall assurance rating for the LDBCW of 'Moderate' based on the internal audit work undertaken during the year. It also contained Deloitte's self-assessment of their performance in carrying out the audit work during the year. The Committee noted the report and the assurance it provided and considered that the Moderate rating was disappointing given previous annual assessments and would ensure improvement next year.

## **8. Internal Audit Assessment Annual Questionnaire 2019-20**

- 8.1 It was proposed that members and the Accounting Officer would convene after the meeting to consider and complete the questionnaire. **It was agreed** that the Finance Manager would analyse the members' responses and report the results to the next meeting.  
**Action:** Finance Manager **By:** 29 July 2020

## **9. Review of Audit and Risk Assurance Committee Self-Assurance Questionnaire Responses**

- 9.1 The Committee noted the responses to their annual self-assessment questionnaire which indicated that all of the good practice had been demonstrated. It was **resolved** that the Committee would continue the self-assessment exercise each year and endeavour to maintain the current high standard of compliance with good practice.
- 9.2 The Committee considered that it may be useful to extend the exercise to include the views of the external and internal auditors. It was **agreed** that verbal feedback regarding the Committee's effectiveness would be obtained from the auditors at the annual closed meeting held with them following the Committee meeting.

## 10. Audit Recommendations – Progress Report.

- 10.1 The Committee considered the progress on the outstanding audit recommendations. It was noted that the 2018-19 external audit recommendation that the LDBCW strengthen their payment controls had been omitted in error. It was reported that this recommendation had been partly implemented. It was **agreed** that this recommendation would be included in future recommendations reports.  
**Action:** Finance Manager **By:** 29 July 2020
- 10.2 It was noted that the outstanding 2017-18 external audit recommendation that the LDBCW ensure its new ICT arrangements included robust controls for the storage and backup of data had now been implemented following assurances received from Qualifications Wales regarding the outcome of the Cloud Security Review.
- 10.3 In respect of the outstanding 2017-18 recommendation that the LDBCW's policies be reviewed and that the dates of review and next review are included it was noted that the review of policies had now been nearly completed with only one policy remaining which would be formally adopted at the March meeting.
- 10.4 In respect of the outstanding 2018-19 recommendation that the LDBCW implements a checklist for BCW Parliamentary reviews it was expected that the checklist would be drafted by 31 March 2020.
- 10.5 In respect of the 2019-20 recommendation that the LDBCW establishes a stronger link between the corporate objectives and staff performance, it was noted that the recently adopted Clear Review staff performance management software included links a corporate objective for each staff objective and therefore this recommendation could be considered as implemented.
- 10.6 In respect of the 2019-20 recommendation that the LDBCW aligns its risk responses to their risk appetite it was considered that further consideration would need to be given as to how best to implement this recommendation. The LDBCW could decide to tolerate risks which were rated above their risk appetite level or allocate individual risk appetites to each risk. It was **agreed** that Deloitte would give further consideration to the Moderate assurance rating for Risk Management and decide whether it should be increased to Substantial.  
**Action:** Deloitte **By:** 31 March 2020
- 10.7 In respect of the 2019-20 recommendation that the LDBCW understands the exposure that they face as a result of no disconnected backups being maintained it was reported that the LDBCW agreed to be mindful of this and tolerate the associated risk at their December 2019 meeting and therefore this recommendation could be considered as implemented.
- 10.8 The 2019-20 recommendation that the LDBCW reviews and signs off the monthly bank reconciliations received from their accountants was accepted with an implementation date of 31 March 2020.
- 10.9 The 2019-20 recommendation that the LDBCW reviews its cash management procedures on a regular basis and drafts bank management procedures was accepted with an implementation date of 30 September 2020.

- 10.10 The 2019-20 recommendation that the LDBCW reviews its Reviews procedures on a regular basis was accepted with an implementation date of 31 March 2020.
- 10.11 The 2019-20 recommendation that the LDBCW Training Register is kept up to date and reviewed regularly was accepted with an implementation date of 31 March 2020.
- 10.12 The 2019-20 recommendation that the LDBCW documents its target response times for representations to ensure the response times are adhered to was accepted with an implementation date of 31 March 2020.
- 10.13 The 2019-20 recommendation that the LDBCW documents in further detail the personal details which are held in order to allow for specific risk assessment to be carried out was rejected because it was considered existing procedures were sufficient for the level and amount of personal data held.
- 10.14 The prior year re-raised recommendation that review checklists are fully completed and reviewed to ensure that they cover all tasks was accepted with an implementation date of 31 March 2020.
- 10.15 The prior year re-raised recommendation that review checklists are more comprehensively checked before being signed off was accepted and had been implemented.
- 10.16 The prior year re-raised recommendation that quality assurance checklists are fully completed before being signed off was accepted and had been implemented.

## **11. Draft Audit and Risk Assurance Committee Chair's Annual Report 2019-20**

- 11.1 The Committee considered the draft ARAC Chair's report and **agreed** subject to the following changes:
- Paragraph 2.3 amended to reflect the actual meeting attendance of external and internal audit representatives;
  - New paragraph 3.2 added to reflect the end of the current internal audit contract and the tender exercise for a new contract;
  - Paragraph 3.7 amended to reflect that prior year's re-raised audit recommendations were in respect of the ongoing review programme;
  - Paragraph 5.1 amended to state that annual confidential meetings are held with all the auditors rather than just internal auditors;
  - Paragraph 5.1 and 8.1 amended to refer to the Accounting Officer as 'her' rather than 'him';
  - Paragraph 6.2 Risks Identified changed to include the Monmouthshire review risk and reference to the Small Workplace Health Award;
  - Paragraph 6.3 add reference to new health and wellbeing questions being added to staff survey;
  - Paragraph 6.6 amend to '**with** agreed policy and practice';
  - Appendix 2 add reference to ARAC review of Pensions and ICT Risk Registers to 3<sup>rd</sup> Level column; and
  - Appendix 2 move Small Workplace Health Award to 3<sup>rd</sup> Level column.

11.2 The report was **agreed** subject to the proposed changes.

## 12. Draft Governance Statement 2019-20

12.1 The Committee considered the draft Governance Statement. Several minor typos were noted and amended. In addition, the following changes were agreed:

- Section 3.5 the headings for the tables showing members' meeting attendance should be amended to show the number of meetings they were eligible to attend rather than the total number of meetings held during the year;
- Section 4 first paragraph additional text to be added at the end 'to provide assurance to the Commission's Risk Management process.'; and
- Section 4 table showing Risks Identified mitigating actions to include reference to health and wellbeing.

12.2 It was **agreed** that the final Operational Plan would be circulated to the Committee members when finalised.

**Action:** Chief Executive **By:** 29 July 2020

12.3 It was **agreed** that the revised Governance Statement would be tabled for formal adoption at the LDBCW's March meeting.

**Action:** Finance Manager **By:** 31 March 2020

## 13. LDBCW Pensions Risk Register

13.1 The Committee noted the current version of LDBCW's pensions risk register together with a record of the changes made since their last review. It was **agreed** that risk PEN4 regarding joiners and leavers should be reviewed and consideration given to lowering the residual risk rating.

## 14. LDBCW ICT Risk Register

14.1 The Committee noted the current version of LDBCW's ICT risk register together with a record of the changes made since their last review. It was **agreed** that the Management Team would review the register and give consideration to which risks could be tolerated and which required further mitigation.

**Action:** Business Manager **By:** 29 July 2020

## 15. Risk Management Report.

15.1 The Committee noted the current risk registers and policy. Details of the changes made to both the Corporate and Operational risk registers since the last Committee meeting were reported.

15.2 It was **agreed** that the Commission should review the risk registers and establish a system of Treat or Tolerate using the proximity column to record the designation for each risk and also give further consideration to the impact risk ratings.

- 15.3 It was considered that risk ratings of Operational Risk OP11 regarding accommodation security and OP18 regarding data protection should be reviewed.  
**Action:** Finance Manager **By:** 29 July 2020

## 16. Budget Monitoring Report.

- 16.1 The Committee noted the minutes of the budget report presented at the Commission meeting of 28 January 2020.

## 17. Gifts and Hospitality – Report and Declarations

- 17.1 The Committee noted that no declarations of gifts of hospitality had been made for 2019-20 to date.

## 18. Complaints

- 18.1 The Committee noted the complaint received from Bridgend which had been resolved and closed.

## 19. Whistleblowing and Fraud Report

- 19.1 The Committee noted that there had been no instances of whistleblowing or fraud since the last report.

## 20. Data and ICT Security Report

- 20.1 It was reported that there had been no data security incident since the last report.
- 20.2 Sean Gaffney outlined the main points of the new ICT Security Report. He drew the Committee's attention to the list of recent cyber-attacks on various organisations and explained that this was intended to raise awareness of the threats currently being detected in the IT community. The report also showed that all of the LDBCW's computers were receiving the latest system and security updates.
- 20.3 In respect of the additional online phishing training for Members it was considered that the best way forward would be for Qualifications Wales to run a training session after a Commission or ARAC meeting. It was **agreed** that a training session for Members would be arranged for a future meeting date.  
**Action:** Qualifications Wales **By:** 29 July 2020.
- 20.4 Theo Joloza said that he had experience of HUT six internet security training which would be worth considering. It was **agreed** that Qualifications Wales would evaluate HUT six software to assess its suitability for the LDBCW staff and Members.  
**Action:** Qualifications Wales **By:** 29 July 2020.

**21. Any Other Business**

- 21.1 The Committee noted that Deloitte would no longer be continuing as the LDBCW's Internal Auditors following the end of their current contract on 31 March. The Chair extended the Committee's thanks to Ian Howse for all of his past help and support.

**23. Dates of Next Meetings**

- 23.1 The following provisional dates for the next meetings are proposed:

Wednesday 29<sup>th</sup> July 2020  
Wednesday 25<sup>th</sup> November 2020.  
Monday 24<sup>th</sup> February 2021.

- 23.2 Confirmation of these dates would be emailed to members.