LOCAL DEMOCRACY AND BOUNDARY COMMISSION FOR WALES

AUDIT AND RISK ASSURANCE COMMITTEE MEETING HELD ON WEDNESDAY 29 JULY 2019 AT HASTINGS HOUSE (13:30 – 15:00)

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

Wales Audit Office Representative Present: Mark Jones

Welsh Government Representative Present: Lisa James

Qualifications Wales Representative Present: Sean Gaffney

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

1. Apologies for Absence

1.1 Apologies were received from Ian Howse (Deloitte) and Lauren Parsons (Deloitte).

2. Declarations of Interest

2.1 There were no declarations of interests.

3. Minutes of Audit Committee meeting held on 25 February 2019

3.1 It was **agreed** that the text of paragraph 6.2 should be separated into two paragraphs. It was **resolved** to adopt the minutes of the Committee meeting held on 25 February 2019 subject to the minor change described above.

4. Issues Arising from Previous Meeting.

4.1 The Committee noted that the majority of the items arising from the previous meeting had now been completed or were being dealt with later on the agenda.

4.2 There were items still outstanding which were:

- Copies of Welsh Government ICT internal audit assurance had not been received despite a reminder being sent;
- The issue of allocating Sage software to an additional staff member would be implemented following a review of staff members including one-to-one sessions;
- A BCW meeting was being held on 31 July and a paper on the internal audit findings was to be considered at that meeting; and

- Discussions with Deloitte regarding the number of audit days required for auditing the Commission’s GDPR compliance were ongoing.

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

5.1 It was reported that a new Work Plan had been drafted for 2019-20. It was noted that the dates of the meetings were incorrect and would need to be amended.

5.2 In view of the possibility of a no-deal Brexit, it was proposed that an oral update on the possible effect on electors and government department priorities would be presented to the November ARAC meeting and also to a Commission meeting.
Action: Chief Executive **By**: 27 November 2019

5.3 The Committee noted and **agreed** the content of the 2019-20 Work Plan.

6. Audit and Risk Assurance Committee Terms of Reference.

6.1 The Committee noted and **agreed** the content of the Terms of Reference subject to the following amendments:

- In paragraph 1.3 ‘Deputy Permanent Secretary’ should be changed to ‘Director General’;
- In paragraph 8.1 bullet point 10 ‘Management Letter’ should be changed to ‘Audit of Financial Statements Report’; and
- In paragraph 8.1 bullet point 10 ‘or any other external’ should be changed to ‘and any other external’.

Action: Finance Manager **By**: 27 November 2019

7. Annual Accounts 2018-19 and Audit of Financial Statements Report.

7.1 It was noted that the draft financial statements and accounts had been considered by the LDBCW at their meeting held on 25 June 2019.

7.2 Mark Jones reported that accounts had been received on time and were of a very good standard and as a result the audit work went smoothly. It was the Auditor General’s intention to issue an unqualified audit report subject to there being no events affecting the accounts following their signing.

7.3 There were no uncorrected misstatements in the accounts or other significant issues or recommendations arising from the audit. Although most of the changes made as a result of the audit were minor presentational and narrative changes, there were two significant corrected misstatements in the accounts which were:

- Disclosure figure for the Chief Executives salary in the Remuneration Report had been amended to show actual salary received instead of an annualised amount;
- Estimated future lease payments in the notes to the accounts had been calculated on the wrong number of years and had been amended accordingly;

7.4 There was one audit recommendation which had arisen as a result of the audit, which was that the Commission should tighten their controls around authorising online banking payments. This recommendation had been accepted by management and alternative banking arrangements were being considered. In the interim the Commission had adopted a system by which all online bank payments were reviewed monthly by the Chief Executive.

7.5 The Chair enquired whether the future adoption of accounting standard IFRS 16 would have an impact on the Commission's budgets. Mark Jones replied that the accounting change was unlikely to significantly affect the Commission's annual budget. The new standard will not permit a lease to be accounted for as a revenue-based operating lease, with all leases to be capitalised and therefore 'held' on the balance sheet. This new accounting basis would result in an annual depreciation charge for capitalised leases, for which there would still need to be budget provision.

7.6 The Chair thanked Mr Jones for his report. The Committee **recommended** that the audited accounts should be adopted and signed.

8. WAO Guidance for Those Charged with Governance

8.1 The guidance had been issued by WAO to assist bodies in understanding the process used in dealing with misstatements identified during the audit of accounts.

8.2 The Committee **noted** the WAO's guidance.

9. Internal Audit Plan and Terms of Reference 2019-20

9.1 The Committee considered Deloitte's Internal Audit Plan for 2019-20 onwards together with the Terms of Reference for the mid-year and end-year internal audits. The internal audit work planned for 2019-20 would cover ICT General controls, Banking and Cash Management, Corporate Governance, Risk Management, Electoral Reviews and follow up of previous year's recommendations.

9.2 In respect of the previous decision to request that Deloitte include an audit of the Commission's compliance with GDPR requirements as part of their 2019-20 audit plan, it was reported that Deloitte had indicated that an additional 5 audit days may be necessary. The Committee considered that this seemed excessive in light of the low level of information held by the Commission which was covered by GDPR. It was **agreed** that the Finance Manager would liaise with Deloitte to clarify what their understanding of the requirements of the requested audit work was.
Action: Finance Manager **By**: 31 August 2019

9.3 The Committee **agreed** the Internal Audit Plan and Terms of Reference for the 2019-20 internal audit work subject to clarification of the GDPR audit requirement and any subsequent proposed changes.

10. LDBCW Annual Internal Audit Assessment 2018-19.

10.1 It was reported that the Commission's Accounting Officer and Audit and Risk Assurance Committee had completed their annual assessment of internal audit for 2018-19. The Committee noted the conclusions of the assessment which were that the independence and performance of Internal Audit was of a high standard and had met the standards pertaining to quality assurance.

11. Audit Recommendations – Progress Report.

11.1 The Committee considered the progress on the outstanding internal audit recommendations.

11.2 The outstanding 2016-17 recommendation regarding the implementation of a monitoring process for records retention schedule had now been implemented.

11.3 The outstanding 2017-18 external audit recommendation that the Commission ensures that its new ICT system has robust controls for data storage and backup had been implemented by default as the system was Cloud based with storage and backup being handled by Microsoft. It was noted that Qualification Wales had now identified where the Commission's data was stored. It was **agreed** that further assurance would be sought from Qualification Wales.
Action: Finance Manager **By**: 27 November 2019

11.4 The outstanding 2017-18 internal audit recommendation that the LDBCW's policies should be reviewed had not yet been implemented due to other priorities and an amended implementation date of 30 September 2019 was proposed and **agreed**.

11.5 The outstanding 2017-18 internal audit recommendation that the LDBCW's Travel and Subsistence policy be updated had not been implemented due to the delay in obtaining suitable travel insurance arrangements. It was noted that other comparable organisations bear their own risk. If the Commission decided to adopt the same approach the outstanding audit recommendation could be implemented. It was **agreed** that this issue would be raised at the next Commission meeting and a decision requested regarding whether the Commission should continue trying to obtain travel insurance or whether the risk should be tolerated.
Action: Business Support Manager **By**: 30 July 2019

11.6 The outstanding 2018-19 internal audit recommendation that a checklist is drafted and adopted for the BCW parliamentary reviews had not been implemented due to other priorities and an amended implementation date of 31 March 2020 was proposed and **agreed**.

11.7 The outstanding 2018-19 internal audit recommendation that all completed review checklists should be checked and signed off by the Review Manager had now been implemented.

11.8 The outstanding 2018-19 internal audit recommendation that, following the completion of a review, the review file should be checked by the Review Manager to ensure that all copies of important key documents have been retained on the file had now been implemented.

11.9 The outstanding 2018-19 internal audit recommendation that staff should be reminded to fully complete the review quality assurance checklist which should then be signed off by two different review staff members had now been implemented.

11.10 The outstanding 2018-19 internal audit recommendation that a check is performed every two weeks to ensure that all review representations review received had been responded to by a target response time had now been implemented.

12. Schedule of Losses 2018-19

12.1 The Committee noted that the Commission had recorded losses amounting to £109 during 2018-19 as a result of incorrectly franked mail, the loss of a minor asset and payment of a parking fine incurred by a staff member while on official business. A ‘lessons learnt’ report detailing proposed mitigation against a repeat of the parking fine incident was also noted.

13. Business Continuity Plan Test 2019-20

13.1 The Committee considered the outcome of the LDBCW’s annual Business Continuity Plan test which had include participation by a Commission Member for the first time. It was noted that significant changes had been made to the plan following the transition from the Welsh Government IT system to the Commission’s own ICT system during 2018-19.

13.2 It was noted that the plan had not yet been updated to include the changes proposed following the test but that this would be done in due course.
Action: Business Support Manager **By**: 30 September 2019

13.3 The Committee noted the report on the Business Continuity Plan test and the conclusion that the Plan is sufficiently robust.

14. Risk Management Report

14.1 Consideration was given to 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.

14.2 It was reported that the risk rating of Corporate Risk CR2 would be reduced following the recent recruitment of an additional Review Officer.

14.3 In respect of Operational Risk OP12 it was noted that the new staff learning portal included Fire Risk Awareness training which all staff would be required to complete.

15. Budget Monitoring Report.

15.1 The Committee noted the minutes of the budget report presented at the Commission meeting of 25 June 2019.

16. Gifts and Hospitality – Report and Declarations

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

17. Complaints

17.1 The Committee noted that no complaints had been made to the LDBCW for 2019-20 to date.

18. Whistleblowing and Fraud Report and Policies

18.1 The Committee noted that there had been no instances of whistleblowing or fraud for 2019-20 to date.

18.2 The Committee reviewed the Fraud and Whistleblowing policies. It was noted that the Welsh Government contact details contained in the Whistleblowing policy were no longer correct and should be updated.
Action: Finance Manager **By**: 31 July 2019

19. IT Data Security Report

19.1 The Committee noted that there had been no data security incidents for 2019-20 to date.

19.2 The Committee noted the ICT security report presented by Sean Gaffney. He explained that the operating system updates installed were currently lower than they should be due to several of the Surface Pros being switched between staff members resulting in updates being installed less frequently on those machines. This position should improve in coming months but if it did not then further investigation into why the updates were not being installed would be undertaken.

19.3 The Commission had achieved their annual Cyber Essentials Plus certification which would provide the Commission with a substantial level of assurance for the coming year.

19.4 The Committee noted the current results of the simulated phishing attacks which showed that only a very low percentage of staff had been susceptible to the

simulated phishing emails. The Committee enquired whether it would be possible to automatically enrol staff members who were caught out by the simulated attack emails on the cyber security training course. It was agreed that this possibility would be investigated.
Action: Business Support Manager / Sean Gaffney **By**: 27 November 2019

19.5 Sean Gaffney summarised the main points arising from the Commission's Cloud Security Review. Several areas for improvement had been identified by the review, the main two of which were:

- Office 365 label tagging was not currently used by the Commission. This system allowed for access to electronic documents to be restricted. However, it was a complicated and unwieldy method which Qualifications Wales had also not adopted and which they considered would probably be disproportionate and not appropriate for a body as small as the Commission with a low number of high-risk documents. It was noted that the Business Support Manager had already managed to restrict staff access to several sensitive folders without the label tagging system. It was **agreed** that it would not be necessary for the Commission to adopt the label tagging system.
- The Commission's system was not compliant with Microsoft Intune, a cloud-based mobility management tool to help organisations manage mobile devices used by employees to access files and email. Qualifications Wales had turned off Microsoft Intune on their system as they considered it to be of no benefit.

19.6 It was **agreed** that a report would be submitted to a future Commission meeting under Any Other Business to decide whether the points raised by the review required further consideration.
Action: Business Support Manager / Sean Gaffney **By**: 30 September 2019

19.7 Lisa James enquired whether the storage of the Commission's cloud-based data would be affected by Brexit. Sean Gaffney said that until the EU recognise UK data protection it would not be a problem, but Microsoft were able to route data through the US if necessary.

20. Any Other Business

20.1 Lisa James reported that recent Welsh Government advice to WGSBs was that there was no longer a requirement for them to have Welsh Government representatives present at their board or audit committee meetings and therefore this would be her last ARAC meeting. The Acting Chair thanked Lisa for her assistance and advice during her time attending the Commission's ARAC meetings. It was **agreed** that copies of the meeting paper would still be forwarded to Lisa James for information.

21. Dates of Next Meetings

20.1 Dates for the next meetings were:

27 November 2019
26 February 2020