

AUDIT COMMITTEE

1 FEBRUARY 2016

Present: Independent Members: Ian Arundale (Chair), Professor Maurice Pendlebury

Councillors Howells, McGarry, Mitchell, Murphy, Weaver and Kelloway

42 : APOLOGIES FOR ABSENCE

Apologies for absence were received from Hugh Thomas, Chris Pugh (WAO) and Non Jenkins (WAO).

43 : DECLARATIONS OF INTEREST

No declarations of interest were received.

44 : MINUTES

The minutes of the meeting held on 30 November 2015 were approved as a correct record, subject to the addition of the following resolution to minute number 31:

- (4) Officers to prepare and circulate guidance and list of contacts for dealing with building maintenance contract matters.

The Corporate Director Resources advised that an all-Member briefing on this topic had taken place. Members of the Committee and any attendees for the briefing session will have received the information requested. The Chairperson requested that this communication also address the Committee's concerns regarding the single point of contact (SPOC).

Matters Arising

It was suggested to the Committee that uplift in school building maintenance contracts can be as high as 31% depending on the reason for the uplift. Some Members of the Committee stated that they would welcome the opportunity to liaise with colleagues in schools in order to find out more about their experiences, particularly in relation to schools being charged for work outside of the year, no SPOC, difficulties in isolating landlord/tenant headings and balancing budgets.

The Corporate Director Resources advised that the Operational Manager, Facilities Management was the SPOC and this had been clarified at the previous meeting. The Chairperson requested that if Members wished the Committee to consider discussing these matters further at future meeting, then they should write to him following the meeting.

RESOLVED –

- (1) That the all-Member briefing be provided to Members of the Audit Committee.

- (2) The value for money concerns regarding schools and the building maintenance framework to be set out by the Member concerned and included as a minute item.

Finance

45 : FINANCE UPDATE

The Corporate Director Resources presented a report providing the Committee with an update on the Council's financial position in order to assist Members in understanding the current financial context within which the Council is operating. The report provided an overview of the current position and an update on the preparatory work for 2016/17 and the medium term.

The Corporate Director Resources advised that the Cabinet had considered the Month 6 position in November and Cabinet will receive a report on the Month 9 position later in February. Indications were that the Month 9 position will show a slight improvement. The Committee will receive a further report at its March meeting.

Members were advised that the 5-week public consultation period was now closed. However, the provisional budget settlement figure was received from Welsh Government too late to be included in the consultation exercise. The settlement had been more favourable than anticipated; although the settlement represented an overall decrease in funding, this was less than expected. The Corporate Director Resources stated that the settlement afforded an opportunity to reshape the challenges in the medium term by improving the authority's financial resilience, addressing areas of significant risk, giving more scope to consider the budget consultation outputs, and giving more opportunity to protect the Council's corporate priorities.

The final budget settlement figure would be received on 2 March 2016. Although there was a risk in setting the budget prior to this the Welsh Government has indicated that it does not intend to change the provisional settlement. However, in order to address this risk, the budget report would introduce a mechanism to address any shortfall from reserves. The Corporate Director Resources stated that the risk was marginal and, indeed, the final settlement may be slightly more or slightly less than proposed.

The Corporate Director Resources confirmed that the authority's formal position was that the budget was robust.

RESOLVED – That the financial information provided in respect of the 2015/16 monitoring position and the process being adopted in respect of the budget preparation for 2016/17 and the medium term be noted.

Governance and Risk Management

46 : ANNUAL GOVERNANCE STATEMENT ACTION PLAN

The Committee received a report providing Members with the Annual Government Statement (AGS) mid-year position, to outline the AGS framework and to inform the Committee of the Senior Management Team's mid-year responses to the Senior Management Assurance Statements (SMAS).

The Audit and Risk Manager advised that all Directors had returned a SMAS. A summary of the responses received was included at Appendix A to the report. The Committee also received an update regarding the significant governance issues previously identified

marked as Appendix B to the report. The Audit and Risk Manager confirmed that the Social Services and Well Being Act was being addressed and a report will be presented at the March meeting.

A member requested that the Audit Committee note their welcoming of the internal market prices issue, and efforts to resolve formally.

RESOLVED – That the Annual Governance Statement framework and summary of the returned SMAS questionnaires be noted.

47 : AUDIT COMMITTEE ANNUAL SELF ASSESSMENT REVIEW 2014/15

The Committee received a report providing an update on the improvement actions resulting from the self-assessment closed session workshop in January 2015. Members were advised that the Audit Committee had undertaken the first self-assessment in December 2013. Future annual assessments were considered appropriate in order to inform the Audit Committee's Annual Report.

A workshop was held in January 2015 which was facilitated by the Welsh Audit Office and the Audit and Risk Manager. Members completed a self-assessment questionnaire of 46 questions. Following the completion of the questionnaire an action plan was produced which included 16 proposed actions for improvement and a series of target dates and action owners.

The Audit and Risk Manager reported that, following a review of the current position, progress made against the actions was encouraging. Further information regarding the progress being made was provided in Appendix A to the report. The next workshop would take place in September 2016.

Members asked whether the resources available to Internal Audit presented a risk. The Audit and Risk Manager accepted that lack of resources was an ongoing concern across all departments, but he remained positive.

The Committee discussed whether the Chief Executive will be invited to attend a future meeting of the Committee. The Audit and Risk Manager advised that the Chief Executive was awaiting an invite. It was suggested that the Chief Executive could be invited when the Committee receives a report on the Corporate Assessment.

RESOLVED – that

- (1) The Committee notes the updated Action Plan position as summarised in Appendix A and the current status of ongoing action.
- (2) The Chief Executive be invited to attend Audit Committee as part of the discussion following the Corporate Assessment presentation in March.

48 : AUDIT COMMITTEE ANNUAL REPORT

The Audit and Risk Manager advised that the draft Audit Committee Annual Report 2015/16 would be presented at the meeting in March. The Chairperson stated that Members had an opportunity to influence, comment on or feed into the Annual Report process. The Chairperson asked Members for their views.

Members asked for clarification that, following the forthcoming restructuring in Audit and Risk Management, whether Risk Management issues would still be reported to the Committee and whether these matters could be addressed in the Committee's Annual Report. The Corporate Director Resources confirmed that Risk Management issues would still be reported to the Committee. There was no agreed line of responsibility yet, but Risk Management would be allocated to a senior manager within the directorate. Members were aware that external auditors had previously raised concerns insofar as best practice suggests that risk management should be managed as a function independent from audit.

Members requested that the above change in the management structure be signalled in the Annual Report.

RESOLVED – That

- (1) Any Members who may wish to comment on the Annual Report do so writing to the Chairperson via email.
- (2) The change in the Audit management structure be included in the Annual Report.

49 : LOCAL GOVERNMENT BILL CONSULTATION - IMPLICATIONS FOR AUDIT COMMITTEE

The Committee received a report on the Welsh Government's draft Local Government (Wales) Bill proposals in relation to how these proposals concern matters relevant to the Audit Committee. Members were asked to consider the report and consider how the Committee may wish to respond to the Welsh Government's consultation.

Members were advised that the stated purpose of the Bill was to establish new Counties by the merger of existing Counties and County Boroughs; to establish a new and reformed legislative framework for local government democracy, accountability, performance and finance; and to establish a statutory Public Services Staff Commission. The consultation exercise is intended to provide the opportunity for comments on the proposals to be considered by the Welsh Government after the May 2016 elections. The deadline for responses is 15 February 2016.

Part 4 of the Bill imposes statutory duties upon Members of the new Councils relating to the performance of their functions. Part 5 of the Bill renames Audit Committees as 'Corporate Governance and Audit Committees' and provisions are made regarding their functions in Section 148 and Section 149. Specifically, the Bill provides that a committee is required to assess, and report on the Council's ability to comply with its duties in respect of its governance arrangements, make progress against the priorities set out in its Corporate Plan and handling complaints effectively. The Corporate Governance and Audit Committee must also assess and report on arrangements for self-assessment and peer assessments. The Committee must also review self-assessment reports and draft responses to peer assessment reports.

Part 4 and Part 5 of the Bill were attached to the report as Appendix A.

Members of the Committee discussed the Bill. It was noted that a number of the proposed changes had already been adopted in Cardiff. It was suggested that there may be a need to change the support arrangements for the Committee.

The Committee noted that one third of the Membership of the Committee must be Lay Members. The Council is currently recruiting for a fourth Lay member. The Chair will have to be independent, but there will be no significant change to the terms of reference of the committee. The matter of having a member of the Executive on the Governance and Audit Committee was discussed, for which there was a message in the Bill that they can be members, but not the Chair. The Bill narrowed the definition of a Lay Member. Members recommended that an additional paragraph be added to paragraph 151 of the draft bill, which would preclude any consultant or similar employed by the authority, or spouse or civil partner, of such as consultant, from serving as a Lay member on the Committee. It was agreed that this point be set out in the Committee's formal response to the Welsh Government's consultation.

RESOLVED – That

- (1) The Committee notes the provisions of Part 4 and Part 5 of the draft Local Government (Wales) Bill, set out in Appendix A, insofar as they relate to matters which the (current or proposed) remit of the Committee;
- (2) Delegates authority to the Corporate Director Resources, in consultation with the Chair, to prepare a response for Cabinet to consider on behalf of the Committee;
- (3) The response to the Local Government Bill consultation should suggest strengthening the potential conflicts for Lay persons to include business relations with Councils themselves, or for their civil partner or spouse.

Wales Audit Office

50 : CORPORATE ASSESSMENT UPDATE

The Corporate Director Resources advised that the Corporate Assessment was still awaited for initial review and comment. It was noted that at the previous meeting of the Committee an action was agreed for the Chairperson to meet with WAO. The Chairperson stated that meetings were yet to be arranged but these would be scheduled and would take place over the next 9 months.

RESOLVED – That the Chair will meet with WAO to discuss boundaries, roles and responsibilities, particularly in view of the new Committee changes resulting from the Local Government Bill.

51 : WAO REPORT PROGRESS UPDATE AND VALUE FOR MONEY STUDIES

The Audit and Risk Manager advised the Committee that progress reports were on track. A further report would be considered at the March meeting of the Committee and relevant attendees would be invited to attend.

Treasury Management

52 : PERFORMANCE REPORT

Members received a report providing performance information and a position statement on Treasury Management, highlighting the key changes from the previous report received in 31 October 2015. The report included a snapshot of treasury performance and position statements on investments and borrowing.

The Operational Manager, Capital and Treasury, presented the report. Members were asked to note investments to the value of £83 million. The forecast level of internal borrowing was £50 million at 31 March 2016. There was a slight underspend forecast in terms of external borrowing. Cash balances will reduce over the next 2 months as there will be no Council Tax receipts. In December £11 million of new borrowing was made for school investment. Longer term borrowing is at a more favourable rate from the Treasury.

RESOLVED – That the report be noted.

53 : TREASURY MANAGEMENT STRATEGY 2016/17

The Committee received a report on the draft Treasury Management Strategy 2016/17. The proposed strategy for 2016/17 is required to be approved at the Budget Council meeting in February 2016. The draft strategy was appended to the report.

The Operational Manager, Capital and Treasury advised Members that the draft strategy had been prepared in accordance with the Welsh Government's requirements. The main points of the Strategy included interest rate forecasts, an explanation of the pressures on the capital programme, a section on borrowing and the policy for the repayment of debt. It was felt that the Treasury Management Strategy was instrumental in minimising risks. The strategy includes the impact of housing reform, with integrated borrowing in place and an integrated strategy.

Interest on investments has been 0.5% since 2009 with minimal investment returns, but conversely borrowing rates are expected to rise in the medium term.

There is an increased need to borrow e.g. 21st Century Schools and capital schemes.

Based on the Draft Capital Programme, there is a requirement to borrow £108 million by 2018/19 year end. The plan is to use internal borrowing where possible, but not to leave external borrowing too late should interest rates rise.

There is a policy for debt repayment, with a prudent approach in the strategy for repaying historic borrowing.

There are indicators in the strategy which are similar to those used in the last strategy, with affordable borrowing limits. The investment strategy is much the same as prior years.

A member questioned the single integrated strategy. It was explained that this was not new, but when the Council takes on extra debt it needs to split this between general fund and housing borrowing. Debt is integrated, so that there is one process, but account for it correctly via HRA or General Fund.

RESOLVED – That the Committee note the proposed Treasury Management Strategy for 2016/17.

Internal Audit

54 : INTERNAL AUDIT PROGRESS UPDATE

The Audit and Risk Manager presented a progress report providing an update on the work of Internal Audit up to 31 December 2015. Members were advised that an Annual Audit

Strategy/Plan is prepared each year by which the work of Internal Audit can be measured. The Audit and Risk Manager advised that, as of January, progress against the plan was on track for most fundamental / high risk audits.

Members were advised that during the quarter there have been six new 'Limited Assurance' reports, with three or four at draft stage, and two executive summaries with 'No Assurance',

- Glyn Derw & Michaelston – This audit highlighted a wide range of concerns around governance and financial control. The Director was heavily involved as was the Resources LFM team. A new business manager had recently taken up their post and was working with staff and LFMS to address concerns.
- Youth centre inventories – Issues involved the accountability for assets and the movement of stock. These mainly related to competency issues and poor records management, rather than suspicion of fraud, but these concerns are also being considered by the Director.
- The 6 executive summaries have been provided to the Chief Executive who will reinforce the need for strong financial control with SMT. All will be subject to a revisit in 6 months' time.

It was also noted that there has been an overall increase in the number of limited audits conducted compared to those with a satisfactory assurance opinion and this needs to be closely monitored. The Audit and Risk Manager stated that this was a worrying trend and that he would be highlighting this in his Annual Internal Audit report.

The Chair said that there is comfort in the personal meetings between the Audit and Risk Manager and the CEO, with the message getting to the right people in the organisation, but some of the outcomes from audits required close monitoring.

Key priorities for Quarter 4 included the transition to a new management structure with the retirement of the Audit and Risk Manager, who has extensive knowledge and experience from over 45 years of service. High risk audits will be targeted in order to minimise the number not completed during the financial year. New staff, recently appointed will receive induction and training in order to contribute to delivering the plan. The Internal Audit Strategy will also be refreshed and key documents e.g. the Audit Charter updated. Included in the Strategy will be an outline plan for 2016-17 based on ongoing work on assurance mapping.

Members noted that the audit of pool cars had been deferred. The Audit and Risk Manager advised that this was due to the Council recently acquiring a new fleet of keyless vehicles, and lead time needed prior to the audit. Audit have been involved to provide assurance that the control issues originally identified have been addressed under the new arrangements.

Members also asked for further details regarding the Contract Fraud investigation, referred to in the Appendix to the report, specifically, for how long the invoices had been submitted. The Audit and Risk Manager agreed to provide Members with further details via email.

A Member questioned about the extent of contract audit work undertaken. The Audit & Risk Manager explained that there has been work on CMS variation orders and some

audit consultation on the review of financial and contract standing orders and procurement rules. There has been some slipping of work with a need for specific work on procurement to be prioritised in 2016-17.

With regards to the variation audit findings, weaknesses were reported in the approval processes and the need to strengthen the audit trail. It was clarified to a member who expressed concern that if contracts exceed a certain percentage of variation, that there is an escalation process for approval in place.

The Corporate Director Resources advised that contract standing orders have variance levels in place and if those variances are exceeded enquiries are made.

The Committee was advised that a directorate received additional budget in order to address a likely overspend on a capital project. The overspend did not occur and the directorate subsequently asked the Corporate Director Resources if the uplift could be used for something else. The additional budget was clawed back. The Chairperson stated that there was a formal mechanism in place regarding the re-provisioning of savings. The Chairperson indicated that he had previously received written confirmation to this effect from the Chief Executive, which he was happy to share with the Committee.

Members raised concerns that CRSA data for Cantonian High School had not been returned

Members asked officers to confirm that when the confederated schools in Glyn Derw and Michaelston are amalgamated into a new school, then any deficits associated with the existing schools will be wiped out. Concern was expressed that there was, therefore, no incentive to reduce the respective deficits. Officers advised that any losses would come from School Organisational Plan funding, and not Council monies.

RESOLVED – That

- (1) The report be noted.
- (2) The Audit and Risk Manager provide details of the period over which the fraudulent invoices were submitted in respect of the contract fraud.

55 : VALUE FOR MONEY STUDIES

The Committee received a report providing an update on the value for money (VFM) studies on Agency Spend, Standby Payments, Annual Leave, Overtime, Home to Office Travel and Mileage Claims. The Audit and Risk Manager advised that the VFM studies on Agency Spend and Standby Payments had been reported to the Committee previously. Additional studies relating to annual leave, overtime payments, home to office travel and mileage claims were complete.

The VFM studies aimed to highlight spend in these areas and seek assurances of the appropriateness of this spend and to identify any potential areas for savings to be considered.

Some compliance issues were highlighted and recommendations were made to enhance control. The VFM studies were reported to Senior Management Team on 12 January 2016. The Audit & Risk Manager will provide Directors with a breakdown of the data from

each study, and Directors were recommended to discuss the information with their management teams and seek assurances that the level of spend was appropriate, the mechanisms for approval were robust, and potential savings were being considered.

Member questions related to whether any benchmarking had been completed on standby and agency spend. This has not been considered by Audit to date.

It was suggested that there could be a requirement to have a business case for standby arrangements, in the same way as home to office.

The Committee discussed the VFM studies in some detail. The Chairperson requested that a further report be considered at the Committee's meeting in December 2016.

RESOLVED – That

- (1) The report be noted.
- (2) The Audit Manager provide a further report to Audit Committee at its meeting in December 2016 and consider benchmarking with others on agency spend and standby and give further consideration to the possible introduction of business cases for standby arrangements .

56 : INTERNAL AUDIT MANAGEMENT

Members received a report on the amended management arrangements for Internal Audit. Members were advised that in May 2015 temporary measures were put in place to enable the phased retirement of the Audit and Risk Manager. The Pension Team had also been reporting directly to the S151 officer for the past 10 months and there was also a managed reduction of staff in relation to investigations and fraud as a result of a restructure.

Recent guidance from the Public Sector Internal Audit Standards Board had reaffirmed the position that Internal Audit should be an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations.

Following the appointment of a Head of Finance in September 2015, a review was undertaken to consider the overall management structure in Finance, including suitable arrangements for the Internal Audit functions. The Internal Audit Manager will be the key link with the Audit Committee and a key member of the Finance Management Team. Recruitment for the role has commenced and it is anticipated that the interview arrangements will be concluded in March 2016. In the event that the successful applicant will not be joining before 1 April 2016, interim arrangements will be put in place.

RESOLVED – That the Committee notes the content of the change in management arrangements in Internal Audit.

57 : OUTSTANDING ACTIONS

The purpose of this item was to update the Committee on outstanding actions from the Audit Committee's Action Plan. The Audit and Risk Manager confirmed that a number of actions would be closed following the meeting.

The SharePoint site is now available with holds a number of documents which members may find of interest.

The value for money exercise on supply teachers is almost complete and an update will be provided in March.

An assurance map is being used to update and collate the audit plan.

RESOLVED – That

- (1) the report be noted.
- (2) an update will be provided at the Committee's meeting in March on the VFM exercise on supply teachers.

58 : WORK PROGRAMME UPDATE

The purpose of this report was to update Members on the Committee's Work Programme for 2015/16. Members were asked to note that that the agenda for the meeting on 22 March 2016 contained was already full.

RESOLVED – That the report be noted.

59 : URGENT BUSINESS

No urgent business was reported.

60 : DATE OF NEXT MEETING - 22 MARCH 2016

The next meeting would take place on Monday 22 March 2016.

The meeting terminated at 4.00 pm