

## AUDIT COMMITTEE

27 JUNE 2016

Present: Ian Arundale(Chairperson)  
Professor Maurice Pendlebury, Hugh Thomas

County Councillors Howells, McGarry, Mitchell, Murphy, Weaver  
and Walker

1 : APOLOGIES FOR ABSENCE

Apologies were received from Councillor Kelloway.

2 : APPOINTMENT OF CHAIRPERSON

RESOLVED – That Ian Arundale be appointed Chairperson of the Audit Committee for the Municipal Year 2016/17 and Professor Maurice Pendlebury was appointed as Deputy Chairperson.

3 : DECLARATIONS OF INTEREST

4 : MINUTES

The minutes of the meeting held on 22 March 2016 were approved by the Committee as a correct record and were signed by the Chairperson.

Wales Audit Office

5 : CARDIFF REGULATORY PROGRAMME LETTER 2016-17

Chris Pugh of the Wales Audit Office presented the Regulatory Programme Letter for 2016/17. Members were advised that the WAO would be undertaking three thematic reviews at the Council during 2016/17, which are Financial Resilience, Governance and Transformation. These thematic reviews are being undertaken at all Council's in Wales. The WAO will also be undertaking local risk based work, which will focus on how the Council is demonstrating how it is addressing the recommendation and proposal for improvements contained the WAO Corporate Assessment Follow On Report. Finally, the WAO will be undertaking an improvement plan audit and an assessment of performance audit as in previous years.

The Committee noted the WAO performance audit work fees for 2016/17.

RESOLVED – That the Cardiff Regulatory Programme Letter for 2016/17 be noted.

Finance

6 : FINANCIAL UPDATE

The Committee received a report providing an update on the Council's financial outturn position for 2015/16 and an outline of work being undertaken in preparation for the 2017/18 budget. A brief summary of the position and the key issues was set

out in the report. Members were advised that the outturn position was reported to the Cabinet on 16 June 2016.

The Corporate Director Resources stated that the revenue outturn position showed a surplus of £1.696 million after contributions to and from reserves, compared to a surplus of £988k at Month 9. The improvement reflected an improvement in directorate positions at year end, a higher surplus on Council Tax and an increase in non-domestic rate (NDR) refunds following successful appeals to the Valuation Agency.

Members were asked to note the continuing financial pressures set out in paragraph 5 of the report, in particular those in Social Services, Corporate Management, City Operations and Economic Development. The Committee discussed the overspend of £5.022 million in Social Services. Members asked whether the Corporate Director Resources was concerned at another overspend within the Social Services Directorate. The Corporate Director stated that she was having regular meetings with the Chief Executive and the Director of Social Services. The Leader was also holding the Cabinet Member to account.

The Chairperson sought clarification on the consistent overspends within Social Services and asked whether this was as a result of management failure or a failure to set and profile the budget correctly. The Corporate Director Resources stated that the overspend relates to the late delivery of budgeted savings. Management within the Directorate were working to address the issue and realise the savings. The Chairperson asked that the Committee's position be noted and would welcome further clarification on this matter.

The Corporate Director advised that redundancy costs during the year amounted to £2.027 of which £1.018 million was in respect of school based staff. The statutory redundancy costs were capitalised in line with Welsh Government direction, leaving £399k to be funded from the General Fund via the voluntary severance budget. The low level of redundancy costs during the year allowed repayments of £4.377 million to be made to earmarked reserves to offset sums previously borrowed.

Members were asked to note that increases in the Council's earmarked reserves as a result of the outturn position will serve to improve the Council's overall financial resilience. In addition, the resources will be available to assist funding one-off investments to support service transformation.

The Capital Programme Outturn showed a variance of £35.631 million of which £33.631 million was slippage.

The Committee asked whether the £4 million contingency budget would be carried forward. The Corporate Director advised that the £4 million contingency was in the 2017/18 budget and was in addition to a £4 million sum for the financial resilience mechanism, which was protected in the base budget.

**RESOLVED – That**

1. the Committee notes the Council's final budget outturn position for 2015/16 and the work being undertaken in relation to the budget strategy for 2017/18;

2. the Committee would welcome clarification of the position regarding the continual overspends in the Social Services Directorate.

## 7 : DRAFT STATEMENT OF ACCOUNTS/ANNUAL GOVERNANCE STATEMENT 2015/16

Rob Green and Anil Hirani presented a report setting out the draft Statement of Accounts for the financial year 2015/16. Members of the Committee were asked to comment on the Statement of Accounts 2015/16 prior to the accounts being submitted for external audit.

Members agreed that most of the concerns raised by the Committee were referred to within the Statement of Accounts, and in more detail than in previous years. It was noted that the report did not include individual school balances. Officers advised that in an attempt to 'declutter' the Statement of Accounts individual school balances were removed, however this information is still available and is reported to the School Budget Forum. The officers agreed to include a signpost to this data in the final draft, as the data was publically available.

Members noted that the value of the assets held by the authority had decreased by £143 million. Members believed that these were large amounts and some indication of the magnitude and reasons for the revaluation should be included in the final draft. Officers agreed to include this information and the explanation of the rationale and assumptions used in the next iteration of the Statement of Accounts.

Page 34 of the Statement of Accounts lists Council Tax received at £144.062 million. However, comprehensive income and expenditure account gives a figure of £173 million. Members asked why there was a different of over £29 million. Officers advised that precepts, levies and a small surplus accounted for the difference. It was agreed that officers review these figures and identify the difference in the final draft.

The Committee discussed the contingent assets listed on Page 123 of the Statement of Accounts. A Member stated that £1.9 million loan to Glamorgan CCC was shown as an asset but it should not appear if listed as a contingency. Officers stated that there was no line in the accounts regarding this sum, however, it was reflected in the narrative and it could prove to be an asset should Glamorgan CCC redeem the loan. Members of the Committee considered this to be misleading. Officers agreed to review this information and make a clear statement. Members requested that the form of words reflect the actual position.

The Corporate Director Resources advised that Pension Fund investments had performed less favourably than in previous years. The 15% increase in management fees related to good performance in previous years. Members were advised that changes to Local Government Pension Fund arrangements now mean that all pension schemes must pool their assets and reduce the amount of expenditure on management fees. There were 8 pools UK-wide, 1 pool for Welsh pension schemes. The Welsh Pension scheme has completed a collaborative procurement exercise for a passive investment mandate which resulted in a £2.1 million saving across Wales – a £230,000 saving for Cardiff. The Committee accepted an offer from the Corporate Director Resources to bring a report on these developments to the next meeting of the Committee.

Members asked whether the additional income received from Moving Traffic Offences (MTOs) was the result of a deliberate attempt to raise income. The Corporate Director Resources stated that the additional income from MTOs is ring-fenced for traffic management improvements. All income from penalty notices is used to cover the cost of providing the service – with a surplus balance of £370,000.

The Committee asked whether paid employees in receipt of salaries over £170,000 should be named in the Annual Report. Members were advised that posts in the Senior Management Team are listed. However, one Member of staff who fell into this bracket was not part of the Senior Management Team and therefore the post was not disclosed. Officers agreed to provide some clarification regarding the post concerned.

Officers confirmed that the £1.7 million in capital receipts related to the 'Right to Buy' scheme.

Members welcomed changes to procurement controls and monitoring, particularly those relating to housing repair contracts. The Corporate Director Resources indicated that the new Commercialisation Unit will oversee the framework for those contracts. The launch of the second iteration of the contract will include workshops for all Members. Members of the Committee were invited to participate in these. Members were satisfied with the content of the Annual Governance Statement, and no amendments were suggested.

RESOLVED – That the Committee:

1. subject to the comments received in respect of the 2015/16 draft Statement of Accounts as set out above, note that these Accounts are to be signed by the Corporate Director Resources and submitted for external audit and public inspection;
2. note that the Audited Statement of Accounts for 2015/16 will reviewed by this Committee in September 2016, prior to being presented to Council;
3. the Corporate Director Resources present a report on changes to the management arrangements for Welsh Pension Funds to the next meeting of the Committee.

## 8 : FINANCIAL RESILIENCE

The Committee received a report advising Members of the assessment carried out by the Wales Audit Office on behalf of the Auditor General Wales in respect of the authority's financial resilience. The assessment took place during the period May to October 2015 and followed up issues highlighted in 2014/15. The work focussed on the delivery of 2014/15 savings plans and the 2015/16 financial planning period.

The report considered whether effective support arrangements were in place in respect of financial planning, financial control and financial governance. The full assessment was appended to the report at Appendix A. The assessment included

four recommendations. The Council's response to the recommendations was appended to the report at Appendix B.

The Chairperson welcomed Janet McNicholas and Chris Pugh of the Wales Audit Office to the meeting. Members asked whether Ms McNicholas had any concerns regarding the use of reserves. Members were advised that WAO were not concerned as the use of reserves was planned. Reserves were not being used as a 'stop gap' measure, but part of the financial planning process.

Referring to the WAO assessment report, paragraph 19, Members asked which directorate delivery plans did not link to the Medium Term Financial Plan (MFTP). Chris Pugh gave an undertaking to provide this information. It was requested that the information be circulated to all Members of the Committee via email.

RESOLVED - That:

1. the assessment carried out by Wales Audit Office on behalf of the Auditor General Wales in respect of financial resilience, and the Council's response, be noted.
2. Chris Pugh provides members with information relating to which directorate delivery plans did not link to the Medium Term Financial Plan (MFTP). The information to be circulated to all Members of the Committee via email.

## 9 : CERTIFICATE OF COMPLIANCE

The Committee received the Certificate of Compliance issued by the Wales Audit Office in respect of the Council's Corporate Plan 2016/17. The Auditor General Wales concluded that the Council has discharged its duties under Section 15(6) to (9) of the Local Government (Wales) Measure 2009 and has acted in accordance with the Welsh Government guidance sufficiently to discharge its duties.

RESOLVED – That the Committee notes the report.

## Governance and Risk Management

### 10 : AUDIT COMMITTEE ANNUAL REPORT 2015/16

Members received a report and were asked to consider approving the Audit Committee's Annual Report 2015/16 as a record of the activities and opinion of the Audit Committee for the municipal year. The report was prepared based on the evidence presented to the Committee throughout the year and following consideration of the draft Annual Report at the Committee meeting held on 22 March 2016.

RESOLVED – That the Audit Committee Annual Report 2015/16 be approved for consideration by Council.

### 11 : CORPORATE RISK REGISTER (YEAR END)

The Corporate Director Resources presented a report which was prepared in order to bring the Corporate Risk Register (CRR) to the attention of the Audit Committee, so that Members are given an opportunity to consider the strategic risks facing the Council. The CRR identifies the main risks so that Members and Senior Officers can make informed decisions and prioritise actions. The CRR was last received by the Audit Committee on 30 November 2015. It is intended to bring the CRR to the attention of the Audit Committee biannually, in line with reporting to Cabinet.

Members were advised that the CRR currently contains 24 risks, all of which are assigned to Members of the Senior Management Team to ensure ownership and accountability. Each risk has been reviewed and updated by the respective risk owner to reflect the year-end position.

The Committee discussed a number of the risks identified in the Corporate Risk Register. The Corporate Director Resources stated that the number of risks rated 'high' was comparable with other Core Cities. An exercise has been completed to compare the composition of the corporate risk register with those of the Core UK Cities. This exercise provided assurance that the risks which are managed, monitored and reported upon through our Corporate Risk Register are closely aligned with those reported by the other Core UK Cities. It was confirmed that the number rate 'high' did not exceed that reached previously.

RESOLVED – That the content of the Corporate Risk Register be noted.

## 12 : SENIOR MANAGEMENT ASSURANCE STATEMENT REVIEW - FEEDBACK

The Committee received a report providing Members with a summary of the returned Senior Management Assurance Statements (SMAS) for the financial period 2015/16. The Committee noted the positive responses received and the increased level of engagement. The Chairperson also commended the involvement of the Chief Executive in the process through the introduction of a Chief Executive Assurance Statement.

The Committee raised some concerns regarding the directorate risk management response. Officers advised that the SMAS reflected greater engagement and a more robust assessment. The Committee was also advised that training was provided to the City Operations Management Team as a result of their SMAS response. There was recognition and acceptance given that more work needed to be done to address some directorate risk management weaknesses, with work ongoing.

RESOLVED – That the Committee notes the summary of the responses received.

## Treasury Management

### 13 : PERFORMANCE REPORT

*Appendix 1 and Appendix 2 to this report contained exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972. It was agreed that the public be excluded for the duration of the discussion of this item of business on the grounds that if members of public were present during the discussions, due to the nature of the business to be transacted there would be disclosure to them of exempt information of the description in Paragraphs 14 and 21 of Schedule 12A of the Local Government Act, 1972.*

The Committee received a report providing Treasury Management performance information and position statements as at 31 March and 31 May 2016. The Operational Manager – Capital and Treasury presented the report.

#### *31 March 2016*

Members were advised that investments arising from temporary cash balances stood at £58 million. External borrowing totalled £666.1 million which included additional borrowing undertaken in year to make a £187 million Housing Subsidy Reform Settlement to the Welsh Government.

#### *31 May 2016*

At 31 May 2016 investments totalled £84 million. External borrowing was unchanged at £666.1 million. The total interest on borrowing payable was £32.8 million as initially budgeted.

Officers stated that PWLB continued to offer the most preferential rates for certain schemes. It was not policy to seek long term repayment for all borrowing. The term was very much dependent on the profile. Borrowing in advance of capital spend of up to 3 years is permitted.

RESOLVED – That the report be noted.

#### Internal Audit

#### 14 : INTERNAL AUDIT PROGRESS REPORT 2016/17

*Appendix B to this report contained exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972. It was agreed that the public be excluded for the duration of the discussion of this item of business on the grounds that if members of public were present during the discussions, due to the nature of the business to be transacted there would be disclosure to them of exempt information of the description in Paragraphs 14 and 21 of Schedule 12A of the Local Government Act, 1972.*

The Group Auditor presented the Internal Audit Progress Report 2016/17. The report provided Members of the Committee with an update on the work of Internal Audit to 31 May 2016.

Members of the Committee considered that it would be useful to have the recommendations from audit conducted reported to the Committee. Officer gave an undertaking to provide further details of the carried over recommendations for improvement at the next meeting of the Committee.

RESOLVED – That the report be noted.

#### 15 : INTERNAL AUDIT ANNUAL REPORT 2015/16

*Appendices C and D to this report contained exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972. It was agreed that the public be excluded for the duration of the discussion of this item of business on the grounds that if members of public were present during the discussions, due to the nature of*

*the business to be transacted there would be disclosure to them of exempt information of the description in Paragraphs 14 and 21 of Schedule 12A of the Local Government Act, 1972.*

The Committee received the Internal Audit Annual Report 2015/16. The report provided an overview of the approach adopted to audit assignments and detailed the work undertaken by the various audit teams during the previous 12 month.

Officers agreed to rephrase paragraph 2.4 regarding contract management concerns and cross reference those concerns detailed in the Audit Committee Annual Report. Furthermore, Members suggested that investigation data on dismissals and registrations could be given context e.g. a comparison with the prior year figure.

RESOLVED- That the report be noted.

#### 16 : INTERNAL AUDIT PLAN 2016/17

*Appendix A to this report contained exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972. It was agreed that the public be excluded for the duration of the discussion of this item of business on the grounds that if members of public were present during the discussions, due to the nature of the business to be transacted there would be disclosure to them of exempt information of the description in Paragraphs 14 and 21 of Schedule 12A of the Local Government Act, 1972.*

At the meeting of the Committee held on 22 March 2016 the Committee were presented with the Internal Audit Strategy 2016/17 which contained background information for the Audit Plan for the year. Members requested a more detailed Audit Plan commencing 1 April 2016. The plan was attached to the report at Appendix A.

In respect of the ADM projects, Members requested that sufficient time be set aside in the Audit Plan to provide assurance that ADM targets are being met.

RESOLVED – That the report be noted.

#### 17 : WORK PROGRAMME

RESOLVED – That the Audit Committee Work Programme 2016/17 be noted.

#### 18 : URGENT BUSINESS

The Chairperson advised that there was no urgent business to be considered.

#### 19 : DATE OF NEXT MEETING

The next meeting of the Committee will take place on 19 September 2016.

The meeting terminated at 12.30 pm