

AUDIT COMMITTEE

20 JUNE 2017

Present: D. Hugh Thomas (Deputy Chairperson)

Gavin McArthur and David Price

County Councillors Cowan, Cunnah, Howells, McGarry and Dianne Rees

1 : APOLOGIES FOR ABSENCE

Apologies for absence were received from Ian Arundale.

2 : DECLARATIONS OF INTEREST

The following declarations of interest were made in accordance with the Members Code of Conduct:

Councillor Howells	Item 11.2	School Governor
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3 : APPOINTMENT OF CHAIRPERSON

RESOLVED – That Ian Arundale be appointed Chairperson of the Audit Committee for the Municipal Year 2017/18 and D. Hugh Thomas be appointed as Deputy Chairperson.

4 : MINUTES

The minutes of the meeting held on 14 March 2017 were approved by the Committee as a correct record and were signed by the Deputy Chairperson.

5 : OPERATIONAL MATTERS

No operational matters were reported.

Finance

6 : FINANCE UPDATE

The Committee received a report providing an outline of the work being undertaken on budget preparation for 2018/19 and to advise the Committee on the current position in relation to the Council's budget outturn 2016/17.

Members were advised that the 2016/17 accounts were closed and work is ongoing in relation to the preparation of the Statement of Accounts. The projected outturn position was a balanced budget with no adjustments necessary to the general reserve. Earmarked reserves will increase by approximately £7 million. The outturn position will be reported to Cabinet on 6 July 2017 and the report will be issued to the Audit Committee at the point of publication.

Officers indicated that work on the in-year financial monitoring position for 2017/18 is still at an early stage. Updates will be provided to the Committee throughout the year. Preparations for the 2018/19 budget are underway. A report outlining the proposed budget strategy will be presented to Cabinet on 27 July 2017. A brief summary of the key issues and areas to be considered were set out in the report. The Committee was asked to note that policy transitions may need to be considered in preparing future budgets following the establishment of a new administration in May 2017.

A Member asked why the budget strategy report was scheduled to be received by Cabinet after the July meeting of the Council. The Member felt that the report could be brought forward to an earlier meeting of the Council so that Members may have an early opportunity to scrutinise the proposals. Officers advised that prior to the 2017 local elections it was proposed not to have a Council meeting in July. It was therefore intended that the budget strategy report would be taken to Cabinet and Council in September. The Member expressed disappointment that there would be no opportunity for the Council to consider the budget strategy report before the September meeting of the Council. The Member asked for their comments to be noted.

RESOLVED – That the current position in respect of the outturn report for 2016/17 and the work being undertaken in relation to the budget monitoring of 2017/18 and the budget strategy for 2018/19 be noted.

7 : DRAFT STATEMENT OF ACCOUNTS

The Committee received a report providing Members with an opportunity to review and provide comments on the Draft Statement of Accounts 2016/17 prior to the accounts being formally submitted for external audit and public inspection. The Statement of Accounts was attached as Appendix 1 to the report.

Members were advised that the Local Government (Wales) Measure 2011 identified the review of the Council's Statement of Accounts as a specific function for the Audit Committee. In conjunction with Wales Audit Office, further progress has been made to simplify the document by removing unnecessary and immaterial information. The Statement of Accounts are prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

The Statement of Accounts includes a narrative report providing a general explanation of the Council's financial position together with a guide to the financial statements included in the accounts. The financial statements are accompanied by notes which provide further detail on the accounts. The accounts also include the financial position of Cardiff Bus; an Annual Governance Statement; and statements in respect of the Housing Revenue Account (HRA), Trust Funds and Cardiff Port Health Authority.

The Responsible Finance Officer is required to sign the accounts by 30 June 2017. A draft of the accounts was provided to the Wales Audit Office on 15 June 2017. The report set out the next steps as follows:

- Advertise the opportunity for public inspection for a period of four weeks

- Complete the whole of government accounts returns based on the draft accounts in July 2017
- All material amendments and adjustments to be agreed by the Wales Audit Office and Council by end of August 2017
- Audit Committee consideration of the final accounts and audit report at its September meeting
- Full Council to approve and sign the audited accounts at its meeting in September
- Publish the approved accounts by 30 September 2017

Members were invited to comment, seek clarification or comments on the report. Those discussions are summarised as follows:

- Members sought clarification regarding the issue of the valuation of Cardiff Bus, which had been raised previously by the Committee. Officers stated that changes to the CIPFA code which were likely to affect the valuation of Cardiff Bus, were not due to come into effect until April 2018, and were subject to approval. The draft Statement of Accounts was based on the existing code. Officers agreed to provide the Committee with a further update on this matter.
- Members noted that the Statement of Accounts indicated that the authority held surplus assets not held for sale of approximately £40 million and that assets held for sale totalled £80,000. Members sought assurance that adequate controls were in place. Officers stated that the totals reflect the categorisations required by the CIPFA Code of Practice. The assets are those held by the authority but are not currently used for operational purposes. Any assets 'held for sale' are those to be sold during the next 12 months which meet the four criteria set out in the code. Responding to a further question from the Committee, officers advised that the process for managing disposal of assets is set out in the Corporate Asset Management Plan. Investment property – property held to provide an income – was managed under the Investment Property Strategy. Officers offered to provide Members of the Committee with hyperlinks to both documents.
- Members asked for an explanation of the rationale used to revalue assets. Officers stated that in terms of the revaluation of artworks, the assets are valued for insurance purposes. That value was used as a basis for the valuation, which had resulted in an increase. Investment properties are valued every five years by the Estates Department and an independent valuation company. There is a rolling programme for valuation of council owned homes, which is due in the next financial year.
- Members commended the narrative report which accompanied the Statement of Accounts. A request was made that the narrative report include an explanatory note explaining why the 'unusable reserves' of £581 million cannot actually be used. Officers agreed amend the narrative report to include such an explanation. Members also requested further details be provided in the remuneration note for 2015/16. Officers agreed to include additional information in a footnote.
- The Committee requested that their thanks to the officers for achieving the required deadline and for the good progress made in simplifying the Statement of Accounts be noted.

RESOLVED – That:

- (1) subject to any comments in respect of the 2016/17 draft Statement of Accounts, the Committee notes that these Accounts are to be signed by the Corporate Director Resources and submitted for external audit and public inspection.
- (2) the Committee notes that the audited Statement of Accounts for 2016/17 will, prior to being presented to Council, be reviewed by this Committee in September.

Governance and Risk Management

8 : SENIOR MANAGEMENT ASSURANCE STATEMENT REVIEW - FEEDBACK

The Committee received a report on the review of the Senior Management Assurance Statements (SMAS) for 2016/17. The SMAS are a key component of the Annual Governance Statement (AGS) providing self-assessment by the Senior Management Team. Members were asked to consider whether the AGS accurately reflects the risk environment and supporting assurances and takes into account internal audit opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk and internal control. The Committee is also asked to consider the Council's corporate governance arrangements against the good governance framework.

Members were advised that at its meeting on 14 March 2017 the Committee received a copy of the draft AGS and a report on the changes to AGS assessment.

The report also provided Members of the Committee with an overview of the SMAS process and AGS action plan.

Members were asked to note that there were 23 assurance statements answered by each Director. A summary of the SMAS statements, a Senior Management Statement and an Action Plan for the significant issues identified were appended to the report. Results showed an overall 'strong' application of good governance across the assurance areas.

The Chairperson invited questions on the report. These are summarised as follows:

- Officers were asked how confident they were that the scoring of SMAS is consistent across all directorates and what controls were in place. Officers stated that these questions had been asked by the Chief Executive. During discussions with the Senior Management Team an explanation of the self-assessment process in terms of the levels and the assurance given was provided. Members asked whether it was possible that a circumstance could arise whereby the Director and the managers working beneath him could arrive a different score. Officers stated that both Directors and managers should consult with their management teams and the SMAS should reflect a summary of the assessments for the services each are responsible for.
- Officers were asked to expand upon the 14% limited application figure for budget monitoring. Members were advised that the figure relates to responses from the Social Services Directorate in terms of budget monitoring and delivering budget

savings and that the Committee will be aware of the issues within the Directorate.

- Officers indicated that, whilst there are 5 instances of limited application set out in the summary document, there was nothing to suggest that poor performance in any particular directorate is being 'masked'. The Corporate Director Resources stated that there was an expectation that if poor performance is identified it would be included in the significant issues document.
- Officers confirmed that work was being undertaken to evaluate whether SMAS self-assessments and the Internal Audit Work Plan are in alignment.
- Referring to the Annual Governance Statement and paragraph 18 of the report, the Committee sought clarification of meaning of the phrase 'sufficiently underway'. Steve Barry of Wales Audit Office stated that two thirds of the actions from the WAO Corporate Assessment Follow On Report have been completed. Dialogue between WAO, the Chief Executive and the Corporate Director Resources is continuing. The Chairperson requested that a progress report on the implementation of said actions be presented at the next meeting of the Committee in September.

RESOLVED – That the Committee's comments on the Senior Management Assurance Statements, the Senior Management Statement and the Action Plan of Significant Governance Issues be noted.

9 : CORPORATE RISK REGISTER

The Committee received a report providing an update on the risk management position at Quarter 4 2016/17. The report also advised the Committee of the formalisation of a new risk escalation process introduced in Quarter 4. The risk escalation process has been formalised to ensure that SMT receive systematic and timely risk information and analysis from each Directorate on a risk priority basis.

Members were advised that 319 risks were reported from Directorate Risk registers. Each Director is responsible for reviewing and escalating risks in accordance with the refreshed process.

A total of 14 risks were escalated to SMT and each were collectively reviewed and discussed. A new corporate risk on cyber security was agreed and added to the corporate risk register. Following the ICT Service Manager's attendance at the Risk Management Steering Group in January 2017, an action was agreed for his attendance at SMT to provide guidance and articulation of individual and collective responsibilities. Another risk on the 'non-compliance of building equipment maintenance' was also escalated to the Corporate Risk Register (CRR) in the quarter 4 review.

There were 24 corporate risks in place prior to the quarter 4 review. Each risk owner reviewed their existing corporate risks and control narratives and improvement actions were updated, including: some risk additions and risks removed from the CRR; changes to some risk names/titles; and an increase in the Information Governance risk rating from B2 to B1. Further details of each of the updates to the CRR were provided in the report.

The Committee discussed the report. Members raised questions and sought clarification on a number of points. Those discussions are summarised as follows:

- Members asked how reactive the authority is to risks which fall outside the risk register and how does the authority ensure the risk register reflects current issues. Officers stated that the CRR represents those Directorate Risks which have been escalated for SMT/Directors to respond. The CRR is dynamic and represents a summary of themed issues.
- Members asked why natural events were not reflected as a top level risk in the CRR. The Committee was advised that the Emergency Management Unit have plans in place to respond to natural events. The CRR represents the risks to achieving corporate objectives.
- A Member asked whether the CRR process was able to 'fast-track' emerging threats. Officers stated that the CRR was responsive and a good example of this was SMT's recent reaction to the Grenfell Tower disaster. SMT immediately discussed the authority's position and it was agreed that an officer group be established.
- Members asked whether the authority has a Disaster Recovery Plan in place and whether there was a clear understanding of the priorities for reinstating services which might be impacted upon. Officers confirmed that a plan was in place and this was reflected in the business continuity risk, which is reviewed periodically.
- A Member requested a report on safeguarding issues be presented to a future meeting of the Committee and the Director be invited. Having considered the Terms of Reference of the Audit Committee, the Deputy Chair will determine whether or not this is business of the Audit Committee or is to be referred to the respective Scrutiny Committees.
- Members of the Committee also suggested that KPIs could be used to track the impact of the additional resources allocated in the 2017/18 budget for Social Services and a request was made that any future report should reference those KPI. The KPI data could be used to evaluate the ability of the service to deliver its functions.
- A Member considered that in terms of the Schools SOP risk, there was little to indicate acknowledgement of the increase of children with autism or with special needs, and furthermore, little recognition of the lag between the new housing developments approved under the LDP and the provision of secondary school places. Officers agreed to raise those issues with the Director of Education.
- Referring to the risk rating, Members questioned whether residual risk could ever be more than inherent risk. In the matrix the residual risk and inherent risk for climate change was the same. Members asked whether controls were sufficient. Officers accepted the point made. The risk owner had taken the view that there was not sufficient evidence to move it.

RESOLVED – That:

- (1) Audit Committee notes the Corporate Risk Register;
- (2) the Deputy Chair to consider the Terms of reference of Audit Committee and determine whether or not the matter of Safeguarding risk management is referred to the Chairpersons of the Community and Adult Services Scrutiny Committee and the Children and Young People Scrutiny Committee.

Wales Audit Office

10 : ANNUAL AUDIT PLAN 2017

The Chairperson welcomed Matthew Coe and Steve Barry of Wales Audit Office (WAO). The Committee received the WAO Annual Audit Plan 2017. Matthew Coe provided Members with a summary overview of the Audit Plan.

Steve Barry highlighted the local government studies set out in Exhibit 5 of the Plan as reports likely to be of interest to Members of the Committee, in particular the study on Income Generation and Charging.

Members were advised that the performance audit programme will follow up on existing areas for improvement. However, the new administration in the Council provides an opportunity to review how performance audit is delivered.

In terms of the audit fee, Matthew Coe stated that the Grant fee of £65,000 was set before it was known that Cardiff Council would be part of a Welsh Government pilot on auditing grants and EU convergence grants. It was hoped that the actual fee might be reduced.

Responding to a question from a Member of the Committee, Matthew Coe indicated that the authority did not receive an audit fee refund in the last financial year. Matthew Coe agreed circulate a comparison between proposed WAO fees and actual WAO fees.

It was noted that the fee charged for auditing of Cardiff Harbour Authority was considerably greater than the fees charged to the Cardiff Port Health Authority and the Glamorgan Archives Joint Committee. Members were advised that the fee reflect the size and complexity of the auditing of each of these organisations. The Cardiff Harbour Authority covers the whole of Cardiff Bay and its environs and there will be asset management implications in terms of the barrage and other infrastructure.

RESOLVED – That the report be noted.

11 : CARDIFF AND VALE PENSION FUND AUDIT PLAN

The Committee received the Cardiff and Vale Pension Fund Audit Plan. Matthew Coe stated that the pension fund audit was a straightforward audit with no performance element.

Members were advised that the Wales Investment Pool arrangement was new and these arrangements did not have a significant impact during the year. A slight increase in the audit fee was noted.

RESOLVED – That the report be noted.

12 : MANAGEMENT RESPONSE TO WAO REPORT ON SAVINGS PLANNING

The Committee received a Wales Audit Office (WAO) report on Savings Planning in Cardiff Council. Members were asked to consider the management response to the WAO proposals for improvement.

Members were advised that during 2015/16 WAO undertook work in all local authorities to assess the adequacy of their financial planning, control and governance arrangements. Local reports were issued and a national summary report published in August 2016. The report for Cardiff concluded that the Council needed to improve its arrangements for financial planning linkages with service plans and needed to develop robust plans to support the timely delivery of its savings proposals.

A further review was carried out in Autumn 2016 in order to determine what the Council did as a consequence of what it has learnt and how the authority responded to the proposals for improvement outlined above. Further, a sample of three savings proposals was undertaken in order to look at the adequacy of the delivery mechanisms in place.

The review concluded that the Council has a transparent and effective savings planning approach which supports financial resilience. This is noted to be an improved position from 2015/16. The full WAO report was appended to the report. The report included following proposals for improvement:

- Ensuring that all savings proposals are fully developed prior to the start of the year, with realistic timescales when the annual budget is set;
- Developing an Income Generation/Charging Policy;
- Continuing to develop links between the Organisational Development Plan and annual savings

The Council's response to the proposals for improvement was summarised in the report. Members were asked to note that some preparatory work has commenced in respect of the 2018/19 Budget Strategy. Directorates are developing robust budget proposals with milestones and actions required in order to provide an informed view on how the budget savings will be delivered and also highlighting any risks.

RESOLVED – That the work of the Auditor General in respect of Savings Proposals and the management response to the proposals for improvement be noted.

13 : MANAGEMENT RESPONSE TO WAO REPORT ON GOOD GOVERNANCE WHEN DETERMINING SIGNIFICANT SERVICE CHANGES

The Committee received a Wales Audit Office report in respect of good governance when determining significant service changes. Members were asked to consider the management response to the proposals for improvement set out in the report. The report was presented by Joe Reay, Head of Performance and Partnerships.

Members were advised that during 2016 the Wales Audit Office undertook an assessment of the effectiveness of the Council's governance arrangements for

determining significant service changes. A sample of service changes were looked including the revised waste strategy, alternative delivery models for leisure centres, Cardiff International Sport Stadium and arts venues, respectively.

The Auditor General concluded that the Council has a clear framework for significant service change, supported by improving governance. However, arrangements could be more consistently applied. The full WAO report was appended to the report at Appendix A. The report contained the following two proposals for improvement:

- Ensuring information supporting service change proposals consistently includes options and sets out the method of appraising the options
- Explicitly setting out arrangements for monitoring the impact of each service change

The proposals for improvement were reviewed and were accepted in principle. The authority's detailed response and suggested actions were set out in Appendix B to the report.

The Committee discussed the report in detail. Those discussions are summarised as follows:

- A Member asked how the effect of service changes were measured, notably, in terms of the impact of the changes on service users. Officers considered this to be an important issue and there was a need to retain an emphasis on why services are important to service users. There was a requirement for some sort of service user engagement in order to gain an understanding of how services changes affect them.
- Officers were asked whether the '5 case business model' is the process adopted for the Organisational Development Programme (ODP). Officers confirmed that the ODP has adopted a version of the 'five case business model'. The WAO report highlighted the process in place for large projects. It was considered that the process should also be adopted for changes outside of the ODP so to ensure that the full range of options are considered as part of the appraisal process.

RESOLVED – That the work of the Auditor General in respect of good governance when determining significant service changes, and the management response to the proposals for improvement be noted.

Treasury Management

14 : PERFORMANCE REPORT

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 setting out the Treasury Management performance and a position statement at 31 May 2017.

RESOLVED – That the report be noted.

Internal Audit

15 : PROGRESS UPDATE

The Committee received a report providing an update on the work of the Internal Audit Team during the current financial year. The progress report was appended at Annex A to the report.

Members were advised that the key issue arising from the progress report was that a significant amount of audit working days were lost during Q1 due to sickness absence within the Team and due to the fact that an auditor post remains vacant, despite attempts to recruit externally. Short term agency solutions were being considered with a view to increasing the number of auditors available in order to have a positive impact on the delivery of the audit plan going forward.

The Head of Finance advised that he has met with the Chief Executive to discuss audit matters and provide information on the new assurance ratings and recommendation definitions. Members were asked to note that as the Internal Audit Team issues reports using the new assurance ratings the information provided to the Committee will not be immediately comparable. It was therefore proposed that the previous assurance rating and the equivalent audit rating from April 2017 onwards will be combined for analysis purposes from Q2.

Members were also asked to note the work of the Investigations Team summarised in Appendix B and the Scrutiny Committee correspondence section of the report. The summary of Scrutiny Committee correspondence set out in section 4 of the report was welcomed by the Committee.

Members suggested that, in limited circumstances, where schools have failed to implement recommendations, that Head Teachers and the Chairs of Governing Bodies should be invited to attend Audit Committee. Officers stated that, whilst lines of enquiry are matters for members of the Committee to consider, there were identified themes of concern across a number of schools and an invitation for the Director of Education to attend the Committee is on the work plan for September 2017.

Members noted the relatively low number of investigations into housing matters. Officer stated that the figure represents the first two months of the financial year. However, the Investigations Team was a small team and were limited by the resources available to them.

Officers were requested to consider the relevant level of detail in respect of audit recommendations in order to inform the Audit progress updates going forward

RESOLVED – That the content of the report and the proposed actions to address the shortfall in audit days be noted.

16 : INTERNAL AUDIT ANNUAL REPORT 2016-17

Appendix C of Annex 1 of 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 following declarations of interest were made in accordance with the Members Code of Conduct:

Councillor Howells - School Governor

The Committee received the Internal Audit Annual Report 2016/17. The report provided an overview of the approach adopted to audit assignments, and detailing the work undertaken by the Audit Teams over the last 12 months.

RESOLVED – That the report be noted.

17 : SCRUTINY CORRESPONDENCE

No Scrutiny Correspondence between the Chair and the Chairs of Scrutiny Committee was presented.

18 : OUTSTANDING ACTIONS

RESOLVED – That the Audit Committee Action Plan be noted.

19 : WORK PROGRAMME UPDATE

RESOLVED – That the work programme be noted.

20 : URGENT BUSINESS

No urgent business was reported.

21 : DATE OF NEXT MEETING

The next meeting of the Committee is scheduled to take place on 18 September 2017.

The meeting terminated at 4.30 pm

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