

## AUDIT COMMITTEE

28 NOVEMBER 2017

Present: D. Hugh Thomas (Chairperson)  
Gavin McArthur and David Price

County Councillors Bale, Cowan, Cunnah, Howells, Lay,  
McGarry, Dianne Rees and Singh

### 42 : APOLOGIES FOR ABSENCE

Apologies were received from Ian Arundale.

### 43 : DECLARATIONS OF INTEREST

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

|                    |           |                 |
|--------------------|-----------|-----------------|
| Councillor Howells | Item 10.1 | School Governor |
|--------------------|-----------|-----------------|

### 44 : MINUTES

The minutes of the meeting held on 18 September 2017 were approved as a correct record, subject to the addition of the Independent Members to the list of those present.

### Matters Arising

A Member reported that following the meeting on 18 September 2017, he met with colleagues to discuss risk management processes. Positive assurance received that risk appetite was being used to focus attention on important issues. The Risk Management Strategy was currently under development which will be reported to a future Committee meeting as per the Work Programme.

### 45 : OPERATIONAL MATTERS

At its meeting in September 2017, the Committee requested an update on governance and control in City Operations. The report was also to provide assurance on the implementation of the recommendations made by Internal Audit in the report on Highways Street Operations in 2014.

The Chairperson welcomed Andrew Gregory, Director of City Operations; Gary Brown, Operational Manager – Assets, Engineering and Operations; and Matt Wakelam, Head of Infrastructure and Operations. The officers were asked to deliver a presentation setting out information and the key challenges and priorities facing the directorate. The directorate has three risks on the Council's Corporate Risk Register and the presentation also outlined way in which these, and Directorate Risks, are managed.

Members had also asked for an update on the management of the issues raised in the audit report on 'Highway Street Operations' undertaken in 2014, involving a

review of processes and procedures into the teams responsible for reactive highway works. The main risks were concerned with the arrangements for monitoring operatives in order to provide assurance of hours worked, locations attended and the use of vehicles. The recommendations were appended to the report for information.

A number of subsequent audit reviews have identified improvements in control and the mitigation of risk.

The Chairperson invited Members of the Committee to comment, ask questions or seek clarification on the information received. Those discussions are summarised as follows:

- The Director confirmed that the net operating budget figures presented to the Committee did not include the ‘one-off’ contributions reallocated to the service area from underspends in the financial resilience mechanism.
- Members considered that the School transport budget allocation of £6,058,000 was substantial. Officers stated that the budget included the costs of home to school taxis, Welsh/Faith school transport support and transport for those in mainstream education who live more than 3 miles from their catchment area school. The budget is assessed every year and evidence suggests that it is becoming more difficult to make additional savings. A more detailed assessment is planned during 2018/19.
- Members asked whether the £366,000 allocated to Planning/Building Control was adequate to support the Local Development Plan. The Director stated that the Planning Department has income streams and the £366,000 figure does not reflect current staffing levels. The service is adequately resourced and has a sizeable income, which supports revenue.
- Members asked about how the transport infrastructure asset backlog was being addressed and the need to allocate enough funding to maintain a steady state, Officers advised that the additional funding have been used to provide new treatments with a longer lifespan. Members considered the threat posed by the backlog to the authority’s assets.
- Officers confirmed that Civil Parking Enforcement (CPE) is self-funded and income from parking enforcement is held in a separate account. The service achieves a balanced position at year-end as any surplus income is reinvested or used to support Traffic Regulation Orders and disabled parking, etc.
- In terms of the authority’s partnership with GLL, Members asked how the partnership would proceed if the authority’s aspirations do not fit or are not being carried forward by GLL. Members were advised that there is an agreement in place, which is monitored through the Council’s contract monitoring team supplemented by regular board meetings. To date GLL have consistently acted within the terms of the agreement. Members noted that management and internal audit controls are in place in order to provide assurance.

The Chairperson thanked the officers for attending and wished them success in meeting the challenges facing the service.

**RESOLVED** – That the Committee notes the content of the report and the presentation.

Finance

46 : FINANCE UPDATE - 2018/19 BUDGET AND MONTH 6 2017/18 BUDGET MONITORING

The Committee received a report providing an update on the Council's financial position.

Month 6 2017/18 Budget Monitoring Position

Members were advised that the month 6x revenue monitoring projects a balanced position against the budget, an improvement of £883,000 compared to the position reported at month 4. The improvement reflects management actions introduced to control expenditure in the current year together with in-year targeted savings identified by directorates and a further increase in NDR refunds on Council properties.

The overall position reflects a range of pressures including shortfalls against budget savings targets in directorate budgets and overspends in relation to capital financing costs. These are offset by projected savings in some other directorate budgets, insurance budgets, the release of contingency budgets, a surplus on Council Tax collection and NDR refunds on Council properties.

Directorate budgets are currently overspent by £4.956 million with overspends projected in Social Services, Economic Development and Education and Lifelong Learning. These are partly offset by projected underspends in other directorates and by the £3.0 million general contingency budget. Members noted that the 2017/18 budget reduced the general contingency budget by £1 million.

The report provided further details of the overspends within Directorates and the actions being taken to address these issues.

2018/19 Budget

Following the approval of the Budget Strategy by the Cabinet in July 2017, directorates reviewed and updated savings proposals as part of establishing a balanced budget position for approval by Council in February 2018. The Budget Strategy report indicated a potential funding gap of £23.5 million in 2018/19 and £73.5 million over the period to 2020/21.

Directorate savings were expected to amount to £52 million over three years with the balance accounted for through other assumptions, including increases in Council Tax.

The Budget Strategy assumed a 1% funding reduction for Cardiff in 2018/19 in light of the general warning from Welsh Government that local authorities should expect challenging financial settlements. The provisional funding for 2018/19 was announced on 10 October 2017. Cardiff received a 0.2% increase, which equates to £954,000 in cash terms for 2018/19. Members noted that the transfer of additional responsibilities would account for approximately £800,000 of the cash increase. The final settlement is expected during the week commencing 18 December 2017.

In the medium term the provisional settlement announced an indicative average AEF reduction of 1.5% for 2019/20, with the caveat this reduction is based on the UK government proceeding with £3.5 billion of planned cuts for 2019/20 that are as yet unallocated.

The Chairperson invited comments and questions from the Committee. Those discussions are summarised as follows:

- Members asked officers to comment on Pembrokeshire Councils proposed 12% increase in Council tax. Officers reminded Members that the current budget strategy for Cardiff was a 3.7% increase in Council Tax.
- A Member stated that the provisional settlement was better than anticipated. In view of the issues around infrastructure discussed during the previous item, Officers were asked whether they had considered the best way to use the improved financial position. Officers stated that indications were that the 2019 settlement would be worse than anticipated by 0.5%. The officers understand the asset management issues referred to previously and the Cabinet has agreed to concentrate on asset management in the capital programme currently being drafted.
- Members noted an overspend in Economic Development (Waste management). Officers confirmed that the shortfall related not only to demographic pressures, but were also due to a fall in the income received from recyclables.

RESOLVED – That the Committee notes the financial information provided and the process being adopted in respect of budget preparation for 2018/19 and the medium term.

#### 47 : FINANCIAL RESILIENCE SNAPSHOT

The Committee received a report providing information and benchmarking data on the Council's financial resilience. The report included a financial resilience 'snapshot' at Month 6 in 2017/18; financial ratios derived from the statement of accounts on an all-Wales basis as calculated by the Welsh Government; and the Earmarked Reserves protocol for the Council including reserves balances at 31 March 2017.

Members asked what arrangements are in place in terms of the audit of the funds contributed by the authority to the City Deal. The Corporate Director advised that the Regional City Deal Joint Board is developing its scrutiny function. An external audit regime is developing and Internal Audit will continue.

Members noted that the level of earmarked reserved had increased in 2016/17. Officers were asked whether there was an expectation the level of earmarked reserve would be reduced in future years. The Corporate Director stated that earmarked reserves are published twice yearly and it was clear that earmarked reserves should have a purpose. If earmarked reserves are unused, then they should be reallocated to general council reserves.

Officers confirmed that the effect of the United Kingdom leaving the European Union is highlighted as a risk on the risk register. However, more clarity was needed to allow the impact of 'Brexit' on the authority to be assessed.

RESOLVED – That:

- (1) Audit Committee notes the financial resilience snapshot at Month 6
- (2) Notes the data produced and published by Welsh Government on Financial Indicators for 2013/14, 2014/15 and 2015/16;
- (3) Notes the Earmarked Reserves Protocol.

#### 48 : CORPORATE RISK REGISTER (MID YEAR)

The Committee received an update on the risk management position at quarter 2 2017/18. Each Director has worked with the Risk Champion(s) to undertake their quarter 2 risk management review. The Risk Management Review process has two tiers, Corporate and Directorate, and the actions for each at quarter 2 were set out in the report.

The Committee would have an opportunity to comment on the draft Corporate Risk Management Policy and Strategy at the meeting in January 2018. Members were asked to note that 15 of 369 Directorate risks were carried forward to SMT as escalated risks at quarter 2. SMT collectively reviewed each escalated risk and the potential impact on the organisation and its corporate objectives. From this review, the escalated risk on Air Quality was added to the Corporate Risk Register.

The SMT review of existing corporate risks resulted in one 'red' risk (City Security) being extended in scope and reductions in residual risk scores in two further 'red' risks (Social Services Provision and Information Governance).

Members were advised that the Senior Management Review involved a wider strategic focus and discussion on risk appetite and risk tolerance to inform the extent and urgency of risk-based actions and targets. The discussion was underpinned by the Corporate Risk Management Policy and Strategy (CRMPS), which is currently under review. The new CRMPS will deliver a framework through which decision-makers are made aware of their responsibilities and are supported in delivering organisational change of the medium and long term. The CRMPS will include a risk appetite designed to enable the delivery of effective innovation and change, through stewardship and governance arrangements.

Concern was raised in respect to retention of e-mails. Officers stated that e-mail retention was about storing information correctly as much as it was about disposal. This approach is a direct response to address the Information Governance risk highlighted in the CRR. The Member expressed concern that the authority was increasingly reliant on corporate memory.

Members noted that the Health and Safety and Non Compliance of Statutory Building Equipment Maintenance risks was the responsibility of the Cabinet Member Finance, Modernisation and Performance. The Member asked whether gaps remained in the authority's compliance and, if unmet, the authority would bear legal responsibility.

Officers also confirmed that risk assessment is to manage risks towards an acceptable level.

RESOLVED – That the Audit Committee noted the contents of the Corporate Risk Register.

#### 49 : WALES AUDIT OFFICE PROGRESS REPORT

At the commencement of this item, Matthew Coe stated that he would shortly be seconded to South Wales Police. He thanked the Committee and the officers present for the spirit of partnership they had adopted over the last 12 months. Matthew Coe introduced Phil Pugh, would be assuming the role of Audit Manager.

The Committee received the Wales Audit Office progress report. Members were invited to raised questions or comment on the content of the report.

Members asked whether WAO were comfortable with the level of resource available to the Internal Audit function within the authority. Matthew Coe stated that it was not appropriate for WAO to comment, as these were considerations for the Head of Finance. The Head of Finance stated that monthly meetings are held with WAO and discussions have been held regarding smarter ways of workings, to include Internal Audit, as WAO face many of the same challenges the authority does.

RESOLVED – That the report be noted.

#### 50 : TREASURY MANAGEMENT - 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 October 2017.

RESOLVED – That the report be noted.

Internal Audit

#### 51 : REPORT OF HEAD OF FINANCE - INTERNAL AUDIT TEAM

*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 declared in accordance with the Members' Code of Conduct:*

*Councillor Howells*

*School Governor*

The Committee received a report providing an update on the work undertaken by the Audit Team as at 27 October 2017. Members were advised that the Internal Audit Progress report was set out at Appendix A. The appendix provided further detail of the performance of the team with particular reference to the Audit Plan, the key challenges, remedial actions and information provided to the Audit Committee to provide assurance that the appropriate controls are covered. Members were asked to note the key points in the report.

Referring to paragraph 12 in the report and the proposal to offer one FTE as a saving, Members asked whether consideration had been given to use the saving to provide apprenticeships or new technology. Officers stated that new approaches to working or technology will be considered as they arise. It was also noted that there were four auditors were currently being supported through their Institute of Internal Audit training. Benchmarking exercises have indicated that Cardiff has proportionally more auditors. A Member commented on the limitations of benchmarking information and that care needed to be taken in making that judgement

Members discussed the budget consultation exercise currently taking place. Members requested that the Chair respond to the consultation exercise on behalf of the Committee to note their concern at proposed reductions to staffing resource in Internal Audit.

RESOLVED – That:

- (1) The report be noted;
- (2) The Chairperson responds to the budget consultation exercise on behalf of the Committee.

## 52 : REPORT OF HEAD OF FINANCE - INVESTIGATION TEAM

The Committee received a report providing an update on the work of the Audit Section's Investigation Team as at 27 October 2017.

The Committee noted the report. During the discussion of this item a Member stated that it was important people know that these issues are being investigated so that they are encouraged to change their behaviour.

Member also queried what was meant by the phrase 'fraud by abuse of position' as contained in the report. The Head of Finance agreed to provide further details on this case to the Committee via email.

RESOLVED – That the report be noted.

## 53 : WORK PROGRAMME AND ACTION PLAN UPDATE

Members received an update on the Committee's Work Programme. Members were advised that the annual self-assessment workshop would take place prior to the Committee meeting on 30 January 2018. Members were informed that CIPFA were issuing updated guidance in December and that the workshop will look to use that as a focal point of the workshop. However, if publication delays do occur then this will be reviewed. The officer agreed to issue information well in advance of the Workshop. A Member asked whether consideration has been given to external training and development for Members. The Head of Finance advised that he and the Chair had been contacted with a view to a National Group of Audit Committee Chairs, which would be facilitated by the Welsh Chief Auditors Group. This would focus on the exchange of good practice and training. The Head of Finance indicated that he hoped to report on developments in the New Year.

RESOLVED – That the Work Programme update and Action Plan be noted.

54 : URGENT BUSINESS

No urgent business was reported.

55 : DATE OF NEXT MEETING : 30 JANUARY 2017

The next meeting is scheduled to take place on 30 January 2017.

The meeting terminated at 4.30pm

***This document is available in Welsh / Mae'r ddogfen hon ar gael yn Gymraeg***