

## AUDIT COMMITTEE

22 JUNE 2015

Present: Independent Members: Sir Jon Shortridge (Chair),  
Professor Maurice Pendlebury and Hugh Thomas

Councillors Howells, McGarry, Mitchell, Murphy, Weaver and  
Dianne Rees

### 1 : APOLOGIES FOR ABSENCE

Apologies were received from Ian Arundale

### 2 : APPOINTMENT OF CHAIRPERSON

Sir Jon Shortridge advised that he was stepping down from his role as Chairperson of the Committee with immediate effect. It was therefore necessary to elect a new Chair. Hugh Thomas proposed Ian Arundale, and this was seconded by Sir Jon Shortridge. Ian Arundale was duly elected as Chairperson for the Audit Committee for the municipal year 2015/16.

Hugh Thomas also proposed that Professor Maurice Pendlebury be appointed as Deputy Chairperson. This was seconded by Sir Jon Shortridge, and Professor Pendlebury was duly elected.

As Ian Arundale was not present, Professor Pendlebury chaired the meeting. Professor Pendlebury thanked Sir Jon Shortridge for chairing and contributing to the Committee very effectively for a number of years. Councillors Robson and Walker are no longer Members of this Committee and the Deputy Chair also thanked them for their contributions to the Committee.

RESOLVED – That

(1) Ian Arundale was elected Chairperson for the Audit Committee for the Municipal Year 2015/16

(2) Professor Maurice Pendlebury be appointed Chairperson for the meeting  
*(Professor Pendlebury in the Chair)*

### 3 : DECLARATIONS OF INTEREST

The Deputy Chairperson reminded Members of their responsibility under Part III of the Members' Code of Conduct to declare any interest in general terms and to complete personal interest forms at the start of the meeting and then, prior to the commencement of the discussion of the item in question, specify whether it is a personal or prejudicial interest. If the interest is prejudicial Members would be asked to leave the meeting and if the interest is personal, Members would be invited to stay, speak and vote. No declarations were made.

### 4 : MINUTES

RESOLVED –

- 1) That the minutes of the meeting of the Audit Committee of 23 March 2015 be agreed as a correct record of the meeting and signed by Sir Jon Shortridge who was Chairperson at that meeting.

5 : FINANCE

#### Budget Update

The Committee was given an update by the Section 151 Officer and was advised that there has been a positive out-turn against the 2014/15 budget of £1.741 million. The general fund balance would be increased by £1.741 million although £595,000 of this had been anticipated in balancing the 2015/16 budget approved by Council in February 2015. A great deal of work has gone into preparing the 2016/17 budget strategy and a report on this will be going to Cabinet in July. Committee requested a copy of the report. The 2015/16 Budget Report indicated that Council would be facing a budget gap of £51 million in 2016/17 and a gap of £120 million over the next three years. As part of the report on the 2016/17 Budget Strategy the Council will be looking at the possibility of increasing Council Tax, and at the level of growth it can afford for schools. The re-structure of the Senior Management Team has now been completed. All appointments were made internally and those who have been displaced are now on a three month notice period.

RESOLVED –

- 1) Audit Committee to be sent the July Cabinet report on the Budget Strategy 2016/17.

#### Draft Statement of Accounts 2014-15, including Annual Governance (AGS)

Members had been given a briefing on the Statement of Accounts prior to the commencement of the meeting.

At its meeting on 23 March 2015 the Committee expressed serious concerns over the reduction of resources within Internal Audit and the risk that a lack of resources within the team could pose to the Council. Members felt that paragraph 149 of the AGS does not truly reflect the Committee's concerns and should be amended.

The Committee was advised that all local authorities in Wales have agreed to the buy-out of the Housing Revenue Account (HRA) subsidy system and that the 2015/16 Accounts will include the Council's transactions in respect of the buy-out.

The Committee enquired why the Council had in 2014/15 made payments totalling £10.004 million to Cardiff Bus and was advised that these payments were in relation to concessionary fares.

In summary, the Deputy Chairperson expressed the Committee's appreciation to officers involved in the production of the Statement of Accounts, adding that the quality of financial reporting and the document both give a very good impression.

RESOLVED –

- 1) That the report be noted.

- 2) Paragraph 149 of the AGS to be amended to reflect the Committee's concerns about the ability of Internal Audit to provide effective assurance, if resources fall below an acceptable level.

## 6 : GOVERNANCE & RISK MANAGEMENT

### Items of Interest for Members

This item provided an opportunity for Independent Members to be advised of any issues or concerns that Elected Members may have.

An Elected Member reminded the Committee that contracts for housing maintenance and repair work to Council properties are currently under review and felt that the Committee should be advised of the outcome of that. The Member also advised the Committee that he would like to know why one of the contracts had an uncapped management fee attached to it.

An Elected Member reported that ward members have implied that the ways in which schools employ supply teachers are not efficient and the Member suggested that this should be looked at as savings could be made if inefficiencies do exist. The Member suggested that Internal Audit should carry out a Value for Money audit (VFM).

It has been reported that the Council is to write off 70% of the loan made to Glamorgan County Cricket Club. The Committee was advised that the Cabinet decision on this was called in for consideration by Scrutiny. The Policy Review and Performance Scrutiny Committee (PRAP) has heard from witnesses, including representatives from the Club's bank. The decision of the call in was not to take the matter further. Last year's accounts had included a provision for this write-off. There is a repayment schedule to recover the remaining 30% which remains impaired within the Accounts.

An Elected Member requested the Scrutiny Committee (PRAP) report on Alternative Delivery Models (ADM) to be circulated to Members. It was clarified by the Section 151 Officer that the Cabinet will consider an ADM report in July, with the report circulated to PRAP.

### RESOLVED –

- 1) That a Value for Money audit be considered in respect of the way in which schools employ supply teachers.
- 2) That Committee members should receive a copy of the July Cabinet report, titled, Alternative Delivery Models (ADM).

### Annual Governance Statement (AGS) 2014 -15

The Audit & Risk Manager advised the Committee that additional work had been undertaken this year to incorporate levels of assurance from a number of sources on how effective the Council's governance arrangements are. The AGS process began with the Audit Committee in January and March and is based on the best practice model governance framework from the Chartered Institute of Public Finance and Accountancy (CIPFA). On assurance mapping, he advised the Committee that reducing resources

mean that there is a greater need to gain assurance from other bodies. This approach is being developed.

RESOLVED –

- 1) That the report be noted.

#### Senior Management Assurance Statements – Summary

At the Audit Committee meeting on the 23 March 2015, Members requested a summary of the returned Senior Management Assurance Statements (SMAS) for the financial period 2014/15.

The Audit & Risk Manager advised the Committee that as part of this process, Directors were asked to identify significant issues for the Council and twelve significant issues were raised. These issues relate in the main to issues already being managed as part of the Corporate Risk Register. Several were considered to be operational matters. The process did identify two new potential corporate risks relating to Facilities Management and maintenance of Council buildings, and Partnership and Collaboration management. The next meeting of the Risk Management Steering group will consider whether these should be added to the Corporate Risk Register.

It was noted that Appendix A (Summary of SMAS 2014/15) indicates that further assurance is needed in relation to Service Delivery Structures and Personal Performance and Development Reviews (PPDRs). The Committee enquired about the issues that are preventing Directors from giving full assurance on these areas. On Service Delivery the Audit & Risk Manager advised the Committee that recent restructures within the local authority has made it difficult for Directors to give a definite Yes in answer to the question 'Do you consider your Directorate has the structure in place to maintain and deliver an appropriate standard of service for customers and stakeholders?'. The Audit and Risk Manager suggested that given the ongoing changes, a mid-year SMAS could prove useful. Members agreed with this. On PPDRs, the Committee was advised that these issues were being tackled via the quarterly performance management reports with follow up action in place. The Employee Survey contains a question on PPDRs and it may be helpful for the Committee to see responses to it and see the outcome of the Survey in due course .

RESOLVED –

- 1) That the report be noted.
- 2) That the Committee should be provided with a report on the responses to the question on PPDRs contained in the Employee Survey and on the outcome of the survey.
- 3) That the Committee receive half year update on SMAS, and outcome reported back to Committee.

The Audit & Risk Manager informed the Committee that the Annual Report had been circulated and Members comments included. It was now a final draft for approval.

Sir Jon Shortridge was the Chairperson of the Committee for the period covered by the report but is not available to attend the Full Council meeting to present it. Ian Arundale, who at the start of this meeting of the Committee was elected as its new Chairperson, is to be asked if he would be available to attend the Full Council meeting to present the report.

RESOLVED –

- 1) That the Annual Report be commended to the Council.
- 2) The Audit & Risk Manager is to contact Ian Arundale to request his attendance at the Full Council meeting to present the Committee's Annual Report.

#### Procurement & Contracting Sub-Group -update

The Committee was advised that an external review had been commissioned and carried out on the building maintenance contract. There is a project working group which has been established in order to implement the actions arising from this external review by Construction Excellence Wales (CEW). The Audit and Risk Manager suggested that in order to provide assurances in areas Members had raised concerns, that the relevant officers be invited to attend Audit Committee in September. Members could then decide if any further work was required to address any concerns they had and the Sub group could be re-established. This would require a review of membership and a clear Terms of Reference.

A Member pointed out that due to their work in dealing with representations made to them by ward members, councillors would be a good source of information on where processes have gone wrong. The Committee was advised that the CEW review took evidence from a broad range of stakeholders, including councillors who were all offered an invitation to attend workshops.

RESOLVED –

- 1) That the report be noted.
- 2) That relevant officers should attend the Audit Committee meeting in September to discuss Member concerns on the Building Maintenance Framework, and the progress of the action group in implementing the recommendations from the Constructing Excellence review.

#### Corporate Risk Register Year End 2014-15

The purpose of this report was to bring the Corporate Risk Register (CRR) to the attention of the Audit Committee, in order to consider the strategic risks facing the Council.

The Audit & Risk Manager briefed the Committee on the report. There are now twenty-five current risks. A new risk has been added regards 'Financial Resilience' The Register has been shared with the Senior Management Team. The Audit & Risk Manager will run a workshop, with Directors, in the Autumn to establish the local authority's risk appetite, which will inform a position statement for Members to consider.

RESOLVED –

- 1) That the report be noted.

#### Organisational Development Programme (ODP) – Comments on PRAP Report

The PRAP report on this subject has been circulated. The Chief Executive Officer has given an undertaking to keep the Audit Committee informed of timescales and dates. The Committee was advised that the ODP is part of the ongoing work programme of PRAP. A report that will go to Cabinet in July will include a three year timeline for delivering the programme.

RESOLVED –

- 1) That the report be noted.
- 2) That the Committee receive a full update in September 2015 and this is to include an officer view on progress made.

7 : WALES AUDIT OFFICE

#### Report progress updates and Value for Money studies

The Deputy Chairperson welcomed Non Jenkins, WAO Local Government Manager (South East) Wales region and Chris Pugh, WAO Auditor and Grants Specialist.

The Committee was advised that WAO has provided a report on data quality to PRAP. Local government studies are ongoing. The annual improvement report is being finalised and will include all of WAO's work during the last year. WAO reported that Value for Money and Local Government Studies are national studies, so are not reported to individual Councils with their specific issues. The Safeguarding report is being finalised.

The Committee was advised that WAO consider it important that the Council has internal arrangements in place to challenge itself. The local authority achieved the Improvement Plan Audit Certificate as it has undertaken its duties under the Local Government Measure and has an improvement plan.

An Independent Member asked that WAO provide an executive summary of their reports to assist the Committee members in distilling a significant amount of information. If these summaries were circulated as part of the Agenda papers then members would be able to ask more focussed questions.

RESOLVED –

- 1) That the report be noted.
- 2) WAO to provide an executive summary of their reports, and be circulated as part of the Agenda papers.

#### Corporate Assessment Update

The Committee was advised that WAO is reviewing the local authority's Organisation Development Plan to consider the extent that it addresses issues that were raised in the previous WAO Corporate Assessment. The key question is whether the local authority is capable of delivering its key priorities. WAO will not just be looking at the Organisational Development Plan. WAO will be on site and may co-ordinate its work with that of Estyn and the Care and Social Services Inspectorate Wales (CSSIW). The intention is to undertake some officer and member interviews in August and September and some tracer work to see how things are working in practice on, for example, in waste and recycling, leisure services and delayed transfers of care (DTOCs). It is hoped that the report will be published in January 2016 and updates will be provided at meetings beforehand.

WAO should be able to present the final Annual Improvement Report to the Committee in September 2015. WAO has forwarded all of its issued and published reports to Internal Audit and these have been circulated to the Committee. WAO officers are willing to discuss these further with the Audit Committee or any of the Council's other committees.

RESOLVED –

- 1) That the report be noted.
- 2) WAO provide updates on progress made on their work relating to their original Corporate Assessment at each Audit Committee meeting and present their final report once prepared.

## 8 : TREASURY MANAGEMENT

### Performance Report

Appendix 2 and Appendix 3 to the report for agenda item 8.1 (Treasury Management – Performance 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. No members of the public and press were present.

The purpose of this report was to provide Audit Committee Members with performance information and a position statement on Treasury Management as at 31 March 2015 and 31 May 2015. It also provided final details of the settlement payment made to exit the Housing Revenue Account Subsidy (HRAS) system and the impact on the Council's Treasury Management position in relation to borrowing.

The Operational Manager, Capital & Treasury, presented this report and advised the Committee that there have been no breaches in the borrowing limit. The level of borrowing at 31 March 2015 was approximately £470 million and interest paid was £24.7 million compared to £25.7 million budgeted. Total borrowing at 31 May was approximately £657 million, which includes £187 million borrowed due to the impact of HRAS exit.

The Operational Manager briefed the Committee of the latest position on HRAS. The Council borrowed £187 million from the Public Works Loan Board for the buy-out in

accordance with WG requirements. This was received and then immediately paid back to the Treasury as required. The Council will have to pay interest and the debt repayments totalling £11.5 million p.a, with interest reducing as loans mature. Over the long term the HRAS deal is of financial benefit to the Council, which will be better off by £3.3 million after capital financing costs. The Committee asked what risk has been transferred from the Treasury to the Council and was advised that the Treasury wanted the exercise to be financially neutral. The wider picture is around Welsh Housing Quality Standards, which the Council has met, and giving financial headroom to local authorities.

RESOLVED – That the report be noted.

### Benchmarking Statistics

Appendix 1 and Appendix 2 to the report for agenda item 8.2 (Treasury Management – Benchmarking Statistics) 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. No members of the public and press were present

The purpose of this report was to update the Audit Committee on benchmarking opportunities undertaken and use of information available as part of Treasury Management activities to assess the Council's Treasury position and performance.

The Committee was advised that there are difficulties in making comparisons with other local authorities. A number of sources are used, some of which are historic. The Chartered Institute of Public Finance & Accountancy (CIPFA) Treasury Management statistics are used. Looking at average rates on interest and borrowing, when compared to other local authorities the Council's rates are not high or low. The Council is undertaking less internal borrowing than other Welsh local authorities and the share of LOBOs as a proportion of debt are deemed reasonable.

The Council has joined the Capita Benchmarking Club and this will hopefully provide more practical links with other local authorities to enable comparisons. Using information held at 31 May 2015, benchmarking has been carried out to compare the Council's level of debt with the Public Works Loan Board (PWL) with that of other local authorities and this has shown that the Council average rate of debt is below the Welsh average at the measurement date. There is scope to increase internal borrowing but the risk is that interest rates could suddenly rise, perhaps as a result of world events. This will be considered further during the current year.

The Committee found this a very reassuring report, which it was felt answers a lot of previous questions and shows that the Council has a very professional team running its Treasury management function.

RESOLVED – That the report be noted.

9 : INTERNAL AUDIT

Internal Audit Annual Report 2014-15



Appendix C to Annex 1 of the report for agenda item 9.1 (Internal Audit Annual Report 2014-15) contained exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972. No public were present.

The Audit and Risk Manager briefed the Committee on the report and made the following points:

- In 2014/15 Internal Audit resources were reduced. Budget pressures have impacted on resources and this has resulted in experienced people leaving the authority. Although resources for Internal Audit have reduced, there had been little change in demand as a result of the introduction of ADMs still being developed, which has created pressure on audit coverage. This has emphasised the need for continual reassessment and prioritisation of risks and priorities.
- In order to make the best use of resources the approach using Control Risk Self Assessment (CRSA) has been extended. Good news in schools that over 50% of schools and been signed up to date and attended workshops and started to complete the questionnaire.
- Encouraging to note an improvement in the number of open audit actions reported, which showed a reduction in recent times.
- Continual commitment to professional development and training is noted with a full and varied programme of training provided. PPD reviews always prioritised and on track.
- Despite a very challenging year and need to continually re-prioritise work the Audit & Risk Manager reported that he was providing an overall satisfactory assurance opinion based on the work of his teams. In doing so he recognised some areas where improvements are still important and areas where it is key they are closely monitored going forward. The details of this are highlighted in his report.
- The report showed that not all audits have had a satisfactory outcome but improving trends were noted. Of note is an improvement where Internal Audit has revisited an audit and found that more of its recommendations have been actioned appropriately, allowing a satisfactory opinion to be provided. This is considered partly due to there being more awareness on the part of Directors and also due to the work of the Audit Committee.
- The report featured more information on Quality Assurance given the importance of measuring the effectiveness of audit and in doing so set out the range of measures used to seek views of a number of key stakeholders. This showed a proactive approach to benchmarking and makes use of comparative data.

The Committee expressed concern that the audit recommendations around some Red risks have not been taken up by management. The Committee was advised that there are usually very few recommendations that are not taken up. Where there is disagreement it is usually to do with a resource issue, when limited resources prevent the actioning of the recommendation.

The Committee was advised that Internal Audit's audit universe will become smaller over time as changes are made to the ways in which the Council delivers its services. There is a need for Internal Audit to continue to apply lean thinking in terms of maximising audit coverage with less resource. Mention was made of some recent members of the team leaving, adding pressure in 2015-16 and further budget pressure and potential reductions for 2016-17. It was noted problems recruiting for a computer audit specialist and some exploration of the possibility of sharing resources for this work with the Vale of Glamorgan authority.

RESOLVED –

- 1) That the report be noted.

#### Quarter 1 Progress Report 2015-16

The purpose of this report was to provide the Audit Committee Members with an update on the work of Internal Audit up to 31 May 2015.

The Committee was advised of staff movements and vacancies and consequent pressure on plans. Further pressures to make savings will reduce audit coverage, although it is expected that due to different arrangements for the delivery of services there will be some shrinkage within the Council and this will bring different demands on Internal Audit.

Internal Audit has raised six Limited Assurance audits with the Chief Executive since March 2015. If after six months they remain as Limited Assurance opinions the Audit Committee will receive an Executive Summary. These are shown in the full list of audits provided with the report.

The Audit & Risk Manager had joined the UK Core Cities Heads of Audit Group and Committee felt that it would be useful to have more information on the make up and work of the group. There is to be a meeting in July and networks are developing to share good practice and a report could be provided to the Committee later in the year.

RESOLVED –

- 1) That the report be noted.
- 2) That the Audit & Risk Manager provide Committee with a report on the Core Cities Group.

#### 10 : OUTSTANDING ACTIONS

The purpose of this report was to update Members on outstanding actions from the Audit Committee's Action Plan.

#### Audit Related

- Internal Audit – Audit Plan

This report provided more information of proposed audit coverage over the life of the Plan. This was subject to regular discussion with the new Directors and a continuing reassessment of risks and priorities.

RESOLVED – That the report be noted

- Assurance Mapping

This report was for information only.

RESOLVED –

- 1) That further information to be provided later in the year.

Other

- Director Strategic Planning & Highways – Response to Internal Audit Report

At the Audit Committee meeting on the 19 January 2015, the Committee requested a report from the Director of Strategic Planning, Highways and Traffic & Transport, addressing the audit concerns in the report that was presented to the Committee at that meeting.

The Committee was advised that the report contained a summation of Internal Audit's opinion on how effectively the audit recommendations are now being addressed. There has been significant improvement and there is a commitment to change to address the issues, but there is still some way to go. The Audit & Risk Manager proposed that the Committee be updated when a further audit review is undertaken in six months time.

RESOLVED –

- 1) That the report be noted.
- 2) That the Committee receives a further progress report in six months time.

- Director of Education Annual Report on School Governance and Deficits

The Committee received a position statement on schools in deficit.

The Committee noted that there do not appear to be timescales for the schools to bring their budgets out of deficit. The Committee was advised that there are a small number of schools that continue to cause concern to the local authority. There has been an increase in performance management in schools and there have been some good changes in leadership, which includes financial management.

The Committee noted that in some cases there are no signs that balances have reduced over the last four years. The Committee was advised that most of these will be reduced as schools work to balance their budgets for 2015/16.

RESOLVED –

- 1) That the report be noted.

- 2) Members to continue to receive information on school balances as part of the Director of Education & Life Long learning's report on governance in schools.

11 : WORK PROGRAMME

The Audit & Risk Manager briefed the Committee on the programme.

RESOLVED –

- 1) That the report be noted.

12 : DATE OF NEXT MEETING

The next meeting will be held on 16 September 2015 at 2.00pm

The meeting closed at 4.55pm