
AUDIT COMMITTEE MINUTES – INFORMATION REPORT

Reason for the Report

1. To present for information copies of the minutes of the Audit Committee, which are attached at **Appendix A** of this report. The Audit Committee currently receives copies of the minutes of Policy Review and Performance Scrutiny Committee meetings for information. Minutes of the Audit Committee's meetings will be presented to this Committee at appropriate points in the Committee's work schedule.

Way Forward

2. These minutes are attached for information purposes only.

Legal Implications

3. The Scrutiny Committee is empowered to enquire, consider, review and recommend but not to make policy decisions. As the recommendations in this report are to consider and review matters there are no direct legal implications. However, legal implications may arise if and when the matters under review are implemented with or without any modifications. Any report with recommendations for decision that goes to Cabinet/Council will set out any legal implications arising from those recommendations. All decisions taken by or on behalf of the Council must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers of behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council e.g. Scrutiny Procedure Rules; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's

fiduciary duty to its taxpayers; and (h) be reasonable and proper in all the circumstances.

Financial Implications

4. The Scrutiny Committee is empowered to enquire, consider, review and recommend but not to make policy decisions. As the recommendations in this report are to consider and review matters there are no direct financial implications at this stage in relation to any of the work programme. However, financial implications may arise if and when the matters under review are implemented with or without any modifications. Any report with recommendations for decision that goes to Cabinet/Council will set out any financial implications arising from those recommendations.

RECOMMENDATION

Members are recommended to note the minutes of the Audit Committee, attached to this report.

MARIE ROSENTHAL

County Clerk and Monitoring Officer (Democratic Services)

25 September 2013

AUDIT COMMITTEE

8 JULY 2013

Present: Sir Jon Shortridge and Prof. Maurice Pendlebury.

County Councillors Cowan, Howells, Marshall, McGarry,
Mitchell, Murphy and Walker.

Apology: Sir Richard Lloyd Jones.

1 : CHAIRPERSON

It was proposed by County Councillor Cowan, and seconded by Prof. Pendlebury that Sir Jon Shortridge be appointed Chairperson of the Audit Committee for the Municipal Year 2013/14

RESOLVED - That Sir Jon Shortridge be appointed Chairperson of the Audit Committee for the Municipal Year 2013/14.

(Sir Jon Shortridge in the Chair)

2 : WELCOME

Sir Jon Shortridge indicated that he was happy to continue in the role of Chair of the Committee for the coming year, but felt that it was important that the role be passed on to ensure diversity in the proceedings. Sir Jon Shortridge thanked the Committee for their support over the year and looked forward to working with them on matters moving forward in 2013/14.

3 : MEMBERSHIP AND TERMS OF REFERENCE

The Committee noted that Council at its Annual Meeting on 23 May 2013 agreed the following Membership:

(i) Membership

Sir Richard Lloyd Jones, Prof. Maurice Pendlebury and Sir Jon Shortridge (1 vacancy)

Councillors Cowan, Howells, Marshall, McGarry, Mitchell, Murphy and Walker (1 vacancy)

The Committee noted that the vacancy for an Elected Member would be considered by Council on 25 July 2013, and that the vacancy for an external member would be subject to national advertisement in early autumn.

(ii) Terms of Reference

The Terms of Reference were as agreed by Council at its Annual Meeting on 23 May 201:

- To consider matters of relevance to the efficient financial administration of the Council, particularly in relation to its systems of good corporate governance, probity and financial strength.
- To receive relevant reports from the Council's Section 151 Officer with regard to the above and to consider internal audit matters brought to the Committee's attention by the Section 151 Officer or the Internal Audit & Risk Manager or requested by the Committee.
- To seek assurances that the Council has complied with the Treasury Management Strategy and Practices by demonstrating effective control of the associated risks and pursuing optimum performance consistent with those risks.
- To receive reports of the Council's External Auditor, in particular concerning the Regulatory Plan, the Annual Audit Letter and any statutory reports issued by the Auditor.
- To agree responses to external audit reports where appropriate and to refer these (along with the report) to the Cabinet or relevant Scrutiny Committee or Council as appropriate and to consider any responses where relevant.
- To receive a quarterly report of all completed audit reports with a synopsis of the work undertaken together with a graded assurance opinion.
- To receive a quarterly summary report of school audits together with a graded assurance opinion with individual reports considered by school governing bodies.

- To review the implementation of internal audit report recommendations on a regular basis as part of the Audit & Risk Manager's progress reporting cycle.
- To review value for money, efficiency and effectiveness through consideration of financial performance indicators and comparative studies where relevant.
- To raise the profile of probity generally within the Council and to report on matters of concern to the Cabinet or to Council as necessary and appropriate
- To receive reports of any significant incidents of fraud or financial impropriety and actions taken to enhance controls where this is considered necessary.
- To receive reports on fraud prevention and detection initiatives and updates to any related policies and strategies.
- To examine the annual audit plan and propose for consideration any other audit investigations.
- To regularly review the Corporate Risk Register.

4 : DECLARATIONS OF INTEREST

The Chairperson reminded Members of their responsibility under Article 16 of the Members' Code of Conduct to declare any interest, and to complete personal interest forms at the commencement of the item of business.

The following declarations were made:

<u>Member</u>	<u>Item</u>	<u>Interest</u>
Sir Jon Shortridge	General Interest	Personal Interest as Chair of Community Service Volunteers (CSV)
Councillor Murphy	General Interest	Personal – as School Governor of Ysgol Hywel Dda

5 : MINUTES

RESOLVED – That the minutes of the meeting 20 May 2013 were agreed as a correct record and signed by the Chairperson, subject to the inclusion of an additional minute in relation to Dr Nick Cooling.

6 : MATTERS ARISING

(i) Min No 51 – Wales Audit Office

The Committee was advised that discussions were ongoing on establishing a clear programme of reporting of Wales Audit Office (WAO) reports and letters to the Council's Cabinet and Audit Committee.

The Committee reiterated the importance of their consideration and input into reports and formal letters received by the Council from WAO; and the importance of the relationship of this Committee with both Cabinet and the Policy Review & Performance Scrutiny Committee. Members expressed concern that the Annual Improvement Plan report due to be considered in May had not been received.

Anthony Barrett, Assistant Auditor General, WAO indicated that correspondence and reports from WAO were sent to Head of Paid Service prior to consideration by the Executive and Committees. He indicated that it was important that there was a clear process that worked for all parties. Mr Barrett undertook to discuss with Steve Barry the agreed process going forward.

In discussions, the need for a protocol to ensure the timeliness of reports to the Audit Committee was proposed; and that at the very least, the Chair of the Audit Committee should receive a copy of the document that has been released as soon as the WAO documents are signed off by the Head of Paid Service and are publically available.

RESOLVED – That

1. the Wales Audit Office clarify what reports are scheduled to be received; who receives the reports; and the timescales for the issue of reports and letters in the future;
2. the Corporate Director – Resources work with Officers to establish a protocol to ensure the timeliness of reporting WAO reports and

letters to the Audit Committee, and report back to the next meeting on a way forward reflecting the issues raised.

7 : BUDGET UPDATE

The Corporate Director - Resources gave a verbal update. She confirmed that the 2012-13 accounts had been closed and that the revenue account had come in £200,000 under budget. Budget monitoring 2013/14 was showing emerging risks which needed to be addressed and the 2014/15 Budget Strategy report was scheduled to be considered by Cabinet and Council later in July.

The Medium Term Financial Plan had been informed by the Chancellor's Autumn and Spring Budget statements and the Spending Review and the indications were that there would be a significant budget gap going forward.

The Corporate Director indicated that areas impacted by significant budget pressures in 2012/13 would be considered as part of the continuing cycle of the budget strategy moving forward year to year; as well as income generation.

RESOLVED – That the update be noted.

8 : UNAUDITED STATEMENT OF ACCOUNTS 2012 -13

The Committee received the unaudited Statements of Accounts for 2012/13 for review. The Committee was advised that the accounts were available for public inspection until 19 July, 2013 in accordance with the Public Audit (Wales) Act 2004 and Audit (Wales) Regulations, 2005 (as amended). The Regulations require that the Responsible Finance Officer (RFO) sign the accounts by 30 June, and that the audited accounts are approved by Council by 30 September. The Corporate Director-Resources as RFO had signed the accounts as a true and fair view of the financial position as at 31 March 2013 and its income and expenditure for 2012/13.

The Local Government (Wales) Measure 2011 identifies the review of the Council's Statement of Accounts as a specific function of the Audit Committee. The WAO had suggested it was good practice for the Audit Committee to review the financial statements before they are certified by the RFO under regulation. Given the complexity and resources deployed

in closing the Statement of Accounts this year, the Corporate Director indicated that the timing had not made it possible to present the unaudited Statement of Accounts to the Audit Committee for review prior to the certification of the accounts by the RFO, which were signed on 21 June 2013. She indicated that it had been agreed with the WAO that presenting the draft accounts to the July meeting of the Audit Committee would, for this year, satisfy the requirement for a timely review.

The Chairperson indicated that the Committee did have an opportunity to review and raised any issues as part of the public inspection process. Going forward it was noted that the Committee would need to meet in June prior to the signing off by the RFO.

The Committee was keen to underline the importance of the review of the accounts, and its input into the Annual Governance Statement. As part of the review, Members raised a number of issues:

- the need for sufficient time to be allocated to the review in the future;
- consideration of the best way for the Committee to undertake the review and the need for the areas of most significance needed to be highlighted in a briefing report on the financial health of the organisation.

A number of other matters were raised by Members including:

- Council's borrowing and the use of Public Works Loan Board (PWLB) funds, and external loans within the Council's framework agreed by Council in February 2013;
- Issues around the Local Authority Mortgage Scheme treatment in Wales and the legal advice given;
- Issues relating to Welfare Reform; rent arrears; and debt recovery challenges;
- Pension liabilities and the management of the pension fund; and comparisons with other Local Authorities;
- School budgets – in particular schools carrying deficit balances;
- Matters relating to insurance claims and payouts;
- Contract management and procurement of contracts particular in relation to consortia tendering; for example recent exercises in Building Maintenance; and Families First.

The Chairperson indicated that a number of these issues could be considered as part of the work programme going forward.

The Chair of the Democratic Services Committee, Councillor Cowan, highlighted a number of points in relation to the Annual Governance Statement for 2012/13 in related to:

- there was no mention of the Democratic Services Committee which had been established under the Local Government (Wales) Measure 2011;
- in relation to developing capacity and capability of Members she indicated that all Members would be offered an annual meeting to discuss their development needs and requirements;
- under the Local Government (Wales) Measure 2011 there is a provision for Members to publish Annual Reports; the Democratic Services Committee recently agreed a template for these reports which would be published;
- at present only the Full Council meeting is webcasted.

RESOLVED – That

1. the unaudited Statement of Accounts for 2012/13 be noted;
2. it was noted that the Audited accounts would be presented to Committee in September prior to submission to Council;
3. officers be requested to review the timetable and processes for the preparation for the Statement of Accounts and the scheduling of the Audit Committee in accordance with the requirement that the Committee review the Unaudited Accounts prior to sign off by the Responsible Finance Officer for public consultation;
4. in advance of the 2013/14 review of the Unaudited Accounts the officers consider guidance and commentary on the accounts that will assist the Committee with the review process;
5. the revised Annual Governance Statement for the Audit Committee be noted;
6. the following matters be considered as part of the work programme going forward:
 - Welfare Reform – clarity was required on what elements fall within the remit of the Committee and how these can be considered;

- Contract Management and Procurement, in particular in relation to Consortia bids;
- benchmarking information on Pensions Fund liabilities.

9 : TREASURY MANAGEMENT - PERFORMANCE REPORT

The report provided performance information and a position statement on Treasury Management as at 31 May 2011, and highlight key changes from the previous report to 31 March 2013.

At the meeting the Committee received a revised copy of Appendix 1 to the report which contained exempt information in accordance with paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972. Appendix 1 provided a snapshot of treasury performance, and a position statement on investments and borrowing.

The Committee's attention was drawn to the recent announcement by the Welsh Government on proposals to enable Local Authorities to exit the Housing Revenue Account Subsidy (HRAS) system in Wales; something that took place in England in March 2012. This proposed changes aimed at providing additional flexibilities to Councils in managing their housing stock in the longer term. Whilst little detail was known the changes were likely to involve significant treasury management implications which were likely to include:-

- undertaking a significant level of additional borrowing to release the Council from the subsidy system, to be paid for from any retained rental income;
- the likelihood of a debt cap for HRA borrowing, which may be required to segregated from other Council borrowing

In response to questions, the Committee was advised that there was no material change in relation to the Council's Local Authority Mortgage Scheme (LAMS); there had been no increase in borrowing or a change in the borrowing strategy agreed in February 2013. There was little predicted change in the interest rate forecasts with the bank rate forecast remaining low until 2015. Members noted the information provided on the maturity profiles and information on Public Works Loan Board borrowing. It was recognised that the data was a snapshot in time and that any potential for rescheduling debt was considered in consultation with the Treasury Management advisor

RESOLVED – That the report be noted.

10 : INTERNAL AUDIT

(i) Internal Audit Quarter 1 2013-14

The Committee received a verbal progress report and handout for the period to 30 June 2013, detailing the reports issued over the past 3 months; assignments where an unsatisfactory opinion had been assigned; and an update on follow up actions where an unsatisfactory report had been issued in the past with matters outstanding.

The Committee raised a number of issues in relation to the updated and in particular:

- the need to clearly identify time lines in particular when the first audit report was issued. For example, Members were aware that the audit of Street Lighting commenced back in 2011 but matters were still ongoing;
- Members had grave and significant concerns on the ‘Unsound’ audit findings for Pentyrch Primary School which had identified 22 high risk recommendations. It was noted that the school had recruited a new Head-teacher and was in the process of appointing a new Chair of Governors.

The Committee was advised that an action plan was in place and the school would receive a follow up audit in October/ November.

Members indicated that they would wish to see the Action Plan and the Executive Summary report in relation to this Audit and that the Chair of Governors and Head-teacher should attend the December meeting of the Committee to report on actions completed and progress.

- Members had concerns in relation to unsatisfactory reports and high risk recommendations issued in the following areas:
 - Domiciliary Care – this matter would fall within the remit of the Community & Adult Scrutiny Committee and it was proposed that a letter be sent from the Committee to the Chair highlighting the concerns;;
 - Procurement and Contract practices and compliance;

RESOLVED – That

1. the Audit & Risk Manager provide Members of the Committee with a copy of the Executive Summary report for all unsatisfactory audit reports;
2. the Audit & Risk Manager provide Members of the Committee with a copy of the Executive Summary report and the Action Plan for the report for Pentyrch Primary School;
3. the Head-Teacher and Chair of Governors be asked to attend the Audit Committee in December 2013 to provide an update on actions completed and progress;
4. the Chair of the Audit Committee write to the Chair of the Community & Adult Scrutiny Committee drawing attention to concerns in relation to the unsatisfactory audit on the Domiciliary Care Framework;
5. the consideration of recommendations raised in the audit of areas relating to Procurement and Contract Management practices; and capacity, capability and skills, be undertaken when this matter is considered at Committee as part of the 2013/14 work programme.

(ii) Street Lighting and Gifts & Hospitality Reports

The Audit & Risk Manager provided an update on the reports that had follow-up actions on unsatisfactory audit reports:

(a) Street Lighting

The Committee was advised that a second follow up had been undertaken in August 2012 and report produced in October 2012. This area now came under the City Services Operational Group and positive progress had been made on the action plan, however there had been a fundamental shift of the functions in this areas relating to the business change programme and the introduction of the Commissioning and Procurement Category Management Framework.

There remained areas of inconsistency in compliance which would be followed up.

RESOLVED – That the update be noted.

(b) Gifts & Hospitality

The Committee was advised that the new policy had been adopted and cascaded down via the Senior Leadership Team meetings. Sample testing of compliance at both Elected Member and Officer levels were being undertaken and details will be reported shortly. The follow up audit was also looking at the following areas: - policy for internal or Council hosted Gifts & Hospitality; overseas visits.

It was suggested that a reminder be sent to all Members on declaring Gifts and Hospitality in accordance with the policy.

RESOLVED – That the report be noted.

(iii) Value for Money Studies

The Committee was advised of three areas being looked at with the Senior Management Team as part of the Value for Money audit process: -

(a) Employment of Agency Staff - Commensura

Current spend on Agency staff was in the region of £14.5m, and Senior Managers were being asked to review and be more proactive in tightening controls in this area by more robustly reviewing the need for cover on a case by case basis.

There are 44 agency staff currently employed for more than 3 years – against the principles of short term cover. There are 20 agency staff being paid the equivalent of between £50,000 - £170,000 per annum. These posts were being identified by directorate.

(b) Standby Allowance Payments

277 staff received a standby allowance and payments of £27.50 a session. In some cases the annual salary was being supplemented by up to £10,000 per annum. Senior Managers were being advised of the data on a directorate basis so that the standby arrangements position could be clarified.

(c) Home to Office Travel

Currently there are instances where Council vehicles are being taken home overnight outside of the County boundary. There needed to be a business rationale and a sustainability case to support these practices. In one service area 50% of the fuel costs were home to office/workplace cost.

Members noted the work being undertaken on the value for money audits and the information being captured and shared with senior managers. Further details would be reported to the Committee in the future in addition to other identified value for money audits.

RESOLVED – That the Risk and Audit Manager updated the Committee on the ‘Value for Money’ audits and the effect of this activity in the quarterly audit reports.

11 : AUDIT COMMITTEE ANNUAL REPORT

The Committee received the Draft Audit Committee Annual Report which had been updated following comments and improvements proposed at the last meeting. A copy of the Chairs Foreword had been included in the report.

The Chair indicated that the report would be checked prior to submission to the Full Council meeting either 25 July or 26 September.

12 : AUDIT COMMITTEE SELF ASSESSMENT

It had been proposed that a self assessment be undertaken by the Committee to assess its effectiveness. This would be undertaken in a formal structured way. The Committee discussed the format; sought support from WAO to facilitate the assessment; and were advised of CIPFA best practice guide; and KPMG Self Assessment Questionnaire.

RESOLVED – That the Audit & Risk Manager in consultation with the Chair and WAO agree the process for the Self Assessment.

13 : MINUTES POLICY REVIEW & PERFORMANCE SCRUTINY COMMITTEE

The Committee received the minutes of the Policy Review and Performance Scrutiny Committees held on 17 April, 15 May 2013 for information. Members noted the scrutiny undertaken on Non-Operational Property Review and the strategy going forward for rationalising the estate.

RESOLVED – That the minutes as circulated be noted.

(The meeting closed at 6.30pm and was followed by an informal work programming session)