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## PAPURAU ATODOL

<b>Pwyllgor</b>	PWYLLGOR ARCHWILIO
<b>Dyddiad ac amser y cyfarfod</b>	DYDD MAWRTH, 17 TACHWEDD 2020, 2.00 PM
<b>Lleoliad</b>	YSTAFELL BWYLLGOR 4 - NEUADD Y SIR
<b>Aelodaeth</b>	Cynghorydd Hugh Thomas (Cadeirydd) YCynghorwyr Cunnah, Goodway, Howells, Lister, Simmons, Singh a/ac Williams

**3** Cofnodion (Tudalennau 3 - 10)

**Davina Fiore**

**Cyfarwyddwr Llywodraethu a Gwasanaethau Cyfreithiol**

Dyddiadd: Dydd Mercher, 11 Tachwedd 2020

Cyswllt: Graham Porter, 02920 873401, g.porter@caerdydd.gov.uk

Mae'r dudalen hon yn wag yn fwriadol

## AUDIT COMMITTEE

8 SEPTEMBER 2020

Present: Independent Members: D.Hugh Thomas (Chairperson)  
Gavin McArthur and David Price  
Councillors Cunnah, Goodway, Howells, Lister, McKerlich and Williams

## 23 : APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Simmons.

## 24 : DECLARATIONS OF INTEREST

The following declarations of interest were received:

Councillor McKerlich	Agenda Item 4.2	Personal Interest as possible signatory to Statement of Accounts at future meeting of the Council
Councillor Goodway	Agenda Item 4.2	Personal Interest as a member of Cardiff and Vale of Glamorgan Pension fund

## 25 : MINUTES

The minutes of the meeting held on 28 July 2020 were approved by the Committee as a correct record.

## Finance

## 26 : FINANCIAL UPDATE INCLUDING RESILIENCE ISSUES

The Corporate Director Resources provided a verbal finance update with an overview on Covid-19 related matters in terms of the medium term financial plan and budget strategy.

Members were advised that the Council's total Covid-related expenditure to 31 July 2020 was approximately £25.8 million. This related to areas such as provision of PPE, provision of free school meals and work within adult social care. To date claims to the end of June have been made totalling £21.4 million, of which just under £20 million has been received back. The authority continues to press Welsh Government for full reimbursement of any expenditure.

In addition to expenditure, there is also significant impact from loss of income, particularly in park, culture and leisure facilities. The amount lost to the end of the first quarter in July was approximately £13.3 million. A claims process is in place. The first tranche has realised £8.7 million and another claim will be submitted to reclaim the remainder of the loss in income.

The Corporate Director indicated that there will be considerable further expenditure and income impacts during the remainder of the year and the authority will need to

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continue to monitor that impact. From an assurance and audit viewpoint there was some comfort that Welsh Government has provided additional funding.

In the current year directorate budgets continue to be monitored. A report will be taken to Cabinet in the near future setting out the Month 4 position and a copy of that report will be circulated to members of the Committee. Many service areas are experiencing pressures. Some pressure relate to difficulties implementing savings proposals during the Covid-19 pandemic, although other savings are being made to offset these.

Members were advised that a further report on the medium term financial strategy would be brought to Cabinet and Council respectively. Members of the Committee would also be provided with a copy of that report. The Corporate Director provided an overview of issues related to the Covid-19 pandemic and their impact on the projected funding gap. The Corporate Director also raised concerns that the Welsh Government Settlement was likely to be received late in the year.

## 27 : DRAFT STATEMENT OF ACCOUNTS FOR 2019-20 AND AUDIT UPDATE

*Councillors Goodway and McKerlich declared personal interests in this item. Councillor Goodway is a member of the Cardiff and Vale of Glamorgan Pension Fund. Councillor McKerlich may be asked to be a signatory to the finalised Statement of Accounts at a future meeting of the Council.*

The Committee received a report providing an opportunity for Members to review or provide comments on the draft 2019/20 Statement of Accounts. The accounts for Cardiff Council including the Harbour Authority and the Cardiff and Vale Pension Fund had been signed by the Section 151 Officer on 15 June 2020 and 17 July 2020 respectively. Officers provided a summary of the cover report.

Colleagues from Audit Wales provided a position statement in terms of the audit of the draft 2019/20 Statement of Accounts.

A Member sought further clarification on the level of debt owed to the Council and whether the figure included rents from the Council's estates division. Officers stated that the figure related to sundry debts through accounts receivable and therefore rents were not included in the figure.

A Member asked officer to explain the 'significant costs' referred to in the report in terms of adjusting for misstatements. Officers indicated that the costs relate to staffing resources.

Responding to a question from a Member, officers advised that the accounts were made available for inspection by the public on the Council's website only during the Covid-19 lockdown period.

Members asked why the 'one off' cost of redundancy payments do not differentiate between the cost of redundancy payments and pension contributions. Officers stated that the figure related to the disclosure figure required by the CIPFA code. A Member asked with management were made aware of the cost of pension strain payments during the voluntary redundancy process. Members were advised that where an expression of interest in voluntary redundancy is received there is a

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requirement to produce a business case to ensure that any costs of severance, including pension strain, are recovered over a five-year period.

Officers agreed to review and clarify the wording used to categorise exit packages (compulsory, voluntary and other) in the table within section 8.4 of the Statement of Accounts. The Committee would be provided with the policy requirements for severance considerations and approval.

The Committee also discussed the possibility of convening a special meeting to receive the Audit Wales report on the statements of accounts.

Phil Pugh of Audit Wales provided a verbal update on the progress of the audit including the impact of Covid-19 on the audit approach and key issues emerging to date.

Reflecting on the narrative statement, which contained the budget gap, the Chairperson proposed a minor amendment to the Audit Committee Opinion contained within the Audit Committee Annual Report 2019/20 and the Annual Governance Statement 2019/20. The proposed amendment to section 6.1 was as follows:

#### **“6.1 Budget Management**

The Audit Committee recognises the sustained financial pressure that the Council is under and notes that whilst the overall financial position was balanced, some particular directorates had significant overspends, for which controls have been in need of improvement.

The Audit Committee continues to raise concerns about the controls in place within directorates to achieve budget savings proposals put forward, and will continue to reinforce expectations for delivery in the year to come.

Budget management is particularly pertinent at this time given the pressures facing local authorities as they respond to support the economic and social needs presented by the COVID-19 crisis. This unprecedented environment follows a number of years in which the financial parameters within which the Council operates have been constrained. The Committee will ~~be interested in~~ scrutinise carefully the management of the budget over the year to come through appropriate management controls and interventions, where required, and will continue to reinforce expectations for delivery given the significant financial pressures facing the Council. “

The Committee debated that proposed amendment.

RESOLVED – That:

- (1) The Committee notes the 2019/20 Statement of Accounts for Cardiff Council including Cardiff Harbour Authority and the Cardiff and Vale of Glamorgan Pension Fund;
- (2) Finance Officers to review / clarify the wording used to categorise exit packages (compulsory, voluntary and other) in the table within section 8.4 of the Statement of Accounts

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- (3) Audit Committee to receive the policy requirements for severance considerations and approval
- (4) The Committee agreed that the Chairperson, in consultation with officers, will decide whether the audited statements will, prior to being presented to Council, be presented at a special meeting of the Audit Committee or be sent electronically to the Committee in October along with the final audit reports for comment;
- (5) The Committee notes the Audit Wales progress in respect of the external audit of the 2019/20 statements
- (6) The Committee approved the proposal to adjust the wording in its annual opinion 2019/20 as set out above.

28 : AUDIT WALES

29 : AUDIT WALES ACTIVITY/REPORT PROGRESS UPDATE

Samantha Clements of Audit Wales presented the work programme update to the Committee. Members were advised that there had been little change to the work programme since the last Committee update. Members were asked to note a summary now included at the end of the progress update, which linked a number of national reports.

30 : COUNTER-FRAUD NATIONAL REPORT: 'RAISING OUR GAME - TACKLING FRAUD IN WALES'

The Committee received a report providing an overview of the findings of a national report from the Auditor General for Wales entitled 'Raising Our Game' Tackling Fraud in Wales.

Members were advised that the Auditor General for Wales published a report in June 2019 – 'Counter Fraud Arrangements in the Welsh Public Sector' which was received by the Committee at its meeting in September 2019. The report, which followed a one-day conference by the Public Accounts Committee, provided an overview of the scale of fraud in the Welsh Public Sector along with a description of counter-fraud arrangements across Welsh Government, Local Government and the NHS. The subsequent report 'Raising Our Game' was published in July 2020 was based on a more extensive programme of field work with the audit being based around seven key lines of enquiry:

- Leadership and culture
- Risk management and control frameworks
- Policies and training
- Capacity and expertise
- Tools and data
- Collaboration
- Reporting and scrutiny

The Committee received a presentation on the report's findings from Ian Phillips of Audit Wales.

The Committee agreed to reserve questions on this item until the conclusion of the following agenda item.

RESOLVED – That the report be noted.

31 : INTERNAL AUDIT

32 : COUNTER-FRAUD ANNUAL REPORT 2019/20

The Audit Manager presented a report providing an overview of the authority's counter-fraud activities and outcomes over the previous twelve months. The report focussed on the work of the corporate Investigation Team and provided an appraisal of the counter-fraud issues, development and outcomes Council-wide, in accordance with the Counter Fraud and Corruption Strategy approved by Cabinet in July 2019.

Officers recognised that there was an increased risk of fraud as criminals seek to take advantage of the Covid-19 crisis. Directorates have been provided with information and guidance in order to remain vigilant and strengthen resilience in this area.

The Chairperson invited questions from the Committee. In response to a question the Audit Manager provided details of the fraud awareness campaign undertaken in partnership with the Council's Communications Team during Fraud Awareness Week in November 2019.

Members of the Committee requested further information on the investigation undertaken on the Blue Badge Scheme. Officers confirmed that the investigation focussed on the misuse of Blue Badges, rather than eligibility.

Members were pleased to note that the Wales Audit Office were satisfied with the authority's counter-fraud arrangements. Members requested and received clarification on the Council's response to areas for improvement identified in the report in relation to directorate risk assessments.

A Member referred to the wide range in the estimated value in the level of fraud set out in the national report. The Member questioned whether the estimate was evidence-based as this was not referenced. The Member also asked whether Wales Audit Office have any recommendations in terms of the arrangements the Council should put in place to avoid a lack of co-ordination and improve the quality of its counter-fraud work. Ian Phillips on behalf of Wales Audit Office stated that in Cardiff many of the arrangements that need to be in place, and which are recommended in the report, are already in place.

Members asked the Audit Manager to comment on whether he believed the focus on counter-fraud in Cardiff is at an appropriate level; to identify where in Cardiff the greatest risk of fraud was; and whether every case of fraud that was brought to the Investigations Team was investigated. The Audit Manager stated that a zero-tolerance sentiment is in place and every case is investigated. The Audit Manager considered that the role of Internal Audit has been expanded but assurance in terms

of financial probity has not been weakened. Modern ways of audit mean that the team is able to achieve more with less resource. The Public Sector Internal Audit Standards mean that the Internal Audit are expected to look at a range of issues, including performance, governance and risk management. The Audit Manager confirmed that assurance and intelligence indicates the greatest fraud risk is from external sources.

RESOLVED – That the report be noted.

33 : TREASURY MANAGEMENT

34 : PERFORMANCE REPORT

The Operational Manager (OM), Capital, Corporate and Treasury presented the Treasury Management Performance report as at 31 July 2020.

The report highlighted the level of investments held and provided an explanation of the reasons why the cash balance is higher than would normally be expected. The report also provided some background information around where investments are held.

Borrowing at 31 July 2020 stood at £828.2 million with an average rate of interest of 4.11%. The total interest payable on borrowing was £34.1 million including interest payable to the Housing Revenue Account.

Members were asked to note that the reduction in the rate of interest receivable from investment balances previously forecast as a result of the reduction in the Bank of England base rate to 0.1%.

No new borrowing has been undertaken during the year to date.

A Member referred to the forecast level of internal borrowing set out in the report. Officers were asked to explain why cash balances are used to pay for capital expenditure. Members were advised that in most cases capital expenditure is paid for by borrowing. However, internal borrowing is used to pay for expenditure and thereby delaying borrowing.

RESOLVED – That the Treasury Management Performance report for 31 July 2020 be noted

35 : ANNUAL REPORT

The Committee received the Treasury Management Annual Report 2019/20. The report was provided to the Audit Committee prior to its submission to Council in accordance with the Council's Treasury Management Policy.

The Operational Manager (OM), Capital, Corporate and Treasury highlighted the reports previously received by the Audit Committee and the work undertaken based on the recommendations made by Members, including an independent review of treasury management; an internal audit report on the treasury function; and a benchmarking report providing the Committee with additional context of the Treasury Management function.

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The report set out the level of borrowing, investment balances, cost of borrowing and interest received during the year to 31 March 2020. The report also captured a number of indicators that are required as part of the Treasury Management Code. The report will be received by Council as part of the Statement of Accounts.

The Operational Manager highlighted the key issues coming forward during 2020/21, including the review of the PWLB lending policy.

A Member referred to the profile of borrowing and when the borrowing will mature. The Members asked for details of the current rate of borrowing from the PWLB and whether it is reasonable to say that as debts mature the authority is able to refinance at a better rate than it is currently paying. The Operational Manager stated that the average interest payable on debt is 4.11%. Recent borrowing has been taken at around 1.4%. There has been a significant reduction in borrowing rates over the past few months as a result of the Covid-19 pandemic.

A Member asked what the implications were should the authority exceed its operational boundary for the level of external borrowing and whether the report needed to include some additional narrative to explain what the operational boundary is. Officers agreed to note and reflect on the comment.

The Committee was also asked to note a typographical error on page 7 of the Annual Report.

RESOLVED – That the Treasury Management Annual Report 2019/20 be noted.

#### 36 : OUTSTANDING ACTIONS

RESOLVED – That the outstanding action be noted.

#### 37 : CORRESPONDENCE

The Committee noted recent correspondence received by the Chairperson of the Committee regarding the Cardiff Youth Offending Service and the Chairperson's reply.

The Committee requested that at least annually, Audit Committee to receive a listing of forthcoming external assurance / regulatory / inspection reports, the assurance ratings of reports received, and an indication of progress in the delivery of improvement actions.

#### 38 : WORK PROGRAMME UPDATE

RESOLVED – That the work programme update be noted.

#### 39 : URGENT ITEMS (IF ANY)

No urgent items were received.

#### 40 : DATE OF NEXT MEETING

The next meeting will take place on 17 November 2020

The meeting terminated at 4.10 pm