

## AUDIT COMMITTEE

19 JANUARY 2015

Present: Independent Members: Sir Jon Shortridge (Chair),  
Ian Arundale, Professor Maurice Pendlebury and Hugh Thomas  
  
Councillors Howells, McGarry, Mitchell, Murphy, Robson, Walker  
and Weaver

Apologies:

44 : APOLOGIES FOR ABSENCE

No apologies were received.

45 : DECLARATIONS OF INTEREST

The 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.

46 : MINUTES

The Committee noted that many of the items on the Action Plan have now been actioned satisfactorily and completed.

RESOLVED – That the minutes of the meeting of the Audit Committee of 8 December 2014 be agreed as a correct record of the meeting and signed by the Chairperson.

47 : FINANCE

The Committee noted that many of the items on the Action Plan have now been actioned satisfactorily and completed.

RESOLVED – That the minutes of the meeting of the Audit Committee of 8 December 2014 be agreed as a correct record of the meeting and signed by the Chairperson.

48 : GOVERNANCE & RISK MANAGEMENT

Risks & Challenges – Strategic Planning, Highways and Traffic & Transport

The Chairperson welcomed Andrew Gregory, Director of Strategic Planning, Highways, Traffic & Transportation and Matt Wakelam, Operational Manager, Infrastructure and Operations.

The Director reported on how he is mitigating the two corporate risks for which he is the risk owner on the Corporate Risk Register, namely that relating to the Local Development Plan (LDP) and the risk of a Vehicle Borne Improvised Explosive Device (VBIED) being detonated in an area identified as a high risk crowded place within Cardiff.

Both prompted interesting discussion around the current position, regarding i) progress of the LDP, and in particular the delivery of the transport infrastructure and ii) funding and some technical issues with some security measures across the city centre.

It was emphasised that the Council is largely reliant on UK Government funding to extend current security measures to other areas in the city centre and priority for the Council was in maintaining the current arrangements in place.

Experience had shown from incidents in Glasgow and Oxford and some within our own city centre that there are real threats and it is important the Council continue to work in partnership with others e.g. the police, regarding the wider context of security issues within the city centre.

Members expressed concern that in relation to the risk from hostile vehicles the Council's strategy is not yet fully implemented and that this is because of lack of funding which is dependent on the priorities and strategy of central government.

It was agreed both risks are appropriately assessed as Red risks and required regular monitoring and action to mitigate the risks further.

The Committee then considered the Internal Audit Executive Summary Report on Highways Street Operations, which appeared as part of Appendix C to Annex 1 to the report for agenda item 8.1 – Quarter 3 Progress Update – Executive Summary Reports. The Chairperson reminded the Committee that Appendix C contained exempt information as defined in Section 100 (1) (1A) of, and paragraphs 14 and 21 of Schedule 12A to, 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 Committee noted that Internal Audit had carried out a follow-up audit on Highways Street Operations and that the overall audit opinion remained as "Limited Assurance". There was also concern at the delay in the Director responding to the audit report, where his personal view was being sought as a few recommendations had not been agreed by his senior managers.

The Director informed the Committee that he accepted the report and he was aware of the risks that have been identified and he was considering the best approach to how to tackle these. He confirmed that a review is currently underway and this will pick up all the issues that have been raised by Internal Audit. The Directorate had delayed its response until a proper procedure and process was put in place with assurances that the matters highlighted by the audit would be addressed. Three meetings with trade unions have been held and meetings with teams will be held over the next few weeks. Some issues are Council-wide and not just exclusive to Highways. The Directorate aims to prepare a report

providing assurance that all the concerns highlighted in the audit report have been addressed.

The Chairperson advised the Director that the Committee expects a prompt response when recommendations are made by Internal Audit, and that particular urgency should be given to this when there is a Limited Assurance outcome. The Committee noted the Director's concern that on taking up his post he found that in the past issues had not been addressed quickly enough.

The Chairperson advised the Director that the Committee will expect to receive another report at its meeting in June 2015 providing provides assurance that either action has been taken to address the audit concerns or that there is a plan in place to do so.

Regarding Bridges and Structuring, the Chairperson noted that the Committee had been informed that a programme of monitoring structures was in place. Given the risk to highway users, the issue for the Committee was whether this is given sufficient priority. The Committee was advised that there is a six-yearly programme for the monitoring, inspection and maintenance of structures. Those structures that present the highest risk are dealt with at the start of the six-year cycle, before those presenting moderate and low risk. At the end of the six years, the programme begins again. The Directorate is bidding for capital project funding. A significant number of structures are the responsibility of Housing or Parks.

RESOLVED – That the Director of Strategic Planning, Highways and Traffic & Transport prepare a report, to be presented at the Audit Committee meeting in June 2015, addressing the audit concerns in the report that was presented to the Committee in January 2015. In producing the report, the Directorate is to engage with Internal Audit to ensure they are content all actions have been appropriately taken.

#### Senior Management Assurance Statements (SMAS)

For several years senior management have been asked to complete an Assurance Statement which is produced and reviewed by the Audit & Risk Manager. The statement feeds into the Annual Governance Statement (AGS) which forms a part of the Council's Statement of Accounts. The reason for this report was to provide the Committee with an opportunity to see an updated version of the Council's SMAS template for the financial period 2014/15.

The Audit & Risk Manager confirmed that he had reflected on previous comments raised by Members and strengthened certain aspects of the questions with the assurance statement e.g. that officers will be held to account for non-compliance. The intention was that the same approach was to be followed this year, with meetings to be held with each Director to review and test the evidence to support the view expressed within the statement. This would also help identify any significant issues which would help inform the Audit Plan for 2015-16.

The Chairperson invited comments from the Committee so that suggestions for further improvements to the template could be included.

RESOLVED – That amendments be made to the SMAS template in accordance with the Committee's comments. To be confirmed through the AGS 2014/15 item at the Committee's meeting in March 2015.

## Audit Committee Annual Report

The purpose of this report was to seek the initial views of Members on the content of the Committee's Annual Report 2014/15.

The Chairperson invited comments from the Committee so that suggestions for amendments or inclusions could be considered by the Audit & Risk Manager.

RESOLVED – The views of the Committee to be taken into account in the Draft Annual Audit Committee Report 2014-15.

### 49 : WALES AUDIT OFFICE

The Chairperson welcomed Non Jenkins, WAO Local Government Manager (South East) Wales region and Ann-Marie Harkin, Financial Audit Director.

The WAO informed the Committee that its officers have met with a number of Members and Council officers and have attended the Challenge Forum. It is important for WAO to do this in order to improve its understanding of the Council, so that WAO gets not just a snapshot of the current situation but an idea of where the Council intends to go. WAO intends to carry out a survey of Members and officers to see how things have progressed since the WAO report of 2014. WAO will also be looking at how the Audit Committee will take forward ideas from its self-assessment exercise. WAO is to do some work with Estyn in relation to its monitoring visit. WAO has yet to decide how the next corporate assessment will be carried out. The date for this is unlikely to be announced until after Estyn has made its visit as the outcome of that may throw up some issues that WAO will need to take into account.

RESOLVED – That the report be noted along with the fact that WAO is making preparations for its next corporate assessment of the Council.

### 50 : TREASURY MANAGEMENT

#### Performance Report

Appendix 1 to the report for agenda item 7.1 (Treasury Management – Performance Report) contained exempt information as defined in Section 100 (1) (1A) of, and paragraphs 14 and 21 of Schedule 12A to, 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 Operational Manager, Capital & Treasury, presented this report, which focused on the position as at December 2014. The Committee was advised that the main change has been around reduced assumptions about borrowing. There has been very little change on investments and the forecast level of external borrowing at 31 March 2015 is £470 million. Some benchmarking with Welsh and comparable English cities would need to be done to

find out how typical this level is for a local authority, although it was noted that such comparisons would need to be made with care given differences between local authorities.

RESOLVED – That benchmarking data for comparable core cities and advisory best practice on borrowing be provided to the Committee at its meeting in June 2015.

#### Treasury Strategy 2015-16

The reason for this report was to give the Committee the opportunity to note the proposed Treasury Management Strategy for 2015/16 and to provide comments. The proposed strategy for 2015/16 is required to be approved as part of the Budget Report to Council in February 2015.

The Operational Manager, Capital & Treasury, presented this report and informed the Committee that one of the main issues for local authorities in Wales is the buy-out from the Housing Revenue Account (HRA) subsidy system. It is likely that the Council will agree to pay circa £222 million to buy itself out of this system, subject to final settlement agreed between HM Treasury and WG. There are significant financial and non-financial benefits. The Council will have to undertake significant borrowing and there are significant risks, but the plan is still viable.

The Committee asked whether all eleven local authorities in Wales had now agreed to the buy-out from the HRA system and was advised that all eleven have agreed and that further discussions are to take place before the matter is referred back to WG.

The Committee asked whether there is any update on discussion by WG and the Treasury about the possible opportunities for taking loans at concessionary rates which could result in greater financial benefit to the Council. The Committee was informed that soundings from the Treasury continue to be positive on this.

The Committee asked whether the figure for the net benefit to the HRA in the initial year of self financing, estimated at £1.7 million on a worst case basis, is likely to stay the same and was informed that the figure will be determined by whatever the interest rate is at 31 March 2015 and final settlement agreement between WG and Treasury.

In summary, the Chairperson noted that in discussion of the Treasury Management Strategy 2015 – 16 the main interest for the Committee had been the Council's requirement to undertake debt to exist the Housing Subsidy System and that the Committee had been assured that the net benefit to the local authority could be £1.7 million on a worst case basis, dependent on interest rates at 31 March 2015.

RESOLVED –

- 1) That the Committee receive a full report following the HRA buy-out, which is to include a summary of the main benefits and continuing risks.
- 2) That the presentation slides from the briefing that was given to Elected Members in November 2014 be circulated to Committee Members

Appendices C and E in Annex 1 to the report for agenda item 8.1 (Internal Audit Quarter 3 Progress Update) contained exempt information as defined in Section 100 (1) (1A) of, and paragraphs 14 and 21 of Schedule 12A to, 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.

#### Quarter 3 Progress Update, including Executive Summary Reports

This report provided the Committee with information on audit reports issued during the last three months and with Executive Summaries for those on which a Limited Assurance opinion had been given. The report identifies some of the high risk areas for which audits will not be carried out before the end of the financial year and gave the reasons for this.

The Committee was advised that resources were stretched with a Senior Auditor leaving recently, and priority continued to be on targeting Red, high risk audits, of which there were around 50. The report presented information on current quarter assignments and provided an update on follow up audits, where it was noted some further visits had shown improvement.

The Committee asked if the Audit & Risk Manager could outline his major concerns. He advised the Committee that some schools continue to have a limited assurance opinion, although follow up visits were encouraging in reporting greater implementation of audit recommendations to enhance the control environment. A second tranche of schools are currently undergoing training in the use of Control Risk Self Assessment (CRSA) which is proving to be a valued way forward by all involved. There are still pressures in Children's Services, where two recent audits have provided limited assurance, Safeguarding Core Group and Child Health and Disability (CHAD). The former was a follow up with limited improvement noted and the Chair enquired whether there is sufficient concern to warrant a letter from the Audit Committee to the Chair of the Children and Young People Scrutiny Committee, as these are areas which present significant risks for the Council. He also felt the Executive summary reports presented to Committee proved useful in giving Members an idea of the issues and matters arising from audits being undertaken, and that it was right to highlight these for attention at meetings.

The Committee was concerned at the potential impact of the loss of the Senior Auditor – Computer Audit on planned IT audits and asked whether the team would be buying in expertise. Committee were advised that a number of such audits had been undertaken prior to the departure of the Senior Auditor and that the skills were available within the Section to complete and issue these. The post has been advertised and some discussion had been held with colleagues in the Vale of Glamorgan to look at the potential for some shared arrangements. It was not intended to buy in expertise at this time.

The Executive Summaries were discussed, with the Committee focusing particularly on a continuing Limited Assurance audit opinion for Safeguarding. The Committee noted that *'additional resources have been allocated....to alleviate the high caseloads of social workers'* and that *'the additional agency resources will remain ...until January 2015'*. The Committee queried whether arrangements have been put in place to cover the extra workload that could arise once the additional resources are no longer there. All Executive Summaries are considered at an informal meeting of the Cabinet.

Payroll overpayments are another area of concern, given the history of audits, and the Committee is to be provided with a further report on this once a management response has been received.

The Audit & Risk Manager advised the Committee that a concern was that directorates, although accepting the audit findings and recommendations to enhance internal control, are finding it increasingly difficult to set about implementing these due to a lack of resources with the level of cuts they currently have to find. Managers are aware of this and recognise the risks, but with further cuts to come, this is a situation that requires careful monitoring and where different models of service delivery will be required, but which will inevitably bring with it a new sets of risks.

RESOLVED – That the Chairperson write to the Chair of the Children and Young People Scrutiny Committee (with a copy to be sent to the Chief Executive, the Director of Children’s Services and to the Cabinet Member for Early Years, Children and Families) raising concerns relating to the follow-up audit of Safeguarding and Review (Core Groups). The Executive Summary is to be attached to the letter and a response is to be received by March 2015 for consideration at the next meeting of the Audit Committee.

#### Value for Money Audits

The purpose of this report was to provide Members with an update on three value for money studies reported previously to Audit Committee, namely, agency spend, standby payments and home to office vehicle usage.

With regards the agency spend review the figures showed a significant reduction. The Audit and Risk Manager informed the Committee that efforts had clearly been taken to review agency arrangements to reduce the spend in this area, especially to target some relatively high earners. There is still a control issue relating to auto-approval of timesheets which the Audit & Risk Manager has flagged up with Directors. This will continue to be monitored.

On standby payments the Committee was informed that there had been little change in the cost and number of claimants receiving stand by payments. It is considered that through more ‘joined up’ working there are still opportunities to reduce what are some significant costs.

Regarding home to office vehicle usage Directors were going to be required to prepare a business case for all such travel. It was emphasised that clearly there will be good business reason for allowing vehicles to be taken home but it was important that this is properly considered and where this is not the case the vehicle is withdrawn and savings made. It was also noted that there may be a reporting issue regarding this usage, as some of the journeys made might be taxable, and there are potentially significant issues in relation to any accidents that occur during home to office journeys. Discussions will need to be held with trade unions.

The Audit and Risk Manager invited the Committee to suggest other areas into which it might be valuable to carry out value for money audits.

The Committee suggested that it would be helpful if it had an idea of what might be a reasonable spend on agency staff, and on the extent to which service areas differ in the use of agency staff. The Audit & Risk Manager agreed to investigate this.

The Committee felt that value for money audits are important as they may uncover issues that the local authority needs to confront, and that it might be useful to have a section on value for money audits in the Committee's annual report.

RESOLVED – That the Committee should receive a further briefing on agency spend to identify further potential savings. This report should also consider further savings in relation to standby allowances where spend was considered high.

## 52 : OUTSTANDING ACTIONS

There were no outstanding actions to report to the Committee.

## 53 : WORK PROGRAMME UPDATE - ATTACHED

The Committee noted that the £70 million figure for Commissioning is very high and suggested that consideration should be given to how the issue could be examined.

RESOLVED – That consideration be given to referring the issue of Commissioning to the appropriate Scrutiny Committee, following the agreed new protocol.

## 54 : URGENT BUSINESS (IF ANY)

There was no urgent business.

## 55 : DATE OF NEXT MEETING

The next meeting will be held on 23 March 2015

The meeting closed at 4.15pm