

AUDIT COMMITTEE

24 JANUARY 2017

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

County Councillors Howells, McGarry, Mitchell, Murphy and Walker

WELCOME

At the commencement of the meeting the Chairperson welcomed the two newly appointed Independent Members, Gavin McArthur and David Price. Both Independent Members made introductory statements.

The Chairperson also asked Members to note that Janet McNicholas of the Wales Audit Office will retire at the end of February. The Chairperson requested that with the Committee's approval a letter be sent to Janet McNicholas thanking her for her contribution to the work of the Committee and sending her best wishes for her retirement.

63 : APOLOGIES FOR ABSENCE

Apologies for absence were received from Ian Arundale and Councillor Kelloway.

64 : DECLARATIONS OF INTEREST

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

Councillor Mitchell	Item 9.2	School Governor Family Member of a Social Worker
Councillor Howells	Item 9.1	School Governor

65 : MINUTES

The minutes of the meeting held on 29 November 2016 were approved by the Committee as a correct record and were signed by the Chairperson.

Matters Arising

The Head of Finance advised that the Integrated Service/Financial Strategy proposals referred to had not yet been received by formal Cabinet.

Members were asked to note that the issue of cyber security had been considered as part of the Corporate Risk Register. The Corporate Risk Register would be presented as an agenda item at the next meeting of the Committee.

The Head of Finance stated that work was in progress on a report providing a breakdown of the justifiable agency spend across service areas; and a position statement report on comparing the staff terms and conditions.

Finance

66 : FINANCE UPDATE

Members received a report providing an update on the Council's financial position. The Corporate Director Resources provided a verbal update to the Committee.

Members were reminded that in November 2016 the submission of late representations from members of the public had prevented the Wales Audit Office from certifying the Statement of Accounts 2015/16. Members were advised that the Corporate Director has received confirmation that all outstanding issues have been investigated and resolved and, subsequently, the Statement of Accounts 2015/16 has received a clear audit opinion and certificate.

In terms of the financial monitoring position, the Corporate Director stated that the Month 6 monitoring report was presented to the Audit Committee on 21 November 2016. The Month 9 monitoring report was due to be received by the Cabinet in February. The Month 9 report was anticipated to demonstrate a continued improvement to the overall position. A report on the Month 9 position will be presented to the next meeting of the Committee on 14 March 2017.

Members were advised of the progress of the 2017/18 Budget Strategy.

Due diligence on the initial 2017/18 budget proposals and in respect of the budget savings shortfalls identified as part of the budget monitoring process in the current financial year has been undertaken, in order to form a view regarding the achievability of these savings. The outcomes of this work, the identification of further budgetary pressures, and an update on the funding position following the announcement of the Provisional Settlement was reflected in the 2017/18 Budget Proposals consultation report which was approved by the Cabinet on 10 November 2016. This report identified a budget reduction requirement of £25.1 million, an increase of £0.8 million compared to the Budget Strategy report. The budget consultation period ran from 10 November to 16 December 2016. The results of the consultation process are being considered by the Cabinet as part of their final budget proposals.

The Welsh Government's Final Local Government Settlement was announced on 21 December 2016. Cardiff will receive a cash increase of 0.5% in Aggregate External Finance, compared to the Welsh average of 0.2%. The increase equates to £2.298 million but the impact of new responsibilities mean that the true cash increase reduces to £294,000, a net reduction of £593,000 compared to the Provisional Settlement. A number of specific grants are yet to be confirmed and these will be kept under review. The Final Settlement also contained an increase in General Capital funding over 2015/16 of 0.3% equating to £41,000 in cash terms.

Members were advised that the Cabinet is currently reviewing their budget proposal having received the final settlement, the results of the consultation process and updates to the budget reduction requirements for 2017/18. Final proposals will be

presented to the Cabinet meeting on 16 February 2017. The budget will be considered by Council on 23 February 2017.

The Chairperson invited questions and/or comments on the report. Those discussions are summarised as follows:

- Members noted the position in terms the continued of overspends in the Social Services Directorate. In answer to a question, Officers advised that cost, inflationary and demand pressures are taken into account when advising on the new year's budget. The overspends referred to relate a combination of non-achieved savings and demand pressures. Non-achieved savings were reviewed as to whether they were due to delays or no longer able to be achieved. Account will also be taken of demographic, inflationary pressures and the impact of the living wage.
- Referring to the slippage identified in paragraph 8 of the report, Members asked for information regarding the nature of the slippage and the actions put in place to ensure that these matters were being properly addressed. The Corporate Director stated that, whilst it was not uncommon for capital programmes to have some slippage, officers understand that capital bids must take process requirements and expenditure profiling into account. There is a process to ensure that programmes are robust, but sometimes delays occur.
- Members sought assurance that if slippage involves lengthy delays, then inflationary costs are factored in. The Corporate Director confirmed that there are control points within the Financial Procedure Rules that cover this issue.
- A Member noted that slippage on capital projects was approximately 20%. It was suggested that officers possibly lack the required project management skills and resources may be required to address the shortfall. The Corporate Director stated that slippage occurred for a variety of reasons and Directors are aware of the requirement for robust estimates and profiling.

RESOLVED – That the financial information provided and the process being adopted in respect of budget preparation for 2017/18 and the medium term be noted.

Governance and Risk Management

67 : AUDIT COMMITTEE ANNUAL REPORT

The Committee received a brief discussion paper on the Audit Committee Annual Report 2016/17. Members were asked to consider the subject matter of the Annual Report and the opinion of the Committee on items to be included was invited.

Members were advised that following a review of the Audit Committee's work during the year six key issues were identified and framed as follows:

- Organisational Development Programme
- Financial/Internal Control
- Contract and Procurement Matters
- School Governance and Compliance
- Financial Resilience (including Treasury Management)

- Budget Prioritisation / Control

A draft annual report will be prepared and a further progress report will be submitted to the Audit Committee on 14 March 2017.

Resolved – That:

- (1) Members of the Committee consider and contribute to the draft Audit Committee Annual Report 2016/17 discussion;
- (2) The draft Annual Report be presented to the next meeting.

68 : AGS 2016/17 ACTION PLAN (MID YEAR)

The Committee received a report providing Members with the Annual Governance Statement (AGS) Action Plan highlighting significant governance issues at the mid-year position 2016/17, as assessed by the Senior Management Team (SMT). The year-end position will be reported in the Annual Governance Statement.

Members were reminded that the Management Assurance Statements were reported to the Committee at its meeting on 29 November 2016. Details of the Governance issues identified and the mid-year review assessment of each were presented in the appendix to the report.

Members sought assurances relating to the phrasing of a section of the action plan relating to the timescale afforded to officers to provide full and robust professional advice. The Corporate Director advised that for complex issues sufficient time needs to be given to officers to provide legal and financial advice.

Responding to a question from a Member, the Corporate Director confirmed that there were clear definitions of standards and these were being adhered to. An external body was recently engaged to review project management arrangements to ensure Council that projects can be delivered. The review is ongoing.

Members considered whether or not there was an urgent need to separate the Procurement Strategy from the Commissioning Strategy. Members also felt that the authority should be able to consider the past performance of contractors when assessing bids for tenders. Officers confirmed that the Procurement Strategy allowed for concerns regarding performance issues by contractors to be addressed.

In relation to internal market costing, Members asked what steps had been taken to ensure greater cost awareness. The Corporate Director advised there is a need for the authority to act more commercially. Business units need much more clarity in terms of understanding their costs.

RESOLVED – That the report be noted.

69 : AUDIT COMMITTEE/SCRUTINY PROTOCOL

The Head of Finance provided Members with an update regarding the protocol between the Audit Committee and Scrutiny.

RESOLVED – That the report be noted.

Wales Audit Office

70 : WALES AUDIT OFFICE - VERBAL UPDATE

Ann-Marie Harkin confirmed that the Wales Audit Office has issued the Completion Certificate for the 2015/16 Statement of Accounts. Work was ongoing in preparation for the 2016/17 audit.

71 : WAO TRACKER/OTHER STUDIES

The Head of Finance reported that during the period 11 November 2016 to 6 January 2017 there were no Wales Audit Office (WAO) reports of particular relevance to local authorities.

A Member requested for information regarding the status of work undertaken by WAO in Cardiff.

RESOLVED – That:

- (1) The report be noted;
- (2) Ann-Marie Harkin agreed to provide the Committee with a briefing note to this effect.

Treasury Management

72 : PERFORMANCE REPORT

This report contained exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972. It was agreed that the public be excluded for the duration of the discussion of this item of business on the grounds that if members of public were present during the discussions, due to the nature of the business to be transacted there would be disclosure to them of exempt information of the description in Paragraphs 14 and 21 of Schedule 12A of the Local Government Act, 1972.

The Committee received a report setting out the Treasury Management performance and a position statement at 31 December 2016. Anil Hirani summarised the key issues identified in the report.

Officers confirmed that treasury management was subject to both internal and external audit review. An update on the key Internal audit findings from their annual review of Treasury Management controls was anticipated by March 2017. External audit is also undertaken annually as there are significant treasury management disclosures in the Council's Statement of Accounts.

Members asked what effect any predicted rise in borrowing interest rates would be. Whilst this may impact on new borrowing, the Corporate Director advised that existing loans are secured at fixed rates and the authority would therefore not be impacted by an increase in interest rates on its existing loans.

Officers agreed to provide the Committee with a comparison of maturity analysis profiles with other local authorities to the June 2017 meeting of the Committee.

RESOLVED – That the report be noted.

73 : DRAFT TREASURY MANAGEMENT STRATEGY 2017/18

The Committee received the draft Treasury Management Strategy 2017/18. Members were invited to comment on the draft strategy prior to its approval by the Council as part of the 2017/18 budget report. A summary of the key themes in the strategy was provided in the report.

Members asked how often the strategy was reviewed. Officers confirmed that the strategy covers a three-year period and it is reviewed annually as part of the budget process, with a mid-year update and year end annual report to Council and Audit Committee each year. Members asked how often credit criteria are reviewed as an annual review may not pick up changes in credit criteria. Officers indicated that treasury management advisors are employed to review credit criteria and any changes in credit criteria are received on a daily basis and reviewed before any investments are placed with an organisation. Whilst the Strategy sets out who we could invest in, the Corporate Director Resources has a delegation to continually review this in order to react quickly to changes in market conditions. Members asked as to whether a formulaic approach or set trigger point could be used to determine the timing of any borrowing and level of internal borrowing. Anil Hirani indicated that future years financial forecasts are considered in determining the capacity for internal borrowing and agreed to reflect on the merits of a trigger point approach in conjunction with treasury management advisors and will report considerations back to committee as part of a future update to the strategy.

Members queries what the reference to Landfill provision was in relation to the strategy. Officers indicated that accounting rule changes and Wales Audit Office advice required the future costs of reinstatement and monitoring of landfill sites over at least a 60-year period to be reflected in the Statement of Accounts as a provision. These relate to Ferry Road and Lamby Way sites.

RESOLVED – That:

- (1) The report be noted;
- (2) Anil Hirani to reflect on the merits of a trigger points approach to balancing investments with treasury management advisors and report back to a future meeting of the Committee.

Internal Audit

74 : PROGRESS UPDATE

This report contained exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972. It was agreed that the public be excluded for the duration of the discussion of this item of business on the grounds that if members of public were present during the discussions, due to the nature of

the business to be transacted there would be disclosure to them of exempt information of the description in Paragraphs 14 and 21 of Schedule 12A of the Local Government Act, 1972.

Councillors Howells and Mitchell declared personal interests in the following item in accordance with the Members Code of Conduct as School Governors.

The Committee received a report providing an update on the work of Internal Audit to 31 December 2016. The Head of Finance highlighted the progress made and the planned audits.

Members noted that there were 16 limited assurance reports in the Education and Lifelong Learning directorate.

Officers agreed to provide members with further details of the audit into Youth Centre inventories.

Members reflected and requested that consideration be given as to how this information is presented in the future. Members requested that the Audit Committee be made aware of any key weaknesses and the Head of Finance suggested that this be addressed in the Draft Audit Plan which is due to be considered at the March 2017 meeting of the Committee.

RESOLVED – That:

- (1) the report be noted.
- (2) Officers provide members with further details of the audit into Youth Centre inventories.

75 : DRAFT INTERNAL AUDIT CHARTER 2017/18

The Audit Committee has a responsibility to approve the Internal Audit Strategy and review its terms of reference on an annual basis. The Committee received a report providing Members with the draft Internal Audit Charter for 2017/18.

Appendix C to the strategy suggested a revised terms of reference for the Audit Committee.

The Head of Finance invited comments from the Committee. Members of the Committee suggested a number of minor amendments to the Charter. The suggested amendments were:

- Para 6 – ‘employees are requested’ – strengthen ‘requested’
- Para 15 –To review the paragraph and report back to Committee
- Page 97 – delete word ‘five’ to read ‘Scrutiny Committees’

Members also requested that officers clarify the procedure required to allow the Council to formally adopt the Committee’s revised terms of reference.

Members were advised that a further report would be presented to the March 2017 meeting of the Committee requesting the Committee to agree the finalised Internal Audit Charter 2017/18 before submission to Council for approval.

RESOLVED – That the Committee receive the Audit Charter 2017/18 at the meeting on 14 March 2017.

76 : DRAFT PROSECUTION POLICY

The Committee received the Draft Prosecutions Policy. Members were advised that the Internal Audit Investigations Team conduct criminal investigations in respect of individuals who commit fraud against the authority.

Members were asked to consider, note and comment on the revised policy.

Officers were asked to clarify the position in respect of prosecutions against Members of staff who had resigned or retired. Members were advised that the new Disciplinary Policy addresses these issues.

RESOLVED – That the report be noted.

77 : PUBLISHED SCRUTINY LETTERS

The Committee received a report setting out relevant information in relation to correspondence issued by Scrutiny Committees.

The Committee discussed the contents of the report and requested officers to provide a summary of any matters considered to be relevant to the Audit Committee.

RESOLVED – That the Chairperson, in consultation with the Corporate Director and the Head of Finance, agree a refreshed format for the Scrutiny Correspondence report to be presented to the Committee on 14 March 2017.

78 : WORK PROGRAMME UPDATE

RESOLVED – That the Audit Committee Work Programme be noted.

79 : URGENT BUSINESS

No urgent business items were received.

80 : DATE OF NEXT MEETING

The next meeting is scheduled to take place on 14 March 2017.

The meeting terminated at 5.00 pm

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Chairperson

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