

AUDIT COMMITTEE

26 JUNE 2018

Present: Independent Members:
Gavin McArthur, David Price and David Hugh Thomas
Councillors Bale, Cowan, Cunnah, Howells, Lay, McGarry,
Singh and Walker

1 : APOLOGIES FOR ABSENCE

Apologies were received from Ian Arundale.

2 : DECLARATIONS OF INTEREST

Councillor Bale declared an personal interest in agenda item 10 as a Member of a Credit Union.

3 : APPOINTMENT OF CHAIRPERSON AND DEPUTY

RESOLVED – That Ian Arundale be appointed as Chairperson of the Committee and that D. Hugh Thomas be appointed as Deputy Chairperson of the Committee.

4 : MEMBERSHIP AND TERMS OF REFERENCE

The Committee noted that on 24 May 2018 Council appointed the following Members to the Committee:

Independent Members: Ian Arundale, D. Hugh Thomas, Gavin McArthur and David Price

Councillors Bale, Cowan, Cunnah, Howells, Lay, McGarry, Singh and Walker

Members were also asked to note the Committee's Terms of Reference.

5 : MINUTES

The minutes of the meeting held on 27 March 2018 were approved by the Committee as a correct record and were signed by the Deputy Chairperson.

Operational Matters

6 : PAUL ORDERS, CHIEF EXECUTIVE - COUNCIL INTERNAL CONTROL ENVIRONMENT

The Committee received a report from the Chief Executive on governance and the internal control environment across the authority.

The Deputy Chairperson welcomed Paul Orders, Chief Executive, to the meeting. The Chief Executive delivered a presentation on the Council's internal control environment.

The Chief Executive presented the senior management structure and advised that the structure was recently revised to include the Corporate Director – People and Communities and introduction of the Chief Digital Officer. The Senior Management Team are responsible for the governance of risk management control.

The presentation followed the Authority's approach to risk management in terms of the review stages and the key officers involved, with a focus drawn to the 8 red residual risks and their target mitigations and risk rating for each. Attention was also drawn to the 2 corporate risks for which there is not currently an opportunity to reduce their residual risk level. The Chief Executive outlined the SMAS process and the interplay between the assurances from senior officers and independent assurance of the independent audit functions

Following the presentation the Deputy Chairperson invited Members to comment, seek clarification or raise questions on the information received. Those discussions are summarised as follows:

- The Committee recognised the challenging financial environment facing the authority. Members sought assurances and asked the Chief Executive whether he considered that some parts of the organisation needed to be protected. The Chief Executive stated that the process for 2019/20 budget proposals has started and it is likely that the organisation will need to address the question of whether cuts can be expected in areas that have statutory responsibilities.
- Members asked whether the Corporate Risk Register (CRR) matched with the Chief Executive's own concerns. The Chief Executive indicated that his own concerns did indeed match a number of those outlined in the CRR. Issues of note were City Security, Welfare Reform, Financial Resilience and Health & Safety of Statutory Buildings.
- A Member noted that the Senior Manager Assurance Statements has resulted in 20% mixed application for budget monitoring. The Chief Executive stated that 80% of savings were being delivered but Managers' understanding and planning of savings delivery needs to be improved. The shortfall in preventative savings within the Social Services directorate demonstrated that improvement was needed.
- The Committee asked to what extent risk management informs the Internal Audit Programme. The Chief Executive stated that a lot is asked of the Internal Audit Service, not only on its day-to-day reactive work programme, but also in developing the audit programme. The Chief Executive would like to see more done in terms of the delivery of savings but considered that there is a balance to be struck between reactive audit work and the planned programme. Responding to a question from a Member of the Committee, the Chief Audit Executive confirmed that there are regular discussions about the balance between reactive and planned audits at a senior management level. The Chief Executive advised that risks such as Air Quality and Coastal Erosion have plans in place and are subject to continual management oversight.
- Members noted that there are 26 CRR risks, 8 of these are residually, and

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inherently 'red' rated. Members asked whether the Chief Executive was comfortable with the mitigations in place. The Chief Executive considered that the authority was in a reasonable position but this has to be set against the severity of the financial pressures the authority is facing.

- The Deputy Chairperson asked the Chief Executive his views on Huw Vaughan Thomas's reflections on Year 1 of the Wellbeing of Future Generations Act. The Chief Executive stated the report reflected the period for public services as a whole. That public bodies were not fully adapted to the new legislative context was accepted. There remained work to do in terms of mainstreaming what the implications of decisions are in service areas.

RESOLVED – That the Committee notes the contents of the report.

7 : CHRISTINE SALTER, CORPORATE DIRECTOR RESOURCES - UPDATE ON THE INTERNAL CONTROL ENVIRONMENT

The Committee received a report in response to the Committee's request for an update on governance and control within the Resources Directorate. The report aimed to provide assurance on the implementation of any recommendations made by Internal Audit.

The Deputy Chairperson invited questions and comments from Members of the Committee. Those discussions are summarised as follows:

- Members asked the Corporate Director whether the business continuity plans in place had been tested and whether the Director had confidence in the plans. The Corporate Director confirmed that business continuity plans are in place and the Committee was provided with an overview of these arrangements. The Emergency Management Unit is tasked with ensuring that directorates have plans. The plans were tested recently during the Council's response to Storm Emma. A test exercise will also take place during the Autumn. Members were advised that the business continuity arrangements in place are reliant on the robustness of I.T. systems. Discussion are taking place with Caerphilly Council regarding a reciprocal arrangement for shared IT storage and recovery.
- Members asked how performance monitoring within directorates is tested. Members were advised that the testing of performance monitoring is part of internal audit's role. Members asked how much quality or consistency there is to performance monitoring. The Corporate Director stated that Operational Managers are required to do sample checks and 'dip testing' of performance monitoring to ensure consistency. The Chief Executive has already indicated that OMs needed to be upskilled in performance management and the authority will be focussing on putting these arrangements in place during the year.
- A Member sought to clarify the part played by Members in the decision-making process regarding the retention of emails and asked whether a Scrutiny Committee had considered the matter. The Corporate Director advised that emails are a communication tool. If emails were required as

records then they should be stored, archived and retrieved from elsewhere if required. Where information is required to be retained and stored there is a process in place. The matter was not considered by scrutiny but it was widely communicated. The Member stated that he was uncomfortable with the decision and how it may be perceived publicly. The Deputy Chairperson agreed to clarify what briefings/advice was provided to Members.

RESOLVED – That the Committee notes the contents of the report.

Finance

8 : FINANCE UPDATE INCLUDING RESILIENCE ISSUES

The Committee received an update on the Council's financial position from the Corporate Director Resources.

Members were advised that the Council's accounts for 2017/18 have been closed but that the final outturn position had not yet been formally reported to the Cabinet. The outturn position is likely to be a balanced position similar to that forecasted in monitoring reports taken during the year. A copy of the report to be received by the Cabinet will be circulated to Members of the Committee in due course.

In terms of the 2019/20 Budget Strategy, the Corporate Director Resources advised that the 2018/19 Budget Report identified a likely budget reduction requirement of £91.4 million over the period 2019/20 to 2021/22. This is a combination of increasing pressures (£75.9 million) and potential funding restrictions (£15.5 million). The pressures include pay and price inflation, demand increases and the revenue costs of financing the capital programme. The funding component assumes that there may be an annual AEF reduction of 1% over the next three years. This assumption will need to be revisited once the 2019/20 Provisional Settlement is received in October 2018.

The Budget Strategy aims to address the £91.4 million funding gap through the combination of Council Tax increases, use of earmarked reserves, a cap on schools growth and savings. Savings are the largest element at £66 million over the three-year period. The Budget Strategy Report is due to be received by the Cabinet in July 2018. The Corporate Director Resources advised that Members will also receive a copy of the Budget Strategy report in due course.

RESOLVED – That the Committee notes the current position in respect of the outturn report for 2017/18, and the work being undertaken in relation to the budget strategy for 2019/20.

9 : DRAFT STATEMENT OF ACCOUNTS 2017-18 (INCLUDING THE AGS)

The Committee received a report on the Draft Statement of Accounts 2017/18. Members were advised that, as required by legislation, the Cardiff and Vale Pension Fund Statement of Accounts was presented separately. The report provided Members with an opportunity to review and provide comments on the draft Statement of Accounts prior to them being formally submitted for external audit and public inspection.

- Members noted that the cumulative provision for non-payment of Council

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Tax was in excess of £7 million. Members asked how long debt is allowed to accumulate and officers were asked to explain at what point bad debt is written off. Members asked to be provided with the details of the policy for managing bad debt, in particular the length of time bad debt is allowed to accumulate before being written off.

- A Member asked whether the Authority has a policy for awarding enhanced pension benefits. The Corporate Director Resources stated that the Authority does not provide enhanced benefits, apart from in cases of ill health.
- Members noted that debtors described as 'other entities and individuals' amounted to £24.747 million. Members asked for further details of the categorisation of these debtors, specifically, whether there were any accounts, which were responsible for large parts of this figure. The Corporate Director Resources agreed to provide an analysis of these debtors. The Deputy Chairperson requested that this be formally reported at the September meeting of the Committee.
- Members asked whether the authority has a policy for addressing pension strain responsibilities. The Corporate Director Resources advised that the Local Government Pension Scheme is regulated. If voluntary severance is taken between the age of 55-59 then the Council is required to repay loss of service payments from the revenue budgets. Any voluntary severance application must be supported by a business case, which demonstrates a net saving after the costs of recovering any pension strain.
- Replying to a question from a Member of the Committee relating to the amount of VAT to be reclaimed, officers indicated that they were reluctant to disclose a figure in the accounts if the figure was uncertain. A claim in the region of £2.5 million has been submitted to HMRC and the claim is subject to a review process and approval.
- A Member asked officers to clarify that when a property is sold how the profit or loss is recorded in the accounts. Officers advised that property assets have existing values – operational assets are revalued every 3 years for an accounting valuation. However, accounting valuation will not always equate to market valuation. When property is sold, the Council is required to show sale proceeds and compare them to the accounting value for assets in the accounts to determine profit or loss. There are established processes in place to dispose of property.
- A Member considered that it would be helpful if the Statement of Accounts included more explanatory information on reserves, for example, the strategic budget reserve. Where there is expenditure from reserves, it would also be useful to have an explanation. The Member suggested that expenditure from reserves was not subject to the same level of scrutiny. The Corporate Director Resources stated that when new reserves are set up this is included in the outturn report; the budget report also includes details on reserves. The strategic budget reserve is used to balance the accounts and it will be included in the accounts for 2019/20.

- Members noted that the average employer contribution rate of around 23% of pensionable pay based on assumptions. Members asked whether this implies that the scheme is not robust. The Corporate Director Resources stated that the scheme is regulated and that employees are automatically enrolled in the pension scheme. Responsibility for the governance of the pension scheme (including actuarial valuations) lies with the Pensions Committee.

The Local Government Pension Scheme Advisory Board have a performance management role. The Council's most recent submission resulted in no 'red flags'.

- Members asked whether information reported to Pension Committee is subsequently reported to Audit Committee, as the pension fund accounts for substantial expenditure. The Corporate Director Resources stated that these issues are not explicitly contained in the Audit Committee Terms of Reference and therefore will not be considered as a matter of course, but they will be included within Internal Audit reports. Members requested officers to consider whether Audit Committee should have awareness of Pension Committee reports and comment further at the September meeting of the Committee.
- A Member noted that the Standards and Ethics Committee were currently reviewing the process for Declarations of Officer Personal Interests. It was agreed that the AGS reference the review of the officer personal interest processes due in 2018/19.

RESOLVED – That the Committee:

- (1) Notes that the accounts are to be signed by the Corporate Director Resources and submitted for external audit and public inspection.
- (2) Notes that the audited Statements and Annual Governance Statement for 2017/18 will, prior to being presented to Council, be reviewed by this Committee in September along with the audit report.

Governance and Risk Management

10 : SENIOR MANAGEMENT ASSURANCE STATEMENT REVIEW -
FEEDBACK - FINAL DECISION

The Committee received a report on the Senior Management Assurance Statements (SMAS) at year-end 2017/18. Members were invited to review the SMAS and comment upon the self-assessed elements of the Annual Governance Statement (AGS).

Members were advised that the SMAS are used to assess governance maturity and application of the 'Delivering Good Governance in Local Government' framework developed by CIPFA/SOLACE. Each Director is required to respond to 23 good governance statements using a 5-point maturity scale for their areas of responsibility. Prior to submitting returns, each Director must obtain underlying assurances from their management teams to support a directorate-wide response to each statement.

All SMAS returns are subject to challenge, review and approval by SMT. The following disclosures were approved by SMT in May 2018: the agreed overall position; an overall SMT Assurance Statement to be included in the AGS; and an Action Plan of significant governance issues for the AGS.

The report provided a summary of the SMAS returns and AGS Action Plan.

A Member questioned the achievement of 93% strong application for Performance Measurement and Management. Officers stated that all assurance statements have been collectively reviewed and challenged by SMT with results shared with the Audit Management Team. Officers advised that whilst there were no substantive disagreements with the submissions as part of these reviews, wider assurance is being sought from an ongoing internal audit on the application of the SMAS process.

RESOLVED – That the report be noted.

11 : CORPORATE RISK MANAGEMENT (YEAR-END)

The Committee received an update on the risk management position at the end of quarter 4. Members were advised that there were 343 risks covered in Directorate Risk registers as of the end of quarter 4. Escalated risks and requests for de-escalation were discussed and approved by SMT in May 2018. SMT approved that 10 directorate risks be carried forward as escalated risks.

SMT reviewed the escalated directorate risks and corporate risk updates from risk owners. SMT approved changes to the description or residual risk rating for the following Corporate Risks:

- Financial Resilience
- Fraud, Bribery and Corruption
- Schools Organisation Programme
- Performance Management

A Member noted that the Financial Resilience and Schools Organisation Programme risks were increasing in likelihood and impact. Officers were asked to explain the rationale for the changes to the Financial Resilience Risk. The Corporate Director Resources advised that budget prioritisation is managed as part of an overall approach to longer term Financial Resilience, The CRR has been updated accordingly to absorb the budget prioritisation risk within Financial Resilience Risk, which is a reflection of the current position coupled with the challenges of the budgetary gap. There is a recognition that savings of £91 million, on top of £145 million savings, will take longer to determine, embed and deliver and this remains challenging.

Members also noted that in relation to the Coastal Erosion risk there are no controls recorded. Officers advised that in the update the risk owner has emphasised the lack of preventative mechanisms in place until scheme completion, without referencing incident management controls in the narrative. Conversations have and will continue to be held with management regarding the information included in risk assessments.

RESOLVED – That the report be noted.

12 : AUDIT COMMITTEE ANNUAL REPORT 2017-18

The Committee received the draft Annual Committee Annual Report 2017/18 for consideration and approval. The draft Annual Report was circulated previously and comments received were included in the report where appropriate.

A Member stated that comments were submitted in relation to Paragraph 5.4 on Page 10 of the annual report to reflect the fact that assurances have been received that there have been no statutory Health and Safety breaches. The Head of Finance advised that the report would be amended to include those comments.

RESOLVED – That the Audit Committee Annual Report 2017/18 be approved and the Head of Finance be delegated authority to make any minor amendments required.

13 : AUDIT COMMITTEE SELF ASSESSMENT FEEDBACK/ACTION PLAN

The Audit Committee is required to report to Council on its performance. The Audit Committee Self-Assessment on 27 March 2018 represented the 2017/18 review and the results of the self-assessment are included in the Audit Committee Annual Report. The Committee received a report providing feedback on the self-assessment workshop.

The workshop was conducted applying methodology from the CIPFA ‘Audit Committees – Practical Guidance for Local Authorities and Police, 2013’. Following the workshop CIPFA published an incremental update to their guidance.

Members were advised that the Audit Committee Self-Assessment reported a positive overall position from the reviews of ‘good practice’ and ‘effectiveness’ respectively. The assessment results and existing action plan review were used to develop eight areas of improvement, appended to the report at Appendix A.

Summaries of the assessment of good practice and the assessment of effectiveness were provided in the report.

The Committee requested that the following wording in Paragraph 13 of the Good Practice Questions be removed:

“or the PCC and Chief Constable”.

Members also requested that the CIPFA guidance update be circulated following the meeting.

RESOLVED – That, subject to the deletion of the words in paragraph 13 of the Good Practice Questions the Committee approves the Audit Committee Action Plan, reflecting on the results of the self-assessment workshop, and the CIPFA guidance update.

Wales Audit Office

14 : WAO ACTIVITY / REPORT PROGRESS UPDATE (INCL. PERFORMANCE)

Sara-Jane Byrne of Wales Audit Office addressed the Committee and provided a summary of progress made against WAO 2017/18 performance audits, including the Wellbeing of Future Generations year one commentary, Overview and Scrutiny and Service User Reviews.

In terms of 2018/19 performance audit work, Members were advised that the programme includes follow-up reviews of some previous local government studies; a review of Delivering Capital Ambition and Wellbeing of Future Generation examination. The programme update also identified progress with 2016-17, 2017-18 and 2018-19 local government studies. The Head of Finance suggested that items materialising in the Local Government Studies review could be included in the Committee's Work Programme for 2019/20.

Referring to the Assurance and Risk assessment –performance audit, Members asked for clarification of the methodology to be used and how wide ranging the audit would be. Members also asked Sara-Jane Byrne to comment on the arrangements in place to secure Value for Money. Members were advised that the approach would mainly consist of reviewing documents supplemented with interviews and meeting observations where deemed necessary. A project brief setting out the scope and approach will be provided to the Council. The work covers a number of areas such as financial management, governance and risk management but is not a detailed review of the areas. Work on the project has already started and will inform future performance audit programmes and next year's Audit Plan. The Corporate Director Resources indicated that once feedback is received it will be reported to Audit Committee, where relevant.

A Member asked what the WAO view was in relation to issues surrounding the compliance with Health and Safety on items of equipment. Sara-Jane Byrne stated that asset management is one of the areas within the Assurance and risk assessment work but it would not be a detailed review. WAO recognise that the Council's response to the Grenfell tragedy is a high priority.

RESOLVED – That the report be noted.

Treasury Management

15 : TREASURY MANAGEMENT PERFORMANCE REPORT

The Committee received a report providing Treasury Management performance information and a position statement as at 31 May 2018. As requested by the Committee, the report included benchmarking information that compares the authority's maturity profile with that of other local authorities.

Responding to a question from a Member of the Committee, officers confirmed that the authority is not currently investing in credit unions. As set out in the Treasury Management Strategy, the primary approach to investments considers security, liquidity and yields.

RESOLVED – That the report be noted.

Internal Audit

16 : INTERNAL AUDIT ANNUAL REPORT 2017-18

The Committee received the Internal Audit Annual Report 2017/18. The report set out that, based on the programme of audit work undertaken and a review of key documents, the application of the overall framework for control within the Council is effective with opportunity for improvement.

Members were advised that a peer review of internal audit has concluded that Cardiff Internal Audit conforms to the Public Sector Internal Audit Standards. Significant investment in supporting four auditors towards achieving the Institute of Internal Auditors qualification will provide a level of resilience to the Internal Audit function.

RESOLVED – That the report be noted.

17 : INVESTIGATION ANNUAL REPORT 2017-18

RESOLVED – That the report be noted.

18 : AUDIT TEAM PROGRESS UPDATE 2018-19

The Committee received the Internal Audit Progress Report 2018/19. The report highlighted the work over the first part of the year focussed on completing those audits carried over from 2017/18. In total 36 audit reports have been issued of which one is unsatisfactory and two are insufficient with major improvement needed. An Executive Summary of the unsatisfactory audit was appended to the report.

Members noted the audit opinion 'insufficient with major improvement needed' in terms of School Organisation Access and Planning, insofar as controls are either not in place or are ineffective. Members urged officers to consider a prompt follow-up audit considering the importance given to Band B school proposals. The Head of Finance indicated that the Director of Education is attending the September meeting of the Committee and Members will have an opportunity to consider an update.

Audit are working with officers within Education to ensure that the recommendations in the audit report are on track.

Members noted that the audit recommendations tracker document was 114 pages and asked whether the Committee needed to receive a summary of the key recommendations. The Head of Finance agreed to review the document.

RESOLVED – That the report be noted.

19 : AUDIT COMMITTEE ACTION PLAN

The Committee's outstanding actions were noted.

20 : WORK PROGRAMME UPDATE

The Committee considered its Work Programme. The Head of Finance advised that the Director of Education would be asked to consider progress made against the audit reports mentioned in a previous item.

Members asked officers to consider whether it would appropriate to invited the Chief Digital Officer to a future meeting and the implications and impact of 'Brexit' for the authority.

21 : URGENT BUSINESS

No urgent business was presented.

22 : DATE OF NEXT MEETING

The next meeting of the Committee will take place on 18 September 2018.

The meeting terminated at 4.55 pm