

## AUDIT COMMITTEE

22 MARCH 2016

Present: Independent Members: Ian Arundale (Chair),  
Professor Maurice Pendlebury, Hugh Thomas

Councillors Howells, McGarry, Mitchell, Murphy, Weaver,  
Dianne Rees and Kelloway

### 1 : APOLOGIES FOR ABSENCE

Apologies were received from Christine Salter, Janet McNicholas and Chris Pugh.

### 1 : DECLARATIONS OF INTEREST

No declarations of interest were received.

### 3 : MINUTES

The minutes of the meeting held on 1 February 2016 were approved as a correct record and were signed by the Chairperson.

#### Finance

### 4 : FINANCE UPDATE 2015-16

The Committee received an update report on the Council's financial position for 2015/16. The report aimed to assist the Committee in understanding the financial context within which the Council is currently operating and provide a brief update on the 2016/17 budget approved by the Council on 25 February 2016 and the medium term.

The report highlighted the improved revenue monitoring position at Month 9. Members were advised that despite the improving position financial pressures and shortfalls against budget savings targets in directorate budgets continue to result in projected overspends. However these are offset by projected savings on capital financing, an anticipated surplus on Council Tax collection and by NDR refunds on Council properties.

Members were asked to note the proposed variance of £29.9 million in the Council's Capital Programme due to slippage in two areas, namely, construction of the new Eastern High School and various energy projects including LED for street lighting.

The 2016/17 budget approved by Council included budget savings of £28.835 million. Members were advised that the £28.835 million savings were risk rated for both residual risk and achievability. The residual risks include £9.888 million rated red or red / amber with £11.663 million similarly rated in relation to achievability. Savings have either been realised or detailed plans are in place for 90.5% of the proposed savings, a significantly increased percentage compared to the position in the previous financial year. The achievement of these savings will be closely monitored throughout the coming year.

Members discussed the various scenarios relating to the budget settlement. Officers were asked to clarify what the worse-case scenario would be. Officers stated that the worse-case scenario represented a 4% cut in the budget settlement figure.

The Committee also sought a further explanation on the use of the £4 million contingency. Members were advised that there were two separate budgets with £4 million contingency; the first £4 million represented part of the base budget; and the second represented an additional £4 million contingency for one-off items to support long term financial resilience.

The Committee asked whether more could be done to hold Directors to account for overspends. Officers advised that the policy has been to incentivise directorates to deliver their budget proposals. The 2016/17 budget aimed to reshape services in order to deliver savings, rather than continue with percentage based 'salami slicing' of budgets. If directorates were subsequently holding surpluses then these monies will be 'clawed back'.

RESOLVED – That the financial information provided in respect of the 2015/16 monitoring position and the outcome of the budget for 2016/17 and the medium term be noted.

## 5 : ACCOUNTING POLICIES UPDATE

The Committee received a report providing Members with an update on the changes to accounting policies included in the 2015/16 CIPFA Code of Practice and the potential impact for the Council's Statement of Account. Members were also advised that future updates to the Code are likely to have a significant impact on the accounts.

Officers stated that there were a number of changes to the code which would not impact on the accounts in any great detail. The most significant change, however, was in the application of *IFRS 13 Fair Value Measurement* of property, plant and equipment in local government. This requires a change in the valuation of assets to a fair value approach, and was deemed to give a fairer indication of the value of assets not used in service delivery.

The 2015/16 Code included confirmation that forthcoming editions of the Code are to include the adoption of the measurement requirement of the *Code of Practice on Transport/Infrastructure Assets* in the 2016/17. The Committee was advised that these changes had the potential to double the value of the non-current assets due to new depreciation policies being applied to the balance sheet. The Highways Network Infrastructure Asset included land, carriageways, footways, cycle tracks, street lighting, street furniture and traffic management systems. The changes were likely to require significant additional workload on the part of the finance function and directorates at a time of significant financial pressures.

The Committee also received details of the CIPFA 'Telling the Story' Consultation, which set out to make Local Authority accounts more understandable. The key change being considered is a change from reporting the net cost of services to reflect the management reporting structure of each local authority. In support of CIPFA's exercise, the Council is currently undertaking a review of its Statement of Accounts, with the intention of removing immaterial disclosures and superfluous narrative and information.

The Committee discussed the changes to the Code of Practice on Traffic/Infrastructure Assets. Members questioned the Council's capacity to collate the infrastructure and highways data. Officers advised that the data was already available and had been required for the whole of government accounts for a number of years. The Head of Finance explained that the authority has had support from external audit on this matter.

The Head of Finance is Chair of a Group of Accountants from across Wales who are discussing best practice in this area.

RESOLVED – That:

- (1) The report be noted;
- (2) A report be presented to the Committee later in the year providing an update on progress on the task of valuing the infrastructure asset.

Governance and Risk Management

6 : AUDIT COMMITTEE DRAFT ANNUAL REPORT 2015/16

The Committee were asked to consider the draft Audit Committee Annual Report 2015/16. The Head of Finance advised that some year-end date was awaited and was still to be included in the draft annual report. Members were asked if they would like to comment on the report or provide any comments to the Chairperson of the Committee by mid-April.

The following comments were noted:

- With regard to 5.3 of the report and the study of the Building Maintenance Framework, a Member requested that the observation on the framework included in the report be expanded upon. The Member questioned whether the framework was robust enough. The Member was requested provide any additional comments regarding this to the Chairperson of the Committee and the Principal Auditor.
- Members expressed concerns regarding the level of resources available to Internal Audit. Members asked the Audit Manager whether the level of resources was sufficient enough for Internal Audit to discharge its function. The Audit Manager stated that Internal Audit was faced with budget cuts. The Budget Strategy to be presented at the meeting accepts that the establishment will be reduced by two posts. The number of audit days would continue to be reduced. The issue was recognised and it was difficult for the Audit Manager to give a satisfactory opinion regarding the level of resource available in the Annual Report. Members recommended the wording of the annual report be strengthened in this regard. The Head of Finance stated that the post being lost were not part of the core function of Internal Audit. The Chairperson gave an undertaking that the wording of the draft Annual Report would be amended accordingly.

RESOLVED – That:

- (1) The draft Audit Committee Annual Report 2015/16 be updated to reflect the comments received;
- (2) Any further comments be sent to the Audit Committee Chairperson by mid-April;
- (3) The final draft of the Audit Committee Annual Report 2015/16 to be presented at the meeting of 16 June 2016 for approval.

7 : DRAFT ANNUAL GOVERNANCE STATEMENT 2015/16

The Audit Committee is required to review the Annual Governance Statement (AGS) prior to its approval. The Committee is also required to consider the Councils corporate governance arrangements against the good governance framework by way of the process of compiling the AGS.

The Audit and Risk Manager presented the draft Annual Governance Statement 2015/16. The Audit and Risk Manager highlighted the key issues in the statement. The Committee was requested to comment on the draft statement and give any feedback to the Corporate Director Resources for inclusion in the finalised AGS to be approved at the June meeting of the Committee.

The following observations were received:

- Members considered that Neighbourhood Delivery Plans are key to the delivery of an alternative delivery model for Infrastructure Services. Members would welcome recognition of the ADM project in the AGS.
- Members requested that further information be included in the report regarding the reassignment of Risk Manager responsibilities. The Head of Finance advised he will be responsible for risk management. The appointment of a new Audit Manager was likely to take up to 3-4 months.

RESOLVED – That the matters raised be reflected in the revised Audit Governance Statement for consideration at the June meeting of the Committee.

Wales Audit Office

8 : PROGRESS UPDATES AND VALUE FOR MONEY STUDIES

(a) *Delivering More With Less: Leisure Services*

The Committee received the Welsh Audit Office report entitled 'Delivering More with Less: Leisure Services'. John Donovan, Corporate Sales Manager, in the Sport, Leisure and Culture Directorate was welcomed to the meeting and was invited to present the report.

Members were advised that the authority has concentrated on the financial challenges facing the Sport, Leisure and Culture Service. There was a need to consider the wider, long-term vision for the service. There was some support for moving to a Trust model as this option can bring about savings in VAT and attract grant funding. The ADM options were listed in the report. The Welsh Government's focus has been on the use of Trusts. However, there were some drawbacks and challenges to Trust status, which were outlined in the report.

The Committee was asked to consider the health benefits offered by the service and the need to increase physical activity. The service was being challenged to become more commercially driven. Income was stable at £8 million per annum. The Income Strategy would continue to be used to increase income and drive down subsidy.

Members suggested that the Economy and Culture Scrutiny Committee be given an opportunity to consider the WAO report 'Delivering with Less: Leisure Services'.

RESOLVED – That:

- (1) The report be noted;
- (2) The Economy and Culture Scrutiny Committee be requested to consider the WAO report 'Delivering with Less: Leisure Services' as part of its scrutiny of alternative delivery models.

*(b) Update on Wales Audit Office Work Programme*

The Committee received a report providing an update on the improvement work conducted by WAO during 2015/16.

Viv Pearson advised that in October 2015 the Authority introduced a 'tracker' to capture the output of regulators, which is maintained by the Improvement and Information Team. The Tracker sets out the WAO improvement programme and provides indicative timeframes for reports, recommendations/proposals for improvement, the lead officer within the Council and evidence of action being taken.

Members requested that the 'tracker' be included as a standing item on all future agenda for the Committee.

RESOLVED – That:

- (1) The report be noted;
- (2) That update reports on the the Council's Improvement Programme 'Tracker' be included as a standing item on all future Committee agendas.

*(c) Regional Education Consortium*

The Committee received the Wales Audit Office National Report on Regional Education Consortia. The report was published on 15 June 2015 and seeks to identify the current position and indicators of good practice. The Auditor General concluded that after an uncertain start, the foundations for regional school improvement services are being established and there are positive signs of progress. However, some there are also some remaining weaknesses which are hindering the development of the system and the effective governance and financial management of regional consortia.

The Committee report included WAO's recommendation and comments and a summary of Cardiff Council's response. Members were advised that the Director of Education and his team of officers have been working closely with the consortia to bring about improvements.

Members received observations from Cardiff's viewpoint on the report from Nick Batchelar, Director of Education; Hannah Woodhouse, Managing Director of Central South Consortium; and Louise Bassett, Business Manager Central South Consortium. Members were advised that under the consortium arrangements performance and governance are delivered jointly. Other aspects of the consortium are commission based and there are mechanisms in place to hold the Consortium to account. The Consortium has focussed on sharpening its business planning and value for money. Nick Batchelar considered that the 'litmus test' for the Consortium was school improvement and whilst there had been significant gains made there was still work to do.

Hannah Woodhouse stated that the report was published in June 2015 following a visit from WAO in 2014. Work has been done to strengthen governance arrangements, decision making and addressing concerns regarding scrutiny of the Consortia. There was also evidence to show that the proper management of resources demonstrate the impact of investment on results. Efforts had also been made to tighten oversight and strengthen the role played by challenge advisers.

Responding to a question from the Committee, the officers advised that Cardiff provides £1.5 million or 34% of the Consortium's funding. The figure is proportionate based on pupil numbers.

RESOLVED – That the report be noted.

*(d) A Picture of Public Services Report*

The Chief Executive was invited to give his observations on the Wales Audit Office report 'A Picture of Public Services'. The Committee was advised that the report was a national study on public services responding to major financial challenges. The messages in the report address the short-termism characteristics in local authorities financial planning. In particular, the report addresses preventative approaches, performance management and corporate assessment.

The Chief Executive stated that in Cardiff the authority has overhauled its corporate planning and has a more meaningful medium-term financial place. An organisational development process was also in place and critical decisions are due regarding the Infrastructure and Leisure alternative delivery models to ensure that service delivery responds to the financial challenges facing the authority.

RESOLVED – That the report be noted.

9 : CORPORATE ASSESSMENT UPDATE

The Committee received a report and were asked to consider the Wales Audit Office Corporate Assessment Follow On report on the City of Cardiff Council.

The Chief Executive advised that the Corporate Assessment Update in September 2014 was critical of performance and governance. The Authority sought to address those concerns and a performance management strategy was subsequently introduced. The Council responded by addressing performance weaknesses and making the Council more responsive to financial challenges, rationalisation of estates and via service delivery. The Council's statement of action directly addresses WAO's specific proposals for improvement.

Members were advised that the Follow On Assessment report demonstrated that progress has been made and steps which still need to be taken. Members were advised that the overarching theme of the report was that improvements are continuing and the Authority is moving in the right direction. However, more improvement is required.

Members expressed concerns regarding the authority's ability to take a long-term view to decision-making. The Chief Executive sympathised with the view that the Council tends to

focus on 12-month cycles. There had been a significant shift to develop a longer horizon in terms of planning. The Medium Term Financial Plan now contains considerably more detail. The Section 151 Officer was also keen to bring forward planning for the 2017/18 budget setting process in order to engage Members. Furthermore, the policy cycle was not based on a 3-year cycle, but Directorate Delivery plans were still front-loaded over 12-months, so there was clearly more work to do.

The Chief Executive commented on PPDRs and advised the Committee that there had been improvements in the rigour of the PPDR process and examples of good practice. Improvements were still needed in other areas. Officers are attempting to build additional capacity around learning and development for managers with more emphasis on learning/behavioural objectives.

A Member advised that the Policy Review and Performance Scrutiny Committee had considered the Corporate Assessment update report. The Chairperson of the Policy Review and Performance Scrutiny Committee considered that whilst leadership had improved more capacity to challenge was needed. The Member also raised concerns regarding governance, specifically the number of vacancies on Scrutiny Committee and clarification was sought regarding how that issue might be addressed.

The Chief Executive was asked to explain how the authority would be able to comply with WAO's recommendations re short termism and also meet service demands. The Chief Executive stated that it was a question of balance. The challenge to the authority was the scale of the financial pressures. Achieving the savings necessary through a complex set of service delivery changes mean that this has to be managed over a longer period.

The Committee commended the Action Plan. Member considered the implementations dates set out in the Action Plan to be ambitious. The Chief Executive advised that a refresh of the Organisational Development Programme will be considered at the Cabinet meeting in June. The new Head of Performance was now in post and there was a clear mandate to strengthen performance management. The Chief Executive acknowledged the pressures around implementation dates.

RESOLVED – That:

- (1) The Committee notes the Corporate Assessment Follow On Report and proposed Statement of Action;
- (2) The Head of Performance be invited to attend a future meeting of the Audit Committee;
- (3) The Audit Committee have sight of the Cabinet Report on the review of the Organisational Development Programme;
- (4) The Chief Executive be invited to attend Audit Committee in 6 months to discuss alignment between the Organisational Development Programme and Medium Term Financial Plan;
- (5) WAO be invited to provide input from WAO perspective in 6 and 12 months time.

WAO advised that the financial audit work is risk-based, focussing on the risk of material misstatement. An overview of the process was outlined, including the assessment made in setting the audit fee. Members were advised that the Wellbeing of Future Generations Act will have an influence. It was proposed that there will be a 5% reduction in the audit fee.

The Committee was advised that the pension fund uses a risk based approach also and follows the same fee calculation process. The pension fee for last year was greater than quoted due to problems in reconciling data as a result of the pension systems used.

The fee calculation, including a number of factors which determine how much work is needed, was explained. Members were advised that WAO looks at the skill mix required and the rates for each officer level required. The costs are then internally scrutinised by WAO officers and then by the WAO board and the finance committee of the national assembly.

In terms of benchmarking the Cardiff fee is below average. Members questioned why some larger authorities pay a lower rate. It was explained that this was most likely to result from greater economies of scale, as the fee is demonstrated as a percentage of the revenue support grant.

RESOLVED – That:

- (1) The report be noted;
- (2) WAO be requested to collate further benchmarking data.

#### Treasury Management 11 : PERFORMANCE REPORT

The Committee received the Treasury Management Performance report. Members were advised that there had been little change to report in this area. Internal borrowing for year end is forecast to be £50 million. Officers advised that there was an adequate spread of investments. A small loan of £1.9 million was made in respect of schools and an interest free loan of £0.5 million was received from the Welsh Government.

RESOLVED – That the report be noted.

#### 12 : TREASURY MANAGEMENT PRACTICES

The Committee received a report on the proposed Treasury Management Practices (TMPs) to apply from April 2016. TMAs are a set of policies and practices required by CIPFA to demonstrate risk assessments, segregation of duties, etc, which ensure that the Council's Treasury Management activities are carried out in an open and transparent manner.

A Member raised a question regarding how credit and risk is managed. Officers stated that the authority uses FITCH criteria and we continue to review our investments with treasury advisors. The authority uses cash forecasts, does not hold high risk investments and has set a maximum exposure.

RESOLVED – That the report be noted.



## Internal Audit

### 13 : PROGRESS UPDATE

The Audit and Risk Manager advised Members of the Committee that the main work of the Internal Audit section had been captured in the Annual Report. Members were advised that the tracker has been updated. There was one new limited assurance audit, which the service area had welcomed and assigned resources to appropriately respond. There were some repeated follow up reports that are still in need of improvements. The Audit Committee will be provided with Executive Summaries at its June 2016 meeting.

Members were asked to note that there is an increasing trend in limited and no assurance audit reports.

RESOLVED – That Executive Summary reports be provided to the Audit Committee at its meeting on 22 June 2016.

### 14 : AUDIT STRATEGY 2016/17

The Audit and Risk Manager presented the Audit Plan and Strategy 2016/17. Members were advised that a thorough PSIAS review has been completed which had resulted in a number of the key documents being updated. The resource base is outlined with two people less than previously and a need to prioritise workloads.

Members were advised that the Quality Assurance Improvement Plan (QAIP) was important to meet performance and standards. The key challenges were outlined and these have formed new objectives for the Audit Team. As part of the audit planning process there is much collaboration, assurance mapping etc. The Internal Audit team are reviewing risks and objectives with Directors to feed into the Audit Plan.

A more detailed plan will be presented to Audit Committee in June. The plan remains flexible and there are opportunities to take on unplanned work.

RESOLVED – That:

- (1) The Committee approves Audit Strategy;
- (2) A more detailed Audit Plan be presented to Committee on 22 June 2016.

### 15 : OUTSTANDING ACTIONS

The Audit and Risk Manager advised that there are no outstanding actions.

### 16 : WORK PROGRAMME UPDATE

The Annual Governance Statement, Corporate Risk Register, Audit Committee Draft Report, and potentially the Audit/Scrutiny Protocol will be considered by Committee at its meeting on 22 June 2016. The Audit and Risk Manager also stated that the Director of Education will attend to discuss school deficits. Furthermore, in September an Audit Committee Self-Assessment Workshop will take place.

### 17 : URGENT BUSINESS

The Audit Committee Chair advised that it had not been possible to appoint to an Audit Committee lay member. The appointment process will re-commence.

18 : DATE OF NEXT MEETING

The next meeting will take place on 22 June 2016, subject to confirmation at Annual Council on 25 May 2016.

The meeting terminated at 4.00 pm