

AUDIT COMMITTEE

19 SEPTEMBER 2016

Present: Ian Arundale (Chairperson)
Hugh Thomas and Professor Maurice Pendlebury

County Councillors Kelloway, Mitchell, Murphy, Weaver, Walker

20 : APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Howells and McGarry.

21 : DECLARATIONS OF INTEREST

Hugh Thomas and Councillor Bill Kelloway declared personal interests in agenda item 5.6 as members of the Rhondda Cynon Taff and Cardiff and Vale Pension Scheme respectively.

22 : MINUTES

The minutes of the meeting held on 27 June 2016 were approved by the Committee as a correct record and were signed by the Chairperson.

Operational Matters

23 : ANNUAL REPORT ON SCHOOL GOVERNANCE AND DEFICITS

The Committee received its annual report from the Director of Education and Lifelong Learning on governance in schools. The report provided Members with an update on governance aspects and updated figures and opinions related to the corporate risk in respect of school balances.

The Chairperson welcomed Nick Batchelar and Neil Hardee to the meeting and invited them to present the report.

Members were advised that during the 2015/16 financial year 10 school audits were carried out – 7 received a satisfactory rating and 3 an opinion of limited assurance. Of the 3 follow up audits, 2 received a satisfactory rating and 1 received a limited assurance opinion. These figures represented slight improvement on the previous year's results. Schools were continuing to use the 'School Control Risk and Self-Assessment Tool' developed through the School Budget forum to promote the important of self-governance and accountability.

An analysis of school balances at 31 March 2016 and the four previous years was appended to the report. Members were advised that the level of surplus balances held by schools had increased from £1.287m at 31 March 2015 to £2.521m at 31 March 2016. However, 20 schools carried forward a deficit balance (12 primary and 8 secondary). Each school in deficit has a Medium Term Financial Plan (MTFP) in place showing how it will reduce its deficit to a balanced position. Each school is also receiving support from a finance officer who works closely with the school and the governing body to monitor the MTFP.

Schools holding surplus balances in excess of the Welsh Government's thresholds of £50,000 for primary schools and £100,000 for secondary schools have been notified that they need to take steps to reduce the levels of the balances held and develop plans for utilising these surplus funds. The assigned finance officer is working closely with schools to develop these plans.

The Director of Education provided his opinion on the current position regarding school audits and the Estyn Action Plan for School Governance. The Director believed the work undertaken through the Control Risk Self-Assessment tool will be strengthened by the S151 Officer's decision to charge schools for any Internal Audit work identified as a result of the school not following the self-assessment process. However, he also considered that too many schools were being identified as satisfactory or worse and he would continue to exercise powers of intervention in those schools where poor financial management and poor governance are identified.

The Director was encouraged that the authority was removed from the Estyn further follow-up activity category but there was more work to be done in order to secure positive outcomes. Members were advised that good schools with strong leadership and governance will be at the forefront of leading our improvement journey and developing their staff. The Director stated that the authority would be focussing on the five key goals set out in Cardiff 2020 (Appendix B to the report) in order to accelerate educational achievement in Cardiff and ensure that all children and young people have an opportunity to succeed.

The Director considered that the number and level of school deficit balances remains too high. He welcomed the joint efforts of colleagues in Financial Services, Education and the Central South Consortium to formulate and monitor individual school plans, but considered that the identified risk still needs to remain on the corporate risk register.

Members were invited to comment, raise questions or seek further clarification on the information received. Those discussions are summarised as follows:

- Members noted the balance position in some schools was not improving. Officers were asked how effective interventions were. Officers stated that all schools now have a MTFP which is monitored by a finance officer. Every school in deficit has achieved a balanced in-year budget and there were no further increases in planned deficits. Targets to reduce the level of deficits in future years had also been agreed.
- Members highlighted concerns that, in some instances, school governors were not aware of the true extent of their school's deficit position. Members asked whether school budgetary information was made publicly available. Officers stated that the authority was obliged to publish this data. Members were advised that School Budget Forum papers are available on the Council's website. It was recognised that there was a need to signpost all school governors to this information and to provide school governor training as appropriate. The Committee considered that it was critical that school governors are able to lift key facts and identify problems early.

The Director stated that where there are concerns the primary responsibility to advise Governing Bodies lies with the Chair and the Head. The authority needs

to clearly set out its expectations in this regard.

- Members asked whether any schools had 'justifiable' deficits due to insufficient pupil numbers on roll. Officer stated that pupil numbers had increased over recent years and they are set to continue to rise. Some variances still existed between schools in the north and in the south of the City. The Committee was advised that Cardiff compares favourably with other Welsh local authorities both in terms of average funding per pupil and the total amount of funding delegated to schools in percentage terms.
- A Member stated that some schools receive less Pupil Deprivation Grant funding and have low turnover of staff. Balances are kept in those schools in order to manage unforeseen circumstances. Officers commented that it was the authority's view that there was merit of the threshold being a set percentage of the individual school overall budget in order to distinguish between the differences in size of schools. However, the Welsh Government thresholds of £50,000 for Primary Schools and £100,000 for Secondary and Special Schools respectively were monitored by the Local Authority. Officers also commented that a conversation was held with those schools with high surplus balances because there was a need to ensure that the money was spent on valued activity.
- The Committee suggested that a review of the arrangements for the Local Authority Governors Panel should be considered so that the impact of the revised arrangements and an assessment of the quality of the governors appointed could be conducted. The Director welcomed the suggestion and undertook to raise this proposal with the Panel.

RESOLVED – That the information and opinion in the report be noted.

24 : SUPPLY TEACHERS BRIEFING NOTE

In response to a request from the Audit Committee, a review of the arrangements in place for the engagement of supply teachers in schools was undertaken. The Committee received a briefing paper setting out the findings of the review. The scope of the review included teaching cover by agencies, short-term contracts and cover supervisors. The Committee discussed the findings of the review.

Members were advised that in 2013 the WAO report 'Covering Teaching Absences', commissioned by the Welsh Government, made a number of recommendations for the Welsh Government, local authorities and Schools. These recommendations were appended to the report at Appendix A. Referring to recommendation 11 – Provide schools with comparative data on teacher absence rates – Members considered that it would be beneficial to have received comparative data on teacher absences in the briefing report. Officers stated that the WAO recommendations were generic for across Wales. Schools in Cardiff were able to monitor absences by using the Digigov system to produce reports. Absence rates in individual schools were not currently being compared. However, this was an action point for the next academic year. From September 2016, Governor Training for monitoring absences would be offered, which would cover how to access absence monitoring data. Officers stated that they do have access to comparative data and they were willing to share this data with all schools.

The Director considered that such comparative data would assist governors and individual schools assess the rates of absence within their schools. The Director agreed to provide this data to the Committee.

All Members noted that in all schools the Head Teachers Annual report provides information on the attendance levels of pupils. Some schools also include the attendance levels for staff. The Director was asked to comment on a proposal that all schools provide details of attendance by staff. The Director considered that a good Head Teacher would be reporting on staff absences as this underpins other messages. However, Head Teachers should have discretion in this regard. Members were reminded that the directorate's quarterly performance reports contain details of absences for all school based and non-school based staff.

RESOLVED – That the report be referred to the School Budget Forum for consideration.

25 : RESPONSE TO INTERNAL AUDIT REPORT - HIGHWAYS PAYROLL FOLLOW UP REVIEW

The Committee received a report prepared by Internal Audit to provide Members with an update on the implementation of a series of recommendations made following audits in 2011 and 2014 for which audit opinion was 'limited assurance'. Members were advised that a follow up audit in May 2015 noted that some progress had been made but in order for the directorate to allow for various initiatives and other changes to be embedded audit opinion was deferred.

Management in the directorate were interviewed recently in order to obtain an update on the outstanding recommendations. The report provided details of those recommendations and the management response to each. Andrew Gregory, Corporate Director and Gary Brown, Operational Manager Assets, Engineering and Operations were invited to present the report.

Referring to Paragraph 2 of the report, Members sought clarification of what exactly what was meant by the use of the term 'some progress had been made'. Officers were advised that Members would welcome further evidence or statistics to support this view at a future meeting.

Chair requested a further report on the Highway Payroll Review in order to demonstrate a more concrete understanding that the issues raised previously by audit have been addressed. The Committee need to be assured that processes are in place that address their earlier recommendations.

RESOLVED – That

- (1) the report and the management response be noted;
- (2) a further report providing evidence that the Committee's earlier recommendations have been address be presented to a future meeting.

Finance

26 : FINANCE UPDATE

The Committee received a report providing an update on the Council's financial position. Members were asked to note that month 4 revenue monitoring shows a projected £850,000 overspend reflecting financial pressures and shortfalls in directorate savings targets. The overspends are partly offset by projected savings on capital financing, the release of contingency budgets and funds previously earmarked to fund voluntary severance costs, a surplus on Council Tax collection and NDR refunds on Council properties.

Directorate budgets are currently projected to be overspent by £6.5 million. It is anticipated that management actions will enable this to be reduced by the year end. The current position includes overspends in Social Services, City Operations; Governance and Legal Services and Corporate Management. Directorate overspends are partially offset by the general contingency budget.

The Committee noted the project overspend of £5.221 million in Social Services. Members were concerned at the continual overspends within this directorate. The Committee considered that it was necessary to seek clarification regarding the continual overspends within Social Services that are not being addressed. The Chair suggested that he write to Director addressing the Committee's concerns and inviting him to attend next meeting

Referring to Budget Strategy report considered by Cabinet, the Committee noted a budget gap of £24.3 million in 2017/18 and £75.3 million over the period to 2019/20. Directorate savings were anticipated to amount to £43.035 million over the same period and the balance would be accounted for through strategy assumptions including increases in Council Tax. Members of the Committee commented that the assumptions referred to need to be robust.

RESOLVED – That

- (1) the report be noted;
- (2) the process being adopted in respect of budget preparation for 2017/18 and the medium term be noted.

27 : STATEMENT OF ACCOUNTS 2015/16

The Committee received the Statement of Accounts 2015/16 prior to its submission to Council on 29 September 2016. Officers advised that the WAO audit was progressing and indications were that the audit findings were minimal and, therefore, there were no issues of immediate concern. Work to declutter and simplify the Statement of Accounts was ongoing.

Members sought clarification regarding the naming of individuals earning in excess of £170,000 per annum. Officers advised that an officer remains unnamed in the Statement of Accounts because a redundancy payment forms part of the annual earnings figure listed.

The Chair, on behalf of the Committee, congratulated the officers for producing the Statement of Accounts and thanked them for their work and efforts.

RESOLVED – That the Statement of Accounts 2015/16 be noted.

28 : WELSH POOL PENSION FUND GOVERNANCE ASPECTS

The Committee were presented with a report providing an update on the development of a Wales Investment Pool to manage the investment assets of eight Local Government Pension Scheme (LGPS) funds in Wales and the proposed governance arrangements for the Pool. The Chairperson invited Gareth Henson, Pensions Manager, to present the report.

The report summarised the background of the matter. Members were advised that 8 LGPS in Wales were working together to identify areas of potential collaboration. In 2013 the report 'Welsh Local Government Pension Funds: Working Together' identified investments as an area where collaboration might yield the most significant savings. Mercers Ltd were commissioned to identify options for collaborative investment and in May 2015 a report recommending a Common Investment Vehicle (CIV) was issued. The 8 LGPS agreed to proceed with establishing a CIV on a voluntary basis and in December 2015 Hymans Robertson were appointed to advise on the procurement of a CIV from a third party provider.

In 2015 the UK Government announced that all LGPS in England and Wales must join together to form investment pools. The Welsh funds submitted an outline proposal for the Welsh Investment Pool in February 2016. Detailed proposals were submitted on 15 July 2016. A redacted form of the submission was published on the administering authority websites and was attached as an appendix to the report.

As a result of the proposal the Pool will not be a merger of the eight funds. Each LGPS will retain its identity and the administering authorities remain responsible for complying with LGPS regulations and pension legislation. The Pool will have limited remit and its objectives, as set out in the submission, are as follows:

- To provide pooling arrangements which allow individual funds to implement their own investment strategies (where practical).
- To achieve material cost savings for participating funds while improving or maintaining investment performance after fees.
- To put in place robust governance arrangements to oversee the Pool's activities. To work closely with other pools in order to explore the benefits that all stakeholders in Wales might obtain from wider pooling solutions or potential direct investments.

Members were advised that the proposed Wales Investment Pool includes the establishment of a Joint Governance Committee comprising of elected member from each administering authority, supported by an Officer Working Group. It is also proposed that a Financial Conduct Authority (FCA) regulated operator be appointed to supply the necessary infrastructure for establishing a pooling vehicle and to manage the Pool on behalf of the 8 funds.

The Council approved the establishment of the Pension Committee at its meeting of 30 June 2016 in order to exercise strategic oversight of its responsibilities for the administration of the Pension Fund. The Pension Committee will enable an elected Member to participate in the Joint Governance Committee and its terms of reference

will include the setting of strategic objectives and approving policy statement, as required by the LGPS regulations.

Members sought clarification of how any investment vehicle would be constituted. Officers advised that a number of potential options were being considered. It was likely that core services would be provided by a regulated entity and ancillary services would be obtained from elsewhere. Members of the Committee recommended that a phased approach be undertaken. Officers advised that the UK Government has issued a brisk timetable and the approach is mandated.

The Committee asked whether the decision to move to a 'complex, over-arching, all-Wales superstructure' was savings driven, where the savings will be made and how much savings will be realised? The officer stated that it is anticipated savings will be realised through economies of scale and in competition between fund managers driving down fees. Funds in Wales were already achieving savings from a significant reduction in fees but it was not possible to quantify those savings at the moment.

RESOLVED – That:

- (1) the Committee notes the progress in relation to the development of the Wales Investment Pool;
- (2) in the event of any future proposals regarding the governance of the Welsh Pool Pension Fund that they are presented to Audit Committee for consideration prior to implementation.

Governance and Risk Management
29 : RISK MANAGEMENT UPDATE

The Committee received a report providing an update on the action being taken to improve the risk maturity of the Council in 2016/17. Vivienne Pearson and Chris Pyke were welcomed by the Chairperson and were invited to deliver the report.

Members were advised that it is vital the authority ensures that risk management is embedded in the governance of the Council, so that managers at all levels recognise that risk management is part of their job and that business processes demonstrate clear consideration of the level of risk that the Council is prepared/not prepared to carry.

Officers across the authority participated in a review of the risk maturity during the summer. The review identified a number of 'risk defined' and 'risk aware' characteristics. A summary of the risk maturity characteristics was appended to the report at Appendix A. Attention was now focussed on ensuring that there are no gaps in risk management processes and systems whilst working towards effectively defining Corporate Risk appetite.

The Committee was informed that having a defined risk appetite will enable officers and Members to understand the level of risk that can be accepted in decision making and those areas where further attention is required. This will, in turn, reduce vulnerabilities and work towards the vision of embedding risk management in decision making.

In order to take forward the Council's Risk Management approach the following were needed:

- Record and report the Council's Corporate Risks on a 'Risk Map'
- Validate the risk ratings in the Corporate Risk Register/Map
- Identify and define the Council's Corporate Risk Appetite

A Corporate Risk Map was appended to the report at Appendix B. The map produced a present and clear picture of the current management of corporate risks at the quarter one position 2016/17. The map was reported to the Senior Management Team on 13 September 2016. The map records the position of residual risks on the Council's standard matrix template. A second element added to the map connects the risk score and the risk appetite this represents.

In order to have a high degree of confidence over the position of residual risks a work instruction and toolkit have been produced by the Information Governance and Risk Team and these are to be issued to each Director. These tools will provide a systematic and methodical approach to reviewing risks, the effectiveness of their assessment and controls.

Members asked officers to confirm that over all the risks identified are rated likely/very likely and the consequences of those risks are rated major or significant. Officers confirmed that this was the case. Members were reminded that the information presented in the risk map was the same information as presented to the Committee previously.

Members asked officers to provide an explanation of the risk associated with Information Governance. Officers indicated that this risk related to the physical use and protection of data and ensuring that suitable policies and systems are in place to control data.

The Committee commended the use of the Corporate Risk Map to provide a diagrammatical 'picture' of the identified risks facing the authority. Members requested that the Corporate Risk Map be presented alongside the Corporate Risk Register in the future.

RESOLVED – That the Committee notes the Risk Management update, the approach to developing a Corporate Risk Map and defining a Corporate Risk Appetite, and to use the report to inform their future Work Programme.

Wales Audit Office

30 : ANNUAL IMPROVEMENT REPORT 2015/16

Chris Pugh addressed the Committee. Members were advised that the Wales Audit Office Annual Improvement Report 2015/16 summarised the work conducted by WAO during the year. The report was likely to conclude that the authority has complied with its statutory responsibilities.

RESOLVED – That the report be noted.

31 : WAO TRACKER/OTHER STUDIES - UPDATE REPORT

The Committee received a report prepared to provide Members with an update on the programme of planned work to be conducted by the Auditor General during 2016/17.

RESOLVED – That the report be noted.

Treasury Management

32 : 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 providing Treasury Management performance information and position statements as at 31 August 2016. The Operational Manager – Capital and Treasury presented the report.

RESOLVED – That the report be noted.

33 : ANNUAL REPORT

Annexes B and C to 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 the Treasury Management Annual Report for 2015/16 prior to its submission to Council on 29 September 2016, in accordance with the Council's Treasury Management Policy.

RESOLVED – That the report be noted.

Internal Audit

34 : PROGRESS REPORT UPDATE

Appendix B to 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.

Members received a report providing an update on the work of Internal Audit up to 31 August 2016. Members were asked to note the following:

- All PPDR reviews in relation to performance during 2015/16 were completed. New objectives for 2016/17 were discussed and individual training plans were to be developed.
- 4 limited assurance audit reports were made since the last meeting of the Committee
- In terms of audit performance, some comparative benchmarking data was received during the summer. The data is being analysed. A report will be presented to the Committee at its meeting in November 2016.

In terms of no assurance opinion reports, Members considered that the respective Directors should be responsible for intervening and addressing no assurance reports. Officers confirmed that the respective Director has intervened.

RESOLVED – That:

- (1) the report be noted;
- (2) a report on the no assurance audit reports detailed in Appendix A be presented prior to the next meeting.

35 : PSIAS ASSESSMENT

Members received a report providing an update on the proposed arrangements for the Public Sector Internal Audit Standards (PSIAS). Members were asked to note that the PSIAS assessment is required to be carried out by external assessors once every five years. Through membership of the Welsh Chief Auditor's Group it has been proposed that a peer group be established in order to undertake such assessments. This approach is consistent with peer groups established for Core Cities across the UK. The approach fully meets the requirements of the PSIAS and has significant cost savings. A draft Terms of Reference for has been drawn up and agreed between the participants. The Committee received the draft terms of reference at its meeting in November 2015.

In anticipation of the external assessment, a self-assessment was undertaken in 2016 and an action plan has been produced. The action plan was appended to the report at Appendix A. The self-assessment identified good overall compliance, but some gaps between the PSIAS and practices conducted by Cardiff Council Internal Audit.

The review process does not demand that there must be compliance to all requirements. However, an understanding and justification of any deviations is expected. The self-assessment made 12 recommendations, the majority of which had been actioned.

Referring to Recommendation 8, Members asked whether there were sufficient resources in place to assess the effectiveness of organisational performance management and accountability. The Head of Finance indicated that he believed sufficient resources were in place.

RESOLVED – That:

- (1) the Committee notes the activity being undertaken, prior to the external assessment being undertaken in October 2016, in compliance with the Public Sector Internal Audit Standards (PSIAS);
- (2) Member to consider the action plan and provide views as to the status of the recommendations.

36 : FIGHTING FRAUD AND CORRUPTION LOCALLY

The Committee was asked to note a report prepared to raise awareness of three documents published by CIPFA and an Executive Summary in respect of Fighting Fraud and Corruption Locally.

Members were advised that the Fighting Fraud and Corruption Locally was a strategy developed as a result of collaboration between English local authorities and key stakeholders from across the counter fraud landscape. The strategy is a definitive guide for Council Leaders, Chief Executives, finance directors and includes practical steps for fighting fraud, shares best practice and brings clarity to the changing anti-fraud and corruption landscape. There is currently no Welsh strategy to measure against.

RESOLVED – That the report be noted.

37 : PUBLISHED SCRUTINY LETTERS

Members received for information the published Scrutiny Committee Chairperson's letters providing an opportunity for the Committee to determine whether they wish to consider any of the letters further at the Audit Committee meeting on 29 November 2016.

RESOLVED – That the report be noted.

38 : OUTSTANDING ACTIONS

The Committee noted that outstanding actions detailed in the Audit Committee Action Plan.

39 : WORK PROGRAMME UPDATE

The Committee noted that Audit Committee Work Programme 2016/17.

40 : URGENT BUSINESS

No urgent business was presented.

41 : DATE OF NEXT MEETING

Members were asked to note that the next meeting is scheduled to take place on 29 November 2016.

The meeting terminated at Time Not Specified

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