

## AUDIT COMMITTEE

14 MARCH 2017

Present: D. Hugh Thomas (Deputy Chairperson in the Chair)  
Gavin McArthur and David Price

County Councillors Howells, McGarry, Mitchell, Murphy and Walker

### 81 : APOLOGIES FOR ABSENCE

Apologies were received from Ian Arundale.

### 82 : DECLARATIONS OF INTEREST

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

Councillor Howells	Item 9.1	School Governor
--------------------	----------	-----------------

### 83 : MINUTES

The minutes of the meeting held on 24 January 2017 were approved as a correct record.

### Matters Arising

The Head of Finance confirmed that the Committee received further details of the audit into Youth Centre inventories.

### Finance

### 84 : FINANCE UPDATE

The Corporate Director Resources provided an update on the Council's financial position. The Director summarised the Month 9 position, the 2017/18 budget and the medium term position.

The Month 9 Monitoring report was presented to the Cabinet on 16 February 2017. Month 9 revenue monitoring showed a balanced position against the budget, an improvement of £537,000 compared to the position at Month 6.

Members were advised that the overall position continued to reflect financial pressures and shortfalls against budget savings targets. A shortfall of £6.253 million was reported against budget savings of £25.892 million. The Chief Executive and Corporate Director Resources had challenged directorates to take action to reduce overspends.

Members were asked to note a net variance of £18.5 million on the Capital Programme 2016/17. The majority of this variance was due to slippage, including a significant variance in relation to the new Eastern High School.

The 2017/18 budget was approved by Council on 23 February 2017.

Members were advised that in setting the 2017/18 budget the £24.880 million budget reduction requirement was addressed as follows:

- 30% cap on schools growth (non-pupil number) - £1.853 million
- Use of earmarked reserves - £1.500 million
- Savings - £17.007 million
- Council Tax increase 3.7% - £4.520 million

Accepted Savings proposals of £17.007 million in the 2017/18 budget were risk rated for achievability. No proposals were rated in the 'red' risk category.

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

- Members raised concerns regarding the writing off of savings that were 'unachievable'. The Corporate Director Resources advised that whilst savings proposals are risk assessed, it was impossible to remove all risk entirely. Where savings cannot be delivered a judgement is made whether to write off the unachieved element. However, these decisions are not taken lightly. The Corporate Director advised that a further breakdown of the red / amber risks is contained in the 2017/18 budget report and that a contingency remained in place for unachieved savings.
- Members noted the increase in FTE posts, which followed reductions in FTE posts of many years. The recent net increase, mainly in Social Services, was in response to demands on the service addressing demand pressures and the requirements of the Social Services and Wellbeing Act
- Members asked whether savings proposals were subjected to robust external challenge. Officers advised that the savings proposals for 2017/18 had been subjected to challenge over a longer period.
- Officers confirmed that key performance indicators will be used to track the impact of the additional posts in Social Services.
- Officers confirmed that all savings proposals have been considered in respect of an initial Equalities Impact Assessment (EQA).

RESOLVED – That the financial information in respect of the 2016/17 monitoring position, the outcome of the budget 2017/18 and the medium term position be noted.

## 85 : ACCOUNTING POLICIES UPDATE

The Committee received a report providing Members with the draft accounting policies upon which the Statement of Accounts 2016/17 will be based. The key changes arising from the 2016/17 CIPFA Code of Practice were set out in the report,

along with information highlighting CIPFA Code of Practice updates beyond 2016/17 that are likely to have an impact on the accounts. Details of the key changes proposed in the Welsh Government consultation on Accounts and Audit Regulations was also included in the report.

Officers presented the report and provided a summary of the key changes.

Members sought clarification on the full impact of the proposal to change IFRS 9 Financial Instruments from 2018/19, and in particular the effect this would have in terms of the valuation of Cardiff Bus. Officers agreed to assess the proposal and its likely impact and report back to a future meeting of the Committee.

RESOLVED – That the draft accounting policies and assumptions and the update in respect of changes to future years' accounts be noted.

#### Governance and Risk Management

#### 86 : AUDIT COMMITTEE DRAFT ANNUAL REPORT 2016-17

The Committee received the draft Audit Committee Annual Report for 2016/17 which was prepared following a review of the agenda and minutes during the municipal year. Members were advised that the Annual Report reflected upon and includes the results of the Audit Committee Self Assessment completed in September 2016.

Members were asked to consider the draft Annual Report to ensure that it adequately captured their views and was an accurate reflection of the Committee's performance in the municipal year.

RESOLVED – That the Audit Committee Annual Report 2016/17 be approved.

#### 87 : DRAFT ANNUAL GOVERNANCE STATEMENT

The Audit Committee is required to review the Annual Governance Statement (AGS) prior to approval and to consider whether it reflects the risk environment and supporting assurances. The Audit Committee is also required to consider the Council's corporate governance arrangements against the good governance framework.

The Council had utilised this framework to identify evidence against the core and supporting principles set out in the report. The AGS summarises how the Council makes an assessment against the governance framework through three key elements:

- Statements from Senior Management, the Audit Manager and the Audit Committee
- Supporting information and evidence
- A Senior Management review of the Council's significant governance issues

In November 2016, the Audit Committee received a summary of the mid-year Senior Management Assurance Statement (SMAS) responses. The Committee commented that a significant number of responses reflected a disclosure of 'fully in place' across

many areas. It was agreed that officers would review the process and provide a clearer picture of the extent to which good governance was in place.

Members were advised that the SMAS pro-forma was subsequently reviewed and a more challenging and evidence-based process was agreed with SMT for the year-end position. Audit Committee will receive the analysis of the SMAS responses in June 2017.

An AGS Action Plan is owned and maintained by the Senior Management Team. The Action Plan represents the most significant governance issues. The Action Plan is reviewed on a biannual basis by the Chief Executive and Senior Management Team. The Audit Committee received the mid-year Action Plan in January 2017.

A Member commented that accountability for outcomes needed to be strengthened, possibly by linking to Job Descriptions and PPDR objectives. Furthermore, there was a need for greater understanding of what accountability means in terms of the consequences for failures and successes. Officers stated that the approach followed cascaded assurance and there was clear accountability built in, as evidenced by the SMAS.

Officers agreed to circulate further information to the Committee with regard to how the refreshed SMAS process works.

Following a request from a Member of the Committee, Officers agreed to give further consideration to how best to ensure that any external assurances received and detailed within the AGS are also more explicit in nature.

RESOLVED – That the report be noted.

## 88 : RISK MANAGEMENT INTERIM UPDATE

The Committee received a report providing an update on the progress made to improve risk maturity during 2016/17 and to provide a Quarter 3 Corporate Risk Register (CRR) update.

The Quarter 3 CRR was reviewed by the Senior Management Team (SMT) in January 2017. The Corporate Risk Map, CRR and CRR summary were appended to the report. Members were advised that since the last update received by the Committee on 29 November 2016 a corporate risk has been in development on Cyber Security. The risk was discussed at the Risk Management Steering Group and SMT in January 2017 and is being assessed and drafted for inclusion on the CRR at the year-end position.

Members were asked to note that at Q3 the Waste Management risk was reduced from 'Red' to 'Red/Amber' in recognition of the progress made in managing the risk to date. All other risk ratings remain unchanged.

The Chairperson invited comments on the report. A Member questioned whether the risk description 'Failure to reduce the cost of delivering Social Services' should be revised. Officers accepted the point and agreed to amend the risk description to reflect what has been achieved to address the risk.

Members suggested that the risk 'ICT Platforms Unsuitable/Outdated' be amended to include an understanding of the timescales over which the CRR seeks to address the risk. Officers advised that this risk is cyclical. ICT systems have a limited shelf-life and, therefore, this risk is ongoing.

A Member expressed an interest in a greater understanding of the relationship between directorate risk registers and the CRR and encouraged more challenge to directorates. The Committee was advised that the CRR represents the sum parts of risks identified and was the collective view of SMT. For example, 11 risks make up the Cyber Security risk.

RESOLVED – That the report be noted.

Wales Audit Office

89 : WALES AUDIT OFFICE ACTIVITY UPDATE

The Chairperson welcomed Matthew Coe and Steve Barry of the Wales Audit Office (WAO) to the meeting.

Matthew Coe addressed the Committee and provided an update on completed and planned WAO activity. Members were invited to comment on the WAO update.

Matthew Coe advised that WAO will provide comments on the AGS and provide a further update on activity at the June meeting of the Committee.

Steve Barry provided an overview of the WAO Local Government studies – studies conducted on an all-Wales basis and not related to individual local authorities. No matters relating to Cardiff were reported.

The Committee welcomed the document as it aided Members' appreciation of the Wales Audit Office functions.

RESOLVED – That the report be noted.

90 : FEE BENCHMARKING DATA UPDATE

With reference to an action point from the previous meeting of the Committee, Matthew Coe stated that benchmarking data, in terms of fees benchmarked against the fees of other core cities, was still publicly available in a presentation provided by WAO to the Committee in March 2016.

Members were asked to note that the WAO fees were likely to be reduced further this year, and that the reduction in performance audit fees was significant. It was suggested that consideration of WAO fees be deferred until the next meeting, when the actual fee was known.

The Head of Finance agreed to recirculate the presentation containing the core cities benchmarking data and request comments from Members.

RESOLVED – That:

- (1) Consideration of the WAO fees for 2017/18 be deferred until the meeting of the Committee to be held on 20 June 2017;
- (2) The Head of Finance circulate the core cities benchmarking data to Members of the Committee.

#### Treasury Management

#### 91 : 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 28 February 2017. Allan Evans and Annette Simons summarised the report.

Members were advised that there had been little change since the Committee's consideration of the performance report on 27 January 2017, other than a slight reduction in borrowing.

RESOLVED – That the report be noted.

#### 92 : TREASURY MANAGEMENT PRACTICES

*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 Audit Committee is responsible for undertaking scrutiny of accounting, audit and commercial issues in relation to the Council's Treasury Management Strategy and Practices. The Committee received a report setting out the proposed Treasury Management Practices to apply from April 2017.

Members were advised that the proposed TMPs are based on the requirements of the CIPFA Code and they also consider content suggested by the Council's Treasury Management advisors. An internal review of the TMPs was undertaken in February 2017. No significant concerns were raised.

The Chairperson invited comments on the report.

RESOLVED – That the report be noted.

## Internal Audit

### 93 : INTERNAL AUDIT PROGRESS UPDATE

The Head of Finance presented the Internal Audit Progress Update report which provided Members with an update on the work of Internal Audit up to 24 February 2017. The report outlined the productivity performance of the section and the position in relation to the status of audits and the assurance opinions that have been completed.

Members were advised that the report identified 644 recommendations in 88 reports issued. The Head of Finance confirmed that 100% of the red risk recommendations have been accepted. The Audit Plan 2017/18 will focus on ensuring that the implementation of audit recommendations are captured and will be a priority for the Council.

Members were asked to note that Annex 1 to the report sets out the revision to the assurance ratings that will be implemented. The purpose of the new ratings is to provide clarity and consistency to both auditors and clients.

The Head of Finance summarised the key issues set out in the report. In response to a question, the Head of Finance advised that further detail, in terms of any fundamental audits and including a summary of findings at the various stages of audits which are in progress, would be reported to the Committee at its meeting on 20 June 2017.

RESOLVED – That the report be noted.

### 94 : INTERNAL AUDIT PLAN 2017-18

At its meeting on 24 January 2017 the Committee received the Draft Internal Audit Plan 2017/18. Members were asked to consider and comment on the draft Plan. Members were advised that the Plan has been developed further and was presented for approval. During discussions with Senior Management, a risk based methodology was used to shape the audit plan which clearly sets out internal audit activities for 2017/18.

Following a request from the Committee, the Head of Finance agreed that in the future new member induction training will include a briefing on Internal Audit's risk based methodology; induction training to include independent members of Audit Committee.

Members commented on both the allocation of days for Value for Money studies and Social Services in respect of governance and decision making. The Committee was advised that the Audit Plan will be periodically reviewed during the year and any changes reported at future meetings as part of the Audit Progress Update report.

RESOLVED – That the Internal Audit Plan 2017/18 be approved.

### 95 : AUDIT COMMITTEE TERMS OF REFERENCE

RESOLVED – That the revised Audit Committee Terms of Reference be approved.

96 : INTERNAL AUDIT CHARTER 2017-18

RESOLVED – That the Internal Audit Charter 2017/18 be approved.

97 : SCRUTINY CORRESPONDENCE

At its meeting of 24 January 2017 the Committee received a report outlining the work being performed by the five Scrutiny Committees through a review of correspondence from the Scrutiny Chairs. Members were reminded that the purpose of the report was to consider and determine whether any items contained within the correspondence merited further consideration by the Audit Committee.

At the January meeting, Members expressed concerns regarding the risk of duplication. The Audit Committee resolved that the Deputy Chairperson, in consultation with the Corporate Director and Head of Finance, agreed a refreshed format for the presentation of Scrutiny Committee correspondence.

Members were advised that reviewing scrutiny minutes and correspondence was good practice and already undertaken by the Internal Audit function in order to inform future planning assumptions and the allocation of resources. The Internal Audit Progress Update is a standing item on the Audit Committee agenda. It was therefore proposed that Audit Committee request the Head of Finance to ensure that the audit progress report includes any relevant items arising from Scrutiny Committees. Any correspondence between the Chair of the Audit Committee and Scrutiny Chairs will still be presented as a standing item.

RESOLVED – That the Committee approves:

- (1) That the Internal Audit Progress Update captures the work done in reviewing scrutiny correspondence, and that it be reported as a standing item going forward;
- (2) Any correspondence between the Chair of the Audit Committee and Scrutiny Chairs will still be presented as a standing item

98 : OUTSTANDING ACTIONS - STAFF TERMS AND CONDITIONS  
COMPARISONS

Officers advised that the comparison of staff terms and conditions within Welsh Local Authorities had been circulated to Members as a confidential document. The Deputy Chair requested that if any Member wished to comment on these matters then they should contact the Corporate Director or Head of Finance direct.

99 : WORK PROGRAMME UPDATE

RESOLVED – That the Work Programme Update be noted.

100 : URGENT BUSINESS

No urgent business was received.



101 : DATE OF NEXT MEETING

The next meeting of the Committee will be held on 20 June 2017, subject to agreement at Annual Council on 25 May 2017.

The meeting terminated at Time Not Specified

***This document is available in Welsh / Mae'r ddogfen hon ar gael yn Gymraeg***