

AUDIT COMMITTEE

18 SEPTEMBER 2017

Present: County Councillor Ian Arundale(Chairperson)
County Councillors Bale, Cowan, Cunnah, Howells, Lay,
McGarry, Dianne Rees and Singh

22 : APOLOGIES FOR ABSENCE

Apologies were received from Gavin McArthur.

23 : DECLARATIONS OF INTEREST

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

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| Councillor Bale | Item 5.2 | Leader of the Council 2014-17 |
| Councillor Cowan | Item 4.1 | School Governor |
| Councillor Cunnah | Item 4.1 | School Governor |
| Councillor Howells | Item 4.1 and 10.1 | School Governor |
| Councillor Lay | Item 5.2 | Director Cardiff Bus |
| Councillor McGarry | Item 4.1 | School Governor |
| Councillor Rees | Item 4.1 | School Governor |
| Councillor Singh | Item 4.1 | School Governor |

24 : MINUTES

The minutes of the meeting held on 20 June 2017 were approved by the Committee as a correct record and were signed by the Chairperson.

Operational Matters

25 : DIRECTOR OF EDUCATION AND LIFELONG LEARNING - ANNUAL REPORT ON SCHOOL GOVERNANCE AND POSITION OF AUDIT REPORTS IN SCHOOLS

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

| | |
|---------------------------|------------------------|
| <i>Councillor Cowan</i> | <i>School Governor</i> |
| <i>Councillor Cunnah</i> | <i>School Governor</i> |
| <i>Councillor Howells</i> | <i>School Governor</i> |
| <i>Councillor McGarry</i> | <i>School Governor</i> |
| <i>Councillor Rees</i> | <i>School Governor</i> |
| <i>Councillor Singh</i> | <i>School Governor</i> |

At its meeting held on 20 June 2017 the Committee requested that it receives a report on school governance and updated figures and opinions related to the corporate risk in respect of schools balances on an annual basis. The Committee received the first such report.

Members were advised that there are 127 schools in Cardiff and the annual net delegated budget is £235.992 million. School Governing Bodies are delegated the responsibility for effective governance of these funds and are held accountable for their proper use. Welsh Government regulations oblige local authorities to publish a scheme for financing schools and those Regulations also list matters which are required to be included, including financial reporting requirements, audit, banking and procurement. Schools receive regular advice and guidance on financial issues through the Council's Local Financial Management Team and the Internal Audit Team.

Each local authority is also obliged to have a School Budget Forum, which is key to developing informed and confident dialogue between the LA and its schools on budgetary issues including school funding levels, financial pressures, changes to local funding formulae and the review of contracts/service level agreements between an LA and schools.

The report provided the Committee with a summary of the following issues:

- School audits
- School Control Risk Self-Assessment Tool
- School Balances
- Director's Opinion
- School Balances

The Director of Education addressed the Committee. Members were advised that the exam results in 2017 were positive and encouraging. A continuation of sustained improvement overall was achieved but there was still further work to do.

Members were asked to note that there was a growth in carry forward budgets overall from £2.5 million at 31 March 2016 to £4.2 million at 31 March 2017. Whilst some schools remain in deficit there has been a notable reduction in the number of schools in deficit. The School Control Risk Self-Assessment Tool was highlighted which has been in operation for two years. Members were advised that colleagues from Education and Audit continue to develop dialogue and regular meetings are leading to benefits in terms of targeting resources.

The Chairperson opened the debate on this item.

- A Member commented that, under previous arrangements, in the most serious cases, Head Teachers were asked to attend Audit Committee. The Director stated that finance and the management of budgets were important issues for school governing bodies and the burden of responsibility is on governors. Colleagues in the Audit Team have a set of governance issues that are provided to challenge advisors who, in turn, raise awareness of good school governance.
- In terms of limited assurance issues, the Director stated that he received each detailed Audit report and issues are escalated and followed up where necessary. Members considered that it would be useful to receive a breakdown of the number of schools where there has been an intervention. The Head of Finance agreed to provide a breakdown in next year's report.

- Members noted that 12 schools held balances in excess of £100,000 and asked what could be done to claw back those funds. The Director stated that the Welsh Government protocols on school balances do not take the size of the school into account. School Budget Forum reports show surplus balances as a percentage of the overall budget. It was important to note that surplus funds are often set aside for planned expenditure in future years. Where there are surpluses, Chairs of Governing Bodies are written to and they are asked to explain to provide a plan on how the funds will be spent. No funds have been clawed back yet, but the authority has the power to do so.
- Officers confirmed that legislation requires the authority to establish a School Budget Forum. The Forum is not a decision making body and the composition of the Forum is set out by the Regulations. Cardiff's School Budget Forum is compliant with the regulations. As a consultative body, those members attending provide important feedback to Head Teachers. The list of members and papers are made available on the Council's Intranet website and the Forum is pushing for greater transparency, as it was important that staff understand that they have a voice and their concerns are fed in.

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

Finance

26 : FINANCIAL UPDATE

The Committee received a report on the latest position in relation to budget monitoring in the current financial year and providing an update on the preparatory work for the 2018/19 budget and the medium term. The Committee also received the Cabinet Month 4 Budget Monitoring Report.

The Corporate Director Resources advised that, in terms of revenue, an overspend of £883,000 was projected which reflected financial pressures and shortfalls against budget savings together with a projected overspend in relation to capital financing costs. Directorate budgets are currently projected to be overspent by £5.4 million, however it is anticipated that management actions will enable this to be reduced by the year end. Full details of the projected outturn position for 2017/18 were provided in the Cabinet report.

Responding to questions from the Committee, the Director stated that the 2018/19 budget strategy was assuming a 1% pay-rise for staff. Members asked whether the £4 million resilience mechanism was established as a principle in shaping the budget. The Corporate Director advised that the mechanism has been in place for 2 years.

Members questioned why it has not been possible to predict the size of overspends within Social Services. The Corporate Director stated that there were a number of reasons for the overspends in recent years, including balancing the needs of adult service users and a spike in the numbers of children requiring support.

RESOLVED – that the Committee notes the latest position in respect of the Council's budget monitoring for the current year and the working being undertaken in respect of the budget preparation for 2018/19 and the medium term.

27 : FINAL STATEMENT OF ACCOUNTS 2016-17 (INCLUDING AGS)

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

Councillor Lay Director of Cardiff Bus

The Committee received a report providing an update following the audit of the draft accounts by Wales Audit Office, prior to submission to Council. The Corporate Director Resources stated that the accounts were positively received and there were no misstatements. Members were asked to note paragraph 8 of the report highlighting a number of qualitative findings.

Anne-Marie Harkin of Wales Audit Office (WAO) addressed the Committee. Members were advised that WAO are planning to issue an unqualified report including no corrected misstatements and no other significant issues of concern.

Members sought clarification on the threshold for misstatements and whether WAO were confident in the process for correcting misstatements. Anne-Marie Harkin stated that WAO are required to report trivial misstatements that are not corrected and there are proper processes in place.

A Member indicated that some authorities have included a social matrix within their Statement of Accounts and asked whether Cardiff has an opportunity to capture efforts made to address those issues within the document. The Corporate Director stated that the matter is still on the agenda for future consideration. However, officers have continued to concentrate on 'de-cluttering' the document.

A Member asked officers to comment on the valuation of Cardiff Bus reducing by £3 million on last year. Officers advised that the valuation of Cardiff Bus fluctuates and quarterly reports are produced. Cardiff Bus have their own governance and auditing arrangements. The Member stated that the valuation of Cardiff Bus, and in particular a reduction in its value, will impact on the authority. The Member requested that these comments be noted.

RESOLVED – That the Draft Statement of Accounts for 2016/17 be noted.

Governance and Risk Management

28 : CORPORATE RISK REGISTER - QUARTER 1 UPDATE

The Committee received an update on the risk management position following the Risk Management Review – Quarter 1 2017/18. Each Director has worked with their Risk Champions in undertaking the Quarter 1 review. The Risk Management Team and Senior Management also provided advice and guidance on the measurement and reporting of risks.

The report provided Members of the Committee with a summary of Quarter 1 position for Directorate Risks and Corporate Risks. Members were advised that 369 directorate risks were reported on Directorate Risk Registers (DRR) and 13 newly escalated risks were discussed in Senior Management Team (SMT). A review of the previously escalated risks determined that 4 risks no longer required reporting to them.

SMT agreed that each escalated risk will continue to be managed at directorate level. There were 25 Corporate Risks in place prior to the Quarter 1 Risk Management Review. The review resulted in a stable position with no changes made to the risk ratings and no risk additions or removals made to the CRR.

A Member noted that there were 8 risks where residual risk is the same as inherent risk and this could be translated as nothing can be done to reduced risk. Following a brief discussion, it was agreed that a follow up meeting be arranged between the Officer and Member. It was agreed to report findings back to a future meeting of the Committee.

Officers were asked to identify whether or not the review of Health & Safety in respect of buildings has been completed and requested that it be reported to a future meeting of the Audit Committee for information.

RESOLVED – That the Committee notes the report.

29 : PROGRESS REPORT ON THE IMPLEMENTATION OF THE STATEMENT OF ACTIONS

In March 2016, the Cabinet agreed a Statement of Action in response to the Wales Audit Office's 2016 Corporate Assessment Follow On Report. The Committee received a progress report detailing the work undertaken in response to WAO's findings to date. Members were advised that the Statement of Action has now been completed and any outstanding work has been incorporated into the Council's business as usual activity. This approach has been agreed by WAO.

The Statement of Action and the Progress Report were appended to the report at Appendix A and Appendix B respectively. The Chairperson welcomed Joe Reay, Head of Performance and Partnerships and Sarah-Jane Byrne of the Wales Audit Office, to the meeting. Sarah-Jane Byrne stated that the authority was going in the right direction and that the Statement of Action was positively received.

The Head of Finance indicated that whilst all substantive issues have been addressed, a number of minor issues remain and that the Authority would continue to monitor the Statement of Actions through standard mechanisms.

RESOLVED – That the Council's progress against the Statement of Actions be noted.

30 : WALES AUDIT OFFICE

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

Councillor Bale Leader of the Council 2014-17

Wales Audit Office reporting was considered under Item 5.2 on the agenda.

31 : CHARGING FOR SERVICES AND GENERATING INCOME BY LOCAL AUTHORITIES

The Committee received a report on the Wales Audit Office national study of Charging for Services and Generating Income by Local Authorities.

Members were advised that the Auditor General had undertaken national studies across a range of functions and activities of local government. A report entitled 'Charging for Services and Generating Income by Local Authorities' was published in November 2016. The study examined several aspects of discretionary charging for services, such as:

- How Local Authorities use their powers to introduce and increase charges on services
- How performance on generating income has changed in recent years
- The process of consulting with users on price changes
- Impact assessments of charging decisions on users

All 22 Welsh Local Authorities took part in an online survey and six authorities participated in a more thorough review of their approach to charging for services.

WAO's comments, recommendations, and Cardiff response to the findings were set out in the report.

Referring to the 4-year summary of comparative income generation data included as Appendix B to the report, Members considered that it would have been more useful to receive the total actual amount of income generated as well as the figure expressed as a percentage of expenditure. Members requested that in future years the report include the total figure of income generated. Officers agreed to provide this information.

Officers confirmed that the reduction in income in Waste Service was the result of price falls in the value of recyclable materials.

A Member questioned whether the authority was becoming over-reliant on income generation, particularly in terms of income penalty charge notices from parking, as the use of penalty notices aimed to change behaviour and encourage a shift to sustainable transport. The Member considered that it was right to look at income generation but the impact of charges/fees on the most vulnerable needed to be managed.

The Committee considered the authority's use and cost effectiveness of bailiffs. Officers acknowledged that they were aware of the risk of using companies that would exhibit undesirable practices. It was confirmed that bailiffs used by the authority are monitored and undesirable practices were not tolerated. It was stated that whilst there was a requirement to collect Council Tax, there was a need to be proportionate and robust in collecting those debts. Debtors were encouraged to put payment plans in place to avoid the use of bailiffs.

RESOLVED – That the work of the Auditor General in respect of the reports be noted.

Treasury Management

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

The Committee received a report setting out the Treasury Management performance and a position statement at 31 August 2017.

RESOLVED – That the report be noted.

33 : ANNUAL 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 the Treasury Management Annual Report 2016/17.

RESOLVED – That the report be noted.

Internal Audit

34 : EXCLUSION OF THE PUBLIC

RESOLVED – That the public be excluded during discussion of the following item of business on the grounds that if members of the public were present during the discussions, due to the nature of the business to be discussed there would be disclosure to them of exempt information as defined in the Local Government Act 1972.

35 : REPORT OF THE HEAD OF FINANCE - INTERNAL AUDIT TEAM

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

Councillor Howells

School Governor

The Committee considered the Internal Audit Progress report which provided an update on the work of Internal Audit as at August 2017 for the current financial year. Members were asked to note the contents of the report and the proposed changes to the 2017/18 audit plan.

Responding to a question from a Member, the Head of Finance advised Members that the audit recommendations set out in Appendix C will form part of the regular audit progress update reports.

RESOLVED – That the report and the changes to the audit plan 2017/18 be noted.

36 : REPORT OF THE HEAD OF FINANCE - INVESTIGATION TEAM

The Committee received a report on providing an update on the work of the Internal Audit Section's Investigation Team as at August 2017. Members noted the contents of the progress report at Annex 1. Members also received a presentation on the work of the Investigations Team.

Members of the Committee asked officers to explain why there has been a reduction in the number of investigations and referrals. Officers stated that the Investigations Team investigated anomalies, with the resources available with cases prioritised to secure the best potential outcomes. Members asked how many cases resulted in criminal prosecutions and were advised that the majority of cases were erroneous and not fraudulent.

A Member asked what Cardiff is doing in terms of communicating with and educating the public with regard to matters relating to fraud. Members were advised that communications have been used to raise awareness.

RESOLVED – That the report be noted.

37 : SCRUTINY CORRESPONDENCE - SAFEGUARDING ARRANGEMENTS

RESOLVED – That Head of Finance contact colleagues in Scrutiny Services in respect of outstanding correspondence from the Chairperson of Children and Young People Scrutiny Committee.

38 : OUTSTANDING ACTIONS

RESOLVED – That the outstanding actions be noted.

39 : WORK PROGRAMME UPDATE

RESOLVED – That the work programme update be noted.

40 : URGENT BUSINESS

No urgent items were reported.

41 : DATE OF NEXT MEETING

The next meeting of the Committee is scheduled to take place on 28 November 2017.

The meeting terminated at 4.30 pm

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