

## AUDIT COMMITTEE

27 MARCH 2018

Present: Independent Members: Ian Arundale (Chair)  
Gavin McArthur, David Price and David Hugh Thomas

Councillors Bale, Cowan, Lay, McGarry, Dianne Rees and Singh

### 78 : APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Cunnah and Howells.

### 79 : DECLARATIONS OF INTEREST

D. Hugh Thomas and Councillor Bale declared an interest in Agenda Item 7.2 as members of the Cardiff and Vale Pension Scheme.

### 80 : MINUTES

The minutes of the meeting held on 11 January 2018 were approved by the Committee as a correct record, subject to the following amendments:

Minute 70, pages 13 and 14:

Third paragraph: delete the final sentence: 'several sampling mechanisms...tenants' and replace with 'WAO advised that they will try to supplement the telephone survey with some focus groups'

Fourth paragraph: delete and amend to: 'WAO advised that they are undertaking a high level digital risk diagnostic to help identify potential digital risks and whether any further related audit work would be needed. A Member asked if this was directly related to GDPR but WAO advised that it was not, but may cover this at a high level.'

Final paragraph: amend from third sentence as follows: 'As part of 2018-19, members were advised that WAO were seeking to follow up on previous Local Government Studies relating to leisure, environmental health and corporate safeguarding. WAO will be consulting councils on the topics for future Local Government Studies.' Please delete rest of the paragraph.

### 81 : 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 transacted there would be disclosure to them of exempt information as defined in the Local Government Act 1972.

### 82 : URGENT BUSINESS

The Committee received an update in relation to an on-going fraud investigation.

## Operational Matters

### 83 : ECONOMIC DEVELOPMENT DIRECTORATE: UPDATE ON INTERNAL CONTROL ENVIRONMENT

The Chairperson welcomed Neil Hanratty, Director; Ken Poole, Head of Economic Development and Tara King, Assistant Director; to the meeting. The officers were invited to deliver a brief presentation.

The presentation was a summary of the Director's approach to governance and internal control within the Directorate. The update also sought to provide assurance on the implementation of the recommendations made by Internal Audit.

The Committee was advised that the Directorate has developed a clear structure and process for managing and monitoring the strategic and operational risks that are related to its responsibilities and commitments. Further detail on the management and mitigation of the Directorate's risks on the Corporate Risk Register were set out in the report. The current Corporate Risks are Asset Management; Waste Management; Non-completion of Statutory Building Equipment Maintenance; and Fire Safety Arrangements in Council Owned Buildings.

The Directorate Management Team is actively engaged in a review of the Directorate Senior Management Assurance Statement. Overall, there is a strong application of governance and controls across the directorate with an improved position in terms of risk identification and management following the development of service risk registers for all teams across the directorate.

In terms of fraud prevention and detection, the Directorate was said to work proactively with Internal Audit to agree a schedule of audits throughout the year or as required. Records of investigations are retained in order to evidence the implementation of the Fraud, Bribery and Corruptions Policy and the Disciplinary Policy.

The Chairperson invited Members of the Committee to comment, seek clarification or raise questions on the information received. Those discussions are summarised as follows:

- Members asked how the directorate could demonstrate how VFM is being achieved. Officers stated that in all aspects of Economic Development and Commercial Services VFM is a priority. The Directorate is income driven and VFM is central and crucial in terms of contract development and retention of customers. Officers stated that in terms of the property portfolio, external advisors test whether VFM is being achieved; other services compete with the private sector and these services are competitively priced. The directorate is retaining existing and gaining new customers.
- Members referred to page 20 of the report and the assurance rating for the Capital Cardiff Fund of 'Insufficient with major improvement needed'. Officers were invited to comment upon this rating. The Head of Economic Development stated that all recommendations arising from the audit report were accepted and action implemented. Members were advised that the fund have been repositioned by moving towards securing equity in new businesses and away from providing loans to start-up businesses. The anticipated outcome being that

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

the release of equity will generate capital gains. Officers confirmed that colleagues in Internal Audit are monitoring the application of the action plan and regular meetings are held.

- Members asked whether officers were aware of any evidence of significant breaches of Health and Safety or Fire Safety regulations. Officers indicated that cladding and fire safety measures in all Council assets within the non-domestic estate were reviewed. At this stage in the information gathering, there were no major non-compliance issues reported. Officers are currently unaware of any breaches, but in the event any are detected then those resultant breaches would be reported to the Health and Safety Board.
- The Director stated that the main finding of the review was that there was a need to develop a full picture of the Directorate's statutory responsibilities and efforts have been made to address that need. The RAMIS system has been implemented. The RAMIS system records and stores statutory compliance certification across a broad range of areas including fire safety and electrical safety. A programme of safety audits is being undertaken on every building within the estate and new tenancy agreements have been introduced between the authority and its tenants, including schools, in order to improve clarity in terms of who is responsible for what. The Directorate was now in a much improved position but there was still some way to go. The RAMIS system requires every safety certificate to be deposited and there are certificates still required in approximately 30% of the buildings.
- Members asked what lessons have been learnt when the city has played host to large events in terms of directorates working together to ensure that the impact on residents is minimised. The Director advised Members that a new governance process has been introduced which includes the establishment of a board of major stakeholders. Following concerns expressed by Members of the business community in terms of the impact of large events on trade, the stakeholder group now also includes a Member from the Business Improvement District Board. Formal governance and command structures are in place and debrief meetings are held following each event.
- Officers were asked to comment on the possible failure to meeting landfill waste targets. Officers advised that there were two targets – landfill diversion and recycling performance. The directorate is exceeding its landfill diversion target, whilst recycling performance continues to be challenging. International markets for recycled materials are declining and this had presented a risk in terms of moving recycled materials on. Kerbside collections and HWRCs should present opportunities to improve performance. The new Waste Management Strategy will address key areas.

RESOLVED – That the report be noted.

#### 84 : PUBLIC SECTOR INTERNAL AUDIT STANDARDS

The Public Sector Internal Audit Standards (PSIAS) require that an external assessment be conducted at least once every five years by a qualified independent assessor or assessment team from outside the organisation. The Chief Audit

Executive of RCT. has carried out Cardiff's assessment. The Committee received a report providing Members with an update on the assessment of the audit team.

The Chairperson welcomed Marc Crumbie from Rhondda Cynon Taf Council.

Mr Crumbie provided an overview of the assessment process and the outcomes.

Members were asked to note the Action Plan appended to the report. Several actions were already implemented, some of which were contained in subsequent reports at this meeting. The Quality Audit Improvement Plan will be reported at the June meeting of the Committee.

A Member asked why the review had not been undertaken by an officer from the Core Cities Group. The Head of Finance stated that the Welsh Auditors Group had mutually agreed this round of reviews two years ago. Review by colleagues in the Core Cities Group remains an option, however, with a view to cost and locality, the review was undertaken within Wales. Members received assurance that best practice is shared within the core cities group.

A Member asked whether the formation of the Internal Audit Plan could be more clearly related to risk and whether there was any scope to use the Corporate Risk Register (CRR) as a driver. Mark Crumbie confirmed that the CRR is used as a source of information and the Audit Plan could be more detailed in terms of advising the Committee.

The Committee requested that they continue to be consulted in advance of the next PSIAS assessment.

RESOLVED – that the contents of the report be noted.

Finance

85 : FINANCE UPDATE (INCLUDING FINANCIAL RESILIENCE ISSUES)

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

The report included a summary of the Month 9 monitoring position. Members were advised that the Cabinet considered the Month 9 monitoring report on 15 February 2018. The report indicated a balanced position in line with the position reported at Month 6. However, the overall position has changed due to an increase of the overspend on directorate budgets as a result of further pressures within Children's Services, an increase in the projection for capital financing costs and a reduced surplus on Council Tax collection. These were offset by a further increase in NDR refunds on Council properties and by an increase in the projected saving on insurance budgets in the current year.

Members were advised that the overall position continued to reflect a range of demographic, service and other financial pressures including shortfalls against budget savings targets and overspends in relation to capital finance costs, details of which were set out in the report.

The report also included a summary of the 2018/19 budget and the Medium Term Financial Plan (MFTP). The Corporate Director Resources stated that the 2018/19 Budget and MFTP commitments were aligned with the priorities set out in the Corporate Plan. Members were asked to note the potential for a budget gap of £91.4 million over a three-year period, and the 'worse case' analysis indicating a potential budget gap of £117.4 million. The budget report set out a range of measures and budget savings based on themes to address the potential base budget gap.

Members asked whether the controls for staff headcounts were robust. The officers stated that budgets are the responsibility of individual directors. The corporate recruitment system – Digigov – is linked to the establishment and decisions on new posts/vacant posts need to be approved by accountants prior to approval by senior manager within the directorate.

A Member asked what modelling has been undertaken to assess the effect of a recession on income streams. Officers advised that modelling on income/demand has been undertaken but it takes in a range of factors such as market conditions, competitors, changing customer preferences, income etc. The Committee will receive a report on income generation at the September meeting.

RESOLVED – That the financial information provided in respect of the 2017/18 monitoring position and the outcome of the budget for 2018/19 and the medium term be noted.

#### 86 : DRAFT STATEMENT OF ACCOUNTS/AGS & REPORT ANY CHANGES IN ACCOUNTING POLICY

The Council is required to prepare accounts using a Code of Practice developed by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Committee received a report on the draft Accounting Policies 2017/18 and changes to the 2017/18 Code of Practice.

Officers reported no significant changes to the Code for 2017/18. The main change in 2018/19 related to the incorporation of – International Financial Reporting Standard 9 – Financial Instruments. This was developed in response to the global financial crisis and it is designed to cover the sophisticated financial instruments often used in financial markets. It was not expected to have significant implications for the Council.

RESOLVED – That:

- (1) The Committee notes the draft accounting policies and assumptions to be used in preparing the statement of accounts for 2017/18 and beyond;
- (2) The Committee notes the changes to governance requirements for the current and future year's accounts.

Governance and Risk Management

#### 87 : DRAFT ANNUAL GOVERNANCE STATEMENT 2017/18

The Audit Committee is required to review the Annual Governance Statement (AGS) prior to its approval and to consider whether it properly reflects the risk environment

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

and supporting assurances. The Committee is also required to consider the Council's corporate governance arrangements against the good governance framework.

The AGS will form part of the Council's Statement of Accounts 2017/18. The draft AGS appended to the report at Appendix A was prepared prior to year-end and it currently contains a number of gaps as many of the review activities take place after the financial year.

The AGS summarises the Council's assessment against the governance framework through three elements:

- Statements from the Audit Manager, Audit Committee and Senior Management
- A Senior Management review of the Council's significant governance issues
- Supporting information and evidence mapped to the core and supporting good governance principals of the CIPFA framework

The Audit Committee's opinion from its Annual Report will be included in the AGS together with statements from the Audit Manager and Senior Management on the system of internal control at the year-end position. These will be approved and added to the AGS following the financial year-end.

An AGS action plan of significant governance issues is owned and maintained by the Senior Management Team (SMT). The Chief Executive and all Directors review the action plan biannually and meet to discuss and agree progress made, any changes and actions required. The Audit Committee received the mid-year Action Plan from SMT in January 2018 and the year-end action plan will be reported to the Committee in June 2018.

The draft AGS has also been populated with supporting information against each of the core and supporting good governance principles of the CIPFA Governance Framework.

Members noted that Cabinet approved the Capital Ambition Delivery Programme to replace the Council's Organisational Development Programme (ODP). The establishment of the Capital Ambition Delivery Programme followed an independent review of the ODP in May 2017, which concluded that the ODP had effectively served its purpose and should allow the Council to respond and adapt to the changing operational environment. Members asked whether there would be any benefit to inviting those responsible for the Capital Ambition delivery programme to appear before the Committee. Officers agreed to circulate the findings of the review prior to the June meeting of the Committee, when the Chief Executive would attend.

RESOLVED – That the draft Annual Governance Statement be noted.

88 : CORPORATE RISK REGISTER QTR 3 UPDATE (TO INCLUDE CORPORATE RISK MAP)

The Committee received a report providing an update on the Council's risk management position at Quarter 3 2017/18. Members were advised that at Quarter 3 there were 349 risks reported from Directorate Risk Registers. All escalated risks

and requests for de-escalation were approved by SMT on 13 March 2018. A total of 14 risks would be carried forward as SMT escalated risks at Quarter 3.

SMT reviewed each escalated risk. Following the review, the residual ratings of the following Corporate Risks were adjusted:

- Air Quality
- Climate Change and Energy Security

New risks on 'Coastal Erosion' and 'Delivering the Capital Ambition Programme' were added to the Corporate Risk Register.

The Committee discussed whether the Coastal Erosion risk was subject to any assessment and whether there were any contingency plans or emergency plans represented in the Corporate Risk Register. It was confirmed that the coastal erosion risk was based upon an environmental analysis and that the Business Continuity risk focuses on contingency and emergency planning. Members raised concerns that Coastal Erosion controls appear to be not in place and embedded within the CRR. It was anticipated that an explicit statement in terms of control of Coastal Erosion would be provided within the CRR.

Officers were asked to comment on the evolution of a number of Special Purpose Vehicles (SPVs) within the City region and in particular the governance arrangements for 'off balance sheet' transactions. The Head of Finance referred Members to the Cardiff Central Bus Station Report being considered by Cabinet on the 28 March 2018. Monmouthshire Council leads on the Semi-Conductor project and a report was submitted to the Capital Region Cabinet recently.

RESOLVED – That the report be noted.

Wales Audit Office  
89 : ANNUAL AUDIT PLAN 2018

The Chairperson invited Phil Pugh of Wales Audit Office (WAO) to present the WAO audit Plan 2018. The Committee received a summary of the Audit Plan and a breakdown of the fees structure for 2018.

Members asked whether the fees were tied to the distribution of audit days. If this was the case, Members suggested that it would be useful to see how the fees are related to members of the team. Phil Pugh confirmed that fees do relate to the number of audit days and agreed to provide further information relating to the calculation of fees to the Committee.

RESOLVED – That the report be noted.

90 : CARDIFF AND VALE PENSION FUND ANNUAL PLAN

*D. Hugh Thomas and Councillor Bale declared an interest in this item as members of the Cardiff and Vale Pension Scheme.*

The Committee was advised that the Cardiff and Vale Pension Fund Annual Audit Plan was risk based. Details of the risk-based approach utilised were set out in the report.

RESOLVED – That the report be noted.

Treasury Management  
91 : PERFORMANCE REPORT

The Committee received a report providing treasury performance information and a position statement on Treasury Management as at 28 February 2018.

Members were advised that Internal Audit had undertaken a review of the Treasury Management function in February 2018 and the level of assurance provided was 'Effective, with opportunity for improvement'. The recommendations are to consider any requirements under the updated CIPFA treasury management code in 2018/19 and consider additional approval processes for CHAPS/Faster Payments required to be made by Treasury Management staff. These will be developed in 2018/19 as part of the management response to the recommendations.

Responding to a question from the Committee, officers confirmed that borrowing is made at fixed interest rates and there are penalties for early repayment. All interest repayments are covered in the base budget.

RESOLVED – That the report be noted.

92 : TREASURY MANAGEMENT PRACTICES

RESOLVED – That the report be noted.

Internal Audit  
93 : INTERNAL AUDIT TEAM

The Head of Finance presented a report providing an update on the work of the Internal Audit Team for the year, as at 28 February 2018. The Internal Audit Progress report was attached at Appendix A. The progress report provided detail of the performance of the audit team with reference to the Audit Plan, outlining the challenges facing the audit team, remedial actions taking place and the information provided to the Audit Committee in order to provide assurance that internal controls are being covered.

Members were asked to note that 69% of audits in the Audit Plan have been completed and a further 11% would be completed by the end of the financial year.

Appendix C to the report detailed the audit recommendations issued during the year and the process in implementing those recommendations to date. 58% of recommendations agreed have been implemented.

A Member referred to Page 265, Annex A and noted that the opinion of an audit of GLL was 'Insufficient with major improvement needed'. The Head of Finance reported that the GLL audit report has been issued and officers are working with



colleagues within the directorate on the recommendations. The recommendations will be reported to the June meeting of the Committee.

RESOLVED – That the Committee notes the contents of the report and the proposed change to the audit plan for 2017/18 to address the shortfall in the number of audit days.

#### 94 : INVESTIGATION TEAM

The Head of Finance presented a report providing an update on the work of the Audit Section's Investigation Team for the year, as at 14 March 2018.

Members were advised that number of investigations completed during the year exceeded the total for the same period last year. Adhoc investigations are primarily related to employees and related to ongoing disciplinary matters and potential suspected fraud. The value of concluded investigations exceeded £190,000.

Members noted the progress report included at Appendix A. A Member commented that there is often a common theme when fraud emerges that there is an 'epidemic' or activity. Officers were asked whether there was any potential for further investigations. The Committee was advised that any future investigations would be reported in due course.

Officers indicated that no Internal Audit resources were used to supplement investigations and therefore the Audit Plan would not be compromised.

A Member asked whether any action had been taken to reinforce the Whistleblowing Policy as the actions of members of staff can make a big impact on the reputation of organisations. Officers stated that the Whistleblowing Policy has been included on the core brief in order to provide assurance and encourage staff to bring concerns forward.

RESOLVED – That the report be noted.

#### 95 : FINAL INTERNAL AUDIT CHARTER 2018-19 AND FINAL AUDIT PLAN 2018-19

RESOLVED – That the Committee approves:

- (1) The Internal Audit Charter 2018-19 and terms of reference;
- (2) The Final Audit Plan 2018-19.

#### 96 : FRAUD BRIBERY AND CORRUPTION POLICY 2017

The Committee received and Members were asked to consider the revised Fraud, Bribery and Corruption Policy 2017.

RESOLVED – That:

- (1) The policy update be approved;

(2) The Section 151 Officer be granted delegated authority to approve minor amendments to the Policy.

97 : SCRUTINY CORRESPONDENCE

No Scrutiny Correspondence was received.

98 : WORK PROGRAMME UPDATE

The Audit Committee Work Programme was noted.

99 : DATE OF NEXT MEETING

The next meeting of the Committee is scheduled to take place on 26 June 2018, subject to approval at the Annual Meeting of the Council on 24 May 2018.

The meeting terminated at 3.45pm

.....  
Chairperson