

## AUDIT COMMITTEE

10 SEPTEMBER 2019

Present: D. Hugh Thomas (Chairperson)  
Councillors Cunnah, Goddard, Howells, Lister, McKerlich and Williams

### 24 : APOLOGIES FOR ABSENCE

Apologies were received from Ian Arundale.

The Chairperson welcomed Councillors Lister and McKerlich to their first Audit Committee meeting, and noted an appreciation of the services of Councillor Bale, who had recently stood down as a Committee Member.

### 25 : DECLARATIONS OF INTEREST

The following declarations of interest were received:

Cllr Cunnah	Item 4	School Governor at Ysgol Pwll Coch
Cllr Lister	Item 4	School Governor at Grangetown Primary
Cllr Howells	Item 4	School Governor at Adamsdown Primary and Stacey Primary Schools
Cllr McKerlich	Item 4	Chair of Governors Radyr Primary School
Cllr Williams	Item 4	School Governor at The Hollies School and Oakfield School Member of School Budget Forum

### 26 : MINUTES

The minutes of the meeting held on 25 June 2019 were approved by the Committee as a correct record and were signed by the Chairperson.

### Operational Matters

### 27 : DIRECTOR OF EDUCATION AND LIFELONG LEARNING, NICK BATCHELAR - ANNUAL REPORT ON SCHOOL GOVERNANCE, BALANCES AND DEFICITS

The Committee welcomed Nick Batchelor, Director of Education, and Neil Hardee Head of Services to Schools to present an update in respect of school governance, deficits and balances.

Members were advised that within the directorate the Education Management Team (EMT) meets on a weekly basis and provides the forum for co-ordinating the directorate approach to assurance. EMT receives and discusses every school audit report and an analysis of the work that is undertaken through the Schools Causing Concern process. Reference was also given to the approach applied each half term, for officers from across the authority to meet with colleagues from the Central South Consortium to identify and discuss individual school related issues and form a view

as to whether individual schools require additional support or intervention. The interventions in St Peter's RC Primary School were referenced, following the receipt of adverse Estyn Inspection and Audit reports.

Members were advised that the net annual budget for schools in Cardiff was £241.344m in 2019/20. A large proportion of the net annual budget is delegated to the 127 schools in the City and the School Budget Forum plays a key role in the developing informed dialogue between the local authority and its schools on budget matters. The report included an analysis of the individual school balances as at 31 March 2019, together with the school balances for the previous five years. The overall level of balances held by schools has been reduced from £7.319m at 31 March 2018 to £5.658m at 31 March 2019.

The Director of Education advised that there were 44 schools with balances in excess of the Welsh Government's recommended threshold, for which the respective Chair of Governors would be asked to provide justification and a description of the planned use for the balance in 2019/20. Members were also advised that there were 12 schools carrying forward a deficit balance into 2019/20, for which each school has a medium term financial plan in place showing how it will reduce its deficit, and a monitoring officer to support the governing body.

The Director advised Members that too many schools are being assessed as less than satisfactory through internal audit reports, and the powers of intervention will be applied when warranted for schools with poor financial management and poor governance. Members were also advised that guidance for Governing Body clerks would be strengthened to support compliance in areas of governance.

The Chairperson invited comments and questions from the Committee. Those discussions are summarised as follows:

- The Committee asked the Director to comment on the audit reports for which there were opinions of 'major improvement needed'. The Director stated that common areas requiring improvement involve matters of compliance, such as governors completing mandatory training, and policies and procedures being effective and appropriately reviewed and updated. Consideration is being given to strengthening the role of the Clerk to the Governing Body to support improvements.
- A Member noted that the remuneration of the Clerk to the Governing Body is relatively low, and asked that given the additional significance being placed on the role, if there were plans to ensure that suitably skilled people are recruited. The Member was advised that the role of clerk is fundamental to manage the recurrent themes of required governance improvement, and that Governing Bodies have discretion in remuneration for Clerks. The Committee was reminded that the Clerk's role is to support the Chair of Governors and Headteacher who have primary responsibility for governance issues.
- A Member commented that where a Clerk to the Governing Body is also a school employee, there might be a conflict of interest. The Director accepted that there may be a risk if there are not degrees of separation in schools.

- A Member asked whether there was a link between non-compliance in terms of mandatory training and attendance at governing body meetings. The Director stated that there clearly was a link, and that mandatory training and attendance will continue to be monitored through the relevant Governing Body.
- Members asked whether the option to reclaim or spend surplus balances has been applied, and were advised that the option has not been actioned to date. There have been 18 schools identified that have held surplus balances over the permitted threshold for 3 years. These schools have been instructed to use those balances of which 4 schools reduced their balance to below the threshold. The authority will meet with Chairs and Head Teachers in the remaining schools to discuss the planned use of these balances.
- A Member stated that the delegated budget system is based on sound financial management, good quality budget information and the quality of Headteachers and the Chair of the Governing Body. The Member asked at what point would a 'whole system review' be necessary. The Director stated that the thematic issues identified through audit, identified issues of governance and compliance, and not the effectiveness of the delegated system. Members were advised that the issues identified are not unique to Cardiff or Cardiff Schools. In some smaller primary schools there have been concerns relating to their capability to manage finances, and achieving the right range of skills for those on governing bodies, but this does not merit the move to a different system.
- Members asked what assurance could be given that budgets provided are achieving Value for Money (VFM). The Director stated that money is used to provide quality education, for which Cardiff performs well and continues to strengthen. VFM is improving but need to improve further, which is imperative as budgets are reducing.
- The Director was asked to provide an explicit timetable for resolving the issue of schools holding a surplus balance for 3 years. The Director stated that the 14 schools, which are still above the threshold, would be invited in to discuss the matter before the October half term break. The Director and Section 151 Officer will then consider further action.

**RESOLVED –That the Audit Committee notes the contents of the report.**

#### **Finance**

#### **28 : VERBAL FINANCIAL UPDATE INCLUDING RESILIENCE ISSUES**

The Corporate Director Resources provided a verbal financial update of the financial position and reminded Members that following the next item on the agenda, the final Statement of Accounts would be presented to Council for approval on 12 September 2019.

Members were advised that the Budget Monitoring report for Month 4 was due to be presented to Cabinet, upon which the Director will provide feedback to Audit Committee as appropriate. Members were also advised that Cabinet would be receiving a report on the budget setting process.

## 29 : FINAL STATEMENT OF ACCOUNTS FOR 2018-19

The Chairperson invited the Head of Finance, Operational Manager - Capital, Corporate & Treasury and further finance colleagues to present the final Statement of Accounts (SOA) 2018/19, following audit by the Wales Audit Office. The report followed Audit Committee consideration of the draft Statement of Accounts and the Annual Governance Statement (AGS) in its meeting of 25 June 2019, and a consultation period to allow Members to submit questions and comments.

Members were advised that all SOA misstatements had been corrected, and that the Wales Audit Office intended to issue an unqualified audit report, subject to approval by full Council on 12 September 2019. Members were also advised that the Council would review the timings of its arrangements for the audit and approval of its accounts in the future, due to the earlier statutory deadlines for submission.

The Chairperson invited comments from the Committee. Those discussions are summarised below:

- A Member asked officers to confirm that the Wales Audit Office are being advised of ongoing developments in relation to the HMRC investigation in Waste Management. The Head of Finance provided confirmation, and Ann-Marie Harkin stated that WAO were content with the presentation of the accounts, based on the information received.
- A Member proposed a revision to a sentence in the AGS and Audit Committee Annual Report. Members considered that the Committee had received information at the meeting that merited a change to their statement for the financial year 2018/19, and agreed the following adjusted sentence.

*'This year, whilst we have received assurances given through school governance themed audit work, we remain concerned certain schools have not achieved a satisfactory level of stewardship and internal control.'*

RESOLVED – That

- (1) The school governance and compliance sections in both the Audit Committee Annual Report and the Annual Governance Statement be amended to include the revision outlined above;
- (2) The Statement of Accounts and Annual Governance Statement be noted.

## Governance and Risk Management

### 30 : CORPORATE RISK MANAGEMENT (QUARTER 1)

The Chairperson invited the Head of Finance, OM - Budget Strategy & Financial Planning and the lead officer to present the Corporate Risk Management report for Quarter 1 2019/20. Members were asked to note that 10 Directorate Risks would be carried forward as SMT escalated risks and were referred to the changes to the corporate risk register as summarised within the report.

Members noted that in relation to the Coastal Erosion Risk – Inherent and Residual Risk scores were the same. Members asked whether any consideration has been given to mitigation of this risk or whether short-term mitigations have been considered. The Audit Manager reminded the Committee that following a focussed review on this risk in January 2019, arrangements are being made for the Director of Planning, Transport and Environment to attend a further Committee meeting to provide an update on the mitigations in place and those being progressed.

Members asked what arrangements were in place to manage the impact of Brexit in terms of a central control room / bunker. The Head of Finance referred to the Emergency Management Silver Command/Gold Command arrangements in place through which the Brexit response would be co-ordinated.

Members discussed their ongoing assurance requirements for Brexit, and the Corporate Director Resources advised that as Corporate Director with responsibility for business continuity he can provide assurance that the Council is well-placed in terms of its planning and it is doing all it can to protect services and service users. It was recognised that ongoing attention is required in respect of this particular risk given its proximity.

RESOLVED – That:

- (1) The report be noted;
- (2) The Chair to consider the Audit Committee work programme with regards to receiving ongoing assurance in respect of Brexit.

Wales Audit Office

31 : WAO ACTIVITY/REPORT PROGRESS UPDATE

Ann Marie asked the Committee to confirm they were content WAO Audit of Financial Statements reports which were appended to item 5.2 on the agenda. The Committee accepted the contents of the WAO reports unanimously.

Sara Jane Byrne provided the WAO progress update.

Treasury Management

32 : PERFORMANCE REPORT

The Operational Manager – Capital Corporate and Treasury, presented a report on performance information and a position statement as at 31 July 2019.

Members were provided with an account of performance in respect of borrowing and investments. The Operational Manager also reported that uncertainty around Brexit has created some opportunities in terms of lower rates for borrowing.

Committee was also advised that they would receive information on the outcome of an independent review of the Council's Treasury Management activities against regulations and professional codes, as well as benchmarking activities.

A Member sought assurance that the current levels of borrowing were sustainable. The Operational Manager stated that this would depend on what the borrowing is for - long term service investment, investment in new assets for example new Council housing to address housing need, borrowing for a return such income or savings from an invest to save schemes. Indicators are clearly set out in the budget including local ratios. Comparative information to be presented at a future meeting against other Core UK Cities may help the Committee form a view.

The Corporate Director asked Members to consider that in terms of comparison, not all local authorities own their own housing stock. That presents a different pattern in terms of borrowing. For example, the investment programme of the next 5 years there is a total investment programme of over £840 million, but £300 million of that will be Housing Revenue Account and therefore there will be differences between authorities. We can consider this in terms of levels of borrowing or in terms of levels of investment.

Members asked at what point the Council is prohibited from investing with a lender if its rating were to reduce to a level outside of policy. The Operational Manager advised that the lending list is set at the start of the year, with ratings monitored daily, and all new investments based on current rating levels.

**RESOLVED** - That the public be excluded as the information to be discussed is confidential as it contains exempt information of the description contained in paragraph 14 of Part 4 and paragraph 21 of Part 5 Schedule 12A of the Local Government Act 1972. The public may be excluded from a meeting by resolution of the Committee pursuant to Section 100A (4) of the Local Government Act 1972 during discussion of this item.

The Committee discussed matters set out in the confidential appendices to the report.

**RESOLVED** – That the Treasury Management performance report be noted.

### 33 : ANNUAL REPORT

The Operational Manager – Capital Corporate and Treasury, presented the Treasury Management Annual Report 2018/19, prior to its submission to Council. The report was prepared in accordance with the Council's Treasury Management Policy. Members were advised that the Committee had already appraised the main contents of the Annual Report in previous Treasury Management and performance reports.

Members sought clarification on the calculations and historical data used to evaluate the probability of default in relation to investments, in particular the use of historic data. The Operational Manager advised that authority's treasury advisors look at the historic risk of default in various financial institutions, the probability of which is low. Those same ratios are applied to the holdings the authority has. A Member asked for confirmation that the data used was derived from other sources, and was advised that the treasury advisors devise the process and methodology.

A Member noted the range of threshold and limits throughout the report and asked whether these had been subject to external audit. The Operational Manager advised

that the limits and indicators were not subject to external audit but he was aware that colleagues in Internal Audit consider these.

A Member asked for the affordable limit of capital financing costs in terms of its proportion of the controllable budget, and was advised that the authority does not have an upper limit. In setting the Medium Term Financial Plan (MTFP) an assessment of what is available for capital financing is undertaken having regard to emerging pressures on the revenue budget. The Corporate Director Resources indicated that the indicator detailed in the report was designed to track changes over time. Members asked whether benchmarking data was available, and were advised that the availability of comparative information will be considered.

RESOLVED – That:

- (1) The report be noted;
- (2) The OM Treasury to review the availability of benchmarking on Capital Financing Costs as a percentage of budget, and to highlight any risks of comparison in a future report.

Internal Audit

#### 34 : AUDIT TEAM PROGRESS UPDATE

The Audit Manager presented the Internal Audit progress report. The report was prepared to provide the Committee with an update on the work of Internal Audit as at 16 August 2019 for the current financial year. Members were asked to consider and note the contents of the report and to approve assurance audits of the Trolley Services and Value for Money in Digital Initiatives for the Audit Plan 2019/20.

Members asked for clarification of the rationale for using unallocated audit days to audit the system for collecting abandoned shopping trolleys. The Audit Manager advised that the system has not been audited previously and is an area where assurance has been requested from the service area. The Audit Manager agreed to circulate income associated with the Trolleys service for Committee information.

Members asked whether a risk assessment of the service would be undertaken and whether the 15 days allocated for the audit would be required. The Audit Manager advised that 15 days have been allocated, so there is capacity to deliver the audit in full. The actual time will be determined through an assessment of the systems in place and risk as part of the preliminary assessment, at which stage the full 15 days may not be required.

Members asked for details of the timescale for resolution of the issues within the Music Service, for actions to be implemented and for the service to be functioning adequately. The Audit Manager confirmed that management were committing to implementing actions within the calendar year. A follow-up audit would be carried out within six months.

RESOLVED - That the public be excluded as the information to be discussed is confidential as it contains exempt information of the description contained in paragraph 14 of Part 4 and paragraph 21 of Part 5 Schedule 12A of the Local

Government Act 1972. The public may be excluded from a meeting by resolution of the Committee pursuant to Section 100A (4) of the Local Government Act 1972 during discussion of this item.

Members requested that the Chair write to Directors for whom there have been material delays in implementing 'red' and 'red/amber' recommendations, to request an account for the reasons for this, and a commitment and timeframe for delivery.

Members also requested that the Audit Committee work programme to be adjusted to invite the Corporate Director, People and Communities to an earlier than planned meeting in respect of the directorate control environment.

RESOLVED – That:

- (1) The report be noted;
- (2) The Committee approves assurance audits for the Trolley Service and Value for Money in Digital Initiatives for the Audit Plan 2019/20.
- (3) Audit Manager to circulate income information associated with the Trolleys service.
- (4) The Audit Committee Chair to write to Directors for whom there have been material delays in implementing 'red' and 'red/amber' recommendations, to request an account for the reasons for this, and a commitment and timeframe for delivery.
- (5) The Audit Committee work programme to be adjusted to invite the Corporate Director, People and Communities to an earlier than planned meeting in respect of the directorate control environment.

### 35 : INVESTIGATION TEAM PROGRESS UPDATE

The Audit Manager presented the Investigation Team Progress Report. The report included an update on the investigation within the Waste Management Service, mandatory fraud awareness training for officers, the recruitment of a new investigator, and the number of current investigations and the value of concluded reactive investigations.

A Member asked how much potential was there for fraud and which areas were being targeted. The Audit Manager advised that the Counter-Fraud and Corruption Strategy was presented at the previous meeting of the Committee, which sets out the high risk areas and relative fraud volumes and values, based on national trends in UK local Authorities. Members were advised that the primary proactive work underway is the mandatory fraud awareness training across the Council, being reinforced by face-to-face training for front line officers, and through participation in International Fraud Awareness week in November 2019.

The Audit Manager was asked to comment on what success in this area would look like; and stated that success would be achieving and sustaining a counter-fraud risk aware organisation.

Sara-Jane Byrne advised that WAO would be looking at Counter Fraud arrangements across all Welsh Local Authorities later in the year following the publication of a report on this issue.

RESOLVED – That the report be noted.

36 : SCRUTINY CORRESPONDENCE

No correspondence with Scrutiny Chairs was presented.

37 : OUTSTANDING ACTIONS

The outstanding actions were noted.

38 : WORK PROGRAMME UPDATE

The Committee Work Programme was noted.

39 : URGENT ITEMS (IF ANY)

No urgent items were presented.

40 : DATE OF NEXT MEETING

The next meeting will take place on 12 November 2019.

The meeting terminated at 4.30 pm