

## AUDIT COMMITTEE

12 NOVEMBER 2019

Present: D. Hugh Thomas (Chairperson)  
Gavin McArthur and David Price  
Councillors Cunnah, Howells, Lister, McKerlich and Singh

### 42 : APOLOGIES FOR ABSENCE

Apologies for absence were received from Ian Arundale and Councillor Joel Williams.

### 43 : DECLARATIONS OF INTEREST

No declarations of interest were received.

### 44 : MINUTES

The minutes of the meeting held on 10 September 2019 were approved as a correct record, subject to the following amendments:

The addition of David Price and Gavin McArthur to the list of those present.

Page 5, first bullet point.

A member asked whether there was a link between **unsatisfactory internal audit outcomes and completion 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.

Page 8, third paragraph

Members asked **whether the council would be immediately** prohibited from investing with a lender if its rating were to reduce to a level outside of policy. The Operational Manager **confirmed that this would be the case and** 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.

Chairperson's Business

### 45 : IAN ARUNDALE - LEAVE OF ABSENCE REQUEST

The Committee received a report from the Head of Democratic Services requesting that Members consider a request from Ian Arundale, Chairperson, for a leave of absence of up to one year.

Members were advised that on 26 October 2019 the Chairperson formally requested a leave of absence, the reasons for which were set out in the report. The Council determines the size and membership of the Audit Committee and therefore has the authority to approve a leave of absence request. Audit Committee were requested to consider the request and determine whether to make a recommendation for approval at Council on 28 November 2019.

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RESOLVED – That:

- (1) Audit Committee noted the Chairperson's request for a leave of absence for up to 1 year;
- (2) Audit Committee recommended that Council approve the Chairperson's request.

46 : AUDIT COMMITTEE CHAIRS' NETWORK (VERBAL UPDATE)

The Chairperson provided a verbal update from the Audit Committee Chairs' Network event held on 11 October 2019. The Chairperson reported that the event was well attended. Representatives of WAO and CIPFA delivered agenda items on good governance and risk management respectively. Attendees also participated in a workshop involving peer-to-peer engagement on audit committee influence. Members were advised that the event was sponsored by WLGA and the intention is that networking events would be held up to twice a year.

The Chairperson referred in particular to the forthcoming Local Government and Elections (Wales) Bill which was referred to in the event, and a need for the Audit Committee to be fully briefed prior to any changes to its role. The Audit Manager advised that further information and briefings will be provided, and that the Wales Audit Office will be invited to attend the next Chairs' Network in July 2020 to give us more information, including the potential timescales, and what it may mean in practice. Audit Committee will be updated, as appropriate.

Operational Matters

47 : SARAH MCGILL - UPDATE ON INTERNAL CONTROL ENVIRONMENT

The Chairperson welcomed Sarah McGill, Corporate Director, to the meeting who provided a report on the control environment within Housing and Communities, Performance and Partnerships and Street Scene Service Areas. Members were advised that since June 2019, the Street Scene service has been allocated to the Corporate Director of People and Communities on an interim basis in order to support the delivery of the Council's Capital Ambition agenda. The Corporate Director provided an outline of the directorate position in respect of risk management arrangements, senior management assurance statements, and the response to internal audit recommendations.

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

- Members noted that the Corporate Director had recently taken on responsibility for Street Scene at a time when there were a number of ongoing high-profile issues. Members asked whether there was an appropriate level of management within the service area to address those issues. The Corporate Director stated they had taken on responsibility for the service area on an interim basis. There was a need to align the service with other services in the Council as the service area had been isolated in the past and the issues referred to cannot be solved in an isolated manner. There was however, a clear approach to understanding the service, including the need to ensure the right management structure is in place. A new Operational Manager has been

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appointed and will commence work in December.

- In terms of commercial waste, a Member noted that the Council collects 30% of the commercial waste in the City, yet it is the only provider, which recycles what it collects. A Member expressed disappointment that, whilst residents are encouraged to recycle, the same standards are not applied to businesses. The Member considered that those businesses that do not recycle, do not count towards recycling targets and therefore there could be a perverse incentive not to recycle, and asked how this might be addressed. The Corporate Director advised that there was no legal requirements for businesses to recycle. Therefore, those businesses who do wish to recycle value the service delivered by the Council. Welsh Government is considering requiring businesses to recycle. If the law were changed, the Council would be in an excellent position with the infrastructure already in place to accommodate requirements.
- A Member asked whether the service was any closer to addressing areas of poor recycling performance, suggesting that commingled collections are known to cause problems, being separated in 8 or 9 separate processes. Members suggested that the service needed to be more imaginative, such as asking charities to take newspaper from the waste stream. The Corporate Director stated that the 're-use' argument is anticipated to come to the fore and that tonnages being collected were reducing as packaging is reduced. It was key that in order to understand the opportunities presented and make the service sustainable; there was a need to understand the finer detail around these issues.

RESOLVED – That the Audit Committee noted the contents of the report.

#### 48 : EXCLUSION OF THE PUBLIC

RESOLVED : That the public be excluded from the meeting in respect of the following item in accordance with Section 100A (4) of the Local Government Act 1972 (as amended) as the item contains exempt information of the description contained in paragraphs 14 and 21 of Part(s) 4 and 5 of Schedule 12A Local Authority Government Act 1972 (as amended).

#### 49 : JANE THOMAS - RISK BASED VERIFICATION POLICY - HOUSING AND COUNCIL TAX BENEFIT ASSESSMENT

The Chairperson invited Jane Thomas, Assistant Director, Housing and Communities to deliver a presentation on a proposed Risk-Based Verification approach to verifying claims for Housing Benefit and Council Tax Reduction. The current approach was considered both inconvenient for the customer and costly to administer. The report summarised the risk based verification process and its advantages.

The Department of Work and Pensions provided guidance to local authorities wishing to adopt the risk based verification model, which included a requirement for a Risk Based Verification Policy. The guidance states that the policy must allow Members, officers and external auditors to be clear about the levels of verification necessary. The policy must also be reviewed annually (but not changed in year). Audit Committee was satisfied that the Policy met the Department of Work and Pensions guidelines. Whilst the Committee received assurance that protected characteristics

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are not used for RBV purposes, the Assistant Director agreed they would amend Policy to include a requirement to monitor the impact of implementation, on those with protected characteristics.

RESOLVED – That:

- (1) The content of the report be noted;
- (2) The RBV Policy be amended to include a requirement to monitor the impact of implementation, on those with protected characteristics

Finance

#### 50 : FINANCIAL UPDATE INCLUDING RESILIENCE ISSUES

The Corporate Director Resources provided a verbal finance update. Members were advised Council approved the Statement of Accounts 2018/19 on 12 September 2019.

Members were advised that the Month 4 Monitoring report was reported to Cabinet on 26 September 2019 that projected an overall overspend of £325,000. Members were asked to note that directorates were overspent by approximately £7 million, most notably in Social Services (£4.2 million) and Planning, Transport and Environment (£2.5 million). These directorate overspends were partly offset by projected underspends in other directorates, and by the £3.0 million general contingency budget that was provided as part of the 2019/20 budget. Members were also advised that the Month 4 capital position projected an outturn of £72 million and slippage of £30 million. The Month 6 monitoring report will be reported shortly and will include mitigations.

Members were advised that the provisional settlement for 2020/21 is anticipated on 16 December 2019, with the final settlement expected in February. The Medium Term Financial Plan has identified a £25 million funding gap for 2020/21. Members were advised of the WAO review of financial resilience across all authorities.

The Corporate Director invited comments from the Committee.

- A Member asked whether the delay in the receipt of the final settlement figure from Welsh Government would impact on decision-making. The Committee was advised that there is a statutory requirement to set Council Tax by 11 March 2020. It was hoped that there would be little difference between the provisional and final settlement figures, but timescales will be tight and delaying the opportunity to consult until the holiday period is not ideal.

Governance and Risk Management

#### 51 : CORPORATE RISK MANAGEMENT (MID-YEAR)

The Head of Finance and Lead Risk Management Officer provided the Corporate Risk Management report for Quarter 2 2019/20. The report provided an overview of the 224 risks reported from Directorate Risk Registers, and all changes to escalated risks and corporate risks as considered by SMT on 22 October 2019.

A Member asked why there was no mention of the potential impact of school buildings not being fit for purpose in the School Organisational Plan (SOP) risk rating. The Head of Finance advised that the particular risk relates to the failure to deliver the SOP programme, rather than school condition. The programme consists of improving school assets, subject to final business cases, in Band B schools over the next five years. Condition surveys have been completed in all schools in the City. Approximately 10 schools have been identified where improvements are needed. Surveys have been graded in terms of need and they will also inform the asset renewal programme. The backlog figure often quoted does not account for the work of the SOP programme.

A Member asked whether the full list of dilapidations was in the public domain. The Head of Finance stated that the list has been shared with the individual schools concerned and advised that he would feedback comments on school estate dilapidations, and the publication of this information, to the Director of Education.

A Member asked whether there has been a good level of engagement across the directorates. Officers stated that engagement with Risk Champions across all directorates to date has been positive. The Head of Finance considered that good engagement was key to improving engagement and providing sharper insight.

RESOLVED – That:

- (1) The report be noted;
- (2) The Head of Finance to feedback comments on school estate dilapidations, and the publication of this information, to the Director of Education.

Wales Audit Office

52 : KEY MESSAGES - ANNUAL IMPROVEMENT REPORT & WELL-BEING OF FUTURE GENERATIONS EXAMINATION REPORT

The Committee received the Wales Audit Office Annual Improvement Report. Sara-Jane Byrne of Wales Audit Office was invited to present the report.

Members were advised that the draft report was considered and agreed by Senior Management in the Council and were asked to note a summary of the regulatory activity that had taken place since the last report. Members were advised that the Council is meeting its requirements in terms of statutory improvements. However, challenges remain, particularly in relation to the level of savings that will be required going forward.

The Committee also received a WAO report entitled 'Well-Being of Future Generations: An Examination of 'Develop and Launch a New Transport and Clean Air Vision for the City'. Jeff Brown of WAO provided a summary of the report and its findings.

Following discussion, Members considered that for future WAO reports they should receive a management account of the report's findings. There was also a discussion around the tracking of WAO recommendations, for which Committee would welcome relevant updates, which is to be considered for future Committee items.

RESOLVED – That:

- (1) The reports be noted;
- (2) Audit Manager to request that, subject to report and meeting timings, management responses accompany the presentation of WAO assessments in future Committee meetings.

53 : WAO ACTIVITY/REPORT PROGRESS UPDATE

Members received an update on the Performance Audit Programme.

RESOLVED – That the report be noted.

Treasury Management

54 : PERFORMANCE REPORT

The Head of Finance and Operational Manager, Capital, Corporate and Treasury presented a report providing performance information and a position statement on Treasury Management as at 30 September 2019.

Following previous requests from the Committee, the report also provided information to support the effectiveness or otherwise of the Treasury function. The report included additional information in the form of:

- An evaluation undertaken by an External Treasury Management expert on governance and compliance with the codes of practice.
- A summary of the findings of the periodic internal audit review of the Treasury functions which primarily focussed on internal controls
- Treasury Management benchmarking information

Furthermore, Members were asked to note that the PWLB on 9 October 2019 changed their lending policy with immediate effect by increasing the interest rate at which local authorities could borrow. The impact of this change on the Council will be closely monitored.

The Committee congratulated the Operational Manager for the excellent findings in independent external report. Members drew assurance from the findings. Members asked the officer to comment on the two recommendations in the report and asked when the Committee would receive the management response. The Committee was advised that once the report is digested the Committee could receive the Treasury function's action plan. The Head of Finance stated that whilst challenges remain, the possibility of bringing additional resources to the team and strengthening the function was being looked at. An undertaking was provided that the action plan would be brought back to Committee.

The Committee referred to paragraph 2.5 in the external report – Use of Credit Ratings. A Member asked whether the comments in the paragraph were reflected in policy. The Operational Manager advised that the policy does allow for some flexibility.

The officer was also asked to comment on the list of non-compliances in the report. Members were advised that the non-compliances listed are either aspirational or are currently being addressed and would be addressed in the Action Plan.

RESOLVED – That:

- (1) The report be noted;
- (2) The Head of Finance to provide an action plan and management comments in response to the external report on Treasury Management.

#### 55 : HALF YEAR REPORT

The Head of Finance and Operational Manager, Capital, Corporate and Treasury presented the Treasury Management Mid-Year Report 2019-2020. The report detailed the Council's treasury management activities since 1 April 2019 and provided a position statement as at 30 September 2019.

Members referred to the investment charts and noted that the level of exposure to HSBC was higher than the permitted limit. The Operational Manager agreed to clarify the position and report back to the Committee.

RESOLVED – That the report be noted.

Internal Audit

#### 56 : AUDIT TEAM PROGRESS UPDATE

The Audit Manager presented the Internal Audit Progress Report providing Members with an update on the work of Internal Audit as at 31 October 2019. Members were provided with performance and benchmarking information, and asked to note the critical findings set out in paragraphs 11 to 15 of the report. Members were advised that in the reporting period one draft audit report was issued with an 'unsatisfactory' audit opinion, in respect of fly-tipping operations, for which the Committee will receive an Executive Summary at its next meeting. An overview was also provided of the findings of the reports where audit opinions of 'insufficient with major improvement needed' had been allocated.

A Member referred to the table of recommendations made and recommendations agreed in paragraph 3.1 of the report and queried how non-acceptances are scrutinised. The Audit Manager advised that over the reporting period the recommendations in all finalised audits had been accepted. The Audit Manager advised that recommendations not agreed would be highlighted in reports to Committee.

RESOLVED – That the report be noted.

#### 57 : INVESTIGATION TEAM PROGRESS UPDATE

The Audit Manager presented the Audit Investigation Team Progress report, which provided the Committee with an update on the work of the team as at 31 October 2019, including progress in delivering fraud awareness initiatives.

RESOLVED – That the report be noted.

58 : SCRUTINY CORRESPONDENCE

No Scrutiny Correspondence was received.

59 : OUTSTANDING ACTIONS

The outstanding actions were noted. The Audit Manager advised that letter has been circulated regarding outstanding actions.

60 : WORK PROGRAMME UPDATE

The Committee Work Programme was noted.

61 : URGENT ITEMS (IF ANY)

No urgent items were received.

62 : DATE OF NEXT MEETING

The next meeting will take place on 21 January 2019.

The meeting terminated at 4.30 pm

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Chairperson