

## AUDIT COMMITTEE

21 JANUARY 2020

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

### 63 : APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Cunnah.

### 64 : DECLARATIONS OF INTEREST

The following declarations of interest were received:

Councillor Williams	Item 5.1	Owner of a property in Westgate Street which is included in air quality improvement measures
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### 65 : APPOINTMENT OF CHAIRPERSON AND DEPUTY

RESOLVED – That D. Hugh Thomas be appointed as Chairperson and Gavin McArthur be appointed Deputy Chairperson.

### 66 : MINUTES

The minutes of the meeting held on 12 November 2019 were approved by the Committee as a correct record and were signed by the Chairperson.

### Operational Matters

#### 67 : ANDREW GREGORY - UPDATE ON INTERNAL CONTROL ENVIRONMENT (& COASTAL RISK MANAGEMENT)

*Councillor Williams declared an interest in this item under the Members Code of Conduct as the owner of a property in Westgate Street which is included in the air quality improvement measures.*

The Director of Planning, Transport and Environment, accompanied by service area management and an officer from the Resilience Unit, presented a report on the directorate control environment and an updated briefing on coastal risk management.

The Director provided an overview of the main service delivery responsibilities and information on the most significant Corporate Risks overseen by the Directorate, which were Air Quality, Coastal Erosion and Climate Emergency. The report provided a summary of the initiatives and measure in place to mitigate each risk.

Members were provided with a summary of the most recent Senior Management Assurance Statement (SMAS) position from September 2019, in which there was an overall strong application of governance and controls across the directorate. A number of areas of governance were reported as in need of strengthening, with

'limited or mixed' assurance / application. Members were advised that the SMAS review highlighted a number of significant issues, including the need to proactively manage and deliver savings and in terms of the delivery of major programmes.

Members were provided with an overview of Internal Audit engagements completed and their assurance ratings, and information on wider external assessments and certifications.

An overview of coastal risk management was provided with a focus on the potential impact of a flood event, details of engagement with the public in a high-risk area, and the level of incident management arrangements in place.

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

- A Member considered that, in terms of air quality, the focus was on the City Centre and it was possible that air quality problems could be dispersed into other areas. The Director was asked how confident they were that air quality in other areas would not be adversely affected. The Director stated that the Council is legally obliged to address air quality levels in Castle Street. The proposed smart corridors on the main routes will enable traffic flow to be managed. There will also be a range of other mitigations in areas such as Riverside, Grangetown and Riverside.
- The Director was asked whether roads around Castle Street would continue to have air quality monitoring. The Director confirmed that monitoring would continue. Monitoring would also continue in the existing Air Quality Monitoring Areas. Members were advised that options were being explored for more comprehensive air quality monitoring across the whole city.
- Referring to the Clean Air Plan, Members requested details of the governance arrangements in place to monitor progress against the action plan. The Director stated that political controls, directorate controls and external engagement arrangements were in place. Members were advised that there is a Programme Board at Cabinet level and a Programme Leader within the directorate. External engagement with Welsh Government would continue.
- The Director was asked whether the monitoring of particulate matter would be included. The Director advised that there would be a level of monitoring but they would need to seek guidance regarding the degree of this monitoring.
- A Member noted that in terms of the SMAS there was a 'limited' rating against Partnership Assurance. The Director accepted that this was the least successful of the assurance items. The directorate is required to work in partnership with Welsh Government, City Deal, NRW, Transport for Wales and neighbouring authorities. The Director contended that work is progressing but in terms of governance there was more work to do. It was anticipated that the Transport White Paper would form the basis for commonality of agreement.
- The Director was asked for assurance that if the Full Business Case for the Coastal Flood Management project was not approved by Welsh Government,

resources would be identified to ensure that the project is delivered. Members were advised that Welsh Government have agreed to provide 75% of the funding. The project would be delivered in partnership with Welsh Government. Management were confident that Welsh Government would continue to support the application of the scheme.

- Members welcomed the progress made in terms of the complex design process for the scheme. It was noted that approximately 1000 dwellings are exposed and the Director was asked whether the current contingency arrangements had been tested. The Resilience Unit Officer advised that Exercise Megacyma tested vulnerability to coastal flooding on a national level, and national responsibilities in such a flood event were referred to in respect of Welsh Government and COBRA. Members were advised that work was ongoing with Cardiff University to better understand the risks and threats, but that any solutions were likely to be temporary, as in a severe event pockets of South East Wales people may not return, based on flood events seen elsewhere. The coastal defence scheme design had been raised 300mm in response to the climate emergency, and is designed to withstand a 1 in 200 years plus 40% event.

RESOLVED – That:

- (1) the report be noted;
- (2) Director of PTE to provide details on the monitoring of particulate matter as part of the Clean Air Strategy.

68 : CHRISTOPHER LEE - UPDATE ON INTERNAL CONTROL ENVIRONMENT (& HEALTH & SAFETY GOVERNANCE)

The Corporate Director Resources and OM, Health and Safety provided a report on the control environment within the Resources Directorate, including an update on Health and Safety Governance arrangements. The report included an overview of the structure of the directorate and a summary of the range of support services it provides.

In terms of the management and mitigation of Corporate Risks, Members were advised that relevant risks are managed alongside service area delivery plans and are reported on a quarterly basis via the Resources Management Team and appointed Risk Champions through Directorate and Corporate Risk Registers.

The Senior Management Assurance Statement mid-year position for Resources was set out in the report. The report also included a summary of the internal audits completed within the Directorate and Members were asked to note the actions taken where the audit outcome was rated 'Insufficient with Major Improvement Needed'.

The OM, Health and Safety outlined the framework for health and safety governance, and summarised relevant targets and delivery information.

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

- A Member asked whether the Wales Audit Office (WAO) could offer any guidance on the Council's approach to the Wales Future Generation Act. The WAO representative stated that a report on clean air had been issued and another report on leisure would be published shortly. Members were advised that the reports contained some recommendations around what can be done to embed WFG Act principles. A further national report including case studies is due in April. WAO have hosted a number of seminars and it is often asking how Councils can improve in terms of their WFG Act responsibilities. Members were advised that WAO accepts that authorities face big challenges regarding shifting resources to meet those responsibilities. The Corporate Director Resources stated that the Directorate support the WFG Framework across all directorates, and colleagues are required to embed business case methodology in their processes.
- A Member noted the size of the Resources Directorate and its key roles and responsibilities and asked how, in practical terms, the Corporate Director Resources is able to manage his portfolio. The Corporate Director Resources stated that he is able to manage his portfolio due to the strength of the team supporting him. There are excellent people in that team and they are delivering real change and support. Management arrangements are in place and the Corporate Director Resources is reliant on managers escalating issues to him where necessary.
- The Committee discussed the circumstances leading to a toilet block in a primary school not being compliant with Welsh Government Health and Safety standards, with provision of communal toilet roll holders installed outside toilet cubicles. The OM, Health and Safety advised that hygiene procurements were managed and arranged by schools themselves, and that Headteachers have responsibility for day-to-day management of health and safety issues in schools. The standards which govern standards of schools toilets are well known within the education sector and the Headteacher should have been aware. Members were advised that support was offered to the Headteacher, unfortunately this offer was not taken up. A Member asked why, following Health and Safety inspections, these issues were not picked up and addressed sooner. The OM, Health and Safety stated that Health and Safety Officers would not routinely inspect toilet cubicles. However, there is a programme of hygiene inspections being undertaken across the school estate, which will provide feedback to schools and Education on any improvements required.
- A Member considered that statutory maintenance compliance of 75% was encouraging and asked whether officers were confident that the resources needed to deliver further improvement were in place. Members were advised that existing resources were being prioritised to address statutory compliance. The Capital Programme and Schools Asset Management programme would prioritise statutory compliance and related works.
- A Member asked what level of indemnity/liability insurance the Council has, and were advised that some risks are insurable but some risks cannot be insured against. For example, the failure to act in accordance with the law is not insurable. Members asked whether insurance is provided centrally and if

schools have a single point of insurance under the LEA or can school arrange their own. The Committee was advised that Community Schools have corporate cover for buildings, voluntary-aided schools arrange their own cover. Public liability and employer liability is provided corporately to Community Schools, voluntary-aided schools arrange their own cover.

RESOLVED – That the report be noted.

Finance

69 : FINANCIAL UPDATE INCLUDING RESILIENCE ISSUES - VERBAL UPDATE

The Corporate Director Resources provided a verbal update on finance matters.

Members were advised that two key reports were published recently. The Month 6 position report was received by Cabinet on 21 November 2019 and the Draft Budget report was considered by Cabinet on 19 December 2019.

In Month 6, there was an identified overall overspend of £214,000, which represented an improvement on the Month 4 report. Overspends in a number of Directorates were offset by the budgetary contingency and from savings. The Month 9 position report was being prepared and this will provide a further opportunity to inform budget decisions. There was a need to reset some budgets in order to provide resilience.

The Welsh Government revenue settlement figure had been received and was better than anticipated. The MTFP had assumed a cut in Welsh Government funding but the provisional grant figure actually represented an increase. An increase of would allow the Council to rebase its budgets and reduce the level of savings needed across service areas. Members were asked to note that there were still risks associated with the settlement and there was nothing to indicate significant increases beyond the next financial year.

The consultation process on the budget has started and will be completed by 31 January 2020. The draft budget strategy report will be considered by Scrutiny Committees in February prior to its submission to Cabinet on 20 February 2020 and Council on 27 February 2020.

Responding to a question from the Committee, the Corporate Director Resources stated that the authority is still looking to achieve £9.5 million savings, which is a significant undertaking. However, the settlement figure will allow Cabinet to prioritise resources across service areas. There has also been a change in approach to budget savings whereby unless savings are identified as deliverable they would not form part of the final budget proposals.

Members were advised that the MTFP had been modelled based on a Council Tax increase of 4.5%.

Governance and Risk Management

70 : LOCAL GOVERNMENT AND ELECTIONS (WALES) BILL - AUDIT COMMITTEE SUMMARY

The Chairperson welcomed the Head of Cabinet Office, to the meeting. He was invited to deliver a presentation on the Local Government and Election (Wales) Bill following which the Committee were invited to comment.

The Committee requested further details of the new functions set out in the Bill aimed at strengthening internal governance. The Head of Cabinet advised that the Bill is vague in this regarding but there was an expectation that guidance would be forthcoming.

The Chairperson asked whether there was any assurance in the Bill regarding the potential for crossover between the Audit and Scrutiny functions. The Head of Cabinet stated that this was addressed in Cardiff Council's response to the consultation. The WLGA response sets out the need for clear demarcation between Audit and Scrutiny. An offer was made to share the response with the Committee.

A Member asked for elaboration on the 'super majority' needed to change the voting system in each Council. Members were advised that a super majority would require that a two-thirds majority is needed to introduce a change in the voting system used at local elections. The earliest such a change could come into effect would be for the 2027 local elections.

A Member questioned whether there was latitude or provision within the Bill to introduce further legislation i.e. Henry VIII clauses or the power to make powers. The Head of Cabinet stated that the WLGA view was clear – the Bill should set out what authorities are expect to do with limited powers for Ministers. Members asked whether there was provision within the Bill to ensure that guidance is provided. The Head of Cabinet stated that he would need to take a legal view with regard to the extent of that provision. The Committee will be provided with a response to this in writing.

The Committee requested further details of the Audit Committee's role in performance assessments. The Head of Cabinet indicated that there was an increased emphasis on self-assessment and it would be necessary to call upon performance reports and audit recommendations. The Audit Committee's role would be to formally receive those reports. Audit Committee Members may also have a part to play in a Peer Review Panel – which would include a senior politician, a senior director, a 3<sup>rd</sup> sector stakeholder and an Audit Committee member.

Members considered that clarity was needed in terms of the boundary lines between the Audit Committee and the role of the external audit function, for example, where does statutory responsibility reside. The Head of Cabinet stated that this point has been recognised.

A Member asked to what extent the Bill would move Audit Committees in terms of CIPFA guidance. The Audit Manager stated that CIPFA will be invited to the next Audit Chairs' Network meeting in July 2020 and officers will be communicating with CIPFA regarding the timescales for update their guidance. Members were asked to note that CIPFA guidance is not Wales-specific.

RESOLVED – That:

- (1) Audit Committee to be provided with the WLGA response to Welsh Government on the Local Government and Elections (Wales) Bill;
- (2) Audit Committee to receive information on the process and timescale for developing any guidance in relation to the Local Government and Elections (Wales) Bill, if and when they emerge;
- (3) Committee to receive a view from Legal Services on the scope for Ministers to act beyond the stated purpose of the Local Government and Elections (Wales) Act.

#### 71 : AUDIT COMMITTEE ANNUAL REPORT DISCUSSION 2019/20

The Committee received a discussion paper on the preparation of the Audit Committee Annual Report 2019/20. Members commented that they were in agreement with the information captured in respect of their activities and focus points over the year to date.

RESOLVED – That the report be noted.

#### 72 : SENIOR MANAGEMENT ASSURANCE STATEMENT AND AGS ACTION PLAN 2019/20 (MID-YEAR)

The Head of Finance introduced a report on the Senior Management Assurance Statement (SMAS) and Annual Governance Statement (AGS) Action Plan 2019/20 mid-year. Members received a summary of the key points in the report.

The Head of Finance advised that 23 assurance statements were summarised in 9 categories. The overall rate of strong or greater governance was 66%. The mid-year assessments reported the greatest maturity in respect of risk management with a score bordering on strong assessment. All other areas reflected a mixed assessment, with scores for Partnership and Collaboration being markedly lower than the rest. The mid-year assessment also highlighted the lower assurance level in respect of Future Generations.

Members asked for details of the outcome of the review of Future Generations at SMT. The Head of Finance advised that the bar is now set higher in terms of assessment and he was more confident that SMT are identifying exceptions.

Members asked whether it was appropriate to include progress made against WFG Action Plans within the Directorate governance updates.

RESOLVED – That

- (1) The report be noted;
- (2) The Head of Finance provide an aggregated action plan of the Future Generation significant governance issue responses from directorates

Wales Audit Office

#### 73 : WAO ACTIVITY/REPORT PROGRESS UPDATE

Sarah-Jane Byrne presented a progress update on the WAO work programme since the last meeting.

Members were advised that the publication of the 2018/19 audit into leisure services was imminent. The draft report is going through quality assurance.

In terms of the 2019/20 Audit Programme, WAO recently met with the senior management team and key issues had been identified which would set out the programme of works for 2021. Members were advised that key issues appear on the Council's risk register e.g. financial resilience.

#### Treasury Management 74 : PERFORMANCE REPORT

The Operational Manager (OM), Capital, Corporate and Treasury, presented the Treasury Management Performance report. The report was presented in two parts – performance, and the management response to the Compliance, Evidence, Delivery and Review (CEDR) of the Treasury function.

A Member asked whether a 1-year cashflow forecast was the normal expectation. The OM advised that reviews of cashflow were difficult in local government. Best practice would be to undertake a detailed cash flow beyond one year, but there are insufficient resources to allow this to be undertaken and continuously monitored in detail. As part of longer balance sheet planning, estimates are made of key changes that could impact on cash flows.

Members were advised of the CEDR independent examination of the Treasury Team's skills, compliance with best practice, required regulations and professional guidance. The management response was provided against the findings and suggested areas of improvement.

A Member requested comment on the FCA recommendation. The OM stated that the recommendation related primarily to the Car Loan Scheme. The Council is reviewing whether it should be offering the service and will review whether any other areas may be captured. This is in accordance with the Management response to the CEDR review.

The OM confirmed that as soon as the fraud awareness training was released he encouraged all those involved in Treasury activities to undertake this as soon as possible. This training and any future updates will be compulsory for staff in his team.

RESOLVED – That the performance report and CEDR management response be noted.

#### 75 : DRAFT STRATEGY 2020/21

The Committee received the draft Treasury Management Strategy for 2020/21. Members were advised the Treasury Management Strategy is required to be approved as part of the Budget Report to Council on 27 February 2020. Members also received an update on the review of the Minimum Revenue Provision Policy.



Members were advised that the draft strategy includes improvements suggested in recommendations arising from an independent review undertaken and reported to Audit Committee in November 2019.

Members were asked to note that many of the indicators in the draft Treasury Management Strategy are dependent on the final Capital Programme, which would be determined by Council on 27 February 2020. The figures in the draft strategy would be subject to change for the updated capital monitoring position at Month 9, which assumes no additional capital expenditure is approved to be paid for from borrowing as part of the updated capital programme. Members were advised that, were additional expenditure commitments deemed affordable and recommended for approval as part of the budget, the level of such expenditure would be unlikely to result in a material change to the strategy.

In respect of the review of the Minimum Revenue Provision Policy (MRP), Members were advised that the Council has a statutory duty to calculate and set aside an amount from its revenue budget for the repayment of historic capital expenditure each year. Members were advised of the work undertaken to review and test the approach taken to prudent revenue provision, particularly with respect to supported borrowing. The outcome of the review is a revision to the approach to supported borrowing from a reducing balance basis to a 45-year straight-line approach. The 45-year straight-line approach delivers savings and it is proposed that these savings be put into a contingency reserve to support financial resilience. This change to the MRP Policy will be proposed for approval by Council.

The OM confirmed that he has had support in developing and putting together the strategy. This included support from the S151 officer and the Council's external treasury management advisors.

RESOLVED – That

- (1) the Treasury Management Strategy for 2020/21 be noted;
- (2) the changes to the Minimum Revenue Provision Policy Statement for 2019/20 and future years be noted.

Internal Audit

76 : AUDIT TEAM PROGRESS UPDATE 2019/20

The Audit Manager presented a report providing an update on the work of Internal Audit as at 31 December 2019.

Members were provided with an overview of performance in relation to the Internal Audit Plan, the work performed, the priority recommendations raised the critical findings, emerging trends and relevant value for money savings.

Members asked when officers would be revisiting the recommendations of the report in fly tipping. The Audit Manager stated that the target is to follow up unsatisfactory audits six months following their conclusion. This audit would form part of the audit plan for next year.

Discussing the finding of an audit of IT Inventory and Asset Management, a Member asked whether a more substantial audit of IT assets had been considered. The Audit Manager advised that the corporate audit looked at the framework and compliance for IT asset management, and identified significant gaps in inventory records, which are necessary for proper recording, monitoring and verification. Findings have been discussed with the Chief Digital Officer, who will be communicating responsibilities to management. In addition, thematic audits of asset management are underway within directorates, which will provide further audit focus.

RESOLVED – That the report be noted.

#### 77 : INVESTIGATION TEAM PROGRESS UPDATE 2019/20

The Audit Manager presented that Internal Audit Investigation Team Progress report. The report provided an update of the work of the Investigation Team as at 31 December 2019.

RESOLVED – That the report be noted.

#### 78 : DRAFT AUDIT CHARTER AND DRAFT AUDIT PLAN 2020/21

The Committee received a report providing Members with the draft Internal Audit Charter for 2020/21, including the draft Terms of Reference and the Draft Summary Audit Plan for 2020/21. The Audit Manager drew attention to the proposed changes and amendments to the Charter from the current iteration.

A Member asked whether the 15 days allocated to Housing Benefit work in the draft Audit Plan was sufficient in view of the risk-based verification (RBV) changes. The Audit Manager advised that it is anticipated that a separate audit engagement focussing on RBV would be included in the detailed plan in March 2020, for which further audit time would be allocated.

The Committee congratulated the staff member who had achieved their IIA qualification.

RESOLVED – That the report be noted.

#### 79 : SCRUTINY CORRESPONDENCE

No correspondence was received.

#### 80 : OUTSTANDING ACTIONS

Members reviewed the Audit Committee actions, and discussed progress against the coastal risk management recommendation, raised in January 2019.

It was considered that the incident management element of the recommendation had not been addressed in order to close the recommendation at this stage.

Members undertook to revisit and potentially refine the recommendation as part of the Audit Committee workshop feedback agenda item on 24 March 2020.

In the workshop, which took place prior to the Committee meeting, the Committee raised a draft action for it to proactively review the status of recommendations and actions going forward.

RESOLVED - Audit Committee to consider progress against their coastal risk management recommendation, and their follow up / work programme requirements, as part of the self-assessment feedback and action plan agenda item in March 2020.

81 : WORK PROGRAMME UPDATE

Noted

82 : URGENT ITEMS

None

83 : DATE OF NEXT MEETING - 24 MARCH 2020

The meeting terminated at 4.30 pm