

**These minutes are draft and are subject to approval as an
accurate record at the next meeting of
the Audit Committee to be held on 22 June 2015**

AUDIT COMMITTEE

23 MARCH 2015

Present: Sir Jon Shortridge (Chairperson), Professor Maurice Pendlebury, Ian Arundale and Hugh Thomas

County Councillors McGarry, Murphy, Robson, Walker and Weaver

55: APOLOGIES: Apologies were received from Councillor Howells

56: DECLARATIONS OF INTEREST

The Chairperson reminded Members of their responsibility under Part III of the Members' Code of Conduct to declare any interest in general terms and to complete personal interest forms at the start of the meeting and then, prior to the commencement of the discussion of the item in question, specify whether it is a personal or prejudicial interest. If the interest is prejudicial Members would be asked to leave the meeting and if the interest is personal, Members would be invited to stay, speak and vote.

57: MINUTES AND ACTION PLAN

RESOLVED –

- 1) That the minutes of the meeting of the Audit Committee of 19 January 2015 be agreed as a correct record of the meeting and signed by the Chairperson.
- 2) When the Corporate Risk Register is next reported to Audit Committee, the Audit & Risk Manager to include within the report a response to the query relating to Hostile Vehicle Mitigation and the potential risk of extremist behaviour.

58: FINANCE

Budget Update

The Committee was given an update by the Section 151 Officer. The Committee noted that after some amendment and debate the Council's budget had been agreed at the full Council meeting on 26 February 2015. In the budget report the financial implications carried some serious messages that the financial resilience of the Council was a cause of concern looking into the medium term and this would be brought to the attention of decision-makers on a more regular basis. In the medium term there was likely to be a budget gap of £120 million over three years and the Council must look at finding different ways of delivering services. In respect of the current year at a Directorate level it is projected that there may be an overspend of £4.8 million net and enhanced controls had been put in place from January 2015. Overall, however, the Council was now projecting a balanced position which was an improvement on the previous projection which would have required the withdrawal of £725,000 from reserves.

The Chairperson invited questions from the Committee.

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The Committee requested a future discussion on the Budget Strategy encompassing the policies, budget assumptions and tools which underpin the Strategy, and the Section 151 Officer agreed that this would be useful for the committee.

The Committee suggested that the Budget 2015/16 – Quick Q&A document that formed part of the Budget Update report was an ideal summary and would be valuable to all Members and not just those who sit on the Committee.

The Committee noted that the £35 million budget to support capital financing obligations is being retained and asked where the decision to build the Eastern Leisure Centre fits in to this. The Committee was advised that the decision to build was taken in February 2014, although the programme was reviewed as part of the 2015/16 budget preparation. Once a project is included in the capital programme then the funding has to be put in place.

The Committee asked for clarification on the capitalisation direction and was advised that last December the Council applied to the Welsh Government (WG) for funding that it could use during 2015/16 towards the costs of certain types of day to day running costs, including voluntary severance (VS) and organisational change. However this expenditure would need to be funded from new capital receipts. WG has decided to authorise £7.2 million over two years and the Council has received a capitalisation direction of £4.821 million for 2015/16. The Council will consider making further bids for the funding for 2016/17 at the appropriate time.

The Committee noted that the Council will have to make further cuts but can only direct cuts at approximately 40% of its overall budget. The Committee enquired how its members might get a feel for which areas of service provision are likely to be subject to the most intense budget pressure. The Committee was advised that some areas of provision are protected and others, whilst desirable in that they make the city a better place to live, are not. Even with statutory provision such as Children's Services, the Council has to identify where further savings can be made. There is a need to look at what will be the Council's redesigned final state, and at what it will look like in three years time.

The Committee enquired about current performance management arrangements, which will play a part in the redesign of the Council. The Committee was advised that attitude and compliance in relation to performance management is much improved now and that the Wales Audit Office (WAO) should see this improvement when they revisit the Corporate Assessment work.

With regard to statutory services, the Committee asked the Section 151 Officer what she would like to see in terms of savings proposals coming from those service areas and what she would expect in terms of timescales for delivering those savings. The Committee was advised that some good proposals are being made and that it is important to keep driving these through. A major proposal in Children's Services is the Payment by Results (PBR) initiative, which will achieve savings by reducing the use of expensive out-of-county placements for Looked After Children. A provider has been secured and it is thought that over several years PBR will save several million pounds.

Regarding WG protection for schools budgets, the Committee was advised that WG instructed that schools budgets should be increased by 0.6% but Cardiff actually approved an increase of £2.5 million more than that due to the financial pressures that were evidenced. A further £3

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million increase was made due to the increase in pupil numbers resulting from demographic pressures. About half of the secondary schools in Cardiff are running deficit budgets and they are being supported by the local financial management of schools team, as well as by advisors from the Central South Consortium Joint Education Service and from Education.

The Chairperson suggested that consideration be given to what implications the outcome of the 2015/16 budget has for the Committee's work programme, to whether there are particular things that the Committee should monitor and what the Committee could do to inform the budget setting process for next year. The Chairperson requested that the Section 151 Officer produce a short paper on how the Committee can add value to the Council.

RESOLVED –

- 1) That the report be noted.
- 2) That the Audit Committee is to receive a report on the Budget Strategy encompassing the policies, budget assumptions and tools which underpin the Strategy.
- 3) When available, the Committee is to receive the finance 'bubble charts' showing the budget position for 2015/16.
- 4) That the Audit Committee is to receive a report highlighting how the Committee can add value, on behalf of the Council, in setting the Budget. Recommendation would suggest future items to be added to the Committee's Work Programme.

Accounting Policy

The purpose of this report was to provide Audit Committee Members with an update on changes to accounting policies included in the 2014/15 CIPFA Code of Practice and potential impact for the Councils statement of accounts. The report also highlighted future Code updates that are likely to have a significant impact on the accounts.

RESOLVED – That the report be noted.

59: GOVERNANCE AND RISK MANAGEMENT

Senior Management Review

This report gave the Committee an opportunity to give feedback on the Senior Management Review, the detail of which was contained in a Cabinet report that had been circulated by the Audit and Risk Manager. The number of senior management posts is being reduced by combining some posts. Recruitment to the new posts has started and it is hoped that the process will be completed by the end of May.

The Committee felt that merging the post of County Solicitor with that of the County Clerk and Monitoring Officer will create some issues regarding governance and is something that the Committee will need to monitor. The Committee also noted that reviewing these posts so soon after the creation of the current senior management structure could create a reputational risk for the Council. The Committee felt some disquiet about the review as it was felt that reviews of this kind can be counter-productive in terms of savings and reputation. However, the Committee was advised that the Chief Executive had discussed the proposals with the

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Council's external regulators who understood the need to rationalise in order to focus on priority areas.

RESOLVED – That the report be noted.

Audit Committee Self-Assessment 2015 – Feedback/Action Plan

On 19 January 2015 the Audit Committee undertook a Self Assessment Workshop. As a result of the workshop seventeen proposed actions for improvement were identified and these were included in the report for the Committee to consider and comment on.

It was suggested that Independent Members of this and other committees could become more involved in the work of the Council, and that agendas for Audit Committee meetings could include a standing item to allow Elected Members to draw issues to the attention of Independent Members of the Committee.

It was noted that one proposed improvement involved circulating the documents for 'information only' items to the Committee rather than including them as items on the agendas for meetings. This would allow more time at meetings to be devoted to items of importance. The Chairperson welcomed the introduction of an "Outstanding Actions" Agenda item to report back on items, rather than have individual reports for information, but felt that there was still some way to go in distilling out the issues that are of real importance to the Committee and reducing the volume of information received by Members. The Committee was advised that in the Corporate Assessment the WAO raised this issue in relation to all committees.

RESOLVED –

- 1) That the report be noted.
- 2) That a standard item should be added to every agenda, 'Items of interest for Independent Members' delivered by the Elected Members.

Draft Annual Governance Statement (AGS) 2014/15, including the Senior Management Assurance Statements (SMAS).

The Committee had requested that at this meeting it be given an overview of the process for preparing the Annual Governance Statement and be given the opportunity to consider and contribute to a draft.

The Audit and Risk Manager presented the draft Statement and informed the Committee that an Assurance Mapping exercise had begun to inform work in this area over time. Directorates have been asked for a list of any regulatory, inspection or auditing regimes, with which they engage. This will enable an Assurance Map to be prepared which should provide an overview of the work of others and provide greater assurance in relation to governance, risk and internal control matters. Significant issues that arise from the SMAS will be discussed with the Senior Management Team (SMT) in May.

The Chairperson invited questions and comments from the Committee.

The Committee noted that section 9 of the SMAS states that 'All suspected cases of fraud or financial impropriety are referred promptly to Internal Audit.' and suggested that more was

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needed on the responsibility of Directors to act to deter fraud through having robust controls in place.

The Committee enquired how it could be sure that the responses given by Directors in the SMAS had been acted on. The Committee was advised that Internal Audit has built in independent challenge and requires evidence to support the views expressed. Responses to the SMAS questions will be reported to the Committee and to Senior Management Team for consideration of which issues should feature in the Annual Governance Statement

Regarding external audit and inspection (particularly para. 119 of the AGS), the Committee asked how it would get feedback, either from the WAO or internally, on progress made in addressing the issues raised in the WAO Corporate Assessment - issues that are fundamental to the work of the Council and its efforts to re-organise and make savings. The Committee was advised that in June 2015 officers will consider an update on the implementation of the Corporate Assessment update. The Policy Review and Performance Scrutiny Committee (PRAP) is also monitoring the response to the Corporate Assessment.

The Committee noted that a number of proposals for improvement have been instigated through 2014/15 (para. 32 of the AGS) and suggested that the Committee needs to understand the effect of these measures since this would be useful to the Committee in its future work.

In summary, the Chairperson made the following points:

- Section 9 of the SMAS should be clarified regarding the matter of fraud.
- Consideration should be given both to the way in which the Audit Committee engages with all the work that is being carried out in response to the WAO Corporate Assessment and to the way this response is reflected in the AGS.
- In order to inform the work of the Audit Committee and to avoid duplication of work, a letter will be sent to the Chairperson of PRAP to establish what work that committee is doing regarding the response to the Corporate Assessment.

RESOLVED –

- 1) That the report be noted.
- 2) That the Audit Committee is to be provided with a summary of the Senior Management Assurance Statements (SMAS) when the draft Annual Governance Statement 2014/15 is presented.
- 3) That Section 9 of the SMAS is to be reviewed to clarify the role of Directors in relation to having controls in place to reduce the incidence of fraud.
- 4) That a letter is to be sent to the Chairperson of the Policy Review and Performance Scrutiny Committee requesting information on its work regarding the Corporate Assessment.
- 5) Policy Performance and Review Report to be shared with Committee members and any comments and views on the way forward to be discussed at the next meeting.

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Audit Committee Annual Report

The Audit and Risk Manager gave the Committee a verbal update on progress being made on the Committee's Annual Report.

RESOLVED –

- 1) That the report be noted.
- 2) That the views of the Committee be taken into account in the Draft Annual Audit Committee Report 2014-15.

Procurement & Contracting Sub-Group

The sub-group has met. The Audit and Risk Manager would like clear direction on what the group is seeking to achieve. The Audit Committee has a particular role within the Council and the terms of reference of the sub-group should fit in with that.

RESOLVED –

- 1) That the report be noted.
- 2) That the Terms of Reference be formed for the Sub Group with guidance from the County Clerk & Monitoring Officer, and reported back to Committee.

WG White Paper – 'Power to Local People'

The Audit and Risk Manager is to circulate a White Paper that is of particular relevance to the Committee. On behalf of the Committee he has put forward a response to the White Paper and invited Members to comment on any feedback they would like to give on this consultation document.

RESOLVED –

- 1) That the report be noted.
- 2) That the Welsh Government's consultation 'Reforming Local Government White Paper' be circulated to Members of the Committee.

60: WALES AUDIT OFFICE (WAO)

Annual Financial Audit Outline

The Chairperson welcomed Non Jenkins, WAO Local Government Manager (South East) Wales region and Ann-Marie Harkin, Financial Audit Director.

The Committee received the WAO audit plan for 2015, which included financial and performance audits. The WAO's fee will be 2.5% lower than it was last year and the WAO hopes to be able to continue to reduce its fee in future years. The aim is to finish the financial

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audit by the end of September 2015. The WAO are in discussion with other regulators and later in the year will be in a better position to say when it will carry out the review of the Corporate Assessment. Most of the work will be follow-up work.

On fees, the Committee enquired to what extent the WAO benchmarks itself against Audit Scotland and the Northern Ireland Audit Office. The Committee was advised that the WAO does benchmark against WAO Scotland and could provide the Committee with more information on this, including information on the median fee.

In summary the Chairperson made the following points:

- The Committee would like more information on the WAO fee and how the fee charged to the Council compares with fees charged to other local authorities.
- On Value for Money (VFM) audits, it would be helpful if at each meeting of the Committee WAO officers advised on issues of relevance to the council which have emerged from their latest VFM audits.
- On follow-up audits, it would be useful if WAO officers advised the Committee of any particular findings, so that the Committee could engage with those issues.

RESOLVED –

- 1) That a joint training session should be held by Finance Staff and the Wales Audit Office to inform Members of the Committee of the questions to be considered when challenging the Draft Financial Statements 2014/15. At this meeting, consideration would also be given to whether separate meetings with WAO should be established.
- 2) That all 'Value for Money' reports published by the WAO are to be reported to Audit Committee. The outcome of National Studies, with key messages, are to be relayed to the Committee.
- 3) That the Committee be provided with further information / intelligence on how the fee of the WAO's work is formulated e.g. benchmarking / comparisons with other local authorities.

61: TREASURY MANAGEMENT

Performance Report

The Operational Manager, Capital & Treasury, presented this report and advised the Committee that little has changed since his last report. There has been an internal audit review of Treasury activities that has revealed only a minor area to be addressed. In respect of borrowing, it was indicated that there would be no further borrowing in the rest of 2014/15, but in 2015/16 borrowing in respect of 21st Century schools schemes will be considered at the project rate. Where available, benchmarking information was to be supplied as part of the performance report in June 2015.

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At the Committee's meeting in June 2015, a report will be provided on the outcome of changes in relation to Housing Reform Subsidy. The Committee asked whether there is still confidence that there will be a financial benefit to the Council as a result of these changes. The Committee was advised that this has been discussed with WG and it is expected that the Council will benefit to the sum of about £3 million per year.

RESOLVED – That the report be noted.

Treasury Management Practices 2015/16

Appendix 1 to the report for agenda item 7.2 (Treasury Management Practices 2015/16) contained exempt information as defined in Section 100 (1) (1A) of, and paragraphs 14 and 21 of Schedule 12A to, the Local Government Act 1972. It was agreed that the public be excluded for the duration of the discussion of this item of business on the grounds that if members of public were present during the discussions, due to the nature of the business to be transacted there would be disclosure to them of exempt information of the description in Paragraphs 14 and 21 of Schedule 12A of the Local Government Act, 1972. No members of the public and press were present.

The purpose of this report was to inform the Committee of the proposed Treasury Management Practices (TMPs) to apply from April 2015, and to give the Committee the opportunity to comment. The Committee was advised that the code of practice adopted by the Council covers controls, processes and practices in areas such as assessment of risk, training and performance management. There has been little change in the practices since it was last received by the Committee.

The Committee discussed aspects of the report and confirmed with Internal Audit that the controls within it were reasonable.

RESOLVED – That the report be noted.

62: INTERNAL AUDIT

Executive Summary Report - Quarter 4

Appendix A to the report for agenda item 8.1 (Executive Summary Report – Quarter 4) contained exempt information as defined in Section 100 (1) (1A) of, and paragraphs 14 and 21 of Schedule 12A to, the Local Government Act 1972. It was agreed that the public be excluded for the duration of the discussion of this item of business on the grounds that if members of public were present during the discussions, due to the nature of the business to be transacted there would be disclosure to them of exempt information of the description in Paragraphs 14 and 21 of Schedule 12A of the Local Government Act, 1972. No members of the public and press were present.

A copy of Executive Summaries for audits where there is a 'Limited' or 'No Assurance' audit opinion are reported to Audit Committee throughout the year. The reports provide Members of the Audit Committee with an overview of areas of concern and where it is considered that the internal control environment merits improvement.

The Audit and Risk Manager went through the key points of the Executive Summary, attached to the report.

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The Audit and Risk Manager advised the Committee that following discussion with the Section 151 Officer it has been decided to introduce another stage into the process for reporting Executive Summaries. It is proposed that the Chief Executive will be copied in to any audit outcomes where a 'Limited Assurance' audits opinion. This should ensure that recommended actions are taken with appropriate urgency.

The Chairperson invited questions and comments from the Committee.

The Committee suggested that if an audit reveals an issue that concerns the welfare of people, then more immediate action should be taken, rather than notifying the CE and allowing six months for improvements to be made. The Committee was advised that it would still receive a list of Executive Summaries at each of its meetings.

RESOLVED –

- 1) That the report be noted.
- 2) A revised process was agreed for reporting internal audit reports of 'Limited or No Assurance':
 - The Committee will continue to be made aware of all audit reports with 'Limited or No Assurance' through the Audit and Risk Manager's Quarterly Progress Report.
 - All reports with 'Limited or No Assurance' to be copied to the Chief Executive.
 - Audit reports with no significant impact on service users or risk of fraud will not be presented to Audit Committee in the first instance. Officers will be given 6 months to implement the recommendations with the awareness of the Chief Executive.
 - Once a follow up Audit has been undertaken and should no improvement have been made then Audit Committee will then be presented with an Executive Summary Report.
 - In line with current arrangements the Audit Committee is to receive all Executive Summary Reports where the audit findings could have a significant impact on a service user or there is a potential risk of fraud.

Audit Strategy 2015-16

The Audit and Risk Manager advised the Committee that the strategy is the culmination of a number of key documents setting out the direction of travel for Internal Audit for 2015-16. It contains a SWOT analysis (Strengths, Weaknesses, Opportunities, Threats), an updated Audit Charter and Protocol, a list of Challenges for the year ahead and an updated Risk register, together with background on resources, some trend analysis and assessment of effectiveness. A detailed Service Plan setting out some key objectives and performance measures was also included. Finally, it provided an outline Plan with indications of how the Plan had been drawn up, but it was pointed out that meetings with Directors were ongoing, to shape some of the detail.

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The Chairperson invited comments and questions.

The Committee was concerned that Internal Audit's staff resources have reduced from last year and that this presents a challenge to Internal Audit in terms of delivering effective audit coverage. The Committee was advised that there will be some natural shrinkage as the Council reduces in size. Directorates will deliver some services differently and where that occurs there may be less of a role or no role for Internal Audit. This may allow resource cuts to be sustained, but if cuts continue it may then be difficult for the Audit and Risk Manager to give in the annual report an audit opinion on the control environment.

The Committee suggested that if the Council develops new ways of delivering services that could mean a greater role for Internal Audit, as expected outcomes have to be properly specified and monitored.

In summary the Chairperson made the following points:

- The Committee values the work of Internal Audit and is concerned that its resources are reducing. The Strategy was comprehensive, well constructed and provided a useful informative document for Committee to consider. The Audit Committee Annual report should state strongly that in terms of reducing resources for Internal Audit, there is a point below which the Council should not go, or it will put itself at risk. This requires careful monitoring.
- Internal Audit should consider within its current Audit Plan giving priority to work on contracts management, ensuring that within the Council there are the required skills to manage contracts and projects.
- Along with information on planned future audits, it would be helpful for the Committee to receive a brief report on audits that have been carried out over the previous two or three years to provide context.

RESOLVED –

- 1) That the report be welcomed and noted
- 2) That the Audit Committee's Annual Report is to include an item on the concern over reducing resources within the Internal Audit Section.
- 3) That consideration is to be given to prioritising Contract Management Audits in 2015/16 – given the proposed alternative delivery models.
- 4) That the Audit Committee is to receive updated information on the Internal Audit's Plan 2015/16 and, if possible, this should include an overview of audits undertaken in previous years.

Fraud, Bribery and Corruption - Draft Policy

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The Committee was advised that the policy has been re-drafted but is not radically different. It is about compliance and awareness, and it stresses that there will be zero tolerance of fraud. It sets out those messages and indicates what will follow if fraud does occur.

RESOLVED – That the report be noted.

Fraud Related Matters

The purpose of this report was to provide Members with an update on fraud related items reported previously to Audit Committee - namely, the National Fraud Initiative (NFI) Data Matching Exercise, Housing Fraud, and a summary of fraud referrals for the last quarter of 2014/15.

The report provided an updated position regarding the NFI Initiative with an analysis of referral types. Included were those relating to potential housing matches. The NFI referrals show a high level of potential matches, around 20,000, of which 6,849 are worthy of prioritisation. The Committee was advised that these are simply leads but they may result in the discovery of fraud. It is questionable whether the Council will benefit from this exercise given the past record of outcomes compared to resources required to devote to this mandatory exercise.

RESOLVED – That the report be noted.

63: OUTSTANDING ACTIONS

Audit Related & Others

Annex 1 to the report for agenda item 9.1 (Outstanding Actions – Audit-related and Others) contained exempt information as defined in Section 100 (1) (1A) of, and paragraphs 14 and 21 of Schedule 12A to, the Local Government Act 1972. It was agreed that the public be excluded for the duration of the discussion of this item of business on the grounds that if members of public were present during the discussions, due to the nature of the business to be transacted there would be disclosure to them of exempt information of the description in Paragraphs 14 and 21 of Schedule 12A of the Local Government Act, 1972. No members of the public and press were present.

The Committee noted that some schools have been operating deficit budgets for four or five years and that for some of these schools there seems to be no evidence that they are planning to bring their budgets back into a positive balance. The Committee was advised that there should be a four year period over which a school's budget balance is brought back into line. For the local authority it is a matter of achieving a balance between supporting schools while they reach a positive budget balance or taking measures which are more fundamental to address issues that are contributing to the deficit.

The Chairperson asked that it be noted that in relation to the Executive Summary concerning Children's Services contained in this report, he has met with the Chairperson of the Children and Young People Scrutiny Committee and has written to Councillor Sue Lent, Deputy Leader of the Council and Cabinet Member for Early Years, Children and Families and is awaiting her reply.

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RESOLVED –

- 1) That the report be noted.
- 2) That when the Director of Education next attends the Audit Committee, further detail to be provided on the plans in place by schools in deficit.

64: WORK PROGRAMME UPDATE

The Chairperson suggested that it would be very useful for the Committee to have a meeting with WAO officers, particularly as the composition of the Committee may be different from the start of the new municipal year.

The Chairperson expressed his thanks to Elected Members for their work on the Committee and his hope that they would continue to sit on it in the new municipal year.

The Chairperson advised Members that he has notified the Section 151 Officer of his intention to leave the Committee in September 2015 and advised that the Committee will need to elect a new Chairperson at its meeting in June 2015.

RESOLVED –

- 1) That the report be noted.
- 2) That officers circulate proposed dates for 2015-16 meetings of the Committee.

65: DATE OF NEXT MEETING

The next meeting will be held on 22 June 2015 at 2.00pm in Committee Room 4, County Hall

The meeting closed at 5.00pm

Signed _____
Chairperson

Date _____