

## GOVERNANCE AND AUDIT COMMITTEE

11 JULY 2023

Present: Chris Burns in the Chair  
Dr. Janet Wademan

Councillors Ahmed, Carr, Lewis, Moultrie, Palmer and Williams

1 : APPOINTMENT OF CHAIRPERSON AND DEPUTY CHAIRPERSON

RESOLVED – That Gavin McArthur be appointed Chairperson and Chris Burns be appointment as Deputy Chairperson.

2 : APPOINTMENT OF COMMITTEE

Members were asked to note that Council on 25 May 2023 appointed the following Members to the Committee:

Independent Members: Gavin McArthur, David Price, Dr. Janet Wademan, Chris Burns

Councillors: Saleh Ahmed, Kate Carr, Russell Goodway, Margaret Lewis, Jess Moultrie, Marc Palmer, Joel Williams

3 : TERMS OF REFERENCE

Members were asked to note the Committee's Terms of Reference

4 : APOLOGIES FOR ABSENCE

Apologies for absence were received from Gavin McArthur, David Price and Councillor Goodway. In the absence of the Chair the Deputy Chair chaired the meeting.

5 : DECLARATIONS OF INTEREST

No declarations of interest were received.

6 : MINUTES

The minutes of the meetings held on 21 March 2023 were approved as a correct record subject to the following:

Page 10 – paragraph 5 – amend 'giving' to 'given'.

7 : PERFORMANCE MANAGEMENT AND CONTROL ENVIRONMENT

8 : FINANCIAL UPDATE INCLUDING RESILIENCE ISSUES

The Corporate Director Resources and Section 151 Officer, Chris Lee, presented a financial update on resilience issues and the financial challenges facing the authority, including Outturn Position 2022/23, Budget Strategy 2024/25, the Medium-Term Financial Plan (MTFP) and the planned future work to be undertaken.

A Member raised concerns regarding the capital programme. The Section 151 Officer was asked to provide assurances that the authority has sufficient resources to fund the revenue capital programme and that the Council has sufficient resources to manage its debt portfolio. The Section 151 Officer stated that affordability is a key aspect of the Committee's remit in terms of Treasury Management. The Prudential Code and Prudential Code Indicators are reported regularly to the Committee, particularly around affordability, authorised limits and operational limits in terms of affordability of borrowing. No indicators are being exceeded currently and debt remains within the levels set by Council. The Section 151 Officer stated that he was content that current borrowing activity was being managed prudently with these limits.

In March 2023, as part of the budget strategy work, the Section 151 reported his satisfaction with the robustness of the budget strategy, including the capital resources available and revenue resources available to repay debt. Members were asked to note that the authority has retained its own housing stock and has also borrowed for schemes that will provide sources of income. Therefore, comparing gross borrowing costs with other authorities can be skewed. Members were also advised that Audit Wales would be undertaking an exercise looking at the delivery of capital programmes across Welsh Local Authorities later in the year.

The Section 151 Officer was asked to comment on whether a balanced budget was achievable given the projected circa £36 million shortfall and how a balanced budget would be achieved. The Section 151 Officer stated that the authority has a statutory obligation to balance the budget and that he was confident that this will be achieved. The funding gap is a significant challenge which is built on a number of assumptions. The MTFP is a work-in-progress and factors may change during the Autumn, including the Welsh Government revenue settlement. The funding gap is based on the indicative settlement figure.

A Member asked whether any lessons had been learned in addressing the outturn position during the financial year that could be applied in future years. The Section 151 Officer considered that it was important to note that the £3 million overspend at Month 9 was a significant improvement on the Month 6 position due to the continuation of mitigating actions. It was also important to note that many authorities were impacted by the higher than anticipated pay award late in the year.

A Member noted the slippage in the capital programme of circa £100 million. A Member asked whether inflationary pressures posed a risk to capital projects. The Section 151 Officer confirmed that the inflationary environment was impacting on the capital programme across a range of schemes and there has been a requirement to review and prioritise the capital programme, notably the School Organisational Programme and the arena development. The MTFP will include a revised capital programme that will take account of the inflationary impacts in construction costs which will be a significant risk factor.

Members noted that the projected budget gap by 2027/28 will be £113 million. A Member sought reassurance that the 'options for service change' referred to in the presentation were sufficiently robust to address that level of funding shortfall. The Section 151 Officer accepted that the Committee would need to be assured that the authority has processes and frameworks in place in particular. The options outlined included service improvements and efficiencies which would have little or no impact on service users, income opportunities and service change. Business case work will be undertaken across a range of options for Cabinet and Council. Consultation and engagement with residents will be vital to ensure that the right choices are being made.

The Section 151 Officer considered that Members should see budget setting as an ongoing process with opportunities for savings beyond the MTFP.

RESOLVED – That the report be noted.

## 9 : DRAFT STATEMENT OF ACCOUNTS 2022/23

The Committee received a report that had been prepared to provide Members with an opportunity to review and provide comments on the draft 2022/23 Statement of Accounts of Cardiff Council including Cardiff Harbour Authority and Trust Funds and the Cardiff and the Vale of Glamorgan Pension Fund. The accounts were signed by the Responsible Finance Officer on 16 June 2023 and were attached in Appendix 1 and Appendix 2 of the report.

At its meeting on 21 March 2023, the Committee received an introductory report on the financial statements for this year, including proposed timescales, draft accounting policies and changes in the 2022/23 Code of Practice.

Members were advised that the draft accounts were provided to Audit Wales on 16 June in preparation for audit. The accounts are subject to public inspection between 19 July 2023 and 15 August 2023. Audit Wales will begin their audit of the accounts in August and reports will be presented to the Committee upon completion of the audit.

A date of 6 September 2023 has been set for the external auditor to be available to answer questions from any local government elector or their representative for the area to which the accounts relate. The timescale for completion of the audit, consideration by Council and publication of the final accounts is expected to be November 2023.

Appendix 3 of the report set out the contents and governance process involved in preparing the Council's financial statements. CIPFA's 'Understanding Local Authority Financial Statements' document was appended at Appendix 4.

It was recognised that these are complex documents and, in order to support Members in undertaking their role, Members were provided with an extended period of time to review and comment on the statements.

The Chairperson welcomed Ian Allwood, Head of Finance, Anil Hirani, Operational Manager – Capital, Corporate and Treasury and Sally Ormiston, Group Account to the meeting. The officers were invited to introduce the report.

Members were asked to note the following:

- The accounts have incorporated feedback received from the Committee and Audit Wales previously.
- The approach to asset valuation in the Cardiff Council accounts continues to be based on a full 3-year professional evaluation cycle.
- The main balance changes related to decreases in cash balances and the decrease in pension liability.
- The Statement of Accounts includes disclosures in respect of exit packages and remuneration, details of earmarked reserves and the HRA position.

Members were advised that, in terms of the Pension Fund accounts, the management expenses have decreased from 2021/22 as a result of transition to the Wales Pension Partnership. Investment income has increased following a review of the fund's approach to reinvested income.

Questions or comments on the accounts were invited by 15 August 2023.

A Member asked for further clarification on the position of Cardiff Bus. The Operational Manager – Capital, Corporate and Treasury advised that the Cardiff Bus accounts have been prepared in draft format and are included in the overall account figures. The accounts are currently being audited and will hopefully be presented with the final Statement of Accounts. It was noted that the bus industry is continuing to experience issues in relation to patronage. For Cardiff Bus, patronage is increasing and has returned to 70% of pre-covid levels and Welsh Government grant support has been extended to March 2024. It was positive to note that there has been investment made in new electric fleet vehicles which link to the Council's objectives in terms of air quality.

The Section 151 Officer suggested that performance issues in relation to Cardiff Bus were perhaps not a matter for the Governance and Audit Committee. The process of consolidating the accounts is clearly set out and officers are working closely with Cardiff Bus to provide an audited set of accounts. A Member asked whether a confidential briefing report could be circulated on the financial position of Cardiff Bus in order to provide continued assurance. The Section 151 Officer agreed to clarify whether such a briefing would fall within the Committee's terms of reference and to discuss further the appropriate forum for such a briefing.

**RESOLVED** – That the Committee notes the 2022/23 draft Statement of Accounts and the audited Statements and the Audit of Accounts (ISA260) reports for 2022/23.

10 : INTERNAL AUDIT ANNUAL REPORT 2022/23

The Committee received the Internal Audit Annual Report 2022/23.

Members were reminded that the Audit Plan 2022/23 was approved by the Governance and Audit Committee on 15 March 2022. The Plan provided the framework for audit work aligned to the Council's corporate governance arrangements, whilst also being responsive to any changes to the risks faced by the Council during the year. Each year the Plan is mapped to business objectives and key systems, whilst being informed by risk, governance, and assurance assessments.

During the year, the Committee received detailed progress reports outlining the work and progress against the Audit Plan, as well as the key findings, trends and risk-based changes to planned work. The Committee has also received assurance from the Audit Manager throughout 2022/23 on ongoing organisational independence, and continued conformance with the Public Sector Internal Audit Standards (PSIAS). This was validated by an external assessment which reported conformance with standards. Organisational independence has been achieved throughout 2021/22, in line with the provisions of PSIAS (1100).

Members were advised that the Annual Report provided a review of the internal control environment of the Council and the Audit Manager opinion. The report detailed the audit work completed to support the opinion, and assurance of ongoing conformance with the PSIAS, as reaffirmed through annual review against the CIPFA Local Government Application Note (LGAN) and the results of the Quality Assurance and Improvement Programme (QAIP).

The Council has a duty to prepare an Annual Governance Statement (AGS) including the annual Audit Manager opinion as set out in the Annual Report. Section 2 of the Annual Report outlined the priorities and approach of the audit team to deliver a combination of management support through consultation and engagement in high-risk areas, and to progress targeted assurance engagements from the Audit Plan. Section 3 of the report contained the full audit opinion and set out the rationale of how the control environment has been reviewed. The overall opinion was 'effective with opportunity for improvement'.

Responding to a question from the Committee, the Audit Manager stated that the Internal Audit Team are now in a better position in terms of resources at a management level following a restructure during the year in line with the audit plan. A recruitment process to fill vacant posts within the Team is progressing, the results of which will be reported to the Committee. A CIPFA trainee has also joined the Team on placement.

Members referenced the summary of audit recommendations agreed and actioned. Members requested further detail on the reasons for audit recommendations not being completed within the agreed timescales and what could be done to improve the position. The Audit Manager stated that the intention is to deliver recommendations within the timescales. However, Red and Red/Amber recommendations remain open until evidence of the recommendation being implemented is produced. This can cause a delay. The Audit Manager advised that Senior Management Team have focussed on the implementation of audit recommendation and the expectation remains for the target to be achieved, within the context of other pressures. The target of delivering 80% of audit recommendations on time has been achieved at Q1 in the current cycle.

Members questioned whether additional support could be provided in relation to school governance in order to address the outstanding audit recommendations within the directorate. The Audit Manager stated that the Director of Education has given a commitment to respond to the Committee on the position in the Autumn.

RESOLVED that the Internal Audit Annual Report 2022/23 be noted.

#### 11 : AUDIT AND INVESTIGATION TEAM - PROGRESS UPDATE

The Committee received a progress report providing Members with an update on the work and performance of the Internal Audit and Investigation Teams. The report covered the period from 1 March - 30 June 2023, and followed the updates provided in the last Committee meeting held on 21 March 2023.

RESOLVED – That the report be noted.

#### 12 : ANNUAL AUDIT SUMMARY REPORT

Members received the Audit Wales Annual Audit Summary Report. The Chairperson welcomed Richard Harries, Engagement Director – Audit Wales to the meeting and invited him to present the report.

Members were advised that the Annual Audit Summary 2022 summarises all audit work undertaken since the last Annual Audit Summary in January 2022. During 2021-22 Audit Wales completed work to meet the following duties:

- Continuous improvement
- Audit of Accounts
- Value for money
- Sustainable development principle

RESOLVED – that the report be noted.

#### 13 : ANNUAL AUDIT PLAN 2023

The Committee received the Annual Audit Plan 2023. The plan was presented as an outline of the work to be undertaken during the year. A further report would be presented at the next meeting setting out the audit process and providing more information on each aspect of the Annual Plan.

Members were asked to note the key statutory responsibilities for Audit Wales and their responsibilities in Cardiff. Changes within the Audit Wales team were highlighted. Detailed planning in terms of fees is being undertaken but the fees consultation letter set out an inflationary rise of under 5% and the impact of ISA315 of between 12-15%.

Members welcomed the suggestion that a briefing be brought to the Committee on the impact of the requirements of ISA315.

RESOLVED – That the report be noted.

(a) Cardiff and Vale Pension Fund Audit Plan 2023

RESOLVED – That the report be noted.

14 : AW WORK PROGRAMME AND TIMETABLE UPDATE

RESOLVED – That the report be noted.

(a) Governance and Audit Committee Annual Report 2022/23

The Audit Manager presented the Governance and Audit Committee Annual Report 2022/23.

The report provided an account of the role, work, observations and opinion of the Governance and Audit Committee in respect of the municipal year 2022/23. The report was prepared with the Committee Chairperson and it aligned with the requirements of the Committee's Terms of Reference. The report was presented for the Committee's consideration prior to it being reported to a meeting of Full Council in the autumn.

The report contained the key observations of the Committee, followed by the draft Committee opinion for consideration. The draft opinion was that "based on the evidence presented to the Governance and Audit Committee during 2022/23, it is the considered view of the Governance and Audit Committee that the Council does have, for the most part, sound internal controls and governance arrangements in place. Strategic risks representing the true challenges facing the Council are captured and reviewed on a regular basis..." The draft opinion then draws upon examples of concerns in areas that are to be incorporated into its work programme for 2023/24. The opinion will be contained within the Council's Annual Governance Statement 2022/23, together with the opinion of the Audit Manager on the Council's control environment, and an assurance statement from the Senior Management Team.

RESOLVED – That the Governance and Audit Committee Annual Report 2022/23 be approved and reported to Council.

(b) Governance Senior Management Assurance Statement 2022/23

The Committee received a report providing an update on the Senior Management Assurance Statement and the progress on the drafting of the Annual Governance Statement 2022/23.

RESOLVED – That the report be noted.

15 : CORPORATE RISK MANAGEMENT (YEAR-END)

Members received an update on the risk management position at quarter four 2022/23 highlighting changes from the quarter three 2022/23 report.

Members were advised that at the quarter four position, 242 risks were reported from Directorate Risk Registers. Escalated risks and requests for de-escalation were discussed and approved by the Senior Management Team on 27 June 2023.

It was agreed that seventeen Directorate risks would be carried forward as SMT escalated risks at quarter four. Where a risk has been escalated it is primarily due to either mitigations being required from other directorates or a need to monitor the position so prompt corporate action is undertaken as and when required. Updates on the escalated risks are reported to Senior Management Team throughout the quarter and are formally considered as part of the Quarterly review process.

The report included a detailed assessment of each of the Corporate Risks. Members were asked to note that budget monitoring risk reduced in quarter four as a result of the improving position. Furthermore, SMT agreed to remove the Welfare Reform Corporate Risk from the Corporate Risk Register with the proviso that the escalated risks of resident support and temporary accommodation continues to be reported and monitored at the corporate level.

RESOLVED – That the report be noted.

16 : OUTSTANDING ACTIONS

RESOLVED – That the report be noted.

17 : CORRESPONDENCE

RESOLVED – That the report be noted.

18 : WORK PROGRAMME UPDATE

RESOLVED – That the report be noted.

19 : URGENT ITEMS (IF ANY)

No urgent items.

20 : DATE OF NEXT MEETING

The next meeting is scheduled to take place on 26 September 2023 at 4.30pm.

21 : CORRESPONDENCE FOLLOWING THE COMMITTEE MEETING

- (a) Draft Year-End Annual Well-being (Self-Assessment) Report 2022/23 & Update on the Council's Control Environment



The Committee received the Council's draft Self-Assessment Report 2022/23 and an update on the Council's Control environment. The Chairperson welcomed Chris Lee, Corporate Director Resources; Sarah McGill, Corporate Director People & Communities; Gareth Newell, Head of Performance and Partnerships, Dylan Owen – Operational Manager – Policy Improvement to the meeting. The officers were invited to present the report.

Members were advised that the Committee receives an annual report on the Council's control environment and considers the assurance processes in place, including receiving the draft Self-Assessment. Members were invited to review the report and make any recommendations.

The report set out the reporting and assurance frameworks and the arrangements in place across the Council, including corporate planning, wellbeing objectives and performance management arrangements. The report also included a recent Audit Wales report on the authority's progress in setting wellbeing objectives and details of internal audit assurance on the control environment at both corporate and directorate levels. Furthermore, the report also highlighted the Senior Management Assurance Statement, risk management and internal and external assurance from internal audit and other external regulators.

The Chairperson opened the debate on this item and invited questions or comments from Members of the Committee.

Responding to a question from the Committee on what assurances should be sought, the Corporate Director People & Communities stated that some questions the Committee may like to consider are how well the Self-Assessment report enables the administration to deliver the outcomes that it has set itself, what progress has been made, how that progress can be demonstrated and also, how it identifies areas where there are challenges and actions taken. Members sought assurance that the document set out what it intends to achieve. The Corporate Director People & Communities stated that the document provides an indication of the wide and complex range of data sets required to assess progress. The report provides a framework to assess progress but the details on how progress is being achieved will be set out in the directorate delivery plans.

Members suggested that the outcomes in the document could be more transparent and that potentially an executive summary of the document could be included in future years. Members also asked whether it was possible to prioritise the authority's objectives in the report somehow. The Head of Performance and Partnership stated that all Council services are covered in the report drawn from the Corporate Plan. In terms of priorities, the Strategic Assessment includes what Cabinet considers to be the main risks and issues faced by the authority.

The overall view of our Committee arising from consideration of the self-assessment (well-being) report, was that they were satisfied with the self-assessment process, and their view was that a robust exercise had been completed with duties sufficiently discharged. The assessment was considered to be well structured whilst being based on a governance framework and reporting requirements that have inherent complexity. In some areas the Committee considered there was scope to make the outcomes of the assessment easier to identify and digest. It was felt that in future

years the most important ambitions and areas of performance could be more prominently highlighted within the report.

RESOLVED – That the Committee notes the Council's draft annual Self-Assessment Report 2022/23 and the Committee's comments be submitted via a formal letter from the Committee Chair.

The meeting terminated at 3.30 pm