

AUDIT COMMITTEE

15 SEPTEMBER 2014

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

County Councillors Cowan, Howells, McGarry, Mitchell, Murphy, Walker and Weaver.

Apologies: Councillor Marshall

17: NEW COMMITTEE MEMBER – MR HUGH THOMAS

The Committee welcomed Mr Hugh Thomas who has been appointed as a new independent member to the Committee.

18: 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.

19: MINUTES AND ACTION PLAN

The Committee noted that many of the items on the Action Plan have now been actioned satisfactorily and completed.

RESOLVED –

- 1) That the minutes of the meeting of the Audit Committee of 25 June 2014 were agreed as a correct record of the meeting and signed by the Chairperson.
- 2) That the Action Plan be approved.

20: MATTERS ARISING FROM THE MINUTES OF 25 JUNE 2014 AND ACTION PLAN

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(i) Payroll Overpayments – Response from Chief Executive

The Chairperson had written to the Chief Executive as this issue had received consecutive Limited Assurance audit opinions. A supportive response had been received and circulated. A follow-up audit is underway and its findings will be reported to the next Committee. The Chairperson felt that this is a fundamental control matter and that the Committee has to be assured that Internal Audit recommendations are being implemented.

In discussing this report and establishment control more generally, concern was raised over security matters e.g. collecting in security passes when a person leaves, and it was agreed this would be raised at the next meeting when the ICO audit report was being discussed.

RESOLVED –

- 1) That a follow-up audit should be carried out and the results of it should be made available to the Audit Committee by the end of 2014
- 2) The presentation on Information Governance (now deferred to December's meeting) needs to respond to the comments members had made on Security issues.

(ii) Procurement & Contracting Issues - Audit Committee Sub-Group Update

The Sub-Group has now met and agreed terms of reference and a way forward. As part of their work they intend to review a newly updated version of the Fraud, Bribery & Corruption Policy.

Members are keen to raise awareness of the importance of fraud matters and the need for a robust process for dealing with suspected cases and holding people to account for their actions. They are keen to support initiatives that improve the understanding of officers in relation to Council rules and procedures, to target non compliance and reduce the risk of future fraud and financial impropriety.

RESOLVED –

- 1) The group will report progress to the Audit Committee at their next meeting in December 2014.

21: INTERNAL AUDIT

(i) Internal Audit Annual Report 2013-14

This report at Appendices D and G of agenda item 5.1 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. No members of the public were present.

The Audit & Risk Manager provided a summary of the main report findings, concentrating on the main conclusions and audit opinion as set out in the report. The format was consistent with previous reports providing members with an outline of audit work undertaken during 2013-14 and some key indicators on audit performance and engagement with clients. The overall view of the Audit & Risk Manager was that, despite facing a number of challenges this year, Internal Audit had continued to provide an effective audit and investigation service and largely met the challenges as set out at the start of the financial year. Key was conforming to the new Public Sector Internal Auditing Standards which provides assurances that a professional service is delivered in line with best practice. The main approach was still on system based auditing but more emphasis was being placed on seeking efficiencies when on audit visits. Much work had again been done over the past 12 months to introduce lean auditing ideas in order to streamline audit processes and drive out efficiencies.

The overall audit opinion, based on the work of the Section over the past year, was that there is a sound framework for financial control within the Council and the majority of audits undertaken provide assurances of controls in place. In some cases the Council rules require updating in recognition of the changing environment in which the Council is placed, and Audit are keen to engage with those tasked with reviewing these.

Clearly there is scope for control and compliance to be enhanced as a result of twenty audit reports with a Limited Audit assurance, and concern was expressed at an increasing number of follow up audits which highlight the problems Directors face introducing changes at a time when resources are under significant pressure.

Discussion highlighted members' concerns over High risk audits with Limited Assurance opinions. In these cases members were keen to ensure that all audit recommendations were actioned. In particular on some audits relating to contract matters (e.g. Opening & Receipt of Tenders) the Committee was keen that these issues should continue to be prioritised by the audit team.

The Committee enquired about benchmarking and comparisons with local authorities in comparable cities in the UK. The Committee was advised that the Audit Section is a founder member of an all-Wales benchmarking group which continues to provide comparative data on key indicators, and is looking to re-join the Chartered Institute of Public Finance and Accountancy (CIPFA) Benchmarking Club. A range of performance measures are maintained, regularly reported upon and some key

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indicators had been presented to Audit Committee at a meeting last year. More work is intended on benchmarking recognising the importance of learning lessons from similar authorities in targeting a high standard of performance.

The Committee asked if there is any work being done on the sub-letting of Council properties by tenants. The Committee was advised that this is being looked at and the Committee will be provided with a report at a future meeting.

There was some discussion of the reducing audit resources and particularly the impact on audit coverage given the challenges faced by the Council. This is made more important by the need to ensure an audit presence throughout the period of change to ensure proper consideration of risks and to ensure that there was no breakdown of controls. It was generally considered that this was an area where resources should be protected, where possible, and that the position should be monitored closely by the Audit Committee.

There was also a view that audit should be supported by officers being required to attend the Committee when their particular area is not performing well. On this point, the Audit and Risk Manager informed the meeting that previously when there have been unsatisfactory outcomes the approach has been to allow audit clients six months in which to improve and then to seek explanations if little improvement had been made after that time.

The Committee noted that there appear to be a number of compliance issues and asked whether this was due to a lack of training or to management issues. The Committee was advised that there is an element of both. When a lack of training was evident appropriate courses were provided but, due to the significant number of experienced officers leaving, those remaining staff are under greater pressure to continue to deliver and as a result there is an increasing risk of systems and controls becoming compromised. Managers need to be alert to this and be reminded of their responsibilities for financial control throughout their directorates.

In summary, the Chairperson note that the Committee welcomed the report and the overall “satisfactory” audit opinion from Internal Audit, although it felt it appropriate to draw attention to the significant level of audit outcomes offering only Limited or No assurance and hoped to see an improvement during the next year.

RESOLVED –

- 1) Senior Management Statements (SMS)

The Audit and Risk Manager should capture the Committee's concerns about compliance in drafting the next Senior Management Assurance questionnaire. This new draft is to be brought before the Committee for comment.

2) Contract matters / Tendering

The Audit Committee is to be provided with an update on fundamental and high risk audits –including any previous Limited Assurance audits e.g. Receipt, Custody and Opening of Tenders and the City Centre Advice Hub.

In light of the Committee's concerns about propriety and compliance around contracting matters, the Committee would like Internal Audit to continue to prioritise audits in this area.

3) Benchmarking and Comparative Data Matching

The Committee should receive an annual report on Audit benchmarking data exercises.

4) Sub-Letting

The Committee should receive a report on the investigation of sub-letting of council properties by tenants.

5) Whistleblowing

The Audit Committee should seek an annual update giving an opinion from the Standards and Ethics Committee on how well the Council's whistleblowing policy is working. A letter is to be sent to the Chair.

(ii) Internal Audit Progress Update - Quarter 1 and Executive summary

This report at Appendices A to E of agenda item 5.1 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. No members of the public were present.

The Audit & Risk Manager provided an overview of the work undertaken during the first quarter of 2014-15.

There was some concern at further Limited Assurance Audit opinions being reported, including some schools, but the Committee was advised that the list of audits where follow ups had been undertaken was reducing as on second visits the control

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environments had improved in many to the extent that they were now considered to provide satisfactory assurance.

A question was asked as to why Glyn Derw School had not complied with the normal timescales for budget submissions and it was agreed an answer would be requested from the Director of Education & Lifelong Learning.

There was discussion as to how to select officers to be asked to attend Audit Committee where there continues to be control issues and it was agreed that the emphasis should be on cases which had been re-audited and where insufficient improvement had been reported. It was suggested that the Audit & Risk Manager could highlight potential areas /audits so that Members could consider the merits of asking officers to attend.

There was some concern raised in relation to the tendering process for the Cymorth grant funding and it was agreed that the Member could raise the matter with the Audit & Risk Manager should he wish to do so. Any proposed action would be reported back to a future meeting of the Committee.

RESOLVED –

- 1) Glyn Derw High School - In light of the Committee's concern around setting of budget for 2013 the Director of Education & Lifelong Learning is to be asked to provide Committee with an explanatory note for circulation to the Committee.
- 2) The Director of Education & Lifelong Learning to be contacted in order to raise concerns around further Limited Assurance reports in schools.
- 3) Councillor Mitchell to consider raising his concerns relating to grant allocation with the Audit and Risk Manager if he wished to do so. Any proposed action to be reported to a future Committee meeting.
- 4) Future audit progress reports are to identify key areas of control weakness/failure of compliance, and identify potential attendance of Directors to future Committee meetings.
- 5) The Director of Strategic Planning, Highways and Traffic & Transport is to be alerted to the possibility that Audit Committee may wish to seek his attendance at a future Committee to discuss a Highways internal audit report.

(iii) A Consistent Approach to Non-Benefit Investigation Sanctions

This report was deferred from the Committee's meeting on 25 June 2014.

RESOLVED – That the report be noted and supported.

(iv) Finance Service Review

The Projects and Technical Accountancy Manager informed the Committee that a service review of the Finance Service is being carried out in order to ensure that the services it provides are fit for purpose, offer value for money and are suitable for meeting future demands. With reference to the Audit Committee's statutory functions as set out in the report, the Committee was asked to give feedback on the degree to which the Finance Service supports the work of the Committee by providing information to it that is accurate, timely and in an acceptable format.

The view of the Committee was that the most useful way forward would be for the Finance Service to circulate a questionnaire. This would give Members of the Committee more time to consider the questions and provide the required feedback.

RESOLVED –

- 1) Finance officers to circulate a questionnaire for Members to complete and return.
- 2) The matter is to be discussed in the January self-assessment exercise

22: FINANCE

(i) Budget Update/Budget Strategy

The projected Council overspend is £1 million and the Directorate overspend is projected to be just under £7 million, offset by a range of initiatives. Monitoring budget savings shows a similar position to last year. Directors have been instructed to minimise spend and keep to procuring essential items only. The budget strategy was agreed by the Cabinet in July and challenge testing sessions are underway with Directors to test their savings proposals. Budget proposals will go public in October and be taken through Cabinet and consultation. The intention is that some proposals will be considered in the autumn this year and decisions taken early to aid the difficult task of budget discussions in the run up to fixing the budget for 2015-16 in February.

RESOLVED – That the report be noted.

23: WALES AUDIT OFFICE (WAO)

(i) Audited Statement of Accounts - Cardiff Council including Audit of Statement

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of Account – Cardiff & Vale of Glamorgan Pension Fund

The Committee was informed that the WAO was to give an unqualified audit opinion. The quality of the report and accounts was good and they had been received ahead of the deadline. There were no significant matters that should be brought to the attention of the Committee.

The Committee noted that the figures given in the summary of corrections (Appendix 3, pages 13-15) were large amounts and the WAO officers were asked if that was unusual. The Committee was advised that in terms of overall expenditure it was not unusual. These are corrected figures and were largely classification issues.

Regarding surplus assets, the Committee enquired whether the Council will be following the CIPFA code of practice, as it is important that all assets are identified. The Committee was advised that at present the Council has a number of systems for recording assets and the Council is working with SAP with a view to bring all these systems together.

The Committee pointed out that in the Summary of Accounts 2013/14 there were discrepancies between some figures given under Income and Expenditure (page 1) and percentages in the Sources of Income pie chart (page 2). Officers agreed to review these.

In summary, the Chair said that given the financial challenge that the Council is facing, the identification of all surplus assets should be a priority. The Committee noted that the Statement of Accounts has been finalised and expressed its appreciation for the work that had gone into their preparation.

RESOLVED –

- 1) That the Draft Summary of Statement of Accounts 2013/14 figures be checked and updated.

(ii) Performance Audit Programme Update

The Committee received for information the Wales Audit Office Improvement Assessment 2014-15 Programme update for September 2014

RESOLVED – That the report be noted.

(iii) Corporate Assessment Report

Steve Barry provided an overview of the report and highlighted some key messages.

The Committee was advised that the Council was making good progress in some areas, but in others there had been some slippage and improvements were needed.

The WAO welcomed the Organisational Development Plan (ODP) that the Chief Executive is putting together - a plan which he intends to subject to a peer review, with the aim of getting an assessment of how effective the plan will be at tackling issues it identifies. The WAO is satisfied by the further milestones that are in place and will be monitoring the situation.

The Corporate Assessment Report had highlighted non-compliance in some areas and the WAO had discussed this with the Chief Executive. The Committee suggested that issues around non-compliance should be addressed in the appraisals of Directors, Operational Managers and other officers, who should be held to account.

It was felt that it would be useful if the Chief Executive and the Leader attended a meeting of the Committee to give a briefing on the content and objectives of the ODP. The Committee should ask the Chief Executive how he plans to respond to the Corporate Assessment Report so that the Committee can monitor that response.

The Committee felt that it needed assurances that senior management is implementing the ODP and it was suggested that the Senior Management Statements (SMS) should be amended to include a question on this.

The Committee noted that the report states that the Council is not managing its land and property assets well, and it was suggested that more priority needs to be given to identifying these assets and their potential for income generation.

The Chair thanked the WAO for its report and said that the Audit Committee recognises that it has a responsibility to contribute to the Council's response to it.

RESOLVED –

- 1) The Leader and the CEO are to be invited to the Committee meeting on 8 December for discussion of the Organisational Development Plan (ODP) and how it will address required improvements, as identified in the Corporate Assessment Report.
- 2) The Audit and Risk Manager is to liaise with Steve Barry (WAO) on the production of a briefing that can be provided to the Committee prior to the meeting with the Leader and the CEO that will assist the Committee in its preparation for this discussion. The briefing is to include asset management and information on how performance management and accountability measures will be used to drive forward improvements.

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24: TREASURY MANAGEMENT

(i) Performance Report

Appendix 1 of agenda item 8.1 (Treasury Management – Performance Report) 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 was advised that in 2014/15 no external borrowing has been undertaken to date.

The Committee noted that the report states that ‘In the medium to long term, efforts will be made to restructure loans maturing in 2056/57’ and asked if it was possible to be more specific about what the medium to long term would be. The Committee was advised that in previous years the Council would have had the opportunity to address loan restructuring but three years ago the Treasury imposed a penalty on the Council for the early repayment of debt and it is now extremely costly to make early repayments.

RESOLVED – That the report be noted.

(ii) Treasury Management Annual Report

Annexes B and C of Appendix 1 to agenda item 8.2 (Treasury Management – Annual Report) 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 was informed that this is one of a series of three reports that have to go to the Full Council. It is intended as a position statement of key activities and issues for 2014/15.

The Committee asked for an explanation of the strategy that will be used for repaying debt. The Committee was informed that much will roll forward but it will depend on the size and affordability of the Council's capital programme and on the provision that has been made for the repayment of debt.

RESOLVED –

- 1) That the report be noted and commended to the Council.
- 2) The Annual Report or Mid Year report, if more practical, should contain a statement on the provision for repayment of debt as well as options considered to restructure loans maturing in 2056/57.

25: OPERATIONAL ITEMS

(i) Information Governance Consensual Audit Report

Discussion of this item was deferred to a later date.

26: WORK PROGRAMME – 2014/15

An Assurance summary bringing together risks and issues from a number of different sources and showing how these were being considered and progressed was discussed.

The Committee felt that this mapping exercise was very helpful in providing an overview on risks and issues to be addressed. It was considered important to make sure that the work of the Committee complements rather than duplicates the work of scrutiny committees, such as the Policy Review and Performance Scrutiny Committee (PRAP) and members of both should consider if this was working effectively. It was considered that some of the work on the programme could perhaps be better dealt with by PRAP or by the Children and Young People Scrutiny Committee. Scrutiny committees that have considered issues that would be of interest to the Audit Committee could then report back to it. It was agreed this could be part of discussion when the self assessment review is undertaken later in the year.

The Committee was advised that start times for meetings in 2014/15 have been changed and meetings will now start at 2pm and finish at approximately 5pm.

RESOLVED –

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- 1) The Chair, the Section 151 Officer and the secretariat are to consider the issues that have been raised in respect of agenda management.

27: MINUTES OF THE POLICY REVIEW AND PERFORMANCE SCRUTINY COMMITTEE

The Committee received the minutes of Policy Review and Performance Scrutiny Committee meetings of 6 May 2014, 3 June 2014 and 1 July 2014.

RESOLVED – That the minutes be noted.

28: URGENT BUSINESS

There was no urgent business.

29: DATE OF NEXT MEETING

The next meeting will be held on 8 December 2014 in Committee Room 4, County Hall, starting at 2.00pm.

The meeting closed at 5.00pm

Signed _____
Chairperson

Date _____