

AUDIT COMMITTEE

25 JUNE 2019

Present: Ian Arundale(Chairperson)
Gavin McArthur and David Price
Councillors Bale, Cunnah, Goddard, Singh and Williams

1 : APOLOGIES FOR ABSENCE

Apologies were received from D. Hugh Thomas and Councillors Howells and Lister.

2 : DECLARATIONS OF INTEREST

The following declarations of interest were received:

Cllr Bale	Item 7	Personal – Member of LGPS
Cllr Williams	Item 7	Personal – Member of LGPS

3 : APPOINTMENT OF CHAIRPERSON AND DEPUTY

RESOLVED – That Ian Arundale be appointed as Chairperson of the Committee and that D. Hugh Thomas be appointed as Deputy Chairperson of the Committee.

4 : MEMBERSHIP AND TERMS OF REFERENCE

The Committee's membership and terms of reference were noted.

5 : MINUTES

The minutes of the meeting held on 2 April 2019 were agreed by the Committee as a correct record and were signed by the Chairperson.

6 : OPERATIONAL MATTERS

7 : NEIL HANRATTY, DIRECTOR ECONOMIC DEVELOPMENT UPDATE ON INTERNAL CONTROL ENVIRONMENT

Members received a report in response to the Committee's request for an update on the internal control environment within the Economic Development Directorate. The Chairperson welcomed Neil Hanratty, Director of Economic Development who delivered a brief presentation outlining the directorate's responsibilities, achievements, and the risks associated with providing a range of duties, functions and services.

In respect of building and property risks, Members were advised of the governance arrangements through the Corporate Landlord Model, including the deployment of statutory obligation compliance software (RAMIS). The Director advised of additional software being rolled out to provide a holistic view of property performance.

The Director advised Members of the structure and process to manage and monitor strategic and operational risks. Reference was made to the Statutory Building Equipment Maintenance corporate risk, managed by the Health and Safety Compliance Board, chaired by the Chief Executive. Members were advised that significant progress has been made to mitigate this risk, including new improved statutory maintenance contracting arrangements; establishment of a Statutory Maintenance Team within Building Services; regular compliance reporting to SMT and managers; a refreshed School Buildings Handbook and Memorandum of Agreement; and a new service desk providing a single point of entry for customers.

Members were advised that the Directorate Senior Management Assurance Statement (SMAS) provides an overall strong application of governance and controls across the directorate, with a mixed position regarding the consideration and documentation of the Future Generations Act in decision-making.

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

- Members asked what changes have been made to the management structure within the department since the Assistant Director Commercial Services left post. The Director advised that senior management has been bolstered at OM1 level in respect of Corporate Landlord and Health and Safety framework delivery.
- A Member asked whether there have been any Health and Safety breaches, and for clarification of the role of the Health and Safety Advisory Forum group and wider governance. The Director stated that he could not guarantee that there have been no building concerns or issues, but there is increased control to provide assurance of ongoing compliance. Members were advised that compliance rates in schools were approximately 80% and continuing to increase. It was reported that Cabinet has provided additional resource, and 300 surveys have been completed to date. The Directorate's Health and Safety Committee has regular meetings with Trade Unions colleagues, which feed into the Health and Safety Advisory Forum.
- A Member considered that during the transition to the Corporate Landlord Model a school in their ward missed deadlines for inspections, and asked if the transition is putting children at risk. The Director stated that schools have discretionary spend, and that there is a Handbook for Schools to support the understanding of Council and School responsibilities. Reference was made to the One Front Door Service Desk as a process for assurance, with Members advised that a checking system has been put in place.
- Members of the Audit Committee raised various School Health and Safety examples. The Chair suggested that the Corporate Director Resources and Director of Economic Development communicate directly with the Members of the Committee who have raised specific Health and Safety queries. Following this, relevant Audit Committee information and engagement can be determined and arranged, as appropriate.

- A Member asked for information on the funding and oversight arrangements for the £10 million funding to develop the AHRC Creative Industry Cluster. The Director of Economic Development stated that Cardiff University leads the project in partnership with the BBC and the Council. The funding is to promote creative industries and to support businesses in the sector. The project is independent of the Council, but based at City Hall and a Cabinet Member sits on the project board.
- Members asked the Director to explain particular risks and exposure in relation to income generation. The Director stated that £37.8 million was generated in venues such as St David's Hall, New Theatre and Cardiff Castle. The Directorate was dependent on income, which is subject to risk in fluctuating markets that are outside the authority's control. These risks are mitigated by regular budget monitoring. The Directorate is looking at new opportunities to generate income across all venues but venues are also subject to competition.

RESOLVED – That:

- (1) The report be noted;
- (2) The Corporate Director Resources and Director of Economic Development to clarify any specific Health and Safety queries with Councillors Bale, Cunnah and Williams. Following this, relevant Audit Committee information and engagement is to be determined and arranged.

8 : FINANCIAL UPDATE INCLUDING RESILIENCE ISSUES - VERBAL UPDATE

The Committee received a verbal update on the financial position. Members were reminded that the final 2018/19 Outturn Report for Cabinet was circulated on 10th June, in which a balanced position was reported, but with some variances within Directorates. Members were also advised that a Cabinet report would be published in July on the Budget Strategy for 2020-21 and the Medium Term Financial Plan.

A Member asked for an update on the pension deficit position. The Corporate Director stated that regular meetings are held with the pension fund actuary and the authority has not been alerted to any concerns in this regard. An updated strategy and valuation process is required as part triennial arrangements and updates will be reported to the Pension Committee and Board during the Autumn.

A Member asked if the pension scheme is still cash positive, meaning more is being paid in via contributions than paid out. The Corporate Director advised that the scheme remains cash positive, and advised that the scheme can still operate as cash negative, but in this circumstance an appropriate change in the overall investment strategy may be required.

RESOLVED – That the financial update be noted.

9 : DRAFT STATEMENT OF ACCOUNTS 2018-19

The Head of Finance, Operational Manager, Capital, Corporate & Treasury and a Group Accountant presented the draft Statement of Accounts 2018-19. Members were advised that the accounts were signed by the responsible officer prior to the statutory deadline and are currently subject to external and public inspection along with the Annual Governance Statement. Members were asked to submit questions and comments until 15 July 2019.

The accounts were prepared in accordance with the CIPFA code of practice.

- Members sought clarification of the nature of additional payment made to a senior officer, as set out in the notes to the financial statements. The Head of Finance stated that the payment was contractual, and agreed to confirm the breakdown of the payment to Members of the Committee.
- A Member asked whether payments made in terms of non-disclosure agreements are reflected in the accounts and how much has been paid to staff as a result of failed H.R. actions. The Head of Finance stated that details of exit payments, which include non-disclosure agreement payments, are set out in the notes to the financial statements, but a breakdown of those payments is not included. The Corporate Director Resources reminded the Committee that he recently wrote to all Members to provide information on this matter.
- A Member questioned the purpose of the Strategic Budget Reserve as a Financial Resilience Mechanism is in place. The Corporate Director Resources stated that the MTFP anticipated a further reduction in budgets and there was a need to maintain a contingency in order to protect against, for example, changes to the settlement grant and/or saving targets not being achieved. The level of reserves is kept under review and will be risk assessed as part of the budget planning process.
- The Committee asked how the £2.452 million payment to HMRC had been calculated. The Head of Finance stated that the figure represented a VAT rebate due from HMRC, which was treated as a payment on account. Whilst there is no present Council liability, were the position to change, the Council would be required to pay interest on account. The purpose of this payment on account is to offset a potential interest cost, and does not represent an admission of liability.
- A Member requested information on the value of potential liability in respect of landfill tax to HMRC. Members were asked to note that the draft Statement of Accounts states 'it is not possible to quantify or provide a reliable estimate of any liability at this stage'. The Head of Finance stated that the former Corporate Director Resources provided the Committee with a confidential briefing on this matter last year. Member were advised that

the position has not changed. The Head of Finance agreed to circulate the confidential briefing paper previously provided to Audit Committee Members who joined following the original circulation.

- Members asked for an update on the level of spend on consultancy fees in relation to the ongoing HMRC landfill tax assessment. The Head of Finance confirmed that consultants were still being used and he would provide an update of the costs up to and including 25 June 2019.

RESOLVED – That:

- (1) The report be noted;
- (2) The Head of Finance to confirm the breakdown of the payment to the Assistant Director Commercial Services in the notes to the financial statements;
- (3) Audit Committee be provided with the current value of spend on landfill tax consultancy in respect of HMRC matters as at 25 June 2019;
- (4) The previously shared confidential briefing on the potential landfill tax liability is to be made available to Audit Committee Members who joined after the briefing was provided.

10 : ANNUAL GOVERNANCE STATEMENT (AGS) AND SENIOR MANAGEMENT ASSURANCE STATEMENT 2018-19

The Head of Finance presented a report on the Annual Governance Statement (AGS) and Senior Management Assurance Statement (SMAS) 2018-19. Members were asked to consider whether the statements properly reflect the risk environment and supporting assurances of the Council's framework of governance, risk and internal control.

A Member advised that he will be requesting a minor change within the next item to the Audit Committee Statement. As the same statement is included within the AGS and the Audit Committee Annual report it was agreed that any adjustments delegated to the Audit Manager to make would be reflected in both documents.

A Member asked whether the Government's announcement to commit to a move towards carbon neutrality would be incorporated within the governance framework. The Head of Finance stated that as this was a recent announcement it would require consideration, but as carbon neutrality forms part of the Future Generations agenda it could be considered within this area of assurance.

Reference was made to the paragraph included on the Health and Safety Advisory Forum for which matters are to be considered through the earlier action.

RESOLVED – That the report be noted.

11 : AUDIT COMMITTEE ANNUAL REPORT 2018-19

The Audit Manager presented the Committee with a draft Audit Committee Annual Report 2018/19 for consideration. Members were reminded that the report was prepared following Audit Committee consideration of its indicative position in its meeting of 22 January 2019. The report also contained the Committee's self-assessment results and Action Plan from its workshop in January, as approved in its meeting of 2 April 2019. Members were asked to consider and approve the report as an account of its work, performance and opinion.

Members approved the contents of the report, delegating authority for the Audit Manager to make minor adjustments, firstly within the opinion of the Audit Committee, to amend the wording to reflect that the Audit Committee has focussed on the framework for financial decisions, rather than on actual decisions. Additionally, to amend the reference to Audit Committee 'deep dives' to reflect the fact that the nature of these reviews was of 'more focus', rather than deep dives.

RESOLVED – That:

- (1) The Audit Committee Annual Report 2018/19 be approved and the Audit Manager be delegated authority to make any minor amendments, as required.
- (2) The Audit Manager amend Audit Committee Annual Report and corresponding AGS wording to reflect that:
 - the Audit Committee has focused on the framework for financial decisions, rather than focussing on actual decisions
 - reference to Audit Committee 'deep dives' will be adjusted to reflect the fact that the nature of reviews was of more focus, rather than deep dives.

12 : CORPORATE RISK MANAGEMENT (YEAR-END)

The Head of Finance, OM - Budget Strategy & Financial Planning, and Group Accountant presented the Corporate Risk Assessment Report for Q4 2018/19. Members were asked to note that the format of the report has been amended and officers highlighted the main changes. A cleanse of the narrative contained within the report was also underway. Members were advised that if further information was required on a particular risk, a briefing or Committee item could be arranged.

The Chairperson invited comments from the Committee. Those discussions are summarised as follows:

- Referring to the Workforce Planning risk, a Member asked at what point a risk would be removed from the CRR and whether there was a process in place for doing so. The Head of Finance stated that the CRR lead officers can propose risk removals, but the decision is made by SMT. In the case of Workforce planning, the risk is tied to the MTFP and has required ongoing review. A Member suggested that a risk log could be introduced to record when risks are removed from the register and the reason. The Head of Finance advised that a record is

held of such actions, and is in particular use for directorate risks, which are subject to greater risk creation and removal. The Member suggested that the approach is formalised within a future iteration of the Risk Management Strategy.

- Members requested an update on the preparations the authority was making in terms of mitigations for the potential of a 'No Deal Brexit'. The Head of Finance stated that arrangements were been made at a national level on behalf of all public bodies in Cardiff and the region. For example the Director of Social Services is in constant communication with NHS colleagues and it may be possible that further information on that could be included. The Head of Finance reminded the Audit Committee that they were reviewing the quarter 4 2018/19 risk register, and that further information is to be provided in the quarter 1 2019/20 update. Comments were received on a need to improve the completeness of the Brexit Risk, which the Head of Finance agreed to discuss with SMT, and for consideration to be given to further Brexit updates.
- A Member requested further information on the role and assurance of the Local Resilience Forum, for which it was agreed that a briefing paper would be provided to Committee.
- A Member suggested that Risk Champions should also be challenged on incomplete actions or those that are not embedded, examples of which were set out in the document. The Member considered that the CRR includes some statements, which are not controls. The OM - Budget Strategy & Financial Planning advised they were aware of this, and that as part of the cleanse such instances will be looked at.

RESOLVED – That:

- (1) The report be noted;
- (2) The Head of Finance to report Audit Committee comments to SMT on enhancing the information within the Brexit Corporate Risk, and to arrange Committee updates on 'Brexit' risk management as appropriate.
- (3) Audit Committee to receive a briefing on the role and assurance provided by the South Wales Local Resilience Forum.

13 : WAO ACTIVITY/REPORT PROGRESS UPDATE

Phil Pugh, Financial Audit Manager of the Wales Audit Office (WAO), provided a progress update to the Committee. Attention was drawn to a report issued on the Counter Fraud Landscape, which may be of interest to the committee, and is of relevance to the later item on the Council's Counter-Fraud and Corruption Strategy. The report highlighted that the Auditor General subject to further consultation with the Public Accounts Committee, is minded to undertake a further, more detailed review of counter fraud arrangements across the Welsh public sector over the next 18 months. The Audit Manager stated that the report has been circulated and the information and

modelling contained in the report has been useful in developing the Investigation Team Annual Report 2018-19.

A Member asked whether there would be any scope for elected Members to feed into the report. The Member was advised that the teams delivering reports consider the benefits of consultation within each particular audit study.

The Financial Audit Manager was advised that the Audit Manager will be in touch to arrange a pre-meeting with WAO before a future Committee meeting, as previously offered by Ann-Marie Harkin, Engagement / Financial Audit Director.

RESOLVED – That the report be noted.

14 : TREASURY MANAGEMENT PERFORMANCE REPORT

The Committee received a report from the Operational Manager – Capital, Corporate and Treasury on the performance information and position statement on Treasury Management as at 31 May 2019.

Members asked whether the Committee should be provided with a statement of potential future borrowing. The Operational Manager stated that borrowing requirements are assessed as part of the budget strategy and are dependent on markets and interest rates, etc. The officer considered that it would be disadvantageous to assess the level of borrowing as the position needs to remain fluid.

The Operational Manager was asked to explain why the report does not articulate features in the market so as to assess risk/opportunity during the course of the year. The Operational Manager was happy to consider how best to explain the rationale and context for making decisions.

A Member queried the funds held at Coventry Building Society following a reduction in credit rating. The Operational Manager explained that we benefit from having criteria and keeping them under review showing the process we adopt. The ratings of the building society had fallen beneath the council's minimum threshold. The funds held will be allowed to mature and then no further funds would be placed in accordance with criteria. Members asked how appropriate it was for the authority to be investing in another local authority. Members were advised that it is not uncommon for local authorities to invest in other local authorities across the UK. This is in accordance with our agreed counterparty list and strategy.

A Member noted that there was a 'geographical' spread of investments and asked whether any ethical standard was applied. The Operational Manager stated that the authority was investing in sterling products and the geographical reference was in reference to where those accounts are held. Investment decisions are made based on advice received from independent advisors and underpinned by the Treasury Management Investment Strategy. The Operational Manager reminded the Committee that they considered the Treasury Management Strategy in January 2019, which contained no ethical investment element.

RESOLVED – That:

- (1) The report be noted;
- (2) The Operational Manager, Capital, Corporate & Treasury to:
 - prepare a note for a future Audit Committee meeting on the nature of treasury management investments and risks, including the approach to ethical investments, and to;
 - consider ways of providing wider information and context in relation to borrowing activities in future treasury performance management reports to the Audit Committee.

15 : INTERNAL AUDIT STRATEGY AND PROGRESS REPORT

The Audit Manager presented the Internal Audit Strategy and Progress Report. Members were advised that the Strategy links with the Charter and Audit Plan and provides a focal point of strategic intentions in delivering and developing audit engagements. Members were asked to note that 20 reports have been issued and 11 reports are concluded, and attention was drawn to the critical findings, value for money assurances, executive summary for the unsatisfactory report issued, and the recommendation progress.

A Member asked whether there was scope within the strategy to discuss opportunities to communicate the outcomes of Internal Audit and its work more widely. The Audit Manager agreed to discuss wider communication with colleagues in the Communications Team.

Members asked whether Internal Audit would share information with external agencies such as Estyn in respect of school inspections. The Audit Manager stated that Estyn publish inspection reports that provide useful context for Internal Audit. The Audit Manager would be open to sharing relevant information with Estyn if a request was received.

The Committee asked whether the Cardiff and Vale Music Service was engaging positively with colleagues in Internal Audit, and if management are aware of the progress. The Audit Manager advised that the follow up audit considered there had been insufficient progress, which management are aware of, and for which progress will continue to be monitored through the recommendation tracker process.

RESOLVED – That:

- (1) The report be noted;
- (2) Audit Manager to meet with Corporate Communications Officers, to consider opportunities to communicate the outcomes of Internal Audit, and its work more widely.

16 : INVESTIGATION TEAM PROGRESS UPDATE & DRAFT COUNTER-FRAUD AND CORRUPTION STRATEGY

The Audit Manager presented a progress report for the Investigation Team. Members were advised that a recruitment process is being initiated for an additional investigator given the ongoing sustained work requirements for the team, and the aspirations of the Counter-Fraud and Corruption Strategy.

Members were asked to note that the development of the Counter-Fraud and Corruption Strategy, for which the focus is on organisational awareness and communication, through which mandatory training will be delivered and the Council will participate in the International Fraud Awareness Week in November. A Member commended the Strategy and considered it to be focussed. It was suggested that, as a presentational point, fraud and corruption were of equal concern, and the strategy should therefore be communicated as such.

RESOLVED – That the report be noted.

17 : INTERNAL AUDIT ANNUAL REPORT 2018/19

The Audit Manager presented the Internal Audit Annual Report drawing attention to the annual opinion on the adequacy and effectiveness of the systems of governance, risk management and control, and the summary of work supporting the opinion. The Audit Manager also reported conformance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN), and the results of the Quality Assurance and Improvement Programme (QAIP) that support the statement.

RESOLVED – That the report be noted.

18 : INVESTIGATION TEAM ANNUAL REPORT 2018/19

The Committee received the Investigation Team Annual Report 2018/19. The report set out the activity and performance of the team for the year. Activity was primarily split between investigations, delivery of training and reviewing key fraud, bribery and corruptions related policies and guidance.

Members were advised that the Team was significantly involved in supporting the police investigation into alleged fraud within Waste Management. The Investigation Team has also led on the development of the Council's Counter Fraud and Corruption Strategy.

The Committee discussed the Annual Report. A Member considered that it may be useful to record cases of corruption separately, to which the Audit Manager advised that this would be challenging, but that consideration will continue to be given to reporting components going forward.

RESOLVED – That the report be noted.

19 : SCRUTINY CORRESPONDENCE

No scrutiny correspondence was received.

20 : OUTSTANDING ACTIONS

The outstanding actions were noted.

21 : WORK PROGRAMME UPDATE

The Committee Work Programme was noted.

22 : URGENT ITEMS (IF ANY)

No urgent items were received.

23 : DATE OF NEXT MEETING

The next meeting of the Committee will take place on 10 September 2019.

The meeting terminated at 4.30 pm

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