

## AUDIT COMMITTEE

Minutes of a meeting held on 1<sup>st</sup> July, 2019.

Present: Councillors G.D.D. Carroll, Mrs. P. Drake, Dr. I.J. Johnson, K.F. McCaffer, Mrs. J.M. Norman, L.O. Rowlands and M.R. Wilson; and Mr. P. Lewis (Lay Member).

Also present: Mr. A. Veale (Wales Audit Office).

### 107 APPOINTMENT OF CHAIRMAN –

RESOLVED – T H A T Councillor G.D.D. Carroll be appointed to the position of Chairman for the Municipal Year.

### 108 APPOINTMENT OF VICE-CHAIRMAN –

RESOLVED – T H A T this matter be deferred to the next Audit Committee meeting in order for the Monitoring Officer to consider whether a Member of an Executive Group should be appointed to the position of Vice-Chairman.

### 109 MINUTES –

RESOLVED – T H A T the minutes of the meeting held on 30<sup>th</sup> April, 2019 be approved as a correct record.

### 110 DECLARATIONS OF INTEREST –

Councillor M.R. Wilson declared an interest in respect of Agenda Item No. 8 – Corporate Risk Register Quarter 4 Update. The nature of the interest was that Councillor Wilson was employed by the Cardiff and Vale College and had received dispensation from the Standards Committee to speak and vote on such matters.

### 111 ANNUAL GOVERNANCE STATEMENT 2018/2019 (MD) –

The Head of Finance presented the report, the purpose of which was to submit the Annual Governance Statement for review and to recommend its adoption by the Leader of the Council and the Managing Director. The Council was required to produce an Annual Review within the Statement of Accounts which provided an overall statement of the Council's corporate governance arrangements and an appraisal of the controls in place to manage the Council's key risks and to identify where improvements needed to be made.

The Annual Government Statement for 2018/19 concluded that the governance arrangements within the Vale of Glamorgan for the financial year 2018/19 were operating soundly and there were no fundamental control weaknesses.

A Committee Member referred to page 8 of the draft Annual Governance Statement 2018/19 and stated that for the Public Opinion Survey and the overall satisfaction rate which had fallen from 92% to 87%, the inclusion of the word “slightly” was an opinion and needed to be taken out. In addition, the Member stated that the word “relatively” was again an opinion and needed to be removed. In relation to page 9, the Member stated that he was unsure whether the 57% return rate for the 2018 Employee Survey was good or bad and he asked for this to be quantified. With reference to page 15 and the Member Induction Programme, the Member queried whether something similar was available for new staff members and whether induction training was generic. The Member also queried the definition of Corporate Health and he asked for a definition to be included of the Insight Board. In relation to page 23, the Member sought clarification on the Working Groups / Projects and how they were formed and what were their Terms of Reference. Finally, the Member referred to page 27 and whether governance arrangements and the impact of increased public participation at Scrutiny could be looked into.

In reply to the Member’s comments and queries, the Head of Finance stated that the amendments to page 8 would be carried out. In relation to page 9 and whether 57% was a good response rate, she stated that this was considered strong. With regard to Induction Programme, she stated that all new staff attended a one day briefing session which covered how the Council worked, including the role of Cabinet with information being provided by all Directorates. In addition, there was a suite of training material available on i-Dev which was generic for all staff. The Head of Finance agreed that a definition of Corporate Health and the Insight Board would be included. She also confirmed that the Working Groups referred to on page 23, all would have Terms of Reference with prior agreement of membership and all meetings were minuted and reported back to higher boards or to the Corporate Management Team. Finally she stated that reference to greater participation at Scrutiny would be included.

A Committee Member queried who the intended audience for the Governance Statement would be and stated that the level of explanations needed to be greater. The Member referred to page 13 and Principle D around the interventions necessary to optimise the achievement of the intended outcomes, and asked for this to be backed up by evidence. The Member also asked for clarification in relation to page 7 and whether the document should read “Butts Fields” as this could refer to two areas in Barry. In reply to the Member’s comments, the Head of Finance stated that the document should be accessible to everyone in order to provide a good summary of the work of the Council. Therefore, the document needed to be worded carefully and not in “corporate speak”. The Head of Finance stated that she would clarify the area referred to as “Butts Fields”.

In addition, the Committee referred to Principle B and ensuring openness and comprehensive stakeholder engagement, for commentary to outline how the Council

had carried out consultation exercises and how this had shaped service delivery. The Head of Finance agreed for this to be included.

Subsequently, it was

RESOLVED –

(1) T H A T the Annual Governance Statement for 2018/2019 be amended in order to reflect the comments of the Audit Committee raised at its meeting held on 1<sup>st</sup> July, 2019.

(2) T H A T, subject to the amendments, following consideration by the Audit Committee, the Annual Governance Statement for 2018/2019 be recommended for adoption by the Leader and Managing Director.

#### Reason for decisions

(1&2) To provide for a review of the governance framework and the system of internal control, which has been in place within the Council for the year ended 31<sup>st</sup> March, 2019.

#### 112 WALES AUDIT OFFICE – AUDIT ENQUIRIES TO THOSE CHARGED WITH GOVERNANCE AND MANAGEMENT (MD) –

The Head of Finance presented the report, the purpose of which was to inform Members of the information provided to the Wales Audit Office as part of the annual audit of accounts.

The Wales Audit Office, in its audit of the Council's financial accounts for the year ending 31<sup>st</sup> March, 2019, was required to conduct the audit in accordance with the requirements set out in International Standards of Auditing (ISAs).

As part of the requirements of the ISAs, the Wales Audit Office wrote to the Head of Finance on 20<sup>th</sup> March, 2019 seeking views on a number of governance areas impacting upon the audit of accounts relevant to both Management and those charged with governance.

Those areas of governance where views were sought were identified in Annex A to the report along with the Council's response and encompassed within:

- Matters in relation to fraud – Appendix 1
- Matters in relation to laws and regulations – Appendix 2
- Matters in relation to related parties – Appendix 3.

Having considered the report, it was

RESOLVED – T H A T the contents of the report be noted.

## Reason for decision

In order to make the Audit Committee aware of the process and arrangements in place.

### 113 CORPORATE RISK REGISTER QUARTER 4 UPDATE (MD) –

The Head of Policy and Business Transformation presented the report, the purpose of which was to update Audit Committee on the Quarter 4 position of corporate risks for April 2018 – March 2019 contained within the Corporate Risk Register as outlined in the Corporate Risks Summary Report.

The appended Risk Summary Report (Annex A) provided an overview of the Quarter 4 position (April 2018 – March 2019) of risks contained within the Corporate Risk Register (Annex B).

During Quarter 4, the Council's style of risk reporting had been reviewed to reflect the feedback received from Audit Committee in February 2019. At this meeting, Audit Committee indicated that the current risk report and the associated Register were considerable in size and recommended that consideration should be given to improving its format.

In response to this, the format of the risk report had been refreshed and streamlined. Previously the risk report incorporated a detailed analysis of Corporate Risks in the covering Committee report alongside a Risk Report and the detailed Risk Register.

The new format presented the risk analysis element in the body of the Risk Summary Report (as opposed to the accompanying Committee report). This provided a more concise way of illustrating the headline issues and considerations with regard to risk. The new report format also enabled users to be able to have a good overview of the status of risks across the Register as well as the emerging issues and provided the ability to link to the Register in order to drill down into the detail of individual risks as required.

The Head of Policy and Business Transformation highlighted that the Committee was being asked to consider adding Brexit as a risk in its own right and to endorse the removal of Contract Management risk from the Risk Register.

A Committee Member stated that there had been some risks contained within the Register for a considerable amount of time, these being Deprivation of Liberty Safeguards and the new Social Services Information System – Wales Community Care Information System (WCCIS). In reply, the Head of Policy and Business Transformation stated that an update report on Deprivation of Liberty Safeguards would be provided at the next meeting and this area of risk had been due to the sheer volume assessments and the capacity of the service to respond. In addition, the Head of Finance stated that extra legal support had been provided in order to speed up the assessment process. In relation to the WCCIS, the Head of Policy and

Business Transformation stated that there were a number of issues around the implementation of the new system but work to resolve these issues were at hand.

In reply, to a query regarding slippage to risk CR7 Environmental Sustainability, the Head of Policy and Business Transformation stated that this would be considered over the next few months and that there was a lot of activity around this within Environmental Services. In addition, work was underway to merge actions in order for the Council to have a better strategic understanding.

With regard to the removal of Contract Management risk from the Risk Register, the Head of Policy and Business Transformation highlighted that the area of independent domiciliary care was being monitored, particularly in terms of the the fragility of the domiciliary and residential care markets for which an analysis was underway.

A Committee Member stated that following a BBC programme regarding the use of plastics, greater consideration needed to be given around the Council's environment and waste policy. In addition, the Member stated that when source separation recycling would come into being, then this needed to be highlighted as an area of high risk and so greater public information needed to be provided. In reply, the Head of Policy and Business Transformation stated that the timing of the BBC programme coincided well with the Council's new waste management plan and this would be highlighted as a key theme within the Council's new Corporate Plan. In addition, waste management had been an area of review by the Wales Audit Office and a report detailing the outcome would be provided to the Audit Committee.

The Member also referred to page 8 and Risk CR1 Reshaping Services regarding Community Asset Transfers, the Member stated that use of the term 'progressing well' was an opinion. He also asked for clarification of when guidance will be completed. In reply, the Head of Policy and Business Transformation stated that this would be clarified.

With regard to additional funding of £20m provided for Welsh Government for people with Additional Learning Needs (ALN), a Committee Member stated that it was important for the Council to ensure that this funding was reaching the right people and he queried whether the Council had sufficient resources to meet increased demand. In reply, the Head of Policy and Business Transformation stated that the Risk Register needed to fully consider all legislative changes, especially where demand for services was increasing. He stated that there would be an update on the ALN provision in the Quarter 1 update for 2019/20.

In addition, the Committee made the following comments:

- Was the new Disclosure and Barring Service (DBS) available for Town and Community Councils;
- Was there a shared bibliography administration that all libraries across the Vale could use;

- In relation to security software, the Council used Veronis and Clear Swift and a Member stated why could the Council not use five or six data security systems.

In regard to the above, the Head of Policy and Business Transformation stated that the new DBS system would be made available to Town and Community Councils, and he advised that the new system would speed up the vetting process. The Head of Policy and Business Transformation stated that clarification on the other two points would be sought from the appropriate officers and fed back to Members of the Committee.

Furthermore, the Committee considered that it was useful for the Risk Register to contain a list of acronyms and abbreviation. The Chairman then asked whether the Council had enough resources in order to meet greater challenging targets around the environment and climate change. In response, the Head of Policy and Business Transformation stated that an update would be provided for Quarter 1 2019/20 which would include tracking of resources implications.

Having considered the report, it was

RESOLVED –

- (1) T H A T the new style of Corporate Risk report be endorsed.
- (2) T H A T the Quarter 4 position of corporate risks for the period April 2018 – March 2019 be noted.
- (3) T H A T the inclusion of Brexit as a risk on the Register be endorsed.
- (4) T H A T the removal of Contract Management risk from the Risk Register be agreed.
- (5) T H A T the report be referred to Cabinet for its consideration and endorsement.

#### Reasons for decisions

- (1) To present and gain approval for a new style of Corporate Risk Reporting.
- (2-4) To identify the Quarter 4 position of corporate risks across the Council and highlight any emerging issues and actions to be taken.
- (5) To ensure Cabinet receives a Quarter 4 position on the Corporate Risk Register and endorses the recommendations contained within the report.

## 114 UNAUDITED STATEMENT OF ACCOUNTS 2018/19 (\$1510) –

The 2018/19 Statement of Accounts for the Vale of Glamorgan was attached at Appendix A to the report and had been prepared in accordance with the requirements of the International Financial Reporting Standards (IFRS). This was intended to provide for comparable accounts across all accounting boundaries, public and private, national and international. The Shared Regulatory Services Joint Committee 2018/19 Unaudited Statement of Accounts was attached at Appendix B and the Vale, Valleys and Cardiff Adoption Service Joint Committee's Annual Return 2018/19 was attached at Appendix C.

Under the Accounts and Audit (Wales) Regulations 2014 (as amended), the Statement of Accounts must be certified by the Section 151 Officer before 15<sup>th</sup> June, 2019 as presenting a true and fair view. The 2018/19 Statement of Accounts for the Council and Shared Regulatory Services and also the Annual Return for the Vale, Valleys and Cardiff Regional Adoption Service were certified as such on 14<sup>th</sup> June, 2019.

The 2018/19 Vale of Glamorgan Statement of Accounts would be subject to external audit and the audited accounts would be presented to Audit Committee in September 2019 along with the external auditors' ISA260 report prior to being submitted for approval by Council and signed by the Auditor General before 15<sup>th</sup> September, 2019.

The 2018/19 Shared Regulatory Services Joint Committee Statement of Accounts would also be subject to external audit and the audited accounts would be presented to Audit Committee in September 2019 along with the external auditors' report for review. The accounts would also be submitted for approval by the Shared Regulatory Services Joint Committee.

External audit extended to the Annual Governance Statement for both the Vale of Glamorgan Council and the Shared Regulatory Service. The Annual Governance Statement for the Vale of Glamorgan Council was not included in the version attached at Appendix A as it was included under a separate item on the Audit Committee agenda. The Annual Governance Statement for the Shared Regulatory Service was included in Appendix B.

The Vale, Valleys and Cardiff Regional Adoption Service accounts were not subject to a full external audit by Wales Audit Office, but an Annual Return had been completed by accountancy and internal audit as at 15<sup>th</sup> June, 2019 and was attached at Appendix C. Wales Audit Office would be providing a limited assurance audit for the service.

In addition to the above matters, the Principal Accountant provided additional context in regard to the Vale of Glamorgan accounts for 2018/19 and referred to specific issues that had been addressed within the accounts. The key points being:

- As at 31<sup>st</sup> March, 2019, the Council Fund stood at £13.6m with the earmarked reserves being £69.523m;

- The Council achieved the Welsh Housing Quality Standard (WHQS) by the end of March 2018, however, further capital investment of over £11m was made as part of a continuing Housing Improvement Programme;
- The balance for the Housing Revenue Account at 31<sup>st</sup> March, 2019 stood at £2.668m;
- Pension liabilities during 2018/19 were £215.181m;
- An analysis of expenditure and funding was provided on page 13 which indicated a £1,824m underspend to expenditure chargeable to the General Fund and the Housing Revenue Account;
- Page 14 included a comparison in the movement of reserves between 2017/18 and 2018/19.
- A statement of comprehensive income and expenditure was included on page 15;
- The Council's balance sheet on page 16 showed the value of assets and liabilities held by the Council at 31<sup>st</sup> March, 2019 stood at £351.453m.

The Principal Accountant was asked to clarify Note 44 Pension Assets and Liabilities. The Committee was advised that the liabilities were different to reserves and that the accounts had been adjusted for Shared Regulatory Joint Committee Pension Liabilities which were not reflected in the disclosure notes.

A Committee Member asked for clarification regarding the capital receipts from the sale of houses. The Member also asked for clarification regarding the valuation of assets and the importance of underspends and what these meant in the longer term and how these could impact on the future position. In reply, the Principal Accountant stated that as there was a large underspend within Council Tax which was unreliable, caution had been applied as the interest rates for borrowing could change. Therefore, the Council Tax underspend would not always be there as a fall-back position. With regard to capital receipts, the Principal Accountant confirmed that this came through the new "Right to Buy" scheme and also as a result of receipts received for the development of the former St. Cyres Lower School site. Members noted that some narrative in relation to capital receipts would be included in the final Statement. In terms of valuation of assets, the Principal Accountant outlined that this related primarily to school buildings and the cost for building a replacement. This would be undertaken through a prescribed revaluation process. In addition, the Principal Account highlighted that in regard to pension liabilities, what was being experienced was similar to other Local Authorities across Wales and that the Vale of Glamorgan was in a more positive position. In regard to valuation of assets, Mr. Veale from the Wales Audit Office stated that revaluation would not be at the market value and it was important to recognise that it was not the Council's intention to sell all school buildings. Therefore, this was just an accountancy term and would not have a major impact on the Statement of Accounts.

The Committee requested for clarification to be provided in relation to Note 35 – Members' Allowances. The Principal Accountant agreed that the figures would be checked.

In relation to Officer Remunerations, detailed on pages 60 and 61 of the Vale's Statement of Accounts, a Committee Member asked for the pay ratio between the

lowest paid staff and those on the highest salaries to be included. In addition, the Member asked for clarification regarding the inclusion of staff employed by School Governing Bodies. In addition, the Committee suggested for a further table to be included in order to show separate information for School staff. The Head of Finance agreed that this would be considered and a check undertaken of the way that other local authorities presented their information.

The Committee then considered the Shared Regulatory Services Joint Committee Statement of Accounts attached at Appendix B and also the Vale, Valleys and Cardiff Joint Committee Annual Return 2018/19 attached at Appendix C. Following the summary of Appendix B and C by the Principal Accountant, the Committee queried the new reporting deadlines for 2020 and 2021 and concern was raised that the tighter timescales could result in more misstatements. In reply the Principal Accountant stated that it was likely that there would be more misstatements, but there were also some benefits to earlier reporting deadlines, such as, the Council being able to be more forward focus.

Subsequently, it was

RESOLVED –

- (1) T H A T the unaudited Vale of Glamorgan Council Statement of Accounts for 2018/19 be reviewed and the comments of the Committee referred to the Head of Finance as Section 151 Officer for subsequent discussion with the Council's external auditors, Wales Audit Office.
- (2) T H A T the unaudited Joint Committee Shared Regulatory Services Statement of Accounts for 2018/19 be reviewed and any comments of the Committee be referred to the Head of Finance as Treasurer of the Joint Committee for subsequent discussion with the external auditors, Wales Audit Office.
- (3) T H A T the Annual Return for the Vale, Valleys and Cardiff Regional Adoption Service 2018/10 be reviewed and comments of the Committee referred to the Head of Finance as Treasurer of the Joint Committee for subsequent discussion with the external auditors, Wales Audit Office.

#### Reasons for decisions

- (1) Following the Committee's initial review of the unaudited Vale of Glamorgan Council Statement of Accounts for 2018/19.
- (2) Following the Committee's initial review of the unaudited Shared Regulatory Services Joint Committee Statement of Accounts for 2018/19.
- (3) Following the Committee's initial review of the unaudited Vale, Valleys and Cardiff Regional Adoption Collaborative Service Annual Return for 2018/19.

## 115 AUDIT COMMITTEE'S TERMS OF REFERENCE (HRAS) –

The Head of Regional Audit Service presented the report, the purpose of which was to allow the Committee to consider its Terms of Reference.

The Audit Committee's Terms of Reference were included within Section 13.15(k) of the Council's Constitution and were attached at Appendix A to the report. It was intended to compare these against the Regional Audit Shared Service partners' Terms of Reference to ensure that they were up to date and fit for purpose.

Having considered the report, it was

RESOLVED – T H A T the current Terms of Reference for the Audit Committee and the proposed review be noted.

### Reason for decision

To ensure that the Audit Committee's Terms of Reference were fit for purpose.

## 116 OUTTURN REPORT APRIL 2019 TO MAY 2019 (HRAS) –

The purpose of the report was to inform Members of the actual Internal Audit performance against the first two months of the Internal Audit Risk Based Plan.

The current position against Quarter 1 of the 2019/20 Risk Based Plan was attached at Appendix A to the report. An indication of the current position in regard to each proposed area identified for review in Quarter 1 had been provided. It should be noted that it was very early in the financial year and the audit work on many areas identified for review had only just commenced.

The Plan was compiled based on all posts being filled. However as previously reported, the structure of the new Regional Service was yet to be finalised hence current vacant posts remained unfilled. Therefore the services of the South West Audit Partnership (SWAP) had been commissioned in order to address in part some of the shortfall in days necessary to complete the Plan. This arrangement was likely to continue during the first half of the current financial year and a maximum of 70 audit days would be provided across Bridgend and the Vale.

As it was only two months into the start of the new Audit Plan, no significant weaknesses in the system of internal control had been identified so far to date.

Subsequently, it was

RESOLVED – T H A T the Outturn Report April 2019 to May 2019 be noted.

### Reason for decision

To keep the Audit Committee informed on the overall control environment at the Council.

#### 117 CORPORATE FRAUD REVIEW 2018/19 (HOF / S1510) –

The report summarised how the Council managed the risk of fraud with the aim of prevention, detection and subsequent investigation and reporting of fraud.

The Fraud Strategy and Framework 2018/19 – 2020/21 was reported to Audit Committee in November 2018 and it continued to underpin the Council's commitment to prevent all forms of fraud, bribery and corruption, whether it be attempted externally or from within. The Framework included reactive and proactive work, the proactive work being presented in an Action Plan. The Action Plan had been updated and the current position was shown at Appendix A to the report.

The Council also participated in the National Fraud Initiative (NFI). This was a biennial exercise co-ordinated in Wales by the Wales Audit Office. Data was extracted from the Council's systems and reports containing potential matches were released in January 2019. It was important to note that where a match was found, it was not in itself evidence of a fraud, it might be an error or an inconsistency that required further investigation. The latest position with these matches was shown at Appendix B to the report.

Reactive fraud work was also undertaken. This could be as a result of a concern raised via a Whistleblowing referral or complaint or by an Officer who had identified irregularities or had concerns. A summary of the fraud work undertaken during 2018/19 was attached at Appendix C to the report, which also stated the recommendations that had been made to improve the controls moving forward.

Subsequently, it was

RESOLVED – T H A T the contents of the report, the measures in place and the work being undertaken to prevent and detect fraud and error be noted.

### Reason for decision

To ensure effective monitoring of fraud and irregularity is undertaken.

#### 118 FORWARD WORK PROGRAMME (HRAS) –

In order to assist the Audit Committee in ensuring that due consideration had been given by the Committee to all aspects of their core functions, the Forward Work Programme for 2019/20 had been updated following the last meeting and was aligned to the Committee's Terms of Reference. This was appended to the report at Appendix A.

The Committee was asked to note the updated Forward Work Programme for 2019/20 and indicate whether any additional information or research was required.

Subsequently, it was

RESOLVED –

- (1) T H A T the updated Forward Work Programme for 2019/20 be approved.
- (2) T H A T the schedule of items for the next meeting, 2<sup>nd</sup> September, 2019, be endorsed and for the list of people it would like to invite for each item (if appropriate) and whether any additional information or research is required, be confirmed.

Reason for decisions

(1&2) To ensure the Audit Committee is aware and informed of progress on both the current and proposed Work Programme.