

No.

## AUDIT COMMITTEE

Minutes of a meeting held on 3<sup>rd</sup> February, 2020.

Present: Councillor G.D.D. Carroll (Chairman); Councillor L.O. Rowlands (Vice-Chairman); Councillors Mrs. P. Drake, Dr. I.J. Johnson, K.F. McCaffer, Mrs. J.M. Norman and M.R. Wilson.

### 642 APOLOGY FOR ABSENCE –

This was received from Mr. P. Lewis (Lay Member).

### 643 MINUTES –

RESOLVED – T H A T the minutes of the meeting held on 16<sup>th</sup> December, 2019 be approved as a correct record.

### 644 DECLARATIONS OF INTEREST –

No declarations were received.

### 645 TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2020/21 AND UPDATE FOR 2019/20 (S1510) –

The Principal Accountant presented the report, the purpose of which was to provide an interim update on the Council's Treasury Management operations for the period 1<sup>st</sup> April to 31<sup>st</sup> December, 2019. The Committee was also asked to consider the proposed 2020/21 Treasury Management and Investment Strategy.

The interim report provided an update on the Council's Treasury Management operations for the period 1<sup>st</sup> April to 31<sup>st</sup> December, 2019. All activities were in accordance with the Council's approved strategy on Treasury Management. Details of monies borrowed and repaid and those invested were outlined in the report. The report presented the proposed 2020/21 Treasury Management and Investment Strategy at Appendix 1.

The Council had to ensure that the Prudential Code was complied with, which had been developed by CIPFA as a professional code of practice. To demonstrate the Council had fulfilled these objectives, the Code set out prudential indicators that should be used and the factors that must be taken into account. These were shown in Appendix 1 to the report as part of the Strategy.

The Council also had a legal requirement to comply with the Welsh Government Guidance on Investments and had taken this into consideration when developing the Strategy.

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Capital expenditure when financed by long term debt incurred two elements of cost, interest on and repayment of the principal sum borrowed. The resources the Council needed to put aside in each year to repay the principal sum borrowed was known as Minimum Revenue Provision (MRP) and the Council's policy for calculation was detailed in the report.

The Treasury Management Policy for 2020/21 was attached at Appendix 2 to the report and the Principal Accountant highlighted some key aspects.

A Committee Member queried the inclusion and valuation of leases. The Principal Accountant advised that changes in relation to leases would take effect for the next financial year and would depend on the type of lease and also engagement with the Valuer. This would be a complicated undertaking as the Council needed to look at all external leases which included schools and vehicles. A working group of other Local Authorities had been established in order to identify best practice and this would help to inform the Council's Strategy. In addition, the Council would require some external expertise and also a significant amount of legal interpretation. The Council was currently waiting for guidance from the Wales Audit Office as it was unlikely that they would want 22 Local Authorities looking at this in individual ways.

In respect of the Council's Capital Financing requirements, a Committee Member queried how the percentage rates for the Vale compared to other Local Authorities. In reply, the Principal Accountant stated that this would be looked into.

A Committee Member queried whether the Treasury Management Strategy should consider the possibility of allowing minority investors which could buy equity and whether the Council would look at commercial partners. In reply, the Principal Accountant stated that this would depend on the Council's appetite and its risk strategy. The Treasury Management Strategy was more of a narrative and the idea of selling equity was a Council decision.

In response to a query regarding consideration within the Strategy of future generations and the Council's declaration of a climate emergency, the Principal Accountant advised that there wasn't a great deal in the Strategy as the climate emergency was fairly new, but an ethical policy was something that needed to be developed. The Head of Finance / Section 151 Officer added that the Cardiff and Vale Pension Fund had made some strides in this area and so was something that the Vale Council reflect on through learning.

With regard to the increase in capital expenditure, a Committee Member stated that it would be a benefit to flag up in the Strategy that apart from £7m, the remainder of the increase was through the Housing Revenue Account. The Committee therefore requested for further information regarding the financing costs and how the increase had been calculated.

The Chairman noted that the current level of Council investments stood at around £90m which was spread across various investments. The Chairman queried whether an amount of the £90m could be accessed quickly in order to invest in more high-risk investments, and he asked for a report on possible options and how the Council could achieve greater returns.

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In addition, a Committee Member commented that the Council should look at other examples, such as investment made by Cardiff Council into the Red Dragon Centre, and he asked whether the Council could something similar and if not then for the report to explain why not. Furthermore, the Council needed to look at investments with some community and environmental benefits.

In reply, the Head of Finance / Section 151 Officer stated the section would do some work for the Committee. She also stated that a number of Authorities in England had seen already undertaken a high-risk strategy and as a result had seen an increase in debt. The key therefore was to justify why the investment had been made. She added that the Council was inundated with potential investment sellers, but the challenge was assessing the detail as all would offer something different. A move to more high-risk investments needed the full support of Elected Members should investments not prove fruitful, so there needed to be a full understanding of the impact.

Subsequently, it was

RESOLVED –

(1) T H A T the Treasury Management interim report for the period 1<sup>st</sup> April to 31<sup>st</sup> December, 2019 be endorsed.

(2) T H A T the policy for making Minimum Revenue Provision in 2020/21 be endorsed.

(3) T H A T the proposed 2020/21 Treasury Management and Investment Strategy be endorsed including the following specific resolutions (detailed in Appendix 1 to the report) and any specific comments forwarded to Council:

- The Authorised Limit for External Debt be set at £210.541m for 2019/20, £228.394m for 2020/21, £255.520m for 2021/22 and £271.600m for 2022/23;
- The Operational Boundary for External Debt be set at £203.608m for 2019/20, £221.461m for 2020/21, £246.087m for 2021/22 and £264.667m for 2022/23;
- The Section 151 Officer be given delegated authority within the total Authorised Limit and Operational Boundary as estimated for individual years to effect movement between the separately agreed limits for borrowing and other long term liabilities;
- An upper limit be set on its fixed interest rate exposures of £147.810m for 2019/20, for 2020/21 of £168.021m, for 2021/22 of £204.111m and for 2022/23 of £221.408m of its net outstanding principal sum on its borrowings / investments;
- An upper limit be set on its variable interest rate exposures of £0 for 2019/20, 2020/21, 2021/22 and 2022/23 of its net outstanding principal sum on its investments;
- An upper limit of £0m for 2019/20, £10m for 2020/21, £10m in 2021/22 and £10m in 2022/23 be set for total principal sums invested for over 364 days;

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- The amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate for 2020/21 be set as:

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	Upper Limit	Lower Limit
Under 12 months	20%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	40%	0%
10 years and above	100%	0%

- The Prudential Indicators set out in Appendix 1 to the report be endorsed.
- The Treasury Management Policy set out in Appendix 2 to the report be endorsed.

(4) T H A T the Audit Committee receives a report regarding investment opportunities and how the Council could increase its financial returns, whilst also offering environmental and community benefits.

#### Reasons for decisions

(1) To present the Treasury Management Interim Report.

(2) To agree the basis of the Minimum Revenue Provision calculation for 2020/21.

(3) The Treasury Management and Annual Investment Strategy is prepared as required by the Local Government Act 2003.

(4) In order for the Audit Committee to consider investment opportunities open to the Council.

#### 646 COMPLIANCE WITH CONTRACT PROECURE RULES (HRIAS) –

The Head of Finance / Section 151 Officer presented the report, the purpose of which was to update Members on the progress made on Contract Management and its compliance with the Council's Contract Procedure Rules (CPRs).

An internal audit review of this area had recently been completed on Internal Audit's behalf by the South West Audit Partnership (SWAP). The purpose of the audit was to ensure the Council was procuring its contracts in an efficient and effective manner and in compliance with relevant legislation. For this review 12 contracts with high cumulative spends were selected for testing.

It was found that elements of the Council's corporate contract management control framework was well managed. Corporate financial procedures were maintained to guide managers throughout the procurement and ongoing management of the contracts they oversaw. These were reviewed regularly to ensure ongoing

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compliance with relevant legislation. There were procurement frameworks available to all staff on the Council's Procurement intranet pages, so officers could reduce the time and cost of the procurement processes. It was also found that the stand-alone contracts reviewed demonstrated best practice as they were made using standard industry contract templates, such as JCT (the "Joint Contracts Tribunal" template).

As a result of the work undertaken a reasonable audit opinion had been provided. It was found that elements of compliance with the CPRs and Procurement Code of Practice were well controlled however some opportunities for improvement to the Council's control framework in relation to contract management were also identified.

The main recommendation recognised that there was no single, central Corporate Contract Register in place and therefore no centralised monitoring of Council contracts although there were separate registers held by Procurement, Finance and Legal Teams. This recommendation had been agreed and an electronic prototype in place which the procurement team were currently testing. It was planned that this would be up and running for the new financial year.

There was provision for the rules contained within the CPRs to be waived. Section 17.4 specifically related to Waiver of CPRs. Cabinet had the power to waive any requirements within the CPRs for specific projects except where the Public Contract Regulations applied. Additionally, they may be waived or varied where the circumstances were certified in advance by the Section 151 Officer (advised as appropriate by Internal Audit).

The waiving of CPRs was tightly controlled and a well-established procedure was in place to ensure accountability and transparency. A register of requests was maintained and during the Financial Year 2019/20, Internal Audit had reviewed, challenged and actioned 22 waivers.

Contract monitoring and management and compliance with CPRs were included throughout the Internal Audit plan and provision would be made in the Annual Audit Plan 2020/21 for this work to continue.

Having considered the report, it was

RESOLVED – T H A T the contents of the report and the continuing improvements to the Council's Contract Management Arrangements be noted.

#### Reason for decision

To keep Audit Committee informed.

647 PROGRESS AGAINST THE AUDIT RISK BASED PLAN 1<sup>ST</sup> APRIL 2019 TO 31<sup>ST</sup> DECEMBER 2019 (HRIAS) –

The Audit Client Manager presented the report which provided a position statement on progress being made against the audit work that was included and approved within the 2019/20 Internal Audit Annual Risk Based Plan.

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The Plan provided for a total of 1,402 audit days to cover the period April 2019 to March 2020. These days were split into those reviews considered to be Priority One and those considered to be Priority Two with the aim of completing the whole Plan by the end of the financial year.

Actual progress against quarter 1 to quarter 3 of the 2019/20 Risk Based Plan was attached at Appendix A to the report which detailed the status of each planned review, the audit opinion and the number of any high or medium recommendations made to improve the control environment. It should be noted that some reviews listed had no audit opinion, for example advice and guidance, Audit Committee and Corporate Management Team (CMT) reporting and the Closure of Reports. This was because the audit work carried out in respect of these items was planned but the nature of the work did not lead to testing and the formation of an audit opinion.

Appendix A to the report illustrated that as at 31<sup>st</sup> December, 2019, 35 audit reviews had been completed with an audit opinion being given. This was an increase of three since the last Audit Committee, which were Housing Revenue Account – Leaseholder Service Charges, Fostering and Pendoylan School, all three were finalised with reasonable assurance being given to the control environment.

A further four reviews had been completed and draft reports had been issued. Feedback from Service Departments was awaited prior to these becoming finalised reports.

Based on the assessment of the strengths and weaknesses of the areas examined through testing of the effectiveness of the internal control environment, an audit opinion of substantial assurance had been given to five reviews and an opinion of reasonable to 23 reviews.

The remaining seven audit reviews had been given an audit opinion of limited, that was only limited assurance could be placed on the current systems of internal control. The issues identified during these audit reviews had been outlined in previous Audit Committee reports.

Appendix A to the report illustrated that a total of 117 high or medium recommendations had been made to improve the control environment of the areas reviewed. The implementation of these recommendations was being monitored to ensure that improvements were being made.

The Annual Audit Plan was based on a fully staffed structure but as previously reported, the Section continued to carry vacant posts whilst the structure of the Regional Service was being developed. Therefore, 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.

The Committee requested an update in relation to the Council's Catering Company. In reply, the Audit Client Manager stated that assurance was still limited, which was because not all recommendations had been fully implemented. These related to some internal processes which were not up and running in a live environment so it

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had been difficult to test whether these processes were working correctly. It was proposed that a further review would be undertaken over the forthcoming months.

With regard to an update on staffing, the Committee was advised that a structure had been shared with the Chief Finance Officers of the four Councils and once agreed, existing staff would be matched, and vacant posts advertised. There were still vacancies for the Teams based in the Vale and Bridgend.

Subsequently, it was

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

Reason for decision

Following consideration of the update on the Audit Risk Based Plan 1<sup>st</sup> April to 31<sup>st</sup> December, 2019.

648 FORWARD WORK PROGRAMME (HRIAS) –

The purpose of the report was to provide Members with an update Forward Work Programme for 2019/20.

Attached at Appendix A to the report was the updated Forward Work Programme 2019/20 for the Committee. This had been updated following the Committee's last meeting on 16<sup>th</sup> December, 2019.

Shown below are the items scheduled to be presented at the Committee's next meeting on 30<sup>th</sup> March, 2020. Three reports, detailed in Appendix A, had been deferred to allow time for the necessary information to be available.

Committee Members were asked to endorse the schedule, confirm the list of people they would like to invite for each item (if appropriate), and indicate whether any additional information or research was required.

30 <sup>th</sup> March, 2020	Updated Forward Work Programme 2019-20 and Proposed Programme for 2020-21
	Internal Audit Charter 2020-21
	Corporate Risk Register – Quarter 3
	External Auditors / Inspection Reports (where applicable)

It was

RESOLVED – T H A T the updated Forward Work Programme for 2019/20 be endorsed.

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Reason for decision

To ensure the Audit Committee is aware and informed of progress on the current and proposed Work Programme.

649 WHISTLEBLOWING UPDATE (MO/HLDS) –

The Monitoring Officer / Head of Legal and Democratic Services presented the report which provided a summary of whistleblowing incidents recorded.

The Council adopted the current Whistle Blowing Policy in 2014.

The purpose of the Policy was to ensure that employees of the Council were aware of their responsibility to the public and to protect individuals who may need to disclose information concerning any 'malpractice' within the Council, including any confidential information which related to some danger, fraud or other illegal or unethical conduct connected with the workplace, be it of the employee or a fellow employee.

In February 2019 Audit Committee received an update on outcomes from a staff survey designed to assess awareness of the Policy.

As a review of the Policy and process for reporting whistleblowing incidents was under review. Further promotional and marketing work would be undertaken to tie in with raising staff awareness of the revised Policy.

Although the number of reported incidents dropped from seven in 2018/19 to two for the year to date, this year's number was in line with the average for previous years.

A total of 18 incidents had been reported over past five years (including 2019/20 to date), with only two incidents having been reported in 2019/20 to date.

A Committee Member queried how did the Vale of Glamorgan compare to other Local Authorities. In reply, the Monitoring Officer / Head of Legal and Democratic Services stated that two years ago the Wales Audit Office had not set any benchmarking or standards, and so, this would depend on the type of enquiries. She stated that she would check and provide feedback to Members of the Audit Committee.

A Committee Member commented that he had some concerns around the protections offered to the whistleblowing individuals and he stated that it was important for there to be confidential conversations not necessarily with the persons line manager. The Member added that there should be some independent or even an outside organisation or agency that could possibly act as a mediator. In reply, the Monitoring Officer / Head of Legal and Democratic Services agreed with the Member's concern which was recognised and was one of the main reasons why a review of the Policy had been undertaken. It had been felt that signposting to a person's line manager was a barrier. The new Policy allowed individuals to contact Audit or herself as Monitoring Officer / Head of Legal and Democratic Services. The

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role of external body was more appropriate for the next agenda item report – Revised Whistleblowing Policy.

With regards to protections for whistleblowing individuals, the Monitoring Officer / Head of Legal and Democratic Services stated that there were opportunities for these to be further developed.

Subsequently, it was

RESOLVED –

- (1) T H A T the contents of the report be noted.
- (2) T H A T the Audit Committee continues to receive an annual report in relation to Policy implementation and incidents.

#### Reasons for decisions

(1&2) To ensure the effective monitoring of whistleblowing incidents is undertaken.

#### 650 REVISED WHISTLEBLOWING POLICY (MD) –

The Head of Human Resources and Organisational Development provided the Audit Committee with a draft amended Whistleblowing Policy for review.

The Council adopted the current Whistle Blowing Policy in 2014.

The purpose of the Policy was to ensure that employees of the Council were aware of their responsibility to the public and to protect individuals who may need to disclose information concerning any 'malpractice' within the Council, including any confidential information which related to some danger, fraud or other illegal or unethical conduct connected with the workplace, be it of the employee or a fellow employee.

In February 2019 Audit Committee received an update on outcomes from a staff survey designed to assess awareness of the Policy.

As a result, an amended policy was attached at Appendix A to the report for review. One of the aims of the Policy was to clearly articulate how a Councillor, Council Employee, employee of a Local Authority School, a School Governor (if the school had adopted the Council's Policy), a contractor or partner could raise concerns. The Council's Policy also applied to agency staff, contractor staff and suppliers providing goods or services to or on behalf of the Council. This had seen the introduction of a confidential Speak Out line which would be monitored by an investigating officer, reporting to the Head of Regional Audit.

A Committee Member queried the consultation undertaken with Trade Unions around the revised Whistleblowing Policy, and he asked whether this would be considered by the Council's Joint Consultative Forum. In reply, the Head of Human

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Resources and Organisational Development stated that consultation was ongoing, and the Trade Unions had all been given opportunities to feed in. This would also be an item for the Joint Consultative Forum to consider.

Finally, the Committee agreed for a procedural flow chart to be attached to the Policy, a copy of which would be emailed out to the Members.

It was

RESOLVED –

- (1) T H A T the contents of the report be noted.
- (2) T H A T subject to the inclusion of a procedural flow chart, the revised Policy for adoption be endorsed.

Reason for decisions

(1&2) To ensure the Council remains legislatively compliant and to ensure the effective monitoring of whistleblowing incidents is undertaken.