

# **AUDIT AND GOVERNANCE COMMITTEE**

## **Minutes of the meeting held on 24 July, 2018**

<b>PRESENT:</b>	Mr Dilwyn Evans (Lay Member) (In the Chair)  Councillors John Griffith, G.O. Jones, Dylan Rees, Margaret Roberts.  Lay Member: Jonathan Mendoza
<b>IN ATTENDANCE:</b>	Head of Function (Resources) and Section 151 Officer Head of Internal Audit & Risk (MP) Committee Officer (ATH)
<b>APOLOGIES:</b>	Councillors Richard Griffiths, R. Llewelyn Jones, (Vice-Chair), Peter Rogers (Chair), Mr Gwilym Bury and Mr Alan Hughes (Wales Audit Office)
<b>ALSO PRESENT:</b>	Councillor Robin Williams (Portfolio Member for Finance)

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### **1. ELECTION OF CHAIR**

In the absence of the Chair and Vice-Chair, Mr Dilwyn Evans, Lay Member was elected Chair for this meeting of the Audit and Governance Committee.

### **2. DECLARATION OF INTEREST**

No declaration of interest was received.

### **3. MINUTES OF THE 27<sup>TH</sup> JUNE, 2017 MEETING**

The minutes of the previous meeting of the Audit and Governance Committee held on 27<sup>th</sup> June, 2018, were presented and were confirmed as correct.

Arising thereon –

- In response to a question about the review of the Committee's Terms of Reference, the Head of Audit and Risk clarified that as she had been away on leave immediately following the Committee's previous meeting in June, she had not as yet been able to forward a first draft of the revised Terms of Reference to the two Lay Members for them to look through as agreed. However, she confirmed that they would receive a copy in good time for the September meeting when the terms of reference would be formally reviewed by the Committee.
- With reference to the Statement of Accounts 2017/18, the Chair confirmed that he had been provided with information on how the Budget out-turn figures in the narrative section of the Accounts are reconciled to the Comprehensive Income and Expenditure Account in the Financial Statements.

The Committee noted that although the Statement of Accounts is meant to provide electors, local taxpayers, Members of the Council and other interested parties clear information about the Council's finances, in particular the cost of services provided by

the Council in the year, how services were paid for as well as the Council's assets and liabilities at year end, it is not set out in a way that makes the information easy to obtain or understand. The Committee further noted that neither is it easy to deduce from the Financial Statements how the Council is performing financially as regards managing its business in terms of profit and loss, thus limiting the usefulness of the Statement as a tool to hold the Council to account for how it spends public money.

The Head of Function (Resources) and Section 151 Officer said that the Statement of Accounts is prepared in accordance with the Code of Practice on Local Authority Accounting which prescribes how the accounts are presented and on the basis of which they are audited by the External Auditor. The Statement as a document has grown in complexity as it accommodates CIPFA requirements becoming less accessible to the lay reader along the way. In terms of accountability, the way the Council organises and manages its business and uses its resources is monitored closely, but the main line of reporting this information is not the accounts but the regular in-year budget monitoring reports which show how each individual service is managing its budget. The Officer said that in terms of the Financial Statements, the introductory narrative report which accompanies the Statement conveys the main messages about the Council's financial performance during the year in line with the budget reports - the narrative commentary may allow some latitude to provide further analysis. The Officer said that the Service will review the contents of the Narrative Report to establish whether this is possible.

#### **4. INTERNAL AUDIT PROGRESS UPDATE**

The report of the Head of Internal Audit and Risk which provided an update on Internal Audit's latest progress with regard to service delivery, assurance provision, and reviews completed was presented for the Committee's consideration.

The Head of Audit and Risk reported as follows –

- That the two Internal Audit reports were finalised during the period, the one in relation to Deprivation of Liberty Safeguards (DoLS) which was assessed as providing Reasonable Assurance, and the other relating to Audit Certification of the Rent Smart Wales Grant which produced a Substantial Assurance rating.
- That six follow-up reviews of reports with a Limited assurance rating are due over the next six months as outlined in the table at paragraph 13 of the report. Three scheduled for July, 2018 are currently underway.
- That due to the proximity of the previous Audit and Governance Committee meeting, an update on the implementation of Management actions has not been provided for this meeting of the Committee. A detailed report on all outstanding recommendations and issues/risks will be presented to the Committee at its September meeting.
- That although progress in delivering the Internal Audit Operational Plan for 2018/19 has been slow due to completing the 2017/18 Plan and carrying two vacancies and a long-term sickness absence, to date one audit, a Final Account Verification and a grant certification have been completed. The Service is also involved in other work as described in paragraphs 15 and 16 of the report.
- That the Committee's Terms of Reference will be submitted for approval to the September, 2018 meeting before being formally approved through the democratic process.

The Committee considered the information presented and responded as follows –

- With regard to the IA review of the Deprivation of Liberty Safeguards, the Committee sought clarification of the costs associated with Doctor assessments.

The Head of Function (Resources) and Section 151 Officer said that a report to the Executive earlier in the year outlined the financial implications of ensuring that the Council meets its DoLS obligations in terms of putting in place a DoLS authorisation for individuals resident in care placements who lack the capacity to consent to their placement in order to ensure that the placement is in their best interests. Assessments have to be made before authorisation is given including a medical assessment which must be undertaken annually and this incurs costs. There is also a risk of litigation where DoLS assessments are outstanding. As the Authority has a significant number of individuals in both its own care and nursing homes as well as in independent care and nursing homes who require assessment for a DoLS authorisation, the overall cost is therefore high. The Welsh Government provided a funding allocation for this purpose as part of the Revenue Support Grant but this proved to be insufficient.

- With regard to following up on previous Internal Audit reports, the Committee noted that no update is provided to this meeting even though 2 catastrophic risk/issues and 26 major risks/issues were identified as part of the original reviews of the six areas for which a follow up is scheduled. The Committee sought assurance that the Internal Audit Service is satisfied that the reporting timescale is appropriate given the risks/issues arising.

The Head of Audit and Risk confirmed that she was content with the timescales for the following reasons –

- The one Catastrophic risk/issue in relation to the review of Child Care Court Orders under the PLO involved conducting care visits in accordance with the Care Plan. The visits, although they were being undertaken were not necessarily being recorded. As the number of Child Care Court Orders are low, the Internal Audit Service has not been able to establish whether the new visits are being recorded on the system because there has been no requirement for these visits to take place and so nothing for IA to check, hence the July, 2018 date for follow-up.
- Although there are 19 risks/issues recorded as outstanding against the Sundry Debtors review which was a substantial piece of work, Internal Audit has been provided with regular updates on progress by the Service via the electronic recommendation monitoring system so contact is being maintained throughout.
- The one catastrophic risk/issue arising from the review of the Corporate Procurement Framework was in respect of the absence of a Contract Register with Internal Audit not being able to provide assurance that the contracts which the Council hold comply with safeguarding and safety issues or that they provide value for money. A parallel piece of work in relation to ensuring contracts comply with GDPR is being undertaken meaning that services are reviewing contracts from two perspectives. The July second follow-up date is therefore reasonable given the amount of work involved.
- With regard to the Internal Operational Plan for 2018/19, the Committee noted that only 5 days are being allocated in the revised plan to the review of the implementation of the Well-being of Future Generations (Wales) Act 2015 even though it is acknowledged that this is high profile legislation which has a significant impact on the way the Council works. The Committee sought assurance that this is adequate and it sought clarification also as to whether the Council is liable to censure if the way it is implementing the Act is not having the desired effects.

The Head of Audit and Risk said that the review which Internal Audit plans to undertake will take the form of a strategic overview to ascertain what governance

arrangements the Council has put in place initially. The expectations for local authorities' and other public bodies' delivery of the Act are realistic and it is recognised that being a substantial piece of work they will need time to effect the changes which the Act brings about. However, as with other public bodies, the Authority is expected to show that it is responding to the Act. The Officer said that the Wales Audit Office is also carrying out a review of how public bodies in Wales have responded to the Act at the end of the first year of implementation.

The Head of Audit and Risk added that similarly, Internal Audit will be undertaking a strategic overview with regard to Part 9 requirements of the Social Services and Well-being Act which is another piece of high profile legislation having a significant impact on the way the Council works with Part 9 being specifically about partnership working and implementing pooled funding arrangements.

The Head of Function (Resources) and Section 151 Officer said that the Well-being of Future Generations Act has also established a statutory Future Generations Commissioner for Wales who with her team is responsible for monitoring how well public bodies including local authorities, are meeting the well-being objectives they have set out as part of responding to the Act. The Officer said that rather than being prescriptive, the Act is more about changing culture and the way the Council operates requiring it to be able to show that the process for making decisions has regard to the impact of those decisions on future generations. In relation to Part 9 of the Social Services and Well-being Act, the Officer said that for pooled funding arrangements to be effective there needs to be a shared and common understanding of commissioning arrangements as well.

- In response to a question by the Committee about the absence of target reporting dates for most of the planned reviews, the Head of Audit and Risk said that the Operational Plan is a dynamic plan and takes into account the fact that as circumstances change so will the nature and level of the associated risks making it impractical and counter-productive to plan too far ahead. The Operational Plan also needs to be flexible in order to accommodate any emerging risks.

**It was resolved to accept and to note the progress to date by Internal Audit in terms of service delivery, assurance provision, reviews completed and its performance and effectiveness in driving improvement.**

**ADDITIONAL ACTION: None**

## **5. TREASURY MANAGEMENT ANNUAL REVIEW 2017/18**

The Annual Treasury Management Review of Activities Report for 2017/18 was presented for the Committee's consideration and scrutiny in line with regulations under the Local Government Act 2003 and the Council's Treasury Management Scheme of Delegation for 2016/17.

The Head of Function (Resources) and Section 151 Officer reported that the review summarises the position in relation to the Council's capital expenditure, and its borrowing and investment activities during 2017/18. The report also sets out how the Council performed against the Treasury Management Strategy for 2017/18. The Officer referred to the main points of consideration as follows –

- Capital Expenditure and Financing – from a starting budget of £53m the total capital expenditure for 2017/18 was £29m with the underspend being due in the main to slippage on major grant funded projects. The table in paragraph 2.2 of the report

shows that £7m of capital expenditure was financed by borrowing. No long-term external borrowing (i.e. sourced from external bodies such as the Government, through the PWLB or money markets) was taken out during the year but was internally borrowed, with Council cash balances funding this in the short-term in order to reduce interest payments. This is in keeping with the Treasury Management Strategy.

- The Council's underlying need to borrow for capital expenditure is called the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2017/18 capital expenditure financed by borrowing and prior years' capital expenditure funded by borrowing which has not yet been paid for by revenue or other resources.
- The table at paragraph 3.3.4 of the report shows that the Council's CFR for the year which is one of the key prudential indicators (i.e. indicators that set limits on treasury management activity) was £95m for the Council Fund and £41m for the Housing Revenue Account making a total of £136m. When compared to the gross borrowing position as at 31 March, 2018 which stood at £117m, it shows that £19m of the Council's balances has been used to fund capital expenditure. In these circumstances it is expected that in the long-term, borrowing will need to be taken out to replenish the balances.
- The Treasury Management Strategy and policy sets a limit on the CFR which is known as the authorised limit. Once this has been set which for 2017/18 was £169m, the Council does not have the power to borrow above this level. The table at 3.5.3 of the report shows that the Council maintained gross borrowing (£117m) within its authorised limit as well as the operational boundary which designates the expected borrowing position of the Council during the year. However, there may be periods where the actual position is either below or over the boundary; this is acceptable providing the authorised limit is not breached.
- The forecast CRF for 2018/19 and 2019/20 is shown in table 3.4.2 of the report based on the actual capital programme for 2018/19 and the estimated capital financing requirement for 2019/20. As the CFR increases so will the authorised limit and operational boundary accordingly.
- The borrowing and investment figures for the Council at the end of the 2016/17 and 2017/18 financial years are set out in table 4.1 of the report. The Council's debt position at £117.029m is similar to that of the previous year (£117.110m). The Council has £5.993m invested in no notice deposit accounts which pay interest at a rate near the prevailing base rate. All investments were for under a year. Further details are provided in Appendix 1 to the report.
- There was no debt rescheduling during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made re-scheduling unviable.
- The Bank Rate at the start of the financial year was 0.25%; however, this was increased to 0.5% on the 2 November, 2017. This meant that the counterparty organisations' interest rate on the typical call account ranged from 0.10% to 0.40%.
- The expected investment strategy was to keep to shorter term deposits (up to 364 days), although the ability to invest out to longer periods was retained. Cash balances were expected to be up to £26m ranging between £5m and £26m. The budget was set at 0.055% for £15k after adjusting for the higher rates on existing investments. As it turned out, average balances of £14.4m returned £31.2k (0.12%).
- The only borrowing that was made during the year was a £5m borrowing from the Tyne and Wear Pension Fund at an interest rate of 0.33% on a temporary basis for a period of 3 months to help with cash flow management. Upon maturity in January, 2018 the borrowing was rolled over for a further 3 months at an interest rate of 0.50%. At the time of maturity in April, 2018 when the Council starts to receive income from

the RSG, Council Tax etc., the Council's cash balances had increased meaning that the borrowing was no longer required and the debt was repaid.

- The year as a whole was fairly stable with capital expenditure being less than anticipated and the Council funding this by using its own reserves. This is a continuation of the strategy implemented in recent years of internalising borrowing where possible so that borrowing costs are minimised. However, should there be further increases in interest rates, consideration will have to be given to varying the strategy by commencing borrowing whilst at the same time investing the Council's cash balances.

The Committee considered the report and responded as follows –

- The Committee noted that there are limitations on the Council's borrowing with the CFR ensuring that borrowing is not undertaken to support revenue expenditure. The Committee also noted that a point will be reached when it is inappropriate to allow cash balances to reduce further because of the need to maintain a working capital. The Committee sought clarification of the position currently.

The Head of Function (Resources) and Section 151 Officer said that the position with regard to the working capital is reviewed daily to ensure the Council has sufficient cash to meet its ongoing costs with the level set at a sum equivalent to the preferred level of General Fund balances which at around £6m is the level which the Section 151 Officer has assessed as adequate.

- The Committee noted that the Council's greatest monthly outgoings are staff salaries. The Committee sought clarification of whether the monthly figure for salaries is greater or less than £6m.

The Head of Function (Resources) and Section 151 Officer confirmed that the figure is in the region of £6m including NI and pension costs.

- The Committee noted that the Council's Balance Sheet for 2017/18 shows that the Council's cash balances had reduced from £14.940m as at 31 March, 2017 to £7.789m as at 31 March, 2018. The Committee sought assurance that the Council has sufficient funds available should there be an unforeseen call upon them.

The Head of Function (Resources) and Section 151 Officer said that it was his view that the position as at 31 March, 2018 represented the minimum level of cash needed with consideration having been given to taking out borrowing at that point. However, as the new financial year in April was imminent bringing with it new income in the form of the first instalment of the RSG and Council Tax payments thereby boosting the Council's cash flow position, it was decided not to borrow.

**It was resolved that the Audit and Governance Committee –**

- **Notes that the outturn figures in the report will remain provisional until the audit of the 2017/18 Statement of Accounts is completed and signed off; any resulting significant adjustments to the figures included in the report will be reported as appropriate.**
- **Notes the provisional 2017/18 prudential and treasury indicators in the report.**
- **Accepts the Annual Treasury Management Report for 2017/18 and forwards the report to the Executive without further comment.**

**ADDITIONAL ACTION: None**

## **6. FORWARD WORK PROGRAMME**

The Committee's Forward Work Programme was presented for review and comment.

**It was resolved to accept the Forward Work Programme as presented without amendment.**

**ADDITIONAL ACTION: None**

**Mr Dilwyn Evans (Lay Member)  
Chair**

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