

AUDIT COMMITTEE - THURSDAY, 24 NOVEMBER 2016

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD IN COMMITTEE ROOMS 2/3, CIVIC OFFICES ANGEL STREET BRIDGEND CF31 4WB ON THURSDAY, 24 NOVEMBER 2016 AT 10.00 AM

Present

Councillor E Dodd – Chairperson

JR McCarthy
M Gregory

JE Lewis

C Westwood

G Davies

Apologies for Absence

GW Davies MBE, D Sage, CL Jones, DK Edwards and RE Young and Mrs J Williams.

Officers:

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| Randal Hemingway | Head of Finance & Section 151 Officer |
| Helen Smith | Chief Internal Auditor |
| Janet McNicholas | |
| Andrew Rees | Senior Democratic Services Officer - Committees |

277. DECLARATIONS OF INTEREST

None.

278. APPROVAL OF MINUTES

RESOLVED: That the minutes of the meeting of the Audit Committee of 29 September 2016 be approved as a true and accurate record.

279. HALF YEAR TREASURY MANAGEMENT REPORT 2016-17

The Section 151 Officer reported on the mid-year review and half year outturn position for Treasury Management activities, Treasury Management and Prudential Indicators for 2016-17 and highlighted the compliance with Council policies and practices which had been reported to Cabinet and Council.

He reported that the Council has complied with its legislative and regulatory requirements during the first half of 2016-17 and that no long term borrowing or debt rescheduling undertaken as there were no significant savings to be made. However for cash flow purposes some short term borrowing was taken. He informed the Committee that favourable cash flows had provided surplus funds for investment with the balance on investments at 30 September 2016 being £47.10M with an average interest rate of 0.51%.

The Section 151 Officer reported that as a result of the Brexit vote, markets have been volatile and following the reduction in the bank rate from 0.50% to 0.25% in August 2016, interest rates have dropped which will result in a reduction in interest earned in 2016-17. Other possible investment options will be considered with the Council's Treasury Management advisers, Arlingclose.

He also reported that progress is being made on the Cardiff Capital Region City Deal initiative which will have significant expenditure and treasury management implications, with £120m of local authority investment required, with this authority's investment being £12m. He stated that careful consideration would need to be given to the affordability of

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additional borrowing and any amounts required will represent new commitments over and above the existing capital programme as grant monies from the UK Government were likely to be phased requiring the front loading of the investment. He informed the Committee that £50m was being held by the Shadow Board which the Welsh Government had received from the UK Government.

The Committee referred to the Council possibly having to make investments in any public or private sector organisations which meet the minimum criteria in the Investment Strategy 2016-17 and questioned how this would impact on the budget. The Section 151 Officer informed the Committee that the Council could expect the yield on investments to reduce and that following the advice of Arlingclose, the Council's traditional investments may not be as safe as they used to be. He stated that local authority deposits would be eroded if a bank has a crisis and the Council is in the process of setting up a nominee account in line with the same investment rules but was more secure. He also informed the Committee that offices and its advisers were looking at whether it could reduce the liquidity of investments without exposing the Council to risk.

RESOLVED: That the Committee noted the Annual Treasury Management Activities for 2016-17 for the period 1 April 2016 to 30 September 2016, the minor amendment to the Investment Strategy in the Treasury Management Strategy 2016-17 and the projected Treasury Management and Prudential Indicators for 2016-17 which were all reported to Council for approval on 2 November 2016.

280. INFORMATION AND ACTION REQUESTS BY COMMITTEE

The Chief Internal Auditor presented a report which summarised actions and information requests made by the Audit Committee at its last meeting on 29 September 2016.

RESOLVED: That the report be noted.

281. COMPLETED AUDITS

The Chief Internal Auditor presented a report which summarised the findings of the audits recently completed by the Internal Audit Shared Service.

The Committee expressed its concern that the number of days lost to sickness per Full Time Equivalent had increased from 9.8 to 10.85 days and also noted its disappointment at the number of managers attending absence management training courses.

RESOLVED: That the Committee considered the summary of completed audits so as to ensure that all aspects of their core functions are being adequately reported and the Chief Internal Auditor express the concern of the Committee to the Head of Human Resources and Organisational Development at the number of employees that had attended absence management training courses.

282. INTERNAL AUDIT - OUTTURN REPORT - APRIL TO OCTOBER 2016

The Chief Internal Auditor reported on the actual Internal Audit performance against the seven months of the audit plan year covering April and October 2016. She informed the Committee that 647 actual days had been achieved, which was 33 days more than the expected target of 614 days. At the end of the period, 17 reviews / jobs had been completed and closed, 15 of which had provided management with an overall substantial / reasonable audit opinion on the internal control environment for the

systems examined. Of the remaining 2 reviews, 1 identified significant weaknesses that only limited assurance could be placed on the overall control environment and one, was closed with no opinion being provided due to the nature of the work undertaken.

The Chief Internal Auditor also reported on the overall structure of the Section which is based on 18 Full Time Equivalent (FTE) employees. She stated that the Section was carrying 4 FTE vacant posts, which has now increased to 6 FTE vacant posts, but arrangements are in place to recruit to address some of the shortfall in staff resources. The service had already been streamlined and it continued to apply lean auditing risk based methodologies to its plan of work. She informed the Committee that the service was not able to recruit to one post due to the significant amount of mentoring required had the candidate been appointed. The Chief Internal Auditor stated that a re-structure may be required but as productivity was likely to slip a review of the annual plan will be undertaken this would not prevent her from giving an annual opinion. She informed the Committee that contact had been made with the Wales Audit Service to ascertain whether they had a resource the Internal Audit Service could use. She stated that a report would be brought to the next meeting of the Committee with an update on the staffing of the service.

In response to a question from the Committee, the Chief Internal Auditor stated that the service did not at present employ trainees as it would impact on the productivity of the section in the time it would take staff to train. She stated that the previous trainee had since qualified. The Chief Internal Auditor informed the Committee that the difficulties in recruiting staff could be attributed in part to the significant amount of change and uncertainty in local government. She stated that performance had slipped, but the service remained in the top quartile.

The Committee commented on the need for absence management training to be mandatory for managers as part of performance management. The Section 151 Officer commented that as a result of staff in his service attending absence management training, absenteeism had reduced, despite two significant re-structures having taken place in the last year. He stated that the number of absence management courses would need to be checked and informed the Committee that participants attending courses are encouraged to talk through examples of sickness.

The Chief Internal Auditor also reported that quotations for the independent external assessment had been evaluated and an award of contract had been made to CIPFA. The external assessment will commence in January, with a view to the outcome of the review being reported to this Committee no later than April.

RESOLVED: That the Committee considered the Internal Audit Outturn Report covering the period April to October 2016 to ensure that all aspects of their core functions are being adequately reported.

283. SCHOOLS SUMMARY REPORT 2015/16

The Chief Internal Auditor reported on a summary of the work undertaken by Internal Audit in relation to the school based audits conducted in the 2015/16 audit year.

She informed the Committee that in order to ensure that audit days available are used in the most effective way, changes were made to the 2015/16 school audit programme which allowed for more in depth coverage of high risk areas rather than undertaking cyclical school visits. In order to achieve this, all schools were issued with a Control Risk Self-Assessment questionnaire (CRSA) which enabled the schools to self-evaluate the controls they have in place to mitigate risk. In addition an Assurance Statement,

which provides assurance that the Head Teacher and Chair of Governors are ensuring that the school has sufficient internal controls in place was requested from all schools.

The Chief Internal Auditor reported that 60 CRSA's were issued to schools including the Pupil Referral Unit, of which 59 were returned. The completed CRSAs were evaluated by Internal Audit and any issues addressed with the individual school. She stated that there were no common trends or significant issues identified and the overall control environment was evaluated as good.

The Chief Internal Auditor also reported that Assurance Statements were issued, for Head teachers and Chairs of Governors to acknowledge their responsibility in maintaining and operating the school in accordance with the Council's procedures and practices that uphold the internal control and assurance framework, and the Fair Funding Scheme for Schools. She stated that only 30 Head teachers and 18 Chairs of Governors completed the Assurance Statement and it was found that some did not understand the form or its significance. In order to improve the response rate for 2016/17, this information and its declaration together with an explanatory forward has been included on the CRSA questionnaire which should make the process more efficient.

The Chief Internal Auditor reported that in 2015/16 over £91 million was delegated to the Council's Secondary, Primary and Special Schools and of the 59 schools operating at year end, 7 schools, 4 primary and 3 secondary, were in deficit with a value of £621,969. She stated that all of these schools have been asked to produce a budget recovery plan. Of the 52 schools in surplus, 14 had surpluses that, under School Funding (Wales) Regulations 2010, are regarded as excessive and the Council may direct a governing body on how balances in excess of these limits may be spent or they can be clawed back.

The Chief Internal Auditor also reported that during the year some specific risk based audits were undertaken and of the 9 pieces of work, one was a grant claim so no audit opinion was applicable. Of the remaining 8 audits, five were given an audit opinion of reasonable and two were given limited assurance. No assurance could be given on the internal controls of one school initially, however a subsequent visit found that improvements had been made and reasonable assurance was subsequently given. The two limited assurance reports would be revisited again during the last quarter of 2016/17 to ensure that improvements to controls have been made.

The Chief Internal Auditor reported that during 2015/16 it was found that the move away from cyclical school audit visits had proved a success in ensuring that the Internal Audit resource is targeted effectively to those areas where they are most needed, in that a total of 104 days of the 112 days allocated were utilised. She informed the Committee that certain control weaknesses were identified during the year and appropriate recommendations made and accepted, overall it was concluded that the control environment within schools was good.

RESOLVED: That the Committee considered the content of the report to ensure that all aspects of their core functions were being adequately reported.

284. UPDATE ON NATIONAL FRAUD INITIATIVE

The Chief Internal Auditor reported on the progress made to date on the National Fraud Initiative, which is a data matching exercise which helps in the detection and prevention of fraud and overpayments across the UK. She stated that the NFI data matching

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exercise is an ongoing one, and the data represents the status as at a specific point in time.

The Chief Internal Auditor highlighted the work being undertaken in relation to Creditor Matches; Payroll to Creditor Matches; Housing Benefit Matches; Concessionary Travel Passes and Council Tax Matches.

The Section 151 Officer informed the Committee that as of 1 November 2015, the Fraud Team moved to the DWP as part of the Single Fraud Investigation Service and that one Fraud Investigator had been retained on a temporary basis by the Council. He stated as a result of the work undertaken by this officer in reviewing Housing Benefit matches and other fraud work, the post had now been made permanent.

RESOLVED: That the Committee considered the NFI update report.

285. UPDATED FORWARD WORK PROGRAMME 2016-17

The Chief Internal Auditor presented an update on the 2015/16 Forward Work Programme for the Committee's information. She stated that in order to assist the Committee in ensuring that due consideration has been given by the Committee to all aspects of their core functions an updated Forward Work Programme was submitted.

RESOLVED: That the Committee noted the updated Forward Work Programme to ensure that all aspects of their core functions are being adequately reported.

286. URGENT ITEMS

There were no urgent items.

The meeting closed at 10.56 am