

**AUDIT COMMITTEE - THURSDAY, 29 JUNE 2017**

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD IN COMMITTEE ROOMS 2/3,  
CIVIC OFFICES ANGEL STREET BRIDGEND CF31 4WB ON THURSDAY, 29 JUNE 2017 AT  
2.00 PM**

Present

Councillor LM Walters – Chairperson

MC Clarke	CA Green	B Sedgebeer	A Williams
	MJ Kearn	CA Webster	AJ Williams
RM Granville			

Officers:

Randal Hemingway	Head of Finance & Section 151 Officer
Helen Smith	Chief Internal Auditor
Mary Williams	Chief Accountant
Yuan Shen	Corporate Improvement and Integrated Partnerships Manager
Gary Jones	Head of Democratic Services
Nigel Smith	Finance Manager

1. ELECTION OF CHAIRPERSON

The Head of Democratic Services (HDS) welcomed everyone to the meeting and explained the procedure for the appointment of the Chairperson. A vote was then taken to elect the Chairperson. The result of the vote was a tie. Following an update from the HDS the committee agreed to receive a verbal briefing from the nominees to describe their suitability for the role of Chairperson. Councillors Lyn Walters and Amanda Williams provided a briefing following which the committee acknowledged that both were extremely capable nominations. The vote was retaken and Councillor Lyn Walters was elected as the Chairperson and invited to take the chair.

RESOLVED: Councillor Lyn Walter was elected as the Chairperson of the Audit Committee

2. ELECTION OF VICE-CHAIRPERSON

The Chairperson thanked the committee for electing her and requested nominations for the Vice-Chairperson. Councillor Amanda Williams was nominated and unanimously elected as the Vice-Chairperson of the Audit Committee.

RESOLVED: That Councillor Amanda Williams was elected as the Vice-Chairperson of the Audit Committee.

3. APOLOGIES FOR ABSENCE

Apologies for absence were received from the following Councillors:

- JE Lewis – Other Council Business
- JR McCarthy - Other Council Business
- RMI Shaw

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4. DECLARATIONS OF INTEREST

None

5. APPROVAL OF MINUTES

RESOLVED: The minutes of the meeting held on 27<sup>th</sup> April 2017 were approved as a true and accurate record subject to the following amendments:

- a. The inclusion of J Williams as an attendee at the meeting
- b. That minute 302 be revised:

Paragraph 1 be revised to read:

The Financial Audit Manager, Wales Audit Office presented the External Auditor's Annual Audit Plan 2016-17.

Paragraph 2, line 3 be revised to read:

work to be undertaken by the Auditor General at Bridgend CBC under the Public Audit

Paragraph 3 following "Audit Work to be undertaken" to delete "and a schedule of authorised grant signatories".

Paragraph 7 line 4 be amended to read:

Wales Audit Office would need to know the leave commitments of key finance staff as it would need

Resolution to read:

That the content of the External Auditor's Annual Audit Plan 2016-17 be noted.

6. SAVINGS PLANNING

The Head of Finance presented a report which informed the committee of the findings of the "Savings Planning" work carried out by Wales Audit Office (WAO) on all local authorities across Wales. He explained that the WAO had carried out work at all 22 councils in Wales to assess the development and delivery of Councils' medium term financial strategies and movement in reserves.

He added that Bridgend had made a number of changes which will impact upon the council's financial resilience and savings planning. These included the creation of a budget reduction contingency reserve, the introduction of a formal monitoring and reporting process for any prior year budget reduction proposals not fully realised in-year, an overhaul of the MTFS development process, a thorough mid-year review and assessment of the council's reserves position and the Head of Finance re-designated as the Section 151 Officer and appointed to the Corporate Management Board.

RESOLVED: That the Audit Committee noted the report.

**7. ANNUAL GOVERNANCE STATEMENT 2016-17**

The Head of Finance presented a report requesting that the Audit Committee note the reviewed Code of Corporate Governance (Appendix A) and approve the Annual Governance Statement (AGS) for inclusion in the Council's Statement of Accounts for 2016-17.

He explained that in 2016, CIPFA published its new "Delivering Good Governance in Local Government Framework", which positions the attainment of sustainable economic, social, and environmental outcomes as a key focus of governance processes and structures. The Guidance has considered the requirements of the Well-being of Future Generations (Wales) Act 2015 and embedded the five ways of working into the CIPFA framework.

A review the Council's existing Code of Corporate Governance was undertaken and any comments were incorporated into a revised Code of Corporate Governance which was considered by Cabinet in June. A copy of the reviewed Code of Corporate Governance was shown at Appendix A to the report.

It was decided that due to time constraints, the AGS 2016-17 was produced on the historical six principles as set out in the 2007 Framework in demonstrating strong governance. However, where possible, evidence was also included to support governance against the new 2016 principles. Next year, the Council will use the new principles in producing its AGS 2017-18 in line with the new 2016 framework.

Members queried whether using the 6 existing principles from the 2007 framework would be acceptable by the auditors. They were advised that many authorities had opted to use this methodology which was unlikely to create an issue with the Auditors.

**RESOLVED:** That the Audit committee noted the reviewed Code of Corporate Governance (Appendix A) and approved the Annual Governance Statement (Appendix B) for inclusion in the Statement of Accounts 2016-17.

**8. STATEMENT OF ACCOUNTS 2016-17 (UNAUDITED)**

The Head of Finance presented a report which provided the unaudited Statement of Accounts for 2016-17 to the Audit Committee for noting and the Harbour Authority Return for 2016-17 for approval. He explained that the Statement of Accounts for 2016-17 had to be signed and dated by the responsible financial officer before the 30 June 2017, certifying that they represented a true and fair view of the financial position of the Council.

Each year the Council prepares detailed revenue budgets for its activities and regularly reviews these budgets to take account of changes in plans, processes or assumptions and if necessary re-profile the original budgets. The revised budgets differ from those set at the beginning of the year as account has been taken of agreed transfers from contingencies. Overall there was a net under-spend on Directorates' budgets of £2.279 million with the reasons for the under-spend being provided within the Statement of Accounts 2016-17.

The net under-spend for the year was £0.356 million. This was transferred into the Council Fund which totalled £7.960 million as at 31 March 2017. This represented a 4.7% increase of the fund on the previous year (£7.604 million at 31 March 2016).

The Council also spent money providing new facilities, enhancing assets within the Council's portfolio or providing capital grants to others. The total capital spending during 2016-17 was £18.356 million. The Accounts explain how the capital expenditure is

financed and what assets have been produced or enhanced during the period. The Head of Finance advised that the audited accounts would be presented to the Audit Committee for approval by 30 September 2017.

Members queried the over-spend of the Social Services and Wellbeing Directorate commenting that this budget was revised to £61m and was still overspent. Was the overall budget now being revised for the forthcoming year.

The Head of Finance explained that an element of price inflation was included in the budgets but that with appropriate evidence finance could allocate a budget uplift. It was prudent that some funding was retained centrally to support directorates if needed. The significant part of the over-spend related to the Looked After Children's (LACs) budget not reducing or making the intended progress as rapidly as expected in providing the improvement from the use of low cost placements. The numbers of LAC had reduced but were still higher than had been forecast and therefore £1million was used from earmarked reserves to address this ongoing risk.

RESOLVED: That the Audit Committee:-

- a. noted the unaudited Statement of Accounts for 2016-17 (at Appendix A);
- b. approve the Harbour Authority Annual Return 2016-17 (at Appendix B).

9. ANNUAL TREASURY MANAGEMENT OUTTURN REPORT 2016-17

The Head of Finance provided an update the Audit Committee on the outturn position for Treasury Management activities, Treasury Management and Prudential Indicators for 2016-17 and to highlight the compliance with the Council's policies and practices.

He explained that the Council has complied with its legislative and regulatory requirements during 2016-17. The Treasury Management Strategy 2016-17 and the Half Yearly Outturn were reported to Council with the Annual Report being reported to Cabinet and Council in September 2017. Quarterly monitoring reports were presented to Cabinet during 2016-17.

He added that no long term borrowing was taken in 2016-17 and no debt rescheduling had been undertaken as there were no significant savings to be made. The loan portfolio would be reviewed during 2017-18. Favourable cash flows have provided surplus funds for investment and the balance on investments at 31 March 2017 was £33.75 million with an average rate of interest of 0.55%. This was an increase from the start of the financial year where investments were £26.00 million but the average rate of interest has reduced from 0.67% and at the same time the base rate reduced from 0.50% to 0.25% in August 2016, hence a reduction in yield. Appendix A detailed the movement of the investments during 2016-17 by counterparty types and shows the average balances, duration and rates for the year.

The Treasury Management function will be reviewed by the Council's external Auditors, the Wales Audit Office, during the 2016-17 annual audit which has not yet been completed, however an update will be provided to Cabinet and Council in September 2017.

Internal Audit undertook an audit of the Treasury Management function during 2016-17 and the audit identified that "the completed Control Risk Self Assessment (CRSA) provided 100% positive responses which indicate that risks have been considered

and mitigated. No weaknesses have been identified during the current review consequently no recommendations are deemed necessary on this occasion”.

The Council's Treasury Management Advisors contract expired on 31 August 2016. Arlingclose were the successful tenderer and from 1 September 2016 awarded a new four year contract. The contract will be reviewed annually and either party may at any time terminate this agreement on 3 months prior written notice.

**RESOLVED:** That the Audit Committee note the Annual Treasury Management Activities for 2016-17.

10. **PROPOSED FORWARD WORK PROGRAMME 2017-18**

The Chief Internal Auditor presented a report which proposed the Forward Work Programme for 2017/18 for the Audit Committee to consider and approve.

She described the core functions of the committee and explained that an effective Audit committee helped to raise the profile of internal control, risk management and financial reporting issues. The Committee could also enhance public trust and confidence in the financial governance of the Authority. She added that the proposed programme for the committee was shown at appendix A

Members queried the recent issues regarding the waste services contract and that this was so significant that there should be audit involvement in the contract and procurement processes. It was also highlighted that Risk Management was also of key interest and the Chairperson requested that this item be brought forward to the September meeting of the committee.

The Chief Internal Auditor advised that she would update the Forward Work Programme for the next meeting of the committee.

**RESOLVED:** That the Forward Work Programme be approved subject to the amendments agreed at the meeting.

11. **INTERNAL AUDIT SHARED SERVICE CHARTER 2017/18**

The Chief Internal Auditor present a report requesting that the Audit Committee approve the Council's Internal Audit Shared Service Charter for 2017/18.

She explained that on 1<sup>st</sup> April 2013, the Public Sector Internal Audit Standards (PSIAS) came into force and superseded the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Auditors. The Audit Committee support the role of internal audit by overseeing its independence, objectivity, performance and professionalism; supporting the effectiveness of the internal audit process and promoting the effective use of internal audit within the assurance framework.

She described the purpose and objectives of Internal Audit Service and how the service operated between the two local Authorities. She added that all Chief Officers of the Council were required to give complete co-operation to Internal Audit staff for the expedient fulfilment of the audit process. In addition, all partners/agents contracted to provide services on the Council's behalf are also required to co-operate with Internal Audit staff and make available all necessary information.

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The Chief Internal Auditor advised the committee of her duties which included the need to ensure that the service was appropriately resourced to achieve the approved risk based plan. She added that external assessment would be carried out at least once every five years by a qualified, independent assessor or assessment team from outside of the Internal Audit Shared Services organisations. The previous External Assessment took place during 2016/17.

RESOLVED: The Audit Committee approved the Internal Audit Shared Service Charter for 2017/18 as attached to the report.

### 12. EXTERNAL ASSESSMENT OF INTERNAL AUDIT SHARED SERVICE

The Chief Internal Auditor present a report requesting that the Audit Committee considered the report of the External Assessor and approve the actions for improvement.

She explained that In accordance with the requirements of both Councils' Audit Committee an external assessment of the Bridgend and Vale Internal Audit Shared Service; was undertaken by the Chartered Institute of Public Finance and Accountancy (CIPFA). The assessment commenced on the 30<sup>th</sup> January 2017 and the on site assessment concluded on the 3<sup>rd</sup> February 2017. The external assessment report was attached at Appendix A to the report.

She added that the Assessor made 18 recommendations and a further 10 suggestions for improvement. The subsequent action plan (including responses and action dates) to address these recommendations was attached at Appendix 1 of the report. Overall, the assessment identified no areas of non-compliance and the Assessor commented that all auditees and Statutory Officers were positive in their responses and understanding of the audit process and the value it added.

RESOLVED: That the Audit Committee noted the report of the External Assessor and approved the actions for improvement.

### 13. INTERNAL AUDIT STRATEGY AND ANNUAL RISK BASED AUDIT PLAN APRIL 2017 TO MARCH 2018

The Chief Internal Auditor present a report which informed the Audit Committee the Council's Internal Audit Strategy and Annual Risk Based Audit Plan for the year April 2017 to March 2018.

She explained that Internal Audit Planning is not an exact science but the proposed draft risk based plan for 2017/18 struck a good balance between the risks identified, the internal audit resources available and the assurance work being carried out by other agencies.

She added that the structure of the Internal Audit Shared Service was based on 18 full time equivalent employees (FTE's). The Service commenced the Financial Year 2016/17 with four vacant posts and this has now increased to nine, which represents 50% of the structure. Arrangements are in place to address this shortfall; however, a prudent approach to the number of deliverable productive days for the coming year is required. Therefore the proposed plan provides for a maximum of 1,085 productive days being delivered during 2017/18. Delivery of the 1,085 productive days will be dependent on the planned resources being realised. Should this not be the case, there is also the potential to buy in any service shortfall during the year in order to meet the maximum commitment. Any significant deviation from this will be reported back to the Audit Committee.

The 2017/18 draft Annual Risk Based Audit Plan of work has been formulated to ensure compliance with the Standards. In order to keep Members of the Audit Committee fully informed, and to ensure compliance with Standards for Internal Audit the draft detailed plan was attached at Appendix 2 of the report.

The concerns raised following the submission of the draft plan to the Audit Committee on the 27<sup>th</sup> April 2017, relating to the number of days allocated to the Social Services and Wellbeing Directorate. A detailed plan was attached at Appendix 3 together with additional information extracted from the cross-cutting reviews that will be included and impact particularly on the Social Services and Well-being Directorate.

Member thanked the officers for their hard work and clarified that the audit plan could be achieved with the plans that were in place to address the resourcing issues.

They also raised concerns regarding the increasing risks from cyber-attack and the ability of the Authority to maintain its service in light of the recent attacks on the NHS. The Head of Finance advised that the recent cyber-attacks related to a known vulnerability with Windows XP platforms.

**RESOLVED:** That the Audit Committee approved the draft Internal Audit Strategy and draft Annual Risk Based Audit Plan for 2017/18.

14. **INTERNAL AUDIT - OUTTURN REPORT - APRIL TO MAY 2017**

The Chief Internal Auditor present a report informing the Audit Committee of actual Internal Audit performance against the two months of the Audit Plan year covering April and May 2017.

She explained that the 2017/18 Internal Audit Plan was submitted to the Audit Committee for consideration and approval on the 27th April 2017. The Plan outlined the assignments to be carried out and their respective priorities. The Plan provided for a total of 1,085 productive days to cover the period April 2017 to March 2018.

She added that following an analysis of productive days achieved against the plan for the first two months of this financial year the figures show that 116 actual days have been achieved, which is less than the expected maximum target of 181 by 65 days. At present the overall structure of the internal Audit Section is based on 18 Full Time Equivalent (FTE) employees. However, at the end of the Financial Year 2016/17, the Section was carrying 9 FTE vacant posts and this continues to be the case for the start of the new Financial Year. As Audit is only two months into the start of the new Audit Plan, no significant weaknesses in the system of internal control have been identified so far to date.

**RESOLVED:** That the Audit Committee considered the Internal Audit Outturn Report covering the period April to May 2017 to ensure that all aspects of their core functions are being adequately reported.

15. **URGENT ITEMS**

None

The meeting closed at 4.15 pm