

AUDIT COMMITTEE - THURSDAY, 28 JUNE 2018

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD IN COMMITTEE ROOMS 2/3 - CIVIC OFFICES ANGEL STREET BRIDGEND CF31 4WB ON THURSDAY, 28 JUNE 2018 AT 14:00

Present

Councillor A Williams – Chairperson

CA Green	JE Lewis	MJ Kearn	RM Granville
LM Walters	AJ Williams	PA Davies	P Davies
TH Beedle	T Giffard		

Apologies for Absence

Officers:

Mark Jones	Financial Audit Manager, Wales Audit Office
Helen Smith	Chief Internal Auditor
Mary Williams	Chief Accountant
Andrew Rees	Senior Democratic Services Officer - Committees
Gill Lewis	Interim Head of Finance and Section 151 Officer
Nigel Smith	Finance Manager
Roger Martin	Insurance and Risk Officer

56. ELECTION OF CHAIRPERSON

RESOLVED: That Councillor A Williams be elected as the Chairperson of the Audit Committee for the ensuing year.

57. ELECTION OF VICE-CHAIRPERSON

RESOLVED: That Councillor AJ Williams be elected as the Vice-Chairperson of the Audit Committee for the ensuing year.

Councillor R Granville was recorded as having voted against the nomination of Vice-Chairperson.

58. DECLARATIONS OF INTEREST

Councillor TH Beedle declared a personal interest in agenda item 8 – Statement of Accounts 2017-18 (Unaudited) as a member of the governing body of Maesteg PFI School.

59. APPROVAL OF MINUTES

RESOLVED: That the minutes of the meeting of the Audit Committee of 26 April 2018 were approved as a true and accurate record.

60. AUDIT COMMITTEE'S TERMS OF REFERENCE

The Interim Section 151 Officer presented the revised Terms of Reference for the Committee for noting which had been approved by Council at its meeting on 20 June 2018.

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The Committee questioned the effect of the Committee not approving the Head of Internal Audit's Annual Report. The Interim Section 151 Officer informed the Committee that the matter would have to be referred to the Chief Executive were this to happen.

The Committee questioned whether the Terms of Reference could be amended so that the Committee could scrutinise the Treasury Management Strategy. The Group Manager – Chief Accountant stated that she would need to clarify whether this was possible within the CIPFA Guidance and she would respond to the Committee accordingly.

RESOLVED: That the Committee noted the Terms of Reference.

61. ANNUAL GOVERNANCE STATEMENT 2017-18

The Interim Section 151 Officer presented the Annual Governance Statement for consideration by the Committee and sought to approve its inclusion in the Statement of Accounts for 2017-18.

The Interim Section 151 Officer reported that Regulation 5(2) of the Accounts and Audit (Wales) Regulations 2014 required an authority to undertake as part of its governance arrangements for corporate governance, an annual review of governance and to report on internal control. She explained that in 2016, CIPFA published its new "Delivering Good Governance in Local Government Framework", which positioned the attainment of sustainable economic, social, and environmental outcomes as a key focus of governance processes and structures. The Guidance considered the requirements of the Well-being of Future Generations (Wales) Act 2015 and embedded the five ways of working into the CIPFA framework.

The Interim Section 151 Officer informed the Committee that good corporate governance required the active participation of Members and officers across the Council and that these arrangements were reviewed annually and the findings used to update the Annual Governance Statement. It also helped to ensure the continuous improvement of the Council's corporate governance culture.

The Interim Head of Finance informed the Committee that the inclusion of the Annual Governance Statement within the Statement of Accounts provided an overall assessment of the Council's corporate governance arrangements and an appraisal of the controls in place to manage the Council's key risks and identify where improvements needed to be made.

The Committee questioned whether plans are in place to monitor the overspend in Social Services. The Interim Head of Finance informed the Committee that there is a project board in place which is chaired by the Chief Executive and comprises the Corporate Directors Social Services and Wellbeing and Education and Family Support and Head of Finance. The Project Board meets every 2 weeks and has produced a detailed project plan in order to track savings throughout the year. The Project Board will also look at savings in 2019/20 and 2020/21.

The Committee requested that workforce priority areas be monitored on annual basis. The Interim Head of Finance stated that managers are focused on workforce priority areas and that the Statement of Accounts be changed to reflect it's monitoring on an annual basis.

RESOLVED: That the Committee reviewed the Annual Governance Statement and approved its inclusion in the statement of Accounts 2017-18.

62. STATEMENT OF ACCOUNTS 2017-18 (UNAUDITED)

The Group Manager – Chief Accountant presented the unaudited Statement of Accounts for 2017-18 for noting and the Harbour Authority Annual Return for 2017-18 for approval.

The Council's Statement of Accounts for the financial year ended 31 March 2018 had been prepared and comprised a number of different statements relating to financial performance and reserves as well as a statement on corporate governance arrangements. The Annual Return for the Harbour Authority was also attached to the report for approval.

The Group Manager – Chief Accountant explained that the Statement of Accounts 2017-18 was signed by the Section 151 Officer and passed to the Wales Audit Office on 30 May 2018, a calendar month before it was required to be signed in accordance with regulations. This demonstrated the Council's commitment to Earlier Closing of Accounts. She outlined the Core Financial Statements included in the Accounts, produced in accordance with International Financial Reporting Standards (IFRS).

The Committee requested clarification of the reduction in income on Central Services shown in the Income and Expenditure Statement. The Finance Manager – Control and Closing informed the Committee that an adjustment of £1.1m had been made in relation to the Northgate Housing Benefits system in 2016/17 and therefore the opening balance for the Income on Central Services line was higher than normal.

The Committee questioned the implications on the authority should there be a further requirement to make contributions to cover the pension deficit at the expense to funding frontline services. The Group Manager – Chief Accountant informed the Committee that the authority is in a similar position to many other local authorities in having to make payments to the pension fund and pro-active steps are being made to reduce the historic pension deficit liability by making additional one-off payments as and when there are sufficient resources.

In response to a question from the Committee as to the funding of projects, the Interim Head of Finance commented that it was used to pump prime various projects within the Communities Directorate.

The Committee questioned whether grants and contributions of £85.7m are assumed or definite grants. The Group Manager – Chief Accountant informed the Committee that it relates to both grants received and yet to be received. This allocation had been flat-lined for 10 years.

RESOLVED: That the Audit Committee:

- noted the unaudited Statement of Accounts for 2017-18;
- approved the Harbour Authority Annual Return 2017-18.

63. COMMUNITY ACTION FUND 2017-18 UPDATE

The Interim Section 151 Officer presented a report providing an update in respect of the use of the Community Action Fund (CAF) approved by Cabinet on 5 September 2017. She explained that the 2017-18 Medium Term Financial Strategy which was approved by Council on 1 March 2017, included a new budget of £285,000 for the creation of a Community Action Fund. The broad aims of the fund were to create opportunities for localised intervention by members within their own ward to the benefit of the community. CAF was designed with the aim of minimising administrative costs and placing responsibility for eligibility of payments with individual Elected Members. Assurance

would then be provided through public accountability which included the reporting of payments to the Council's website and to Audit Committee.

The Interim Section 151 Officer explained that Elected Members were required to attend mandatory training before they could submit applications for payment and Members were able to comply with the conditions of the scheme and self-regulate.

On 5 September 2018 Cabinet approved the implementation of the Community Action Fund. Due to the delay in the implementation of the scheme, the funding allocated for the first year would be rolled over into the subsequent financial year. Between 16 October 2017 and 21 June 2018 a total of £77,198.96 was provided from the Community Action Fund budget to fund 27 projects across the County Borough.

The Interim Section 151 Officer outlined the way funding had been used and the variety of projects including funding of school equipment, refurbishment work and safer routes to school.

The Committee considered the need to hold more frequent meetings due to the volume of Committee reports it has to consider. The Interim Section 151 Officer stated that the number of meetings had been set to deliver the programme, however if agendas become unwieldy, additional meetings of the Committee could be arranged. The amount of business on Committee agendas would be kept under review.

In response to a question from the Committee as to the threshold of funding per Member and the mechanism in place for external regulation of the Community Action Fund. The Interim Section 151 Officer informed the Committee that an allocation of £5k per Member had been made and that the scheme is self-regulatory, its outcomes would be published and made available to the public. The funding would not be available for recurring expenditure and neither would it replace core services. The Interim Section 151 Officer informed the Committee that a report reviewing the Community Action Fund would be submitted to Cabinet and Council. The Interim Section 151 Officer also informed the Committee that applications must be submitted in accordance with the guidance given to Members. The Group Manager – Chief Accountant advised that payment would be made after expenditure had been incurred and applications will be processed by the Business Support Team.

RESOLVED: That the Audit Committee:

- a) noted the content of the report.
- b) noted the publication of the Community Action Fund information as shown in Appendix 2 to the report.
- c) noted that a full review of the Community Action Fund would be undertaken following the end of the current phase of funding as stated in paragraph 4.11 of the report.

64. **ANNUAL TREASURY MANAGEMENT OUTTURN REPORT 2017-18**

The Group Manager – Chief Accountant presented a report updating the Committee on the outturn position for treasury management activities, the Treasury Management and Prudential Indicators for 2017-18 and to highlight the compliance with the Council's policies and practices prior to their report to Cabinet and Council.

The Group Manager – Chief Accountant explained that the Committee was responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies. The Committee had received training to assist them in their function of scrutinising treasury management and investment options available to the Council. She added that Welsh Government issued revised Guidance on Local Authority Investments in April 2010

which required the Council to approve an Investment Strategy prior to the start of each financial year and this was included in the TMS.

The Group Manager – Chief Accountant reported that the Council has complied with its legislative and regulatory requirements during 2017-18. The TMS 2017-18 and the Half Yearly Outturn were reported to Council on 1 March 2017 and 1 November 2017 respectively. The Annual Treasury Management Outturn Report will be reported to Cabinet and Council in September 2018. She presented a summary of the treasury management activities for 2017-18 and outlined the Council's external debt and investment position for 1 April to 31 March 2018. No long term borrowing was taken in 2017-18 and no debt rescheduling was undertaken as there were no significant savings to be made, however, the loan portfolio will be reviewed during 2018-19. Favourable cash flows have provided surplus funds for investment and the balance on investments at 31 March 2018 was £30.40 million (average interest rate 0.62%).

The Group Manager – Chief Accountant reported that the Council operated within the treasury limits and Treasury Management and Prudential Indicators as set out in the agreed TMS 2017-18 and also complied with its Treasury Management Practices. She stated that the treasury management function will be reviewed by the Council's External Auditors, the Wales Audit Office, during the 2017-18 annual audit which has not yet been completed. In addition to the External Audit work, Internal Audit undertook an audit of the treasury management function during 2017-18 and the audit identified that "based on an assessment of the strengths and weakness of the areas examined, and through testing it has been concluded that the effectiveness of the internal control environment is considered to be sound and therefore substantial assurance can be placed upon the management of risks".

The Committee questioned the rationale of an increase in net debt while external borrowing and investment in building societies has decreased and investment in Government (including local authorities) had increased. The Group Manager – Chief Accountant explained that investment in local authorities is safer and that short-term borrowing had been taken at year end. She stated that the position at the next quarter would be different.

The Committee questioned whether the reduction in spend on capital expenditure was attributable to slippage in schemes. The Group Manager – Chief Accountant stated that the funding of new schools was through capital expenditure and the spend on the new Pencoed Primary School would occur this year.

The Committee questioned the strategy for funding Band B schools. The Interim Head of Finance stated that a large part of the capital programme is the funding of Band A and B schools and it was hoped that the Council will have access to schools being funded through the Mutual Investment Model. The Group Manager – Chief Accountant commented on the Prudential Indicators for Prudence and confirmed that the Council is well within the limits set.

RESOLVED: That the Committee noted the annual treasury management activities for 2017 -18.

65. **INCIDENT AND NEAR MISS REPORTING PROCEDURE (EXCLUDING HEALTH AND SAFETY)**

The Insurance and Risk Officer presented a report informing Audit Committee of the new Incident and Near Miss Reporting Procedure and sought the Committee's views on whether or not the procedure could be improved upon.

The Insurance and Risk Officer explained that the Council already had a Health and Safety Accidents, Incidents and Near Misses Procedure. The Chair of Audit Committee had asked the Council to consider implementing an effective Incident and Near Miss Reporting Procedure for other types of incidents and near misses. The aim being to ensure that after there had been an accident or near miss that lessons were learnt which would prevent similar occurrences happening again.

The Insurance and Risk Officer reported that the procedure seeks to put in place a proportionate response to different types of incidents and near misses dependent upon their severity. Consultation has taken place with the Corporate Management Board and it had become clear that there are areas of the Council's activities that do not have a mechanism to review incidents and near misses which are not health and safety related. He stated that further consultation would be undertaken with Directorates to ensure their support for the procedure and their commitment to implement it. A further report would be submitted to this Committee following consultation, including any recommended changes to the Incident and Near Miss Reporting Procedure that were identified.

The Committee complimented the Insurance and Risk Officer on producing the Incident and Near Miss Reporting Procedure and requested that the Insurance and Risk Officer review the scoring mechanism to avoid over inflation. The Committee requested that reference be made in the Incident and Near Miss Reporting Procedure to elected Members being notified of incidents. In response to a question from the Committee as to whether there is a business continuity strategy in place, the Chief Internal Auditor confirmed there is such a strategy in place but it required updating.

RESOLVED: That the Audit Committee:

- a) considered the Incident and Near Miss Reporting Procedure attached as appendix 1 to the report and provided comments.
- b) noted that further consultation would be undertaken with Directorates to finalise the Incident and Near Miss Reporting Procedure.
- c) noted that a further report would be presented to the Committee following consultation with Directorates.

66. PROPOSAL TO INCORPORATE THE SHARED INTERNAL AUDIT SERVICE (RIASS) INTO A LARGER SERVICE HOSTED BY THE VALE OF GLAMORGAN COUNCIL TO INCLUDE TWO ADDITIONAL COUNCILS

The Interim Head of Finance and Section 151 Officer presented a report informing Audit Committee of the proposal for the Council's Internal Audit Service, which was already part of an existing Regional Internal Audit Shared Service (RIASS) hosted by the Vale of Glamorgan Council, to become part of a larger collaboration and for the Committee to oversee the implementation during 2018/19.

The Interim Head of Finance and Section 151 Officer explained that the current RIASS in place between Bridgend and the Vale of Glamorgan Councils had been fully operational under a formal Partnership Agreement since February 2013. During this time, both Councils reported that the RIASS had delivered consistently against the approved annual risk based plans and achieved the necessary coverage in order to issue a robust, evidence based audit opinion at the end of each year. Benefits from bringing the sections together included the effective use of the total audit resource, knowledge sharing and harmonising working practices and systems. It was considered that there would be business benefits for Bridgend if it were to become part of a larger regional service.

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The Interim Head of Finance and Section 151 Officer outlined the proposed way forward including the termination of the current Partnership Agreement, the drafting of a new Partnership Agreement on similar terms to the original agreement but including Rhondda Cynon Taf County Borough Council and Merthyr Tydfil Borough Council as new parties. The Vale of Glamorgan would continue to be designated as the single employing authority and the Council's staff employed within RCT and Merthyr Internal Audit Service would be subject to TUPE and transferred to the Vale of Glamorgan Council. She also outlined the governance arrangements, Annual Audit Planning and staffing arrangements.

The Interim Head of Finance and Section 151 Officer explained that Cabinet at its meeting on 26 June 2018 had approved the proposal and authorised the Interim Head of Finance and Section 151 Officer, in consultation with the Monitoring Officer, to make the necessary arrangements for BCBC to become part of an enhanced RIASS subject to an agreed Partnership Agreement and Contract. This Committee was requested to oversee the implementation arrangements during 2018/19.

RESOLVED: That the Committee noted the contents of the report and that it had been tasked to oversee the implementation arrangements during 2018/19 and that it may be necessary to hold an additional meeting of the Committee to consider the implementation arrangements.

67. INTERNAL AUDIT - OUTTURN REPORT - APRIL TO MAY 2018

The Chief Internal Auditor reported on the performance of Internal Audit against the two months of the Audit Plan year covering April and May 2018. She explained that the 2018/19 Internal Audit Plan was submitted to the Audit Committee for approval on 26th April 2018 and that the Plan provided for a total of 1000 productive days covering April 2018 to March 2019. The days were split into Priority One and Priority Two reviews with the intention of completing the whole plan by the end of the financial year.

The Chief Internal Auditor reported on the overall actual progress against the 2018/19 Risk Based Plan and outlined a detailed analysis extracted from the Internal Audit Shared Service management information system. The Chief Internal Auditor informed the Committee that the overall structure of the Section continues to be based on 14 Full Time Equivalent positions however the Section had carried a number of vacant posts. She stated that the recent recruitment campaign had proved to be extremely successful with all the vacant auditors' posts and one of the Senior posts filled. The services of the South West Audit Partnership had been commissioned to address in part some of the shortfall in days necessary to complete the plan and this was likely to continue for the first half of this Financial Year.

The Chief Internal Auditor reported that it was only two months into the start of the new Audit Plan and no weaknesses in the system of internal control had been identified so far to date.

RESOLVED: That the Committee considered the Internal Audit Outturn Report covering the period April to May 2018 to ensure that all aspects of their core functions were being adequately reported.

68. AUDIT REPORT - HEALTHY ORGANISATION REVIEW

The Chief Internal Auditor presented the audit report in respect of the Healthy Organisation Review which was undertaken by the South West Audit Partnership on behalf of the Council's Internal Audit Shared Service (IASS) which formed part of the Council's 2017/18 audit plan.

The Chief Internal Auditor explained that the purpose of the Healthy Organisation Review was to provide an objective assessment of the management control framework or “health” of the Council. She added that the framework comprised eight corporate themes: Corporate Governance; Financial Management; Risk Management; Programme & Project Management; Commissioning and Procurement; Information Management; Programme & Project Management; and finally People and Asset Management. The assurance for five of the eight themes reviewed indicated an overall High Assurance opinion however SWAP were unable to form a conclusion on Information Management as the evidence needed to complete this review was not provided at the time of the audit. SWAP would continue with this theme during the first quarter of the plan year 2018/19.

The Committee expressed its concern that it had not been possible to get Information Management on track. The Interim Head of Finance informed the Committee commended SWP for producing an excellent piece of work and that the Corporate Management Board will focus on the high risk areas which would be incorporated into an Action Plan.

RESOLVED: That the Committee considered the content of the Healthy Organisation Review and the actions to be taken to address those areas requiring attention.

69. **UPDATED FORWARD WORK PROGRAMME 2018/19**

The Chief Internal Auditor presented an update on the 2018/19 Forward Work Programme. She stated that in order to assist the Committee in ensuring that due consideration had been given by the Committee to all aspects of their core functions an updated Forward Work Programme was submitted.

RESOLVED:

- (1) That the Committee noted the updated Forward Work Programme 2018-19;
- (2) That reports on Incident and Near Miss Procedure; Healthy Organisation Review – Including Information Management Follow Up and Regional Internal Audit Shared Service; be added to the Forward Work Programme to be reported to the Committee in due course.

70. **URGENT ITEMS**

There were no urgent items.

The meeting closed at 16:01