



## AUDIT COMMITTEE

### MINUTES OF THE MEETING HELD AT PENALLTA HOUSE, TREDOMEN, YSTRAD MYNACH ON TUESDAY 24TH JULY 2018 AT 2.00 PM

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#### PRESENT:

Councillor M.E. Sargent – Chair  
N. Yates – Vice Chair

#### Councillors:

Mrs E. Aldworth, D.T. Davies, C. Elsbury, Mrs A. Gair, Ms J. Gale, Mrs B. Miles, Ms T. Parry and G. Simmonds.

#### Together with:

B. Morris (Grant Thornton) and G. Hawkins (Grant Thornton).

R. Edmunds (Corporate Director for Education and Corporate Services), N. Scammell (Section 151 Officer), S. Harris (Deputy Section 151 Officer), A. Southcombe (Finance Manager) L. Lucas (Head of Customer and Digital Services), I. Evans (Contracts Manager), R. Roberts (Performance Manager) and K. Houghton (Committee Services Officer).

#### 1. TO APPOINT A CHAIR FOR THE ENSUING YEAR.

It was moved and seconded that Councillor M.E. Sargent be appointed as Chair of the Audit Committee for the ensuing year and by a show of hands this was unanimously agreed.

RESOLVED that Councillor M.E. Sargent be appointed Chair of the Audit Committee for the ensuing year.

#### 2. TO APPOINT A VICE-CHAIR FOR THE ENSUING YEAR

It was moved and seconded that Mr N. Yates be appointed as Vice-Chair of the Audit Committee for the ensuing year and by a show of hands this was unanimously agreed.

RESOLVED that Mr N. Yates be appointed as Vice-Chair of the Audit Committee for the ensuing year.

#### 3. APOLOGIES

Apologies for absence were received from Councillors J. Bevan, D. Hardacre and J. Simmonds

#### **4. DECLARATIONS OF INTEREST**

There were no declarations of interest made at the beginning or during the course of the meeting.

#### **5. MINUTES – 10TH APRIL 2018**

It was moved and seconded that the minutes of the meeting held on the 10th April 2018 be agreed as a correct record and by a show of hands this was unanimously agreed.

RESOLVED that the minutes of the Audit Committee held on the 10th April 2018 (Minute No. 1 – 10) be approved as a correct record.

#### **REPORTS OF OFFICERS**

Consideration was given to the following reports.

#### **6. PROCUREMENT UPDATE**

The Head of Customer and Digital Services and the Contracts Manager presented the Committee with an update on Procurement.

The Officers informed the Committee that there are three key areas that they are working on in regards to Procurement. These being as follows;

Programme for Procurement – This is a flexible document centred on delivering a programme that meets the objectives as set out by the Wellbeing of Future Generations (Wales) Act 2015. The Council has progressed well with this document and it is being provided as a template for other Welsh authorities.

Welsh Government Code of Practice – this considers ethical employment in supply chains and has been developed to target Modern Slavery. This involves blacklisting suppliers but also working with Suppliers to change practices and undertake the Code of Practice. Councillor C. Gordon has been made a Champion for this.

Third Party Expenditure – The Welsh Government review is on hold. However this focuses on protecting the third party supply chain.

The Procurement team are keen to develop sustainable procurement with the community benefits being driven by the Programme of Procurement and an example of this in practice is the WHQS Programme and the establishment of a Dynamic Purchasing System.

The Council are the first to take forward E-Procurement and the Procurement team are now reviewing as to whether the system is being used to its full extent? Has it impacted on standing orders and regulations? And has it led to efficiency savings in Officer time? There has been a strong indication that Welsh Government will be withdrawing funding to support E-Procurement so the Team are looking into alternative funding streams.

The Team are facing further challenges in the form of diminishing numbers of Procurement professionals, supply voids, Brexit, local supply chain capacity, automation, no PO No payment, ongoing Procurement reviews and supporting the Code of Practice: Ethical employment in supply chains.

Future areas of focus for the Team continue to be the Programme for Procurement, anticipated changes as a result of the completion of various reviews, looking for further collaboration opportunities and encouraging effective contract management.

The Chair thanked the Officers for their presentation and Members comments and questions were welcomed.

Members sought assurances that with a move towards automation, the ethical practices of suppliers and the quality of the end product delivered would continue to be taken into consideration during the Procurement process rather than just value for money. The Head of Customer and Digital Services assured the Committee that the quality criteria are set up-front when the procurement goes to market. There is a requirement from the supplier to evidence quality provision. The Procurement team research Suppliers, consult technical experts and as a Council, have made commitments to providing quality products that are best value not only from a financial aspect but also in terms of its community value.

A Member enquired as to whether there were any targets set for addressing the supply chain void. The Officer responded that targets have not been set however the Team are engaging with local suppliers whilst recognising that there are limits on what can be supplied locally. Workshops are being run and the Team are working towards identifying areas where a void exists and channelling the filling of this void towards local businesses wherever possible.

Members raised concerns with the shortage of Procurement professionals in the industry and enquired as to whether there were any programmes in place within the Local Authority to encourage and train Procurement professionals. The Officer informed the Committee that all staff within the service area have training and development plans, there are apprenticeship opportunities available in the Service and the Team provide support to MSc students.

Further concerns were raised with regards to the withdrawal of Welsh Government funding for the Automated Procurement System. The Procurement team are currently in discussions with Proactis who support all the Authority's other procurement systems and the Team are exploring alternative options with them.

## **7. REGULATOR PROPOSALS FOR IMPROVEMENT PROGRESS UPDATE**

The Performance Manager presented the report updating the Committee on progress against proposals or recommendations made by all Regulators since the last Audit Committee update in January 2018.

The Officer informed the Committee that there were no new reports however there are two draft reports currently being finalised which are;

- 'Service User Perspective' – a qualitative report, where WAO have contacted a sample of housing tenants subject to the WHQS programme and the results will be used to inform their follow up WHQS review work later in the year
- Overview and Scrutiny – Fit for the Future? Which asks the question – is the Council's Overview and Scrutiny function well placed to respond to current and future challenges?

In the course of presenting the report, the Officer drew particular attention to paragraphs 4.2 and 4.3 which indicated figures and breakdowns, 4.5 and 4.9 which provided narrative on the updates given in the appendices to the Report and 4.10, which showed that there had been no updates received from Estyn or Care Inspectorate Wales.

The Chair thanked the Officer for their report and Members comments and questions were welcomed.

Members raised concerns with regards to the WHQS programme and the impact of approximately 10% of tenants refusing access to properties. The Members queried whether this issue was rectifiable prior to the planned completion of the programme and would this

have budgetary implications? The Officer reminded Members that a more detailed WHQS Programme update is planned for the 29th January 2019 meeting of the Audit Committee. The Officer highlighted that there are 11 reporting bodies to the WHQS programme which provides a wealth of data so the Council is confident that the WHQS are identifying these issues. Following Members discussion it was felt that the detailed WHQS report to Audit Committee should be brought forward to the 16th October 2018 Audit Committee.

Members enquired about the consultation and procurement process previously undertaken in relation to the potential transfer of the Council's housing stock. The Section 151 Officer informed the Committee that the option to transfer to a Registered Social Landlord (RSL) or remain with the Local Authority was put to all tenants to vote on. In response to a query from a Member, the Section 151 Officer also confirmed that no borrowing has taken place to date in respect of works to achieve the Welsh Housing Quality Standard (WHQS) but borrowing would be required in the 2018/19 financial year. All borrowing will be undertaken in accordance with limits approved by Full Council.

Following consideration of the report it was moved and seconded that the recommendation to note the contents of the report and approve the closure of proposals as identified in Appendix 1 to the Officers report be approved and by a show of hands this was agreed by the majority present.

RESOLVED that:-

- (i) The contents of the report be noted
- (ii) The closure of proposals, as noted in Appendix 1 to the Report, be agreed

## **8. LOCAL GOVERNMENT FINANCIAL STATEMENTS AND THE ROLE OF THE EXTERNAL AUDITOR**

Representatives from Grant Thornton provided the Committee with a presentation on 'The role of External Audit and the Audit Committee in relation to the Statement of Accounts'.

The Auditors outlined the role of the Audit Committee, relating to Financial Statements, as to review and scrutinise financial affairs, review and assess risk management, internal control and corporate governance arrangements and oversee the internal and external audit arrangements of the Council. They also informed the Committee that it was to monitor the audit process through consideration of audit plans, reporting and evaluating the effectiveness of internal and external audit and promoting effective working between internal and external audit. They highlighted the following as factors the Committee needed to consider – assurance reporting, external review and inspection findings, reporting streams, external third party commentary, previous experiences, progress made on previous recommendations, awareness of deficiencies and risks; and asking questions. The Auditors asked the Committee to consider the following questions;

- Has the Council identified its assurance needs at a strategic level?
- Are the internal audit resources being utilised to provide assurance in key areas?
- Do internal audit and external audit reports provide confidence that the controls are in place, or flag up areas of concern?
- Can we trust our financial reporting?
- How reliable is our management information?
- Do we comply with relevant legislation?

Following on from the role of the Audit Committee, the Auditors outlined the role of the External Auditors. The Committee were informed that the role is to provide an audit opinion

on the Council's Financial Statements, as to whether they provide a fair and true view of the financial position at year end, assess if the Financial Statements have been properly prepared in accordance with CIPFA's Code of Practice on Local Authority Accounting, undertake certification of grant claims and returns and to provide a view on the Whole of Government Accounts submissions. They also correspond with the public and manage objections. The Auditors highlighted that a key part of their role was to work with the Audit Committee to ensure its work is timely, effectively planned and to communicate, share and evaluate national reports and governance reviews with the Committee.

The External Auditors provided the Committee with an overview of how they audit. This is done by following strict legislation and standards. It was explained that they determine the Local Authorities materiality which is defined as follows;

*'Misstatements, including omissions, are considered to be material if they individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'*,

From this a determination of what is 'trivial' is also made. Based on this, the Auditors issue a 'true' and 'fair' opinion with a focus on the risks. Work is also undertaken on all material balances and items of account.

In conclusion to the presentation, the Auditors briefed the Committee on their role with the External Auditors and Accounts. The Committee's role is to receive the External Auditor's findings report (ISA260) and formally consider issues raised prior to audit opinion and publication of the Accounts; and consider the issues raised and approve final Accounts. The Auditor's stated that what is reported, by them, are matters they consider to be important or relevant.

The Auditors highlighted what Members should look for in Accounts, as follows;

- Consistency with in year reporting,
- Variances against budget and previous year.
- Financial position.
- Internal consistencies of Accounts.
- The Section 151 Officer Report clearly explains inconsistencies
- Major developments are highlighted,
- The Report provides full understanding of the Accounts and addresses all queries satisfactorily.

The Chair thanked the Officers for their presentation and Members comments and questions were welcomed

Members queried the External Auditor's determination that £306k is deemed 'trivial' in terms of misstatements, particularly in circumstances when the £306k misstatement is identified on just one transaction. The External Auditor responded that although this occurrence would not be reported to you, it would be to Managers and a cut off figure needs to be used. £306k in deficit or credit would not make a material difference compared to £6.1m which is the determined materiality.

## **9. AUDIT COMMITTEE ASSURANCE OVER MANAGEMENT PROCESSES AND ARRANGEMENTS**

The Deputy Section 151 Officer presented the report which provides the Chair's response to the External Auditor, Grant Thornton, on how the Committee gains assurance over management processes and arrangements. A list of questions was given to the Chair of Audit Committee and the responses are appended to the Officer's report.

The Chair thanked the Officer for the report and Members comments and questions were welcomed.

Following consideration of the report and without comment or question it was moved and seconded that the response in the Appendix to the Report be noted and by a show of hands this was agreed by the majority present.

RESOLVED that the response as appended to the Report be noted.

## **10. FINANCIAL STATEMENTS FOR 2017/18**

The Section 151 Officer, Deputy Section 151, the Finance Manager and the representatives from Grant Thornton presented the report on the External Auditor's Audit of Financial Statements for 2017/18 and sought the Committee's recommendation to Council for approval of the 2017/18 Financial Accounts.

The External Auditors congratulated the Council's achievement in producing the Financial Statements in the new accelerated time frame of two months earlier than previous years with a good turn around on Audit queries. They drew particular attention to the '*Response to financial audit risks*' section (Page 26) of Appendix 1 of the Report and also the '*Summary of corrections made to the draft financial statements which should be drawn to the attention of the Audit Committee as those charged with governance*' section (page 40).

The Chair thanked the Officers for their report and Members comments and questions were welcomed.

A Member raised concerns regarding the level of Pension deficit. The Deputy Section 151 Officer has corresponded with the Member on this matter previously and agreed to send a letter received from Greater Gwent (Torfaen) Pension Fund to all members for clarification purposes.

Members discussed the Cardiff Capital Region City Deal and the achievability of the 1% increase on GDA target for the Authority particularly in regard to the areas of deprivation within the Borough and the consequences if this target is not met. The Deputy Section 151 Officer informed the Committee that Cardiff Capital Region City Deal have a Cabinet upon which the Council's leader sits and they are in the process of forming a Scrutiny Committee therefore any issues would be identified and conveyed to the Authority within a timely manner and although, as a rule, these issues will be reported to the Council's Cabinet and Scrutiny Committees, it can be looked at for reporting to Audit Committee. The Section 151 Officer also highlighted that if the financial risk became significant enough then it would appear on the Corporate Risk Register which is reported to the Committee.

Members queried why the Cardiff Capital Region City Deal does not already appear on the Corporate Risk Register due to the large financial commitment made. The Section 151 Officer responded that this is a long term commitment in its early stages and although there is a risk attached to it, financially it is seen as affordable and therefore does not represent significant enough a risk to be placed on the Corporate Risk Register.

A detailed discussion was had in relation to Journals which was highlighted by the External Auditors as an area in need of action by the Authority to address risks associated with authorisation of Journal users. It was reported that in some cases Journals were accessed and posted by employees not included within the schedule held. Members sought clarification on the process followed with regards to authorising members of staff to access and post journals. The Section 151 Officer informed the Committee that full authorisation is not rolled out across all the devolved finance teams within each directorate. Each team can process journals within their own directorate but a higher level of authorisation is given to the Central Finance team. This ensures that the use of the system is restricted to trained staff and there is a greater amount of control over it. Following further discussion the Section 151 Officer

agreed to provide a report on Journal Authorisation Limits for the next meeting of the Audit Committee.

A Member raised concerns regarding the reduction in staff numbers in the Authority in recent years due to budget reductions and the impact this will have on services if it is to continue. The Section 151 Officer stated that savings demands and austerity will continue to impact on staffing numbers however the staff and public will be informed if a service is lost and the risk of this is assessed when the budget is formed. It will also be monitored through the Pensions Compensations Committee.

As a result of various discussions, the Deputy Section 151 Officer agreed to provide details of the Provisional Outrun Report for 2017/18.

Following consideration of the report it was moved and seconded that the recommendations to Council to ensure that the 2017/18 Financial Accounts are approved and submitted to the Wales Audit Office (WAO) in accordance with the statutory requirements, be supported by the Audit Committee and by a show of hands this was agreed by the majority present.

RESOLVED that:-

- (i) The External Auditor's Audit of Financial Statements Report be received and the Committee's comments noted.
- (ii) The management responses to the Auditor's recommendations arising from the 2017/18 financial audit be noted.
- (iii) The Audit Committee recommends to Council that the 2017/18 Financial Accounts are approved subject to any changes that may be required as a result of ongoing audit work.

## **11. AUDIT COMMITTEE FORWARD WORK PROGRAMME**

The Corporate Director for Education and Corporate Services presented the Audit Committee's Forward Work Programme for the period of July 2018 – January 2019.

The Audit Committee Forward Work Programme is a working document and is updated regularly when additional reports are identified by Members and Officers. The Forward Work Programme is made up of reports identified by Officers and Members and the Committee is asked to review this work programme at every meeting going forward

The Chair thanked the Officer for their report and Members comments, questions, amendments or additions were welcomed.

Following consideration of the Audit Committee Forward Work Programme, one amendment and 4 additional reports were requested and subject to these changes it was moved and seconded that the Forward Work Programme be approved and by a show of hands this was agreed by the majority present.

RESOLVED that subject to the following amendment and additions, the Audit Committee Forward Work Programme for July 2018 - January 2019 be approved;

- (i) As discussed at Agenda item no. 7, the report on 'Housing and WHQS update' be brought forward from the 29th January 2019 meeting of the Audit Committee to 16th October 2018 meeting.

- (ii) The Deputy 151 Officer requested that reports on the AP Forensics Software and the Update to the Audit Charter be added to the Forward Work Plan for the 29th January 2019 meeting.
- (iii) The Section 151 Officer requested a further report be added to the 16th October 2018 meeting regarding Journal Authorisation Limits.

## 12. INFORMATION ITEMS

The Committee received and noted the following information items:-

- (i) (Annual Review of Complaints Received Under The Council's Corporate Complaints Policy – 1st April 2017 – 31st March 2018
- (ii) Certificate of Caerphilly County Borough Council's 2018 – 2019 Improvement Plan
- (iii) Regulation of Investigatory Powers Act 2000
- (iv) Officers' Declarations of Gifts and Hospitality – January to March 2018
- (v) Register of Employees' Interests Forms 2017/18
- (vi) Corporate Governance Panel Minutes – 9 October 2017
- (vii) Corporate Governance Panel Minutes – 19 February 2018

The meeting closed at 16:19pm.

Approved as a correct record and subject to any amendments or corrections agreed and recorded in the minutes of the meeting held on 16th October 2018, they were signed by the Chair.

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CHAIR