



AUDIT COMMITTEE

MINUTES OF THE MEETING HELD AT PENALLTA HOUSE, TREDOMEN, YSTRAD MYNACH ON TUESDAY 17TH OCTOBER 2017 AT 10.00 AM

PRESENT:

Councillor M.E. Sargent – Chair

Councillors:

D.T. Davies, Ms J. Gale, Mrs B. Miles, G. Simmonds, J. Simmonds and Mrs T. Parry.

Together with:

G. Hawkins (Grant Thornton).

R. Hartshorn (Head of Public Protection), S. Harris (Interim Head of Corporate Finance), A. Southcombe (Finance Manager), R. Harris (Internal Audit Manager), and C. Evans (Committee Services Officer).

1. APOLOGIES

Apologies for absence were received from Councillors Mrs E. Aldworth, J. Bevan, C. Elsbury, Mrs A. Gair and A. Whitcombe and Mr N. Yates.

2. DECLARATIONS OF INTEREST

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

3. MINUTES – 14TH JUNE 2017

RESOLVED that the minutes of the meeting of the Audit Committee held on 14th June 2017 (minute nos. 1 - 8) be approved as a correct record and signed by the Chair.

4. MINUTES – SPECIAL AUDIT COMMITTEE – 25TH JULY 2017

RESOLVED that the minutes of the special meeting of the Audit Committee held on 25th July 2017 (minute nos. 1 – 7) be approved as a correct record and signed by the Chair.

REPORTS OF OFFICERS

Consideration was given to the following reports.

5. CORPORATE REVISED RISK STRATEGY AND GUIDANCE

The report, which was presented to Cabinet on 7th June 2017, provided an update and revised Risk Management Strategy 2017 (and guidance) following changes in legislation.

The Committee noted that Members have a critical role to play in evaluating the council's risk management arrangements and in particular understanding how the council identifies, manages and, where possible mitigates or removes risk. Risk Management is crucial to the effective delivery of council services.

It was noted that the Council's Risk Management Strategy was approved in 2013, since that time there have been several changes; one in particular was the introduction of the Well-Being of Future Generations (Wales) Act 2015 which requires the Council to change the way it views risk in keeping with the principles of sustainability. As a result the Strategy has been updated for 2017 to reflect these changes.

In considering the report, a Member sought clarification on the role of Scrutiny, and whether this was specific to one Scrutiny Committee or all Committees. Officers clarified that this referred to any Scrutiny Committee and that the wording would be amended in order to more accurately reflect this.

A Member sought further information on the progress being made against the Well-Being and Future Generations (Wales) Act 2015, with particular reference to Risk Management. Officers explained that the Well-Being of Future Generations (Wales) Act 2015 has encouraged a culture change and has introduced a different assessment and management process. The Management of Risk, on a Corporate, Directorate and Service Level has to consider Risk in a more long-term manner and the implications on future generations.

The Committee considered the Wales Housing Quality Housing Standard (WQHS), which was identified as a risk, and raised a number of concerns with regards to the procurement process. Officers explained that the Programme had experienced a number of unforeseen issues, and asked Members to note that the Wales Audit Office (WAO) have conducted a review on the WHQS Programme, which will be considered at Cabinet on 1st November 2017, and should be available in the public domain a week prior to this.

The Audit Committee thanked the Officer for the report and noted its contents.

6. CORPORATE RISK MONITORING

The report provided the Audit Committee with an update of the Corporate Risk Register in accordance with the Council's Risk Management Strategy.

The updated Corporate Risk Register (CRR) was presented to the Audit Committee so there is opportunity for the Committee to satisfy itself that appropriate arrangements are in place for the council's risk management processes to be regularly and robustly monitored and scrutinised.

The Committee noted that Members have a critical role to play in evaluating the council's risk management arrangements and in particular understanding how the council identifies, manages and, where possible, mitigates/removes risk.

Members noted that, under the Council's Risk Management Strategy, Corporate Management Team (CMT) monitors the CRR quarterly and Cabinet receive six monthly progress reports.

The six month progress updates are then provided to Audit Committee who have the role of reviewing and challenging the risk register and resultant action plans for the council's key strategic and corporate risks.

Following a review made by CMT on 7th September 2017, The Risk Register was updated and the changes were summarised within the report. Members were pleased to note that there were no new risks added, however the WHQS Programme had been changed from a Medium to High risk, School Rationalisation had been updated, and the Local Development Plan (LDP) had been changed from Medium to High risk due to planning decisions being appealed, as a result of a lack of an LDP.

The Audit Committee thanked the Officer for the report and discussion ensued. A Member sought further information on the EAS Service and raised concerns about the risk level and quality of Education provision, following results of Estyn Inspections. Officers explained that, whilst this is a valid point, the CRR provides a summary of the risk, but not a complete picture of performance of the service; it was acknowledged that there is still room for improvement. Representations have been made to the EAS in order to address issues with attainment. Members were reminded that the risks have been adjusted in order to consider the Well-Being of Future Generations (Wales) Act, and therefore, it was felt that there is a longer term impact on future generations for not addressing attainment issues now, however, from the perspective of CMT and the Local Authority, the risk was considered to be Medium.

A Member sought an update on the Local Development Plan (LDP) and raised concerns that a lack of LDP can have significant implications for planning applications and developments within the Borough. Officers agreed that this is a significant risk and that CMT have determined that the risk should be ranked as High.

The Committee noted that the Wales Housing Quality Standard (WHQS) Programme risk level had increased and sought further information on this increase. Officers explained that there have been a number of challenges faced within the programme in order to meet the 2020 deadline. It was noted that a review has been conducted by the Wales Audit Office, which will be presented to Cabinet on 1st November 2017, in which there were a number of concerns raised, the report also includes a response from Officers. Members were advised that, whilst the Officer was able to discuss the Risk rationale, he was not an expert in each of the areas. As a result, it was suggested that, where Members had significant concerns, relevant Officers can be invited to the Audit Committee in order to discuss further.

Finally, Members noted the risk in relation to Grant Funding and sought assurance for Budget sustainability, should Grants be withdrawn. Officers explained that Grant Funding is always a risk, and loss of Grants could render Services unsustainable. However, Members were pleased to note that a number Grants have been transferred into the Budget settlement, resulting in increased stability for a number of services, however, work continues to encourage further transfers to mitigate risk.

The Audit Committee thanked the Officer for the report and noted it content.

7. 2016/17 STATEMENT OF ACCOUNTS – UNCORRECTED MISSTATEMENTS OF £629K

The report, which was presented by the Interim Head of Corporate Finance provided the Audit Committee with details of the 2016/17 Statement of Accounts – Uncorrected Misstatements of £629k.

Members were asked to note that, within the External Auditor's 'Audit of Financial Statements Report', which was presented to the Audit Committee on the 25th July 2017, details were provided of an uncorrected misstatement that was being looked into further by Officers at that time. The misstatement related to ongoing work on cash balances within the Accounts, and a balance of £629k held as a reconciling item within the bank reconciliation. This arose in 2013/14 when the Council was in the process of transferring its banking activities from the Co-Operative Bank to Barclays Bank, with the temporary transfer of some cash and investment balances to the Bank of Scotland.

The 2016/17 Statement of Accounts was agreed by Council at its meeting on the 31st July 2017. At that time the uncorrected misstatement of £629k was still being looked into by Officers and consequently it was agreed with the External Auditor, that once the appropriate accounting adjustments have been agreed they would be actioned in the 2017/18 financial year.

The Committee noted that Officers have now completed the review of the £629k misstatement and, as explained in the report, the cash balance has been double-counted in error in the Schools and Education Trust Fund balances and in corporate investments. The entries for the Schools and Trust Fund are correct so the corporate investment balance needs to be adjusted as the General Fund balance has been overstated due to the error. This adjustment will correctly state the current General Fund balance at £13.281m.

The External Auditor, Grant Thornton, has reviewed the work undertaken by Officers and has confirmed that they are satisfied with the proposed adjustment based on the evidence reviewed as the cash balance does not support the main Authority's General Fund balances.

The Audit Committee thanked the Officer for the report and clarification and expressed their concern for school balances and disappointment that the error was not corrected until now. Officers explained that there would be no impact to schools balances, and whilst this was picked up, previous Auditors had not raised the issue. However, Grant Thornton have identified the issue, due to a change in the way that the Accounts were audited, and Members were asked to note that, whilst this error was not acceptable, the Council and Finance department were working under unprecedented circumstances, and under a significant amount of pressure at the time, which led to the error. Further assurances were offered to Members in that additional checks and balances are being introduced into processes in order to avoid an error of such scale in the future.

Following consideration and discussion, it was moved and seconded that the recommendations in the report be approved. By a show of hands this was unanimously agreed.

RESOLVED that for the reasons contained in the Officers report: -

- (i) The action required to detail with the uncorrected misstatement of the £629k highlighted in the External Auditor's 'Audit of Financial Statements Report' be noted.
- (ii) The details of the movements on the General Fund be noted and the explanation of the adjustment that is required to correct the £629k misstatement be incorporated into the 2018/19 budget report, which will be presented to Council February 2018.

8. INTERNAL AUDIT SERVICES – ANNUAL OUTTURN REPORT 2016-17

The report provided the Audit Committee with details on the work carried out by Internal Audit Services during 2016/2017.

Members noted that it is a requirement both of the Public Sector Internal Audit Standards (PSIAS) and the Council's own Financial Regulations that an annual audit activity plan is prepared to ensure that there is an effective and efficient use of audit resources.

In addition to producing the audit plan, it is also a requirement that the Internal Audit Manager produces an outturn report, which provides members of the Audit Committee with an overview of the work undertaken by Internal Audit Services during the previous financial year and provides an insight into the range of issues that the service is involved with, in addition to the core audit work undertaken.

The Committee thanked the Officer for the report and appendices and discussion ensued.

In considering the Table of Issues identified for those audits ranked as in need of improvement in 2016/17, a Member sought further information on the WHQS Pain/Gain Process. Officers explained that during the Procurement Process for the WHQS, an arrangement was agreed with suppliers in which, on standard items, if a product could be sourced at a lower price, the savings would be shared on a 70/30 split between the Authority and Supplier, however, in the same way, should product prices increase the "pain" would also be split 70/30 between the supplier and Authority. It was noted that there is therefore an incentive for the supplier to source the best priced products, thus delivering Value for Money for the Authority. Members were also asked to note that, whilst there were some issues identified in the process and methodology, there have been a number of changes within the WHQS programme, which include a new Procurement process, as well as change to the Head of Programmes. Members were assured that work is underway to make these improvements in the system.

9. AUDIT COMMITTEE FORWARD WORK PROGRAMME

The Forward Work Programme, up to September 2017 was presented to the Audit Committee for Member consideration. It was noted that the document is a working document and is regularly updated when additional reports are identified.

Having fully considered its detail the Audit Committee considered a number of items such as the EAS service, Local Development Plan (LDP), Local Government Pension Scheme Viability and Wales Housing Quality Standard (WHQS) and discussed whether reports should be brought to the next Committee.

Having fully considered each of the items, a detailed debate took place in relation to the Local Government Pension Scheme and it was noted that further information is being sought from Torfaen in relation to the Scheme, and would be reported back to the requesting Member when available, however, it was reiterated that the LGPS is a National Scheme, unless the Council leaves the scheme, the liability will remain on Council budgets. As a result, the Committee agreed that a report on the LGPS would not be added to the Forward Work Programme for future meetings. The Committee also agreed that the EAS should be included on the Corporate Risk Register, along with the LDP, however the Committee were keen to receive the WAO report on WHQS once available in the public domain, and a request to add to the Audit Committee Forward Work Programme may come, following receipt of the report.

The Audit Committee noted the current Forward Work Programme.

10. INFORMATION ITEMS

The Committee received and noted the following information items:-

- (1) Regulation of Investigatory Powers Act 2000;
- (2) Officers Declarations of Gifts and Hospitality April to June 2017;
- (3) WAO Good Governance when Determining Significant Service Changes – Caerphilly County Borough Council;
- (4) WAO Report – Savings Planning (Caerphilly County Borough Council);
- (5) Corporate Governance Panel held 28th April 2017.

The meeting closed at 3.06pm.

Approved as a correct record and subject to any amendments or corrections agreed and recorded in the minutes of the meeting held on 30th January 2018, they were signed by the Chair.

CHAIR