



City and County of Swansea

Minutes of the **Audit Committee**

Committee Room 5 - Guildhall, Swansea

Tuesday, 12 December 2017 at 2.00 pm

Present: Councillor L James (Vice Chair) presided

Councillor(s)

C Anderson
P Jones
W G Thomas

Councillor(s)

P R Hood-Williams
M B Lewis
T M White

Councillor(s)

O G James
S Pritchard

Officer(s)

Sarah Caulkin
Simon Cockings
Jeremy Parkhouse
Sandie Richards
Ben Smith

Interim Director of Resources
Chief Auditor
Democratic Services Officer
Principal Lawyer
Head of Financial Services & Service Centre and Section 151 Officer

Apologies for Absence

Councillor(s): B Hopkins, J W Jones and L V Walton
Independent Member(s): Mr A M Thomas

49 Disclosures of Personal and Prejudicial Interests.

In accordance with the Code of Conduct adopted by the City and County of Swansea, the following interests were declared: -

Councillor M B Lewis – Minute No.52 – Wales Audit Office Update – Member of the Pension Fund Committee – personal.

Councillor S Pritchard – Minute No.56 – Internal Audit Monitoring Report Quarter 2 2017/18 – School Governor of Bishop Vaughan Comprehensive School – personal.

Councillor W G Thomas – Minute No.52 – Wales Audit Office Update – Member of the Pension Fund Committee – personal.

Councillor T M White – Minute No.52 – Wales Audit Office Update – Member of the Local Pension Board – personal.

50 Minutes.

Resolved that the Minutes of the previous meeting of the Audit Committee were approved as a correct record.

Minute No.46 – Audit Committee Performance Review Action Plan 2016/17 – Update – Noted that the item would be discussed at the meeting scheduled for 13 February 2018.

51 Wales Audit Office - Annual Audit Letter.

Geraint Norman, Wales Audit Office presented the Annual Audit Letter of the Auditor General for Wales for the City & County of Swansea and Pension Fund 2016-17.

It was outlined that the Council had complied with its responsibilities relating to financial reporting and use of resources. It was noted that on 29 September 2017 the Auditor General issued an unqualified audit opinion on the Financial Statement confirming that they presented a true and fair view of the financial position and transactions of the Council and Pension Fund.

Overall, the financial statements and associated working papers provided for audit were of a good standard, Officers were helpful and supplied the auditors with the information requested. More significant issues that arose from the audit were as follows: -

- City & County of Swansea Financial Statements – The Council continued to make progress in improving its arrangements for capital accounting but there were a number of areas where further work was required in 2017-18;
- City & County of Swansea Pension Fund Financial Statement – A number of amendments to the draft financial statements were identified but had no impact upon the Fund Account. The value of the Net Assets Statement was increased by £2.3 million. Controls over year-end reconciliations between payroll and the pensions systems were identified and needed improvement.

It was further noted that the financial statements were available in mid-June and the Council was making good progress towards achieving the 31 May deadline in 2020-21. A joint working group had also been formed in order to learn and improve working practices.

The Auditor General was also satisfied that the Council had appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources but the financial outlook was very challenging.

It was noted that the Council underspent by £2 million and current forecasts for 2017-18 suggested that there would be a £7 million overspend, mainly due to overspends in Social Services. It was also highlighted that the Council did not have a good track record in identifying and delivering against financial savings plans. The overspend would therefore impact the Council reserves and emphasised the need to have a clear medium term financial plan including robust financial plans to deliver financial savings in both current and future years.

The Auditor General stated that the work to date on certification of grant claims and returns had not identified significant issues that would affect the 2016-17 financial statements or key financial statements.

The Committee discussed the following: -

- The current level of overspend, Council reserves and the 2018-19 budget;
- The Council not having a good track record in identifying and delivering against financial savings plans;
- Proposals to overcome the overspend in Social Services;
- The impact of austerity cuts upon Local Government.

Resolved that the contents of the report be noted.

52 Wales Audit Office Update.

Geraint Norman, Wales Audit Office presented Wales Audit Office Update Report – December 2017.

Details provided included Financial Audit Work and Pension Fund Audit Work 2016-17 – City & County of Swansea and Performance Audit work.

Resolved that the contents of the report be noted.

53 Wales Audit Office - Good Governance When Determining Significant Service Changes - City & County of Swansea Council.

Samantha Clements, Wales Audit Office presented the Good Governance when determining significant service changes report.

As part of the review, the auditors assessed the overall arrangements the Council had for developing and determining service changes. Aspects of the decision-making arrangements in relation to a range of significant service change proposals were examined during the Commissioning Reviews for Residential and Outdoor Centres, Culture and Leisure, Waste Management and Adult Services.

It was noted that the Council adopted a comprehensive strategy for change in 2014 and commenced undertaking Commissioning Reviews in 2015. In 2017, cross-cutting reviews were started, providing opportunities for community and other key stakeholder engagement in the co-production of reviews and options for future service delivery.

The auditors concluded that the Council had a clear governance framework for determining significant service change but needed to clarify how the impact of change for service users would be evaluated. The proposals for improvement was provided at Exhibit 1 and the criteria are in place to guide the option appraisal process was provided at Exhibit 2.

The following were discussed in the report: -

- The Council had a clear vision and framework to support decision making for significant service change;

- Roles and responsibilities for service change decisions are clear and understood by Members and Officer;
- The Council's appraisal of service options is well supported by impact assessments and clear selection criteria;
- Commissioning reviews describe intended outcomes but have not consistently explained how the impact of change will be evaluated in the future;
- The Council had evaluated and refined the commissioning review process.

Discussions followed regarding: -

- Membership / organisation of Future Generations Board and transparency of Boards / Groups;
- Timescales of Wales Audit Office reports, i.e. some reports refer to information nearly two years old;
- Whether Commissioning Reviews examined external options / costs, and it was clarified this formed part of the process;
- Examining the quality of services provided;
- Ensuring meaningful consultation is undertaken with service users, the public and staff;
- Confusion created amongst the public when different departments of the Authority have responsibility for similar service areas;
- Upskilling staff as part of the Commissioning Review process;
- The impact of the proposed cuts included in the 2018-19 budget and the potential impact upon the Internal Audit Section.

Resolved that: -

- 1) The contents of the report be noted;
- 2) The Chair, on behalf of the Audit Committee, writes to the Chief Executive highlighting concern regarding the potential impact of the proposed cuts on the Internal Audit Section.

54 Review of Revenue Reserves Report 2016/17. (For Information)

The Section 151 Officer presented the Review of Revenue Reserves Report 2016-17 that was provided 'for information'. The report had been presented to Council in October 2017 and outlined the mid-term review of the Revenue Reserves position.

The Committee discussed the following: -

- Insurance provision, particularly in relation to potentially large claims against the Authority;
- Comparisons of reserves with other local authorities in Wales;
- The importance of protecting reserves in the current financial climate;
- The difficult position faced by the Authority in light of the funding received from Welsh Government, inflation being at a 5-year high and the proposed 2% pay offer to staff.

**55 Treasury Management Annual Report 2016/17 & Budgetary Control Update.
(For Information)**

The Section 151 Officer presented a 'for information' report which provided details of the Council's Treasury Management activities during 2016-17 and compared actual performance against the strategy laid down at the start of the year. The report had been presented to Council in September 2017 and it was highlighted that the Authority had operated within all the determined treasury limits provided at Appendix 1.

The Committee discussed debt restructuring, use of reserves, capital finance costs and the impact of the City Deal.

56 Internal Audit Monitoring Report Quarter 2 2017/18.

The Chief Auditor presented the report which provided the audits finalised and any other work undertaken by the Internal Audit Section during the period 1 July 2017 to 30 September 2017.

It was outlined that due to the Chief Auditor's retirement at the end of March, plans were put in place to allow the implementation of the Audit Section's restructure from April 2017. Competitive interviews took place resulting in the appointment of one of the Senior Auditors as the new Principal Auditor. This had resulted in the loss of one full time equivalent post from 2017/18 onwards.

The Internal Audit Section had continued to experience high levels of sickness in the 2nd Quarter of 2017/18 with a total of 63 days absence. Cumulative sickness absence to date stood at 109 days against a projected annual budget of 80 days. As previously reported, most of the sickness in the second quarter had been caused by two members of staff being off for extended periods of time.

A total of 21 audits were finalised during Quarter 2. The audits finalised were listed at Appendix 1, which also provided the level of assurance given at the end of the audit and the number of recommendations made and agreed.

A total of 249 audit recommendations were made and management agreed to implement 248 recommendations i.e. 99% against a target of 95%. The one recommendation not agreed, for practical operational reasons, was classed as low risk, and was agreed with the S151 Officer.

Details of classifications, including two moderate ratings and grants audited were also provided.

Appendix 2 provided each audit included in the Audit Plan approved by Committee in March and identified the position of each audit as at 30 September 2017. Approximately 50% of the Audit Plan was either completed or in progress, which was as expected at the end of the second quarter in the year.

Details of additional work done by Internal Audit and follow-ups completed between 1 July 2017 to 30 September 2017.

The Committee highlighted the reasons provided as concerning in respect of the moderate audit ratings.

Resolved that: -

- 1) The contents of the report be noted;
- 2) The appropriate Head(s) of Service are requested to attend the next scheduled meeting in order to update the Committee regarding progress in respect of their moderate audit ratings.

57 Recommendation Tracker Report 2016/17.

The Chief Auditor presented the report which provided a summary of the recommendations made following the fundamental audits 2016/17 and identified whether the agreed recommendations had been implemented.

Appendix 1 provided details for each fundamental audit, the number of recommendations made following the 2016/17 audits and whether they had been implemented, partly implemented, not implemented or were not yet due. A summary of the latest position on the 40 recommendations made was provided and the percentage of recommendations implemented by 30 November 2017 was 86%.

An analysis of the 5 recommendations, which had been partly or not implemented over the classification of audit recommendations used by the Internal Audit Section, was provided at Appendix 2. The Appendix showed that 1 recommendation had not been implemented and was classed as low risk and the other 2 were classed as good practice. Both partly implemented recommendations were classed as either low risk or good practice. The recommendations which had been partly or not implemented were provided at Appendix 3.

It was concluded that the number of recommendations arising from the fundamental audits continued to decrease year on year. There were 40 recommendations made following the 2016/17 fundamental audits which was down by 6 on the previous year. It was added that the results of the Recommendations Tracker exercise to the end of November 2017 were positive, with 32 (86%) of agreed recommendations due for implementation already implemented. A small number of recommendations still required work to implement or were due for implementation prior to the end of the financial year. Progress on the implementation of these recommendations would be reviewed during the fundamental audits for 2017/18.

Resolved that the contents of the report be noted.

58 Audit Committee Action Tracker Report. (For Information)

The Audit Committee Action Tracker Report was provided 'for information'.

Councillors queried progress in relation to them receiving access to the risk register. The Chief Auditor explained that an update would be provided at the next scheduled meeting.

59 Audit Committee Work Plan. (For Information)

The Audit Committee Work Plan was reported 'for information'.

The meeting ended at 3.32 pm

Chair