



City and County of Swansea

Minutes of the **Audit Committee**

Committee Room 5 - Guildhall, Swansea

Tuesday, 11 December 2018 at 2.00 pm

Present: P O'Connor (Independent Chair) Presided

Councillor(s)

C Anderson
P K Jones
M B Lewis
L V Walton

Councillor(s)

P M Black
J W Jones
S Pritchard
T M White

Councillor(s)

P R Hood-Williams
E T Kirchner
W G Thomas

Also Present: Councillor R C Stewart – Leader of the Council

Officer(s)

Simon Cockings
Jeffrey Dong

Chief Auditor

Interim Deputy Chief Finance Officer and Deputy S151 Officer.

Jason Garcia
Jo Harley
Jeremy Parkhouse
Richard Rowlands
Ben Smith

Wales Audit Office

Head of Digital and Transformation Services (Interim)

Democratic Services Officer

Strategic Delivery & Performance Manager.

Chief Finance Officer / Section 151 Officer

Apologies for Absence

Councillor(s): O G James

55 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 P M Black – Minute No.66 - Internal Audit Annual Plan 2018/19 Monitoring Report for the Period 1 July 2018 to 30 September 2018 – Governor of Burlais School – personal.

Councillor P K Jones – Minute No.61 – Trusts & Charities and Minute No.66 - Internal Audit Annual Plan 2018/19 Monitoring Report for the Period 1 July 2018 to 30 September 2018 – Governor of Bishop Gore Comprehensive School – personal.

Councillor M B Lewis - Minute No.61 – Trusts & Charities and Minute No.66 - Internal Audit Annual Plan 2018/19 Monitoring Report for the Period 1 July 2018 to 30 September 2018 – Governor of Gwrosydd School and Member of the Trustees Panel – personal.

Minutes of the Audit Committee (11.12.2018)
Cont'd

Councillor W G Thomas - Minute No.66 - Internal Audit Annual Plan 2018/19 Monitoring Report for the Period 1 July 2018 to 30 September 2018 – Governor of Newton Primary School – personal.

Councillor L V Walton - Minute No.61 – Trusts & Charities and Minute No.66 - Internal Audit Annual Plan 2018/19 Monitoring Report for the Period 1 July 2018 to 30 September 2018 – Governor of Dylan Thomas Community School and Member of the Trustees Panel – personal.

Councillor T M White - Minute No.66 - Internal Audit Annual Plan 2018/19 Monitoring Report for the Period 1 July 2018 to 30 September 2018 – School Governor of School mentioned in report – personal.

Paula O'Connor – Agenda as a whole – Head of Internal Audit to Abertawe Bro Morgannwg University Health Board – Personal.

56 Minutes.

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

57 Urgent Item.

Pursuant to paragraph 100B (4)(b) of the Local Government Act 1972, the Chair considered the following report as an urgent matter.

Reason for Urgency:

The Wales Audit Office Annual Audit Letter, whilst dated 29 November, was received on the 7 December, past the usual deadline for inclusion and publication as a normal item on this agenda.

The matters raised in the letter could have a material bearing on actions to address the current year budgetary performance, issues affecting the future year budgets proposed for 2019-20 and beyond, and the affordability of the future capital ambition, including the City Deal, which had itself now been subject to an independent review.

Delaying the report to the next Audit Committee cycle in the New Year would mean that wider decision takers on the budget and capital programme would not be fully cognizant of the commentary the Wales Audit Office had made, in a period of time when they are taking budgetary decisions.

The Chair had conferred with the Section 151 Officer who concurred the matter contained items of urgency to be considered.

It was considered in the public interest for the letter to be published immediately and considered by all decision takers and all those charged with scrutiny, oversight and audit.

Wales Audit Office Annual Audit Letter – City and County of Swansea, City and County of Swansea Group and City

Jason Garcia, Wales Audit Office presented the Annual Audit Letter of the Auditor General for Wales for the City and County of Swansea, City & County of Swansea Group and City.

It was outlined that the Council had complied with its responsibilities relating to financial reporting. It was noted that on 25 September 2018 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. On 6 November 2018, he issued an unqualified opinion on the financial statements of the Pension Fund confirming that they presented a true and fair view of the Pension Fund's financial position and transactions.

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. It was further noted that the financial statements were available for audit on 4 June 2018. The Council was therefore making good progress towards achieving the 31 May deadline in 2020-2021.

The Auditor General was satisfied that the Council and the Group had appropriate arrangements in place to secure economy, efficiency and effectiveness in their use of resources, but the Council continued to face significant financial challenges.

It was added that austerity remained the most significant challenge facing all local government bodies in Wales and these financial pressures were likely to continue for the medium term. The recent provisional local government funding settlement for 2019-20 would see no funding increase for the Council. The wide range of service and demographic pressures would therefore continue to impact on the finances of the Council.

It was noted that the revenue out-turn position reported that the Council's direct revenue expenditure was £4.7 million greater than the revised budget with the Council needing to utilise general fund reserves. For 2018-19, the quarter two budget position forecasted a revenue budget overspend of £8.5 million. After utilising funds from earmarked reserves, a predicted overspend of £2.8 million would occur. As a result, the Council needed to utilise £3.1 million of its general fund reserve in 2017-18 to manage overspends and at least another £2 million would be required to balance the predicted 2018-19 overspend. This would potentially mean that just over 40% of the Council's general fund balance would have been used to cover overspends and could leave a balance of £7 million by 31 March 2019. It was highlighted that it was not sustainable for the Council to continue to rely on reserves to support ongoing expenditure.

The difficulties the Council had in delivering its planned levels of efficiency savings were highlighted and the predicted shortfall in excess of £20 million in the 2019-20 financial budget. The risk assessments of current departmental efficiency plans were noted.

The Auditor General referred to the predictions in the Council's Medium Term Financial Strategy which identify a cumulative budget shortfall of £24 million in 2019-20, £48 million in 2020-21 and £69 million in 2021-22. In addition, he referred to the significant capital investment programme and that significant unsupported funding would be required to finance these developments. By 2025-26, this additional unsupported borrowing was estimated to cost the Council £14 million in additional finance costs.

The Auditor General stressed that the Council must continue to risk assess its efficiency savings plans, to review and update its medium term financial strategy and to carefully monitor its reserves.

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 financial statements or key financial statements.

The Leader of the Council welcomed the letter of the Auditor General and stated that it was clear that the current process of austerity could not continue. He added that there were budgetary pressures across Local Government in Wales due to austerity and Welsh Government spending priorities being focussed upon health. He outlined that the Council had taken steps to restore its reserves, would report shortly on how it proposed to reduce capital pressures and would introduce a strategy to reduce borrowing.

The Committee discussed the following: -

- Concern regarding the cost of the capital programme, the level of reserves, the risk to the Authority and the need to scrutinise the risk;
- Possible additional capital funding from Welsh Government to support the capital programme;
- Providing a recovery plan to the Audit Committee highlighting how the Council plans to deal with the overspends.

The Chief Finance Officer / Section 151 Officer provided the Committee with an update regarding the budget setting process and the procedures required to undertake additional borrowing.

Resolved that: -

- 1) The contents of the report be noted;
- 2) The Committee be regularly updated regarding budget variations.

58 Implementation of Internal Audit Recommendations for Disaster Recovery Plan 2017/18.

Jo Harley, Digital Services Manager presented a 'for information' update report on the Implementation of Internal Audit Recommendations for Disaster Recovery Plan 2017/18.

It was outlined that the final report for the Disaster Recovery audit was issued on the 26 June 2018, with a moderate level of assurance. There were 21 recommendations, 12 classified as medium risks. The medium risk recommendations were detailed in Appendix A and all the recommendations had been implemented. However, it was added that this audit merely focused on the Disaster Recovery Plan. It did not take account of resilience work already undertaken / underway and the strategy around Disaster Recovery. These focused on long-term cost effective solutions to provide full Disaster Recovery for the Council, taking advantage of new technological solutions that had recently become available.

Details of the resilience work undertaken / underway and the Disaster Recovery (DR) Strategy were provided.

The Committee discussed the following: -

- Accommodating all school data and potential future developments;
- IT user plans and procedures undertaken;
- Completion of all medium risks;
- Procedures linked to the internal Oracle system and transferring information into the Cloud;
- Testing the plan and timelines.

59 Overview of the Overall Status of Risk - Quarter 2 2018/19.

Richard Rowlands, Strategic Delivery & Performance Manager provided 'for information' the Overview of the Overall Status of Risk Quarter 2 2018/19. The report presented an overview of the status of risk in the Council during Quarter 2 2018/19 to provide assurance to the Committee on the operation of the risk management policy and framework within the Council.

Appendix A covered the Quarter 2 2018/19 period and compared to the position at Quarter 1 2018/19. The Corporate and Directorate Risk Registers (dated 16/11/18) were provided at Appendix B and Appendix C respectively.

The Chair commented that the report required more refinement, including more focus, clarity, mitigation of the risks and time lines linked to red risks.

The Committee discussed the following: -

- Potential red risk linked to the City Deal;
- Risks linked to Brexit;
- Financial risk.

Resolved that: -

- 1) The contents of the report be noted;
- 2) A Risk Report be provided to the every scheduled Audit Committee;
- 3) The content of the risk register required enhancement;

- 4) The Risk Report must include Budget / Sustainable Swansea, City Deal / City Centre and Brexit.

60 Review of Revenue Reserves.

The Section 151 Officer presented 'for information' the Review of Revenue Reserves report that had been previously reported to Council on 26 October 2018. Attached at Appendix 1 was the report presented to Council in October 2018.

61 Trusts & Charities.

The Deputy Section 151 Officer presented 'for information' the Trusts and Charities report to provide background information to the Committee on the range of trusts and charities of which the Council is the nominated trustee.

The Council's portfolio of Trusts and Charities was outlined at Appendix 1. It was added that the Council had historically supported these trusts and charities in the provision of professional services on a pro bono basis (Legal, Finance, Democratic Services, IT, Facilities and Education & Social Services) to enable the trust & charity to undertake its objectives. The costs / time associated with this provision has never been quantified and the degree of support and activity between Trusts and Charities varied widely.

Appendix 1 provided the summary of trusts and charities and Appendix 2 gave details of the Trustees Panel. Details of governance and the resources to support the Trusts & Charities were detailed. Reference was also made to the previous pilot scheme taken out with Community Foundation in Wales.

The Committee discussed the following: -

- Resources and cost of administering the trusts and charities;
- Dormant accounts and possibly utilising the funds into other charities / trusts;
- How widely the Council publicised the trusts and charities;
- The potential of other bodies managing the trusts and charities;
- Benchmarking against trusts and charities administered by other local authorities.

Resolved that a progress report be presented to a future Committee meeting.

62 Treasury Management Annual Report 2017/18.

The Deputy Section 151 Officer presented 'for information' the Treasury Management Annual Report 2017/18. The report provided details of the Council's Treasury Management activities during 2017/18 and compared actual performance against the strategy laid down at the start of the year.

The Committee discussed the following: -

- Prudential indicators;
- Capital borrowing;

- Access to corporate bond markets;
- Debt re-scheduling.

Resolved that regular updates be provided.

63 Senior Management Assurance Statements.

The Chief Legal Officer presented the report to update the Committee regarding the changes in the Senior Management Assurance Statement (SMAS).

The previous SMAS was provided at Appendix A and at Appendix B was the new proposed format SMAS. It was added that the SMAS remained a self-assessment document but contained an onus on Corporate Directors to ensure that they compiled a final SMAS for their Department, with input from all Heads of Service. All Corporate Directors then had to feedback to Corporate Management Team (CMT). The procedure for completion and feedback to CMT was set out in Guidance at Appendix C.

The Guidance document provided for 6 monthly reviews the new SMAS had been reported to and endorsed by CMT who were presently trialling the new template with a view to Corporate Directors reporting back to CMT in December 2018.

The Committee recognised the development as a significant progress, was transparent and linked to similar work being undertaken in other local authorities in Wales.

Resolved that the contents of the report be noted.

64 Exclusion of the Public.

The Committee was requested to exclude the public from the meeting during consideration of the item(s) of business identified in its recommendation(s) to the report on the grounds that it/they involve(s) the disclosure of exempt information as set out in the exclusion paragraph of Schedule 12A of the Local Government Act 1972, as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007, relevant to the item(s) of business set out in the report.

The Committee considered the Public Interest Test in deciding whether to exclude the public from the meeting for the items of business where the Public Interest Test was relevant as set out in the report.

Resolved that the public be excluded for the following items of business.

(Closed Session)

65 Internal Audit on Social Care Contracts - Update at December 2018.

Peter Field, Principal Officer, Prevention, Wellbeing and Commissioning presented an update report on Adult Services Social Care compliance with Corporate CPR's and Public Contracts Regulations.

The Committee were provided with updates regarding progress to December 2018,. Also provided was details of the number of non-compliant Social Care Contracts at December 2018. An Action Plan Update providing a summary of progress against each of the action plan targets identified in December 2017 was provided at Appendix 1.

The Committee discussed the information contained in the report.

Resolved that the contents of the report be noted.

(Open Session)

66 Fundamental Audits 2017/18 Recommendation Tracker.

The Chief Auditor presented a report which provided a summary of the recommendations made following the fundamental audits in 2017/18 and identified whether the agreed recommendations had been implemented.

Appendix 1 provided for each fundamental audit, the number of recommendations made following the 2017/18 audits and whether they had been implemented, partly implemented, not implemented or were not yet due. A summary of the latest position on the 51 recommendations made was provided and the percentage of recommendations implemented by 30 September 2018 was 78%.

An analysis of the 10 recommendations, which had been partly or not implemented over the classification of audit recommendations used by the Internal Audit Section, was attached in Appendix 2. The Appendix shows that the three recommendations that had been partly implemented were all classed as medium risk and related to the Accounts Receivable audit. This audit continued to be completed on an annual basis and as a result, the implementation of the outstanding recommendations would be reviewed as part of the 2018/19 audit. The remaining 7 recommendations that had not been implemented were classed either low risk or good practice. The recommendations which had been partly or not implemented were provided at Appendix 3.

It was concluded that overall, the results of the Recommendations Tracker exercise to the end of September 2018, were positive with 35 (78%) 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 2018/19.

Resolved that the contents of the report be noted.

67 Internal and External Audit Recommendation Follow-Up Procedure.

The Chief Auditor presented a 'for information' report which provided an overview of how internal and external audit recommendations were followed up.

Appendix 1 outlined that the current procedures identified two methods of following-up on the implementation of recommendations made as a result of internal audit reviews for the fundamental audits and non-fundamental audits. The procedures relating to both these types of audits were provided.

It was added that following discussions at the last Welsh Chief Auditors Group Meeting in October, it was decided that a new Performance Indicator (PI) should be introduced to record the number of recommendations that had been implemented as a percentage of those recommendations made. It was hoped that this would be introduced as an additional PI from 2019/20.

External Audit recommendation tracking would progress through the Scrutiny Programme Committee who would receive Wales Audit Office (WAO) reports and action plans to address recommendations and proposals. Scrutiny would also review progress against recommendations within 12 months of the receipt of the report and action plan.

Audit Committee would also receive reports and action plans for information and it may decide to prioritise and track specific proposals / recommendations in addition to the oversight undertaken by Scrutiny. This work does not include those WAO reports that would be intended specifically for Audit Committee.

Resolved that: -

- 1) The contents of the report be noted;
- 2) The Wales Audit Office reports received by Scrutiny Programme Committee also be reported to Audit Committee.

68 Internal Audit Annual Plan 2018/19 Monitoring Report for the Period 1 July 2018 to 30 September 2018.

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 to 30 September 2018.

A total of 29 audits were finalised during Quarter 2. The audits finalised were listed at Appendix 1, which also showed the level of assurance given at the end of the audit and the number of recommendations made and agreed. An analysis of the audits finalised during the 2nd Quarter was also provided.

A total of 203 audit recommendations were made and management agreed to implement all of the recommendations made. An analysis of the recommendations agreed during quarter 2 were also provided.

A list of the grants certified by Internal Audit were presented. It was confirmed that no moderate assurance audit reports were issued during the quarter and details of the two audits that had been finalised since the end of the quarter, Risk Management and Corporate Governance, were given.

The follow-ups completed between 1 July 2018 and 30 September 2018 were referenced, along with an update on the Recommendations from the PSIAS Peer Review.

The Chair expressed caution with the regards to the scope of both the completed audits into risk management and corporate governance as the assurance rating was not in harmony with the limited information that the Committee had been in receipt of until recently. She added that the current risk register required further enhancement and requested sight of the 29 completed audits during quarter 2.

Resolved that: -

- 1) The contents of the report be noted;
- 2) The Chair be provided with sight of the 29 completed audits during quarter 2.

69 Audit Committee Action Tracker. (For Information)

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

70 Audit Committee Work Plan 2018/19. (For Information)

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

The Chair provided a verbal update regarding the visit to Cardiff Council's Audit Committee meeting by her, the Vice Chair and Chief Auditor. She added that representatives from Cardiff had asked to attend the Committee later in the Municipal year (April 2019).

The Chair also stated that she had met with the Chief Executive / Deputy Chief Executive who had agreed to attend the Committee in February 2019 to provide an oversight of the governance and assurance arrangements operating across the Council and to provide an update regarding risk management.

The meeting ended at 4.03 pm

Chair