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Audit Committee – 6 July 2018

## MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD AT COUNCIL CHAMBER - COUNTY HALL, LLANDRINDOD WELLS, POWYS ON FRIDAY, 6 JULY 2018

### PRESENT

County Councillors JG Morris (Chair), M Barnes, J Charlton, L V Corfield, M J Dorrance, E Durrant, M J Jones, K Laurie-Parry, K Lewis, D A Thomas, R G Thomas, E Vaughan, T J Van-Rees, A Williams and J M Williams and Mr J Brautigam

Cabinet Portfolio Holders In Attendance: A W Davies, Portfolio Holder for Finance

Officers: Ann Owen, Treasury Manager, Jane Thomas, Head of Financial Services and Greg Thomas, Business Continuity and Risk Management Officer

Other Officers in Attendance: Ian Halstead, South West Audit Partnership, Phil Pugh and Jeremy Evans, WAO

### 1. APOLOGIES

Apologies for absence were received from County Councillors B Baynham, D R Jones, P E Lewis, N Morrison, WD Powell and GD Price

### 2. DECLARATIONS OF INTEREST

There were no declarations of interest.

### 3. DISCLOSURE OF PARTY WHIPS

There were no disclosures of party whips.

### 4. MINUTES

The Chair was authorised to sign the minutes of previous meetings, held on 27 April and 17 May 2018, as correct records.

It was noted that the findings of the CIPFA Financial Management Assessment would have been reported to Committee. Unfortunately there had been a delay due to the low number of responses to a questionnaire sent to budget holders. This had been reissued and it was hoped that the report could be submitted to the next meeting of the Committee.

### 5. FINANCIAL OUTTURN REPORTS 2017/18

#### Documents:

- Report of the Portfolio Holder for Finance – Financial Outturn for the Year Ended 31 March 2018

**Discussion:**

- The Committee noted that financial monitoring reports were considered by Cabinet on a monthly basis which included a projected outturn of expenditure based on expenditure to date
- The monthly report is key in monitoring delivery of savings – these are only recorded once achieved. It is proposed that the report will show two figures – the actual savings achieved and those that can realistically be expected to be achieved.
- Within both the monthly and annual reports, each directorate is highlighted and whether they are expecting an over or under spend. Reporting is carried out on an exceptions basis. The impact on reserves is also reflected.
- A separate capital report is provided
- An underspend had been achieved at year end due to a number of late grants being received (including Welsh Government grants to assist with winter pressures and transformation). Some transformation costs have been capitalised.
- Work is ongoing with managers to ensure projections are more accurate
- One of the main areas for concern is that savings delivery is only 71%
- There had been an overspend in the People Directorate, mainly as a result of CIW Inspection Report. The Children's Services Budget has been increased by £6M for 2018/19 to meet some of the continuing cost pressures and to deliver the Improvement Plan.
- It was suggested that the process was reactive and should be more proactive. Further clarity was needed regarding underspends and savings as underspends could be considered as serious as an overspend.
- Members also challenged the statement that the decline in savings from 79% achieved to 71% was *slight* – this was considered to be a worrying decline
- The underspend at year end was of concern to the committee – if this position had been known earlier it could have impacted positively on budget decisions and the level of council tax. The Portfolio Holder for Finance informed the Committee that the underspend had been used to protect the level of reserves held and provide additional resilience future years' budgets.
- The Head of Finance stressed the need for confidence that resources were allocated where needed. Robust reporting was essential and variances should be identified early.
- The WAO reported that other authorities request reports from service areas where savings have not been achieved, detailing why these have not been delivered
- Members had concerns that debt was being rolled forward where savings had not been achieved. It was questionable whether some savings identified were achievable as it seemed that those identified as high risk in Impact assessments were frequently not achieved. The Portfolio Holder for Finance stated that unachieved savings were rolled forward as each area had to take responsibility for their budgets.
- The Head of Finance reported that savings plans for future years were already being considered by Cabinet to ensure they were deliverable and each proposal would require sign off by the S151 Officer. Savings not delivered were being reconsidered as part of this year's budget planning –

some will be removed including the £1.7M Income and Cost Improvement Board target which remains unachieved. It was noted that Powys has been reported as one of the worst performing authorities in terms of achieving savings.

- Further concerns were expressed that increasing debt or larger cuts to services would impact upon the duties placed on the Authority by the Future Generations Act
- It was essential that decisions were made in the full knowledge of the impact of any saving on services

**Outcome:**

- **Reports from services would be requested explaining why savings had not been achieved**
- **The outturn report would be given further consideration by the Finance Scrutiny Panel**

<b>6. MAKING IT HAPPEN</b>
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The Committee received a presentation on the Making It Happen Programme by the Acting Director of Resources. Audit Committee would be undertaking monitoring of the implementation of the Programme.

**Discussion:**

- The Programme would be the main enabler in delivering four key priorities which aim to transform the council
- Workforce
  - Reducing budgets
  - Changing demographics with the working population reducing
  - Recruitment and Retention
- The workforce needs to be aligned to the Vision
- A significant change in culture is required
- Communications and Engagement
  - interface with residents and how they can engage regarding their wishes. There is an acknowledgement that this area of work needs to improve.
- The Council needs to become more agile – it needs adaptability and flexibility
- Front line services will be transformed – there needs to be a greater emphasis on self-service and be more interactive
- It is envisaged that a hub and spoke model will be adopted
- Local Member intelligence will be key and there are already examples of where this works effectively. It may be that this happens in local areas or by themes.
- Members of the Committee suggested that the Audit Committee would need to break into smaller groups to enable effective monitoring of the Programme
- The work programme will be prioritized on the basis of benefits realisation
- The Making It Happen Programme Board and Committee will need to work together closely

- The ability to become agile was challenged – did the organisation fully understand the needs of agile working. Officers working alone must not become isolated or disengaged. There was also a need for Town and Community Councils to be fully engaged. Members also suggested that encouragement to work from home must not become compulsory.
- The Portfolio Holder for Finance was asked how far the Cabinet had progressed with the Programme - it was still in early stages and the Programme Board had only met once so far but the Portfolio Holder acknowledged that more momentum was needed. The challenges were being considered as part of the budget process and a longer term view was required.
- The management ethos must be to remove barriers. The political ethos should also be ascertained. It was suggested that the Finance Scrutiny Panel could provide this challenge. The Performance Auditor, WAO, cautioned that the suggestion was one for Scrutiny and not the Audit Committee. He hoped the Audit Committee would be clear as to why they were receiving information and what influence they could have. He did not believe this was an issue for an Audit Committee.
- The Portfolio Holder for Finance informed the Committee that there would be a meeting between Joint Chairs and Vice Chairs Steering Group and Cabinet to agree a way forward and to take scrutiny forward
- The Chair reminded the Committee that the Audit Committee could be considered a scrutiny committee under the Local Government Measure

<b>7.</b>	<b>CLOSURE REPORT FOR THE ASC RECOVERY PLAN</b>
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**Documents:**

- Report of the Head of Finance

**Discussion:**

- A budget recovery plan had been put in place in 2016 following concerns of an increasing overspend in Adult Social Care
- A number of recommendations had been made, five have been completed in full, and one has been partially completed
- The remaining recommendations have now been incorporated into the Corporate, Leadership and governance Plan and ASC Improvement Plan and will be monitored through the Improvement and Assurance Board
- The Committee noted that an in depth report had been provided in relation to Learning Disabilities and reports relating to Physical Disability and Mental Health were nearing completion. These would be considered by the Finance Scrutiny Panel once all three were available.

**Outcome:**

- **It was noted that outstanding Budget Recovery recommendations were being monitored elsewhere**
- **The Finance Scrutiny Panel would be reconvened once all three topic reports were available for consideration**

<b>8.</b>	<b>INTERNAL AUDIT ANNUAL OPINION REPORT 2017/18</b>
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**+Documents:**

- Internal Audit Opinion Report 2017/18

**Discussion:**

- The report is an annual requirement to report on the level of internal control
- The work was carried out based on a work plan agreed by Audit Committee at the start of the year
- Absolute assurance across all areas was impractical but key areas are assessed
- 64 assignments were undertaken and 28 opinions given – 5 were good, 16 reasonable and 7 could only be given partial assurance. There were no reviews where no assurance was given
- Risks were generally well managed and reasonable assurance overall could be given
- Audit Committee was key in the process in providing governance and scrutiny
- One area that had been given partial assurance was Risk Management – however the revised approach will be embedded and should influence key decisions. It was essential that this was embedded across the Authority.
- The Committee questioned whether there were links between partial assurance being given for Joint Venture Companies and Partnerships and whether this was because they were new ventures and not yet well developed. It was reported that there was improvement and that the Council was evolving. Delivery of projects is essential.
- A number of reviews had been deferred or cancelled by the client and Members had concerns that a service area had this authority. An annual plan had been agreed but some issues may change through the year, for example, if new legislation has been brought in. If it was thought that the service area was intentionally avoiding an audit, the matter would be escalated.
- One audit which had been deferred was in relation to Looked After Children – Members were concerned that this area should be subject to scrutiny. The Assistant Director had met with the service and agreed a scope. The focus of the service was taken away from audit work but it is hoped that this work will be delivered soon.
- Members asked for the criteria for selection of schools to be audited – previously there had been a rolling programme and schools were audited every four years. A selection criteria had been introduced whereby a school would be included for audit if there had been a change in the management structure, or by request of the school or if previous opinions had given cause for concern. The selection was based on cumulative evidence as sufficient resources were not in place to audit each school. Members noted that the only schools audited were in Montgomeryshire except one.
- The Brecon Hwb had not been subject to an internal audit as the project was under significant scrutiny elsewhere.

**Outcome:**

- **The Audit Opinion for 2017/18 was noted**

<b>9.</b>	<b>INTERNAL AUDIT SCRUTINY GROUP</b>
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**Documents:**

- Scrutiny summary report

**Discussion:**

- It had been suggested that internal audit reports be tracked through the Corporate Tracker
- There had been a lack of engagement by some services with SWAP since the internal audit function had moved. This had been addressed by Head of Financial Services and Deputy Chief Executive and was improving.

**Outcome:**

- **The summary was noted**

<b>10.</b>	<b>RISK MANAGEMENT</b>
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**Documents:**

- Report of the Business Continuity and Risk Management Officer
- Corporate Risk Register
- Heat map
- Risk Assessment Matrix

**Discussion:**

- Risk management was a central discipline in decision making
- It covers planning and preparation for the unknown and should safeguard the organisation and increase resilience
- Additional training is to be provided for all Members
- A new system and approach has been developed, and was considered by the previous Audit Committee
- Future meetings will receive reports processed under the new system
- The new system had been introduced following an internal audit
- Two risks had been removed from the Corporate Risk Register since the last meeting – failure to adopt the LDP and legal challenge regarding landfill sites.
- A new risk, ASC28, relating to the payment for sleeping in has been added pending the outcome of a legal challenge. There was a significant financial risk to the Authority depending upon the outcome. It was not known how many workers this may affect in Powys but it has been suggested that the cost may be £1m in disability services alone.
- HS9, Heart Of Wales Property Services, had also been added as they have underperformed on their contract resulting in additional costs to the Authority
- Remaining risks are unchanged
- In future, Business Continuity is to be aligned with Emergency Planning
- Members were concerned that there were only two risks reported with regard to Children's Services – each service has its own risk register and the corporate register only includes those risks which have been elevated. Under the new system there was a formula for inclusion on the register, which should provide more clarity.

- ASC19, regarding demographics and staffing issues, remained as catastrophic – the Committee requested further information on what is happening. This was an issue for the service rather than the Risk Management Officer.
- The Committee questioned whether the Risk Register carried any authority or if it was provided just for information. The Register was provided for information and it was the Audit Committee's responsibility to ensure issues were investigated further or given greater priority.
- It was noted that some items had been included on the Register for a number of years – it was suggested that there should have been an impact or the risk removed from the Register. Risk is being cleansed as it is transferred to the new system.
- Members asked whether Brexit should be included – further information was awaited but it was confirmed that there were no contingency plans in place
  
- It was not clear what the Authority's risk appetite is and risk should not always be considered as being negative. The risk appetite has not been defined but it will be from August 2018 – each service has been asked to define their own risk appetite. An opportunity risk register is also an added benefit of the new system

County Councillor R G Thomas left at 12.25

**Outcome:**

- **The report was noted**

<b>11. TREASURY MANAGEMENT ANNUAL REVIEW</b>
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**Documents:**

- Report of the Portfolio Holder for Finance

**Discussion:**

- The report is a statutory annual review covering investments, borrowing and capital
- Longer term borrowing had increased to take away the risk of temporary borrowing
- In the longer term, borrowing would increase and this is being considered before interest rates start to rise. This has been built in to revenue budgets
- It was suggested that the need for short term loans showed poor financial management. The Treasury Manager explained that this was good practice to manage cash flow.
- The Treasury Manager was asked about the risk of Brexit and all authorities working towards the same date. There were no specific risks to Treasury Management as income was secured through the RSG.
- The Public Works Loans Board is part of the Government's treasury and funds are always available. These loans would be sought for terms of five or more years.

- The impact of the change in Minimum Revenue Position policy on long term borrowing was questioned. It would not have an impact as MRP is based on capital financing requirements.
- The Committee noted that the capital budget was usually underspent – this is common across other authorities and more work with project managers in ongoing. There is a major capital programme for the current year and there has been little spend in the first quarter. Members asked for a report on the issue to the next meeting.
- The submission of supporting documentation used for reclaiming VAT on purchases was still an issue. A significant number of recharges had been made to services where the appropriate documentation was not in place. The Head of Finance reported that a ‘Right First Time’ ethos was being promoted. It was essential that the root cause of issues was identified and resolved. More rigour was needed in the system to drive out errors.

**Outcome:**

- **A report on Capital expenditure would be submitted to the next meeting**

<b>12.</b>	<b>CORPORATE TRACKER</b>
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**Documents:**

- Report of the Portfolio Holder for Finance

**Discussion:**

- Duplication of work had been identified
- There had been an increase in Action Plans in Social Care and under the Corporate Leadership Development and Governance Programme
- The Corporate Tracker would be removed and actions contained moved to other Action Plans

**Outcomes:**

- **Proposals for monitoring future recommendations were noted**

<b>13.</b>	<b>FINANCE SCRUTINY PANEL</b>
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**Documents:**

- Scrutiny Observations to Cabinet on the Children’s Services Budget

**Discussion:**

- Following the CIW Inspection, the service had responded swiftly
- Additional funds had been added to the budget
- The FSP were concerned, and remain so, that there was no clarity in how additional funds would be spent
- The number of Looked After Children per 100,000 population ranked Powys as 19<sup>th</sup> out of 22 authorities. However the cost per LAC per 100,000 population ranked Powys 2<sup>nd</sup> out of 22 authorities.
- The report would be considered by Cabinet and the Portfolio Holder for Finance indicated that a written response would be forthcoming



- All information is considered by the Improvement and Assurance Board – Group Leaders attend the Board and provide challenge

**Outcome:**

- **The report would be forwarded to Cabinet for consideration**

<b>14.</b>	<b>FSP MEMBERSHIP</b>
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**County Councillors D Thomas, R G Thomas, A Williams and M Barnes were appointed to the FSP.**

<b>15.</b>	<b>TIMING OF MEETINGS</b>
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**Documents:**

- Report of the Scrutiny Manager

**Discussion:**

- All Committees were being asked to give consideration to the timing of meetings to assess ways in maximising attendance
- Evening meetings were not popular given the distances some Members had to travel
- A survey had been completed by Members and it was suggested that the results of that be used to determine the timings of meetings

**Outcome:**

- **Members preferred morning meetings with afternoons as a second option**

<b>16.</b>	<b>WORK PROGRAMME</b>
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**Documents:**

- Scrutiny work programme

**Discussion:**

- This was still being developed and would be added to once Joint chairs and Vice chairs Steering Group membership had been finalised

**Outcome:**

- **Noted**

<b>17.</b>	<b>CORRESPONDENCE</b>
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There were no items of correspondence.

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