

## AUDIT COMMITTEE

22 JANUARY 2019

Present: Independent Members: Ian Arundale (Chair)  
D. Hugh Thomas, Gavin McArthur and David Price  
Councillors Bale, Cowan, Cunah, McGarry, Singh and Walker

### 62 : APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Howells.

The Chair advised Members that Councillor Lay recently advised of his decision to stand down from the Audit Committee. The value the Councillor has brought to the Committee was recognised.

### 63 : DECLARATIONS OF INTEREST

No declarations of interest were received.

### 64 : MINUTES

The minutes of the meeting held on 13 November 2018 were approved by the Committee as a correct record and were signed by the Chairperson.

#### Operational Matters

### 65 : ANDREW GREGORY - DIRECTOR, PLANNING, TRANSPORT AND ENVIRONMENT - COASTAL RISK MANAGEMENT PROGRAMME

The Chairperson welcomed Andrew Gregory, Director; Matthew Wakelam, Assistant Director, Gary Brown and further lead officers to deliver a report and presentation on the Coastal Defence Scheme. Members were advised that the scheme covers the coastline along Rover Way, which is currently defended by a combination of rock gabions, earth embankments and sheet pile walls. Members were reminded that in Quarter 3 2017/18, the Corporate Risk Register included coastal erosion as a distinct corporate risk.

The Council is developing its Coastal Defence Scheme for the areas it is responsible for as landowner.

Members were advised that Coastal defence assessments undertaken in 2009 and 2013 identified that coastal defence assets were in poor condition, and a need for detailed assessment and design of defences was required. The Outline Business Case for the Coastal Risk Management Programme was presented to Cabinet on 15 March 2018 and the covering report was provided to Audit Committee for information.

The Chairperson invited the Committee to comment, seek clarification and raise questions on the information received. Those discussions are summarised as follows:

- Members were advised that the timescale for the Coastal Management Project is longer than originally planned. The Full Business Case is to be

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completed within 1 year, and the construction phase is to be completed by 2024. It was explained that the project is dependent on detailed design, which is essential to ensure a viable and effective scheme.

- Members asked for clarification as to how incident plans are tested, and were advised that discussions have been held with colleagues in Emergency Management. It was explained that the scale of the worst-case scenario would be unprecedented, requiring a multi-agency response, and a UK-wide impact, moving beyond local Gold Command arrangements to National emergency management measures.
- The Committee recommended the Director reviews the resilience of local incident management plans, develops plans for a flood event arising from the coastal erosion corporate risk and develops an engagement strategy for those most at risk.
- Members were advised that a public consultation was not undertaken in developing the Outline Business Case, but that consultation will take place in respect of the Full Business Case. It was noted that an earlier flood defence scheme resulted in significant 'push back' from the local community, so it is important that communication is effective.
- Members asked if the plans to develop land to the east of the City would lead to flood defences being extended further east along the coastline. Officers stated that this would be the responsibility of Natural Resources Wales.
- Responding to a Member query, officers confirmed that the flood defence scheme would not impact on any potential tidal lagoon development, and they advised that once the project is completed a comprehensive monitoring and maintenance programme will be put in place.

RESOLVED – That:

- (1) The report be noted;
  - (2) The Committee recommended that the Director of Planning, Transport and Environment:
    - Review the resilience of local incident management plans, and develop specific plans for a flood event arising from the coastal erosion corporate risk;
    - Develop an engagement strategy to communicate to those most at risk;
    - Report progress to a future Audit Committee meeting.
- 66 : CLAIRE MARCHANT, DIRECTOR OF SOCIAL SERVICES - UPDATE ON INTERNAL CONTROL ENVIRONMENT

The Chairperson welcomed Claire Marchant, Director of Social Services to the meeting, who provided an update on governance and control within the Social Services Directorate and the directorate's response to Internal Audit recommendations. The Chairperson invited comments and questions from the Committee. Those discussions are summarised as follows:

- Members asked whether the Director considered that the repeated failure to address budget overspends should be identified as a risk. The Director advised that the financial risk associated with increased demand within Childrens Services is already identified as a corporate risk. She advised that strategies are being implemented to meet the increased demand through the most cost-effective means.
- The Director stated that the Month 6 position – a £4.3 million overspend – has been maintained at Month 9. Demand for services is still increasing and the Director has worked with the Section 151 Officer to identify risks in the 2019/20 budget. The Director was unable to guarantee that there would be no overspend in 2019/20 but she could offer the Committee assurance that a range of policies, strategies and actions are in place to achieve the best outcomes for a balanced budget.
- Members asked whether the Director has identified trends in terms of spend. The Committee was advised that overspends are being driven by a reliance on agency workers and a range of actions to reduce this reliance are being implemented. The remainder of the overspend was explained as relating to meeting children's needs, for which a number of actions to reduce reliance on residential care are in place. Members were advised that there has been an increase of nine residential placements this year costing approximately £200,000 per annum each.
- Members asked whether anything could be done to provide more detail in monitoring reports that would help identify where overspends are occurring. The Corporate Director indicated that she would be happy to bring a report on this issue to a future meeting. The Committee requested that a breakdown of Social Services overspends for the last three years and their reasons be provided.
- Members asked whether the Director has regular engagement with the Welsh Government, particularly in terms of any additional responsibilities being imposed. The Director stated that there is regular engagement through the Ministerial Advisory Group via a number of workstreams and with colleagues across Wales. The Integrated Health Fund has benefited regions. For example, funding from the Integrated Health Fund has been used successfully in Adult Services to 'pump prime' early intervention.
- The Director was asked to confirm whether Welsh Government strategies are fully funded. The Director stated that Welsh Government strategies are subject to a resource impact assessment.
- Referring to the Directorate's Senior Management Assurance Statement (SMAS), Members noted that no responses were of 'embedded' delivery status. Members asked the likely timescale needed to achieve embedded

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status. The Director stated that some issues are very close to being embedded, for example, performance reviews. It was anticipated that many of the 'strong applications' will be 'embedded' in the next review.

- A Member noted that Liverpool Council has invested £8 million recruiting 160 social workers and are implementing the 'Signs of Safety' regime. Members asked whether this was likely to impact upon recruitment, particularly if other Councils also move to the 'Signs of Safety' model. The Director stated that this was a fundamental concern for the service. The Directorate has received additional investment in its workforce. However, the service is still carrying a 30% vacancy level, a significant proportion of which are new posts. Some local authorities pay higher salaries and therefore remuneration and motivation needs to be reviewed. The authority does provide support to its own workforce to achieve social services qualifications.
- The Director was asked what assurance could be given that the service contributes to long-term strategic planning in City. The Director stated that in partnership with the Housing and Communities Directorate it works with a range of partners in terms of long-term strategic planning.

RESOLVED – That:

- (1) The report be noted;
- (2) The Director of Social Services, advised by the Corporate Director Resources, to provide a breakdown of Social Services overspends for the last three years and their reasons.

Finance

## 67 : FINANCE UPDATE INCLUDING RESILIENCE ISSUES

The Corporate Director Resources presented the financial update report and reminded Members that the Month 6 monitoring report was discussed in the Audit Committee meeting on 13 November 2018. Members were advised that the Month 9 monitoring position will be reported to Cabinet on 21 February 2019, circulated upon publication, and reported to Audit Committee at its meeting of 2 April 2019.

Members were advised of the work being undertaken in preparation for the 2019/20 budget. Public consultation on the budget proposals took place between November and December 2018 and the Cabinet is considering the outcomes of the consultation exercise. In terms of the final settlement from Welsh Government, Cardiff has received a 0.9% cash increase when compared with 2018/19.

The Corporate Director Resources advised that Cardiff's 0.9% (£2.2 million additional grant funding) increase appears to be an improvement on the provision settlement. However, the authority is slightly worse off because of two main reasons. Firstly, the final settlement includes £0.6million in respect of new responsibility and secondly, the settlement includes a technical adjustment in respect of the 2019/20 Council Tax Base. Members were advised that the final budget proposals will be presented to Cabinet on 21 February 2019 and for approval by Council on 28 February 2019. The

budget report will be circulated to Audit Committee members when it has been finalised.

A Member noted that £1.1 million was set aside in the Financial Resilience Mechanism to cover Minority Ethnic Achievement, but that the grant funding was ultimately provided by Welsh Government. The Corporate Director Resources advised that the sum has been used to help balance the overall revenue budget.

RESOLVED – That the Committee noted the financial information provided and the process being adopted in respect of budget preparation for 2019/20 and the medium term.

#### Governance and Risk Management

#### 68 : AUDIT COMMITTEE ANNUAL REPORT DISCUSSION 2018-19

The Audit Manager provided a covering report on the Audit Committee activities, findings, observations and initiatives, as interpreted from a desktop review of the Audit Committee Agenda, Work Programme and Minutes. The purpose of this exercise was to enable the Audit Committee to consider the indicative summary of its work at this point in time for development within the Draft Audit Committee Annual Report 2018/19 as the year progresses.

No substantive comments were raised on the findings included in the covering report. The Chairperson invited Members to comment on the Annual Report informally outside of the meeting, and advised that the Annual Report will cross-reference the Committee's self-assessment returns. Members were advised that the Annual Report is to be approved in the Audit Committee Meeting in June 2019.

RESOLVED – That the report be noted.

#### 69 : SENIOR MANAGEMENT ASSURANCE STATEMENT AND AGS ACTION PLAN 2018-19 (MID-YEAR)

The Committee received a report providing details of the mid-year review of all Senior Management Assurance Statement (SMAS) returns undertaken by the Senior Management Team (SMT). The Operational Manager Governance and Risk presented the report.

Members were advised that all SMAS returns are subject to challenge, review and approval by SMT. A mid-year review was undertaken by SMT at its meeting on 31 October 2018. The overall position at mid-year and the progress against the action plan were appended to the report.

The Chairperson invited comments from the Committee.

- A member asked if a self-assessment had a robust challenge, and was advised that SMT are responsible for collectively challenging their SMAS assessments. The Operational Manager indicated that across directorates, performance lead officers do challenge responses.
- Members asked how often assurance categories were reviewed and what priority is given to Value For Money (VFM). The operational Manager

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advised that the assurance categories are in alignment with the CIPFA framework, and that value for money cuts through a number of measures. A Member advised that the Committee will be giving greater focus to its value for money assurance role going forward.

- A Member asked if there was a policy to mitigate the risk transferring back to the Council in terms of outsourcing and transfer of services and assets. The Head of Finance advised that directorates consider all risks and business continuity plans. The point of business continuity plans for services currently contracted out will be raised with the appropriate directorates.

RESOLVED – That the report be noted.

Wales Audit Office

70 : WAO ACTIVITY/REPORT PROGRESS UPDATE

Phil Pugh of Wales Audit Office provided an update on the performance audit work of WAO.

RESOLVED – That the report be noted.

71 : WAO TRACKER/OTHER STUDIES

The Audit Manager advised that there have been no direct reports to draw attention to which relate to Cardiff. However, Members were reminded that they have recently been provided with a briefing paper as a 'health check' of Cardiff's Audit Committee effectiveness, in consideration of the findings and recommendations of a Wales Audit Office report of Carmarthenshire Council.

The Audit Manager also advised of a Wales Audit Office report on Internal Audit in Community and Town Councils. Whilst the Council's Internal Audit Team has more stringent standards and requirements than those subject to the audit, the Audit Manager has considered and reflected on the findings of the report.

Treasury Management

72 : PERFORMANCE REPORT

The Committee received the Treasury Management Performance Report providing position statements on investments and borrowing at 31 December 2018. The Committee was advised that additional long-term borrowing of £10.2 million was taken.

In response to a question raised at the previous meeting, Members were asked to note that, since the last Committee meeting whilst the Council has not received any such approaches to repay and cancel LOBO loans, the Operational Manager has made enquiries as to whether its loans providers would consider early repayment. The loan providers were not willing to consider this without the payment of a significant premium.

RESOLVED – That the report be noted.

## 73 : DRAFT STRATEGY 2019-20

The Committee received the Draft Treasury Management Strategy 2019/20, presented by the Operational Manager - Capital, Corporate & Treasury. Members were advised that the strategy has been produced based on the CIPFA Code of Practice and will form part of the 2019/20 budget report.

Members were asked to note the main points of the strategy, which were set out in the report. The Chairperson invited comments on the strategy.

- Members asked whether the strategy was subject to external/internal audit and review. The Operational Manager confirmed that there is a transactional external audit review, and that there is an annual review of the Treasury function by Internal Audit. The Chairperson advised that the Committee have identified an increased need for awareness of the Treasury Management function as a training development requirement, which will be taken forward.
- A Member asked whether the authority is considering transferring to more liquid forms of investment. The Operational Manager stated that in terms of liquidating assets the authority must ensure that surplus assets are reviewed with a view to linking to regeneration and reinvestment. The Property Strategy aims to achieve a 5% yield on investments – assets can be disposed of in order to generate cash – but the yield would be lost.
- The Chairperson requested that the Committee receive a briefing on the internal and external arrangements in place for Treasury Management.

RESOLVED – That:

- (1) The report be noted;
- (2) Audit Committee receive a briefing on the internal and external audit arrangements in place for Treasury Management

Internal Audit

## 74 : AUDIT TEAM PROGRESS UPDATE 2018-19

The Committee received a report providing an update on the work of Internal Audit as at 31 December 2018. The Audit Manager provided an outline of the audit delivery and the audit findings and recommendations relating the reporting period.

The Audit Committee was advised that following a dip in performance in quarter two, there has been an increase in all reported performance measures in quarter three. The Audit Manager advised that momentum for delivery needs to continue throughout quarter four to achieve the challenging performance standards set.

The Committee received an executive summary of the audit of 'Income in School Kitchens' and a briefing paper on the Waste Management assurance and consultancy Internal Audit work recently carried out.

The Committee asked whether work was being done to reinforce the quality of management within Waste Service, and address the need for an ongoing audit presence in Waste Management. The Audit Manager advised that the Chief Executive has requested that there is a continued and strong audit presence in Waste Management, and drew attention to the audits ongoing and planned within Waste in quarter four 2018/19. Audit Committee was advised that on a risk-basis a number of Waste Management audits will be programmed for the financial year 2019/20.

Referring to the audit of the Education Catering Service, Members asked to be provided with the proportion of total income that related to cash.

RESOLVED – That:

- (1) The report be noted;
- (2) The Audit Manager inform Audit Committee of the proportion of the Education Catering Service income received through cash, and cashless routes.

#### 75 : INVESTIGATION TEAM PROGRESS UPDATE 2018-19

The Investigation Team Progress report 2018/19 as at 31 December 2018 was presented.

The Audit Manager advised that a number of internal investigations, which are taking up a large part of the Investigation Team's resource, are due to conclude during the current quarter. The Audit Manager advised that the Director of Planning Transport and Environment is due to attend the Audit Committee meeting on 2 April 2019, to provide an update on the investigation to the Audit Committee.

RESOLVED – That the report be noted.

#### 76 : DRAFT AUDIT CHARTER AND DRAFT AUDIT PLAN 2019-20

The Committee received the Draft Internal Audit Charter 2019/20 and the Draft Audit Plan 2019/20 for comment, ahead of the final documents, which are due for consideration by the Audit Committee on 2 April 2019.

Members were also asked to note the proposed amendment to the Terms of Reference for the Audit Committee, which now includes a Statement of Purpose as recommended by CIPFA.

RESOLVED – That the report be noted.

#### 77 : EXCLUSION OF THE PUBLIC

RESOLVED : That the public be excluded during the discussion of the following item of business on the grounds that, if members of the public were present during the discussion, because of the nature of the business to be transacted there would be disclosure to them of exempt information as defined in Part 4 of Schedule 12A of the Local Government Act 1972 and as described below:



Paragraph 14 - Information relating to the financial or business affairs of any particular person (including the authority holding that information).

#### 78 : SCRUTINY CORRESPONDENCE (SCRUTINY COMMITTEE ACTIVITY)

The Committee considered received correspondence from the Chairperson of the Policy Review and Audit Scrutiny Committee.

#### 79 : OUTSTANDING ACTIONS

The outstanding actions were noted.

#### 80 : WORK PROGRAMME UPDATE

The Work Programme was discussed. Through this discussion, the Chair explained that the Head of Democratic Services has advised that whilst there is limited budget for webcasting Committee meetings, it may be possible to Webcast an Audit Committee meeting in the next municipal year.

RESOLVED – That in the event of there being an opportunity to webcast that Audit Committee identifies which meeting in the calendar should be prioritised for webcasting on a public interest basis.

#### 81 : URGENT ITEMS (IF ANY)

The Committee received a briefing paper, which had been prepared to show if, and how, Welsh and Core UK City Local Authority Audit Committees have considered Brexit risks. The Committee used this research to consider the actions to take forward in respect of Brexit risk management.

The Committee was also asked to note that 'Brexit' has been escalated as a Corporate Risk in quarter three 2018/19, for approval by the Senior Management Team (SMT) in February 2019 and inclusion on the Corporate Risk Register. The Committee was advised that they will be provided with the populated Corporate Risk once approved by SMT, and thereafter, will consider the risk as part of the quarterly risk management agenda item.

The Chair proposed that:

- He will write to the Chairperson of the Policy, Review and Performance (PRAP) Scrutiny Committee, to request further information and assurances, on the delivery of a Cardiff Public Services Board (PSB) Cabinet Report action from October 2018, for work to continue through the PSB to monitor and respond to any potential impact on public.
- The Chief Executive is invited to attend a future Audit Committee meeting to discuss planning and preparation for Brexit as part of a wider report, to be proposed by the Audit Manager.
- The Internal Audit of Risk Management includes an objective on the planning and preparation for Brexit.

RESOLVED – That

- (1) The Audit Committee Chairperson to request written assurances from the Chairperson of the Policy Review & Performance Scrutiny Committee, on activities of the Public Services Board to manage the potential impact of Brexit.
- (2) The Chief Executive to attend a future Audit Committee meeting to discuss planning and preparation for Brexit as part of a wider report. Audit Manager to propose the focus of the wider report.
- (3) The internal audit of Risk Management in Q4, 2018/19, to include an objective on Brexit planning and preparation.

82 : DATE OF NEXT MEETING - 2 APRIL 2019

The next meeting of the Committee is to take place on 2 April 2019.

The meeting terminated at 4.30 pm

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Chairperson