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## AGENDA

Pwyllgor	PWYLLGOR ARCHWILIO
Dyddiad ac amser y cyfarfod	DYDD MAWRTH, 21 IONAWR 2020, 2.00 PM
Lleoliad	YSTAFELL BWYLLGOR 4 - NEUADD Y SIR
Aelodaeth	Aelodau Annibynnol: Hugh Thomas, Gavin McArthur a/ac David Price <i>Ian Arundale (mewn cyfnod o ganiatâd absenoldeb cymeradwy)</i> Cynghorywr Cunnah, Howells, Lister, McKerlich, Singh a/ac Williams

*Tua  
Amserx.*

### 1 Ymddiheuriadau am Absenoldeb

Derbyn ymddiheuriadau am absenoldeb.

### 2 Datgan Buddiannau

I'w gwneud ar ddechrau'r eitem agenda dan sylw, yn unol â Chod Ymddygiad yr Aelodau.

### 3 Penodi Cadeirydd a Dirprwy

Penodi Cadeirydd a Dirprwy Gadeirydd i'r Pwyllgor Archwilio ar gyfer gweddill Blwyddyn y Cyngor 2019/20.

### 4 Cofnodion *(Tudalennau 3 - 10)*

Cymeradwyo cofnodion y cyfarfod a gynhaliwyd ar 12 Tachwedd 2019 fel gwir gofnod.

### 5 Materion Gweithredol

- |     |  |         |
|-----|--|---------|
| 5.1 | Andrew Gregory - Diweddariad ar yr Amgylchedd Rheoli Mewnol (a Rheoli Risgiau Arfordirol) <i>(Tudalennau 11 - 38)</i>        | 2.05 pm |
| 5.2 | Christopher Lee - Diweddariad ar yr Amgylchedd Rheoli Mewnol (a Llywodraethu Iechyd a Diogelwch) <i>(Tudalennau 39 - 52)</i> | 2.30 pm |

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- 6 Cyllid**
- 6.1** Diweddariad ar Gyllid gan gynnwys materion Gwydnwch 2.55 pm
- 7 Llywodraethiant a Rheoli Risg** 3.10 pm
- 7.1** Bil Etholiadau a Llywodraeth Leol (Cymru) - Crynodeb y Pwyllgor Archwilio (*Tudalennau 53 - 66*)
- 7.2** Trafodaeth ar Adroddiad Blynyddol y Pwyllgor Archwilio 2019/20 (*Tudalennau 67 - 70*)
- 7.3** Datganiad Sicrwydd Uwch Reolwyr a Chynllun Gweithredu AGS 2019/20 (Canol y Flwyddyn) (*Tudalennau 71 - 76*)
- 8 Swyddfa Archwilio Cymru** 3.40 pm
- 8.1** Diweddariad ar Gynnydd Gweithgarwch/Adroddiad SAC (*Tudalennau 77 - 82*)
- 9 Rheolaeth Trysorlys** 3.50 pm
- 9.1** Adroddiad Perfformiad (*Tudalennau 83 - 90*)
- 9.2** Strategaeth Ddrafft 2020/21 (*Tudalennau 91 - 136*)
- 10 Archwilio Mewnol** 4.10 pm
- 10.1** Diweddariad ar Gynnydd y Tîm Archwilio yn 2019/20 (*Tudalennau 137 - 202*)
- 10.2** Diweddariad ar Gynnydd y Tîm Ymchwilio yn 2019/20 (*Tudalennau 203 - 216*)
- 10.3** Siartr Archwilio Ddrafft a Chynllun Archwilio Drafft 2020/21 (*Tudalennau 217 - 244*)
- 11 Gohebiaeth Graffu**
- 12 Camau sy'n weddill** (*Tudalennau 245 - 246*)
- 13 Diweddariad ar y Rhaglen Waith** (*Tudalennau 247 - 248*)
- 14 Eitemau Brys (os oes rhai)**
- 15 Dyddiad y Cyfarfod Nesaf – 24 Mawrth 2020**

**Davina Fiore**

**Cyfarwyddwr Llywodraethu a Gwasanaethau Cyfreithiol**

Dyddiad: Dydd Mercher, 15 Ionawr 2020

Cyswllt: Graham Porter, 02920 873401, g.porter@caerdydd.gov.uk

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AUDIT COMMITTEE

12 NOVEMBER 2019

Present: D. Hugh Thomas (Chairperson)  
Gavin McArthur and David Price  
Councillors Hugh Thomas, Cunnah, Howells, Lister, McKerlich  
and Singh

42 : APOLOGIES FOR ABSENCE

Apologies for absence were received from Ian Arundale and Councillor Joel Williams.

43 : DECLARATIONS OF INTEREST

No declarations of interest were received.

44 : MINUTES

The minutes of the meeting held on 10 September 2019 were approved as a correct record, subject to the following amendments:

The addition of David Price and Gavin McArthur to the list of those present.

Page 5, first bullet point.

A member asked whether there was a link between **unsatisfactory internal audit outcomes and completion of** mandatory training and attendance at governing body meetings. The Director stated that there clearly was a link, and that mandatory training and attendance will continue to be monitored through the relevant Governing Body.

Page 8, third paragraph

Members asked **whether the council would be immediately** prohibited from investing with a lender if its rating were to reduce to a level outside of policy. The Operational Manager **confirmed that this would be the case and** advised that the lending list is set at the start of the year, with ratings monitored daily and all new investments based on current rating levels.

Chairperson's Business

45 : IAN ARUNDALE - LEAVE OF ABSENCE REQUEST

The Committee received a report from the Head of Democratic Services requesting that Members consider a request from Ian Arundale, Chairperson, for a leave of absence of up to one year.

Members were advised that on 26 October 2019 the Chairperson formally requested a leave of absence, the reasons for which were set out in the report. The Council determines the size and membership of the Audit Committee and therefore has the authority to approve a leave of absence request. Audit Committee were requested to

consider the request and determine whether to make a recommendation for approval at Council on 28 November 2019.

RESOLVED – That:

- (1) Audit Committee noted the Chairperson's request for a leave of absence for up to 1 year;
- (2) Audit Committee recommended that Council approve the Chairperson's request.

#### 46 : AUDIT COMMITTEE CHAIRS' NETWORK (VERBAL UPDATE)

The Chairperson provided a verbal update from the Audit Committee Chairs' Network event held on 11 October 2019. The Chairperson reported that the event was well attended. Representatives of WAO and CIPFA delivered agenda items on good governance and risk management respectively. Attendees also participated in a workshop involving peer-to-peer engagement on audit committee influence. Members were advised that the event was sponsored by WLGA and the intention is that networking events would be held up to twice a year.

The Chairperson referred in particular to the forthcoming Local Government and Elections (Wales) Bill which was referred to in the event, and a need for the Audit Committee to be fully briefed prior to any changes to its role. The Audit Manager advised that further information and briefings will be provided, and that the Wales Audit Office will be invited to attend the next Chairs' Network in July 2020 to give us more information, including the potential timescales, and what it may mean in practice. Audit Committee will be updated, as appropriate.

#### Operational Matters

#### 47 : SARAH MCGILL - UPDATE ON INTERNAL CONTROL ENVIRONMENT

The Chairperson welcomed Sarah McGill, Corporate Director, to the meeting who provided a report on the control environment within Housing and Communities, Performance and Partnerships and Street Scene Service Areas. Members were advised that since June 2019, the Street Scene service has been allocated to the Corporate Director of People and Communities on an interim basis in order to support the delivery of the Council's Capital Ambition agenda. The Corporate Director provided an outline of the directorate position in respect of risk management arrangements, senior management assurance statements, and the response to internal audit recommendations.

Members were invited to comment, seek clarification or raise questions on the information received. Those discussions are summarised as follows:

- Members noted that the Corporate Director had recently taken on responsibility for Street Scene at a time when there were a number of ongoing high-profile issues. Members asked whether there was an appropriate level of management within the service area to address those issues. The Corporate Director stated they had taken on responsibility for the service area on an interim basis. There was a need to align the service with other services in the Council as the service area had been isolated in the past and the issues referred to cannot be solved in an isolated manner. There was however, a clear

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approach to understanding the service, including the need to ensure the right management structure is in place. A new Operational Manager has been appointed and will commence work in December.

- In terms of commercial waste, a Member noted that the Council collects 30% of the commercial waste in the City, yet it is the only provider, which recycles what it collects. A Member expressed disappointment that, whilst residents are encouraged to recycle, the same standards are not applied to businesses. The Member considered that those businesses that do not recycle, do not count towards recycling targets and therefore there could be a perverse incentive not to recycle, and asked how this might be addressed. The Corporate Director advised that there was no legal requirements for businesses to recycle. Therefore, those businesses who do wish to recycle value the service delivered by the Council. Welsh Government is considering requiring businesses to recycle. If the law were changed, the Council would be in an excellent position with the infrastructure already in place to accommodate requirements.
- A Member asked whether the service was any closer to addressing areas of poor recycling performance, suggesting that commingled collections are known to cause problems, being separated in 8 or 9 separate processes. Members suggested that the service needed to be more imaginative, such as asking charities to take newspaper from the waste stream. The Corporate Director stated that the 're-use' argument is anticipated to come to the fore and that tonnages being collected were reducing as packaging is reduced. It was key that in order to understand the opportunities presented and make the service sustainable; there was a need to understand the finer detail around these issues.

RESOLVED – That the Audit Committee noted the contents of the report.

#### 48 : EXCLUSION OF THE PUBLIC

RESOLVED : That the public be excluded from the meeting in respect of the following item in accordance with Section 100A (4) of the Local Government Act 1972 (as amended) as the item contains exempt information of the description contained in paragraphs 14 and 21 of Part(s) 4 and 5 of Schedule 12A Local Authority Government Act 1972 (as amended).

#### 49 : JANE THOMAS - RISK BASED VERIFICATION POLICY - HOUSING AND COUNCIL TAX BENEFIT ASSESSMENT

The Chairperson invited Jane Thomas, Assistant Director, Housing and Communities to deliver a presentation on a proposed Risk-Based Verification approach to verifying claims for Housing Benefit and Council Tax Reduction. The current approach was considered both inconvenient for the customer and costly to administer. The report summarised the risk based verification process and its advantages.

The Department of Work and Pensions provided guidance to local authorities wishing to adopt the risk based verification model, which included a requirement for a Risk Based Verification Policy. The guidance states that the policy must allow Members, officers and external auditors to be clear about the levels of verification necessary. The policy must also be reviewed annually (but not changed in year). Audit

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Committee was satisfied that the Policy met the Department of Work and Pensions guidelines. Whilst the Committee received assurance that protected characteristics are not used for RBV purposes, the Assistant Director agreed they would amend Policy to include a requirement to monitor the impact of implementation, on those with protected characteristics.

RESOLVED – That:

- (1) The content of the report be noted;
- (2) The RBV Policy be amended to include a requirement to monitor the impact of implementation, on those with protected characteristics

Finance

#### 50 : FINANCIAL UPDATE INCLUDING RESILIENCE ISSUES

The Corporate Director Resources provided a verbal finance update. Members were advised Council approved the Statement of Accounts 2018/19 on 12 September 2019.

Members were advised that the Month 4 Monitoring report was reported to Cabinet on 26 September 2019 that projected an overall overspend of £325,000. Members were asked to note that directorates were overspent by approximately £7 million, most notably in Social Services (£4.2 million) and Planning, Transport and Environment (£2.5 million). These directorate overspends were partly offset by projected underspends in other directorates, and by the £3.0 million general contingency budget that was provided as part of the 2019/20 budget. Members were also advised that the Month 4 capital position projected an outturn of £72 million and slippage of £30 million. The Month 6 monitoring report will be reported shortly and will include mitigations.

Members were advised that the provisional settlement for 2020/21 is anticipated on 16 December 2019, with the final settlement expected in February. The Medium Term Financial Plan has identified a £25 million funding gap for 2020/21. Members were advised of the WAO review of financial resilience across all authorities.

The Corporate Director invited comments from the Committee.

- A Member asked whether the delay in the receipt of the final settlement figure from Welsh Government would impact on decision-making. The Committee was advised that there is a statutory requirement to set Council Tax by 11 March 2020. It was hoped that there would be little difference between the provisional and final settlement figures, but timescales will be tight and delaying the opportunity to consult until the holiday period is not ideal.

Governance and Risk Management

#### 51 : CORPORATE RISK MANAGEMENT (MID-YEAR)

The Head of Finance and Lead Risk Management Officer provided the Corporate Risk Management report for Quarter 2 2019/20. The report provided an overview of the 224 risks reported from Directorate Risk Registers, and all changes to escalated risks and corporate risks as considered by SMT on 22 October 2019.

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A Member asked why there was no mention of the potential impact of school buildings not being fit for purpose in the School Organisational Plan (SOP) risk rating. The Head of Finance advised that the particular risk relates to the failure to deliver the SOP programme, rather than school condition. The programme consists of improving school assets, subject to final business cases, in Band B schools over the next five years. Condition surveys have been completed in all schools in the City. Approximately 10 schools have been identified where improvements are needed. Surveys have been graded in terms of need and they will also inform the asset renewal programme. The backlog figure often quoted does not account for the work of the SOP programme.

A Member asked whether the full list of dilapidations was in the public domain. The Head of Finance stated that the list has been shared with the individual schools concerned and advised that he would feedback comments on school estate dilapidations, and the publication of this information, to the Director of Education.

A Member asked whether there has been a good level of engagement across the directorates. Officers stated that engagement with Risk Champions across all directorates to date has been positive. The Head of Finance considered that good engagement was key to improving engagement and providing sharper insight.

RESOLVED – That:

- (1) The report be noted;
- (2) The Head of Finance to feedback comments on school estate dilapidations, and the publication of this information, to the Director of Education.

Wales Audit Office

## 52 : KEY MESSAGES - ANNUAL IMPROVEMENT REPORT & WELL-BEING OF FUTURE GENERATIONS EXAMINATION REPORT

The Committee received the Wales Audit Office Annual Improvement Report. Sara-Jane Byrne of Wales Audit Office was invited to present the report.

Members were advised that the draft report was considered and agreed by Senior Management in the Council and were asked to note a summary of the regulatory activity that had taken place since the last report. Members were advised that the Council is meeting its requirements in terms of statutory improvements. However, challenges remain, particularly in relation to the level of savings that will be required going forward.

The Committee also received a WAO report entitled 'Well-Being of Future Generations: An Examination of 'Develop and Launch a New Transport and Clean Air Vision for the City'. Jeff Brown of WAO provided a summary of the report and its findings.

Following discussion, Members considered that for future WAO reports they should receive a management account of the report's findings. There was also a discussion around the tracking of WAO recommendations, for which Committee would welcome relevant updates, which is to be considered for future Committee items.

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RESOLVED – That:

- (1) The reports be noted;
- (2) Audit Manager to request that, subject to report and meeting timings, management responses accompany the presentation of WAO assessments in future Committee meetings.

#### 53 : WAO ACTIVITY/REPORT PROGRESS UPDATE

Members received an update on the Performance Audit Programme.

RESOLVED – That the report be noted.

Treasury Management

#### 54 : PERFORMANCE REPORT

The Head of Finance and Operational Manager, Capital, Corporate and Treasury presented a report providing performance information and a position statement on Treasury Management as at 30 September 2019.

Following previous requests from the Committee, the report also provided information to support the effectiveness or otherwise of the Treasury function. The report included additional information in the form of:

- An evaluation undertaken by an External Treasury Management expert on governance and compliance with the codes of practice.
- A summary of the findings of the periodic internal audit review of the Treasury functions which primarily focussed on internal controls
- Treasury Management benchmarking information

Furthermore, Members were asked to note that the PWLB on 9 October 2019 changed their lending policy with immediate effect by increasing the interest rate at which local authorities could borrow. The impact of this change on the Council will be closely monitored.

The Committee congratulated the Operational Manager for the excellent findings in independent external report. Members drew assurance from the findings. Members asked the officer to comment on the two recommendations in the report and asked when the Committee would receive the management response. The Committee was advised that once the report is digested the Committee could receive the Treasury function's action plan. The Head of Finance stated that whilst challenges remain, the possibility of bringing additional resources to the team and strengthening the function was being looked at. An undertaking was provided that the action plan would be brought back to Committee.

The Committee referred to paragraph 2.5 in the external report – Use of Credit Ratings. A Member asked whether the comments in the paragraph were reflected in policy. The Operational Manager advised that the policy does allow for some flexibility.



The officer was also asked to comment on the list of non-compliances in the report. Members were advised that the non-compliances listed are either aspirational or are currently being addressed and would be addressed in the Action Plan.

RESOLVED – That:

- (1) The report be noted;
- (2) The Head of Finance to provide an action plan and management comments in response to the external report on Treasury Management.

#### 55 : HALF YEAR REPORT

The Head of Finance and Operational Manager, Capital, Corporate and Treasury presented the Treasury Management Mid-Year Report 2019-2020. The report detailed the Council's treasury management activities since 1 April 2019 and provided a position statement as at 30 September 2019.

Members referred to the investment charts and noted that the level of exposure to HSBC was higher than the permitted limit. The Operational Manager agreed to clarify the position and report back to the Committee.

RESOLVED – That the report be noted.

Internal Audit

#### 56 : AUDIT TEAM PROGRESS UPDATE

The Audit Manager presented the Internal Audit Progress Report providing Members with an update on the work of Internal Audit as at 31 October 2019. Members were provided with performance and benchmarking information, and asked to note the critical findings set out in paragraphs 11 to 15 of the report. Members were advised that in the reporting period one draft audit report was issued with an 'unsatisfactory' audit opinion, in respect of fly-tipping operations, for which the Committee will receive an Executive Summary at its next meeting. An overview was also provided of the findings of the reports where audit opinions of 'insufficient with major improvement needed' had been allocated.

A Member referred to the table of recommendations made and recommendations agreed in paragraph 3.1 of the report and queried how non-acceptances are scrutinised. The Audit Manager advised that over the reporting period the recommendations in all finalised audits had been accepted. The Audit Manager advised that recommendations not agreed would be highlighted in reports to Committee.

RESOLVED – That the report be noted.

#### 57 : INVESTIGATION TEAM PROGRESS UPDATE

The Audit Manager presented the Audit Investigation Team Progress report, which provided the Committee with an update on the work of the team as at 31 October 2019, including progress in delivering fraud awareness initiatives.

RESOLVED – That the report be noted.

58 : SCRUTINY CORRESPONDENCE

No Scrutiny Correspondence was received.

59 : OUTSTANDING ACTIONS

The outstanding actions were noted. The Audit Manager advised that letter has been circulated regarding outstanding actions.

60 : WORK PROGRAMME UPDATE

The Committee Work Programme was noted.

61 : URGENT ITEMS (IF ANY)

No urgent items were received.

62 : DATE OF NEXT MEETING

The next meeting will take place on 21 January 2019.

The meeting terminated at 4.30 pm

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Chairperson

**AUDIT COMMITTEE: 21<sup>st</sup> JANUARY 2020**

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**PLANNING TRANSPORT AND ENVIRONMENT INTERNAL CONTROL  
ENVIRONMENT & COASTAL RISK MANAGEMENT UPDATE****AGENDA ITEM: 5.1****REPORT OF THE DIRECTOR, PLANNING TRANSPORT AND ENVIRONMENT**

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**Reason for this Report**

1. This report has been produced in response to the Audit Committee's request for an update on the control environment within the Planning, Transport and Environment Directorate.
2. The Audit Committee has requested this update in respect of its role to:
  - Monitor progress in addressing risk-related issues reported to the committee.
  - Consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
  - To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
  - To review the assessment of fraud risks and potential harm to the council from fraud and corruption.

**Background**

3. Cardiff Council's Planning, Transport & Environment Directorate has responsibility for a wide and complex range of statutory duties, functions and services. From a Capital Ambition and Corporate Planning perspective our core remit is to ensure that "Cardiff grows in a resilient way", aiming to be among the very best cities in the UK and Europe. The directorate employs circa 460 staff with teams comprising:
  - Transport policy and delivery
  - Planning
  - Highways infrastructure and operations
  - Energy & sustainability
  - Bereavement and registration
4. To illustrate the scale and complexity of directorate priorities being taken forward, below are some examples within the current Corporate Plan:
  - Launching a new Transport & Clean Air Vision for the city and develop a Clean Air Strategy
  - Ensuring the Council can achieve compliance with the EU Limit Value for Nitrogen

- Supporting Transport for Wales with the implementation of the Cardiff Metro
  - Development of an Electric Vehicles Strategy
  - City Centre Transport Masterplan
  - Delivery of the Council's Active Travel agenda
  - Delivery of high-quality and well-connected communities and increasing the delivery of new houses
  - Delivering a prioritised programme of highway enhancements
  - Developing a Cardiff Food Strategy
  - Delivering a 9 Megawatt Solar Farm at Lamby Way
  - Securing a contract for the delivery of a Heat Network
5. Additional priorities are outlined in the Directorate's Delivery Plan as headline actions, these include:
- Coastal Risk Management
  - Sustainable Drainage Systems and Approving Body
  - Delivering a long-term solution to ensure adequate burial space
6. The Director leads on governance, risk management and internal control to ensure there is a robust and embedded process for managing, monitoring and control, examples of these systems are outlined below and are further explained as required in the issues section of this report:
- Annual refresh of Capital Ambition and Corporate Plan
  - Directorate Delivery Planning
  - Quarterly Performance Reviews
  - Financial and Budget Monitoring Meetings
  - Cabinet Reporting / Scrutiny interface
  - Quarterly Service Area Joint Committee
  - Monthly Operational & Quarterly Health & Safety Committee Meetings
  - Fortnightly Senior Management Meetings
  - Operational Improvement Meetings and Annual Management Reviews (BSI registered operations)
  - Internal Quality Management Audits
  - Risk Register Reviews
  - Senior Management Assurance Statement Reviews
  - Internal Audit Engagement & Response
  - Emergency Management Processes
  - Business Continuity Planning
  - Independent external regulation / assessment

## Issues

### (a) **Management / mitigation of the directorate's risks on the Corporate Risk Register**

7. Risks relevant to the directorate are contained and detailed in a number of registers at various levels including; Corporate (strategic risks), Directorate (essentially delivery plan and operational risks) and emerging Team (work delivery risks) registers. These risks are monitored on a regular basis and more formally via a quarterly embedded process. Meetings with responsible officers ensure that risks are relevant, status is appropriate, controls are supporting mitigations, and updates on the latest position are recorded. Escalation of high

level risks led by the Directorate are part of the Council's SMT process, whereby they can be considered for inclusion on the Corporate Risk Register, the director leads on this process. Corporate risks relating to the directorate are as follows:

- **Air Quality** – Air quality in Cardiff does not meet statutory requirements set by legislation and continues to have a detrimental impact on health for residents and visitors to Cardiff.
- **Coastal Erosion** – Breach of current defences resulting in widespread flooding (current defences are ad hoc and are in a very poor condition)
- **Climate Emergency** - Cardiff has declared a Climate Emergency; we need to both reduce our emissions and become more resilient to the likely impacts from climate change. Anticipated effects from global climate change on the city are extreme weather events such as flood / storm and heatwave.

Risk	Current Risk rating	Target Risk Rating	Target Reduction Date
Air Quality	B1	C3	>12 months
<p><b>Implement Clean Air Plan:</b> Implement package of measures detailed in Final Plan, this is dependent on WG approving the plan.</p> <p>Clean Air Strategy and Action Plan: In developing the Clean Air Plan the Council has further developed a wider Clean Air Strategy and Action Plan to satisfy the requirements of LAQM. This was approved by Cabinet on 13th June 2019. The strategy includes measures that will likely provide further AQ improvements including AQMAs such as:</p> <ul style="list-style-type: none"> <li>• Implementation of Non Idling Zones</li> <li>• Living Walls and other Green Infrastructure</li> <li>• EV Infrastructure and Council Fleet Measures</li> <li>• Car Clubs with Low Emission/ Zero Emission Vehicles</li> <li>• Air Quality Planning Guidance</li> <li>• Schools Active Travel</li> <li>• Behavioural Change Promotion, Car Free Day, Clean Air Day etc</li> <li>• Expansion of Real-time monitoring network and display/ sharing of data</li> </ul> <p>Some of these improvements have commenced and will continue to develop as part of the strategy.</p> <p><b>Evaluation of air quality improvements:</b> Ongoing monitoring and evaluation plan to include updated modelling and assessment following implementation of measures.</p> <p>Work with Public Health Wales to quantify future health benefits and improvements from reduced emissions/ NO2 concentrations</p> <p><b>Cardiff's Transport &amp; Clean Air Green Paper:</b></p> <ul style="list-style-type: none"> <li>• Green Paper 'Changing how we move around a growing city' has been developed and consulted on. This will be developed into a white paper explaining the broad principles of how Cardiff Council will improve air quality.</li> </ul>			
Coastal Erosion	B1	C1	>12 months
<ul style="list-style-type: none"> <li>• Completion date for detailed design and Full Business Case (FBC) anticipated May 2020.</li> </ul>			

	<ul style="list-style-type: none"> <li>• Full Business Case to be submitted to Welsh Government for approval &amp; funding confirmation</li> <li>• Tender scheme promptly following support from Welsh Government. Contract will be developed as part of detailed design process to support tender process.</li> <li>• Anticipated construction starting late 2020 - early 2021, subject to the above.</li> </ul>
Climate Emergency	A1 B1 >12 months
Number of initiatives planned to help mitigate risk including: <ul style="list-style-type: none"> <li>• Developing enhanced twenty year Flood and Storm mitigation strategy with partners</li> <li>• Developing enhanced engagement programme with partners supporting the public in enhancing their own resilience.</li> <li>• Improve the service provided by the SuDS Approval Body (SAB)</li> <li>• Develop a 20 year heat mitigation strategy for the city</li> <li>• Lamby Way solar farm contracted for completion end May 2020.</li> <li>• Grant application for progression of Heat Network - Dec 2019</li> <li>• Electric Vehicle strategy - first tranche of residential chargers delivered and proposals to convert council fleet to electric being finalised.</li> </ul>	

**(b) Senior Management Assurance Statement**

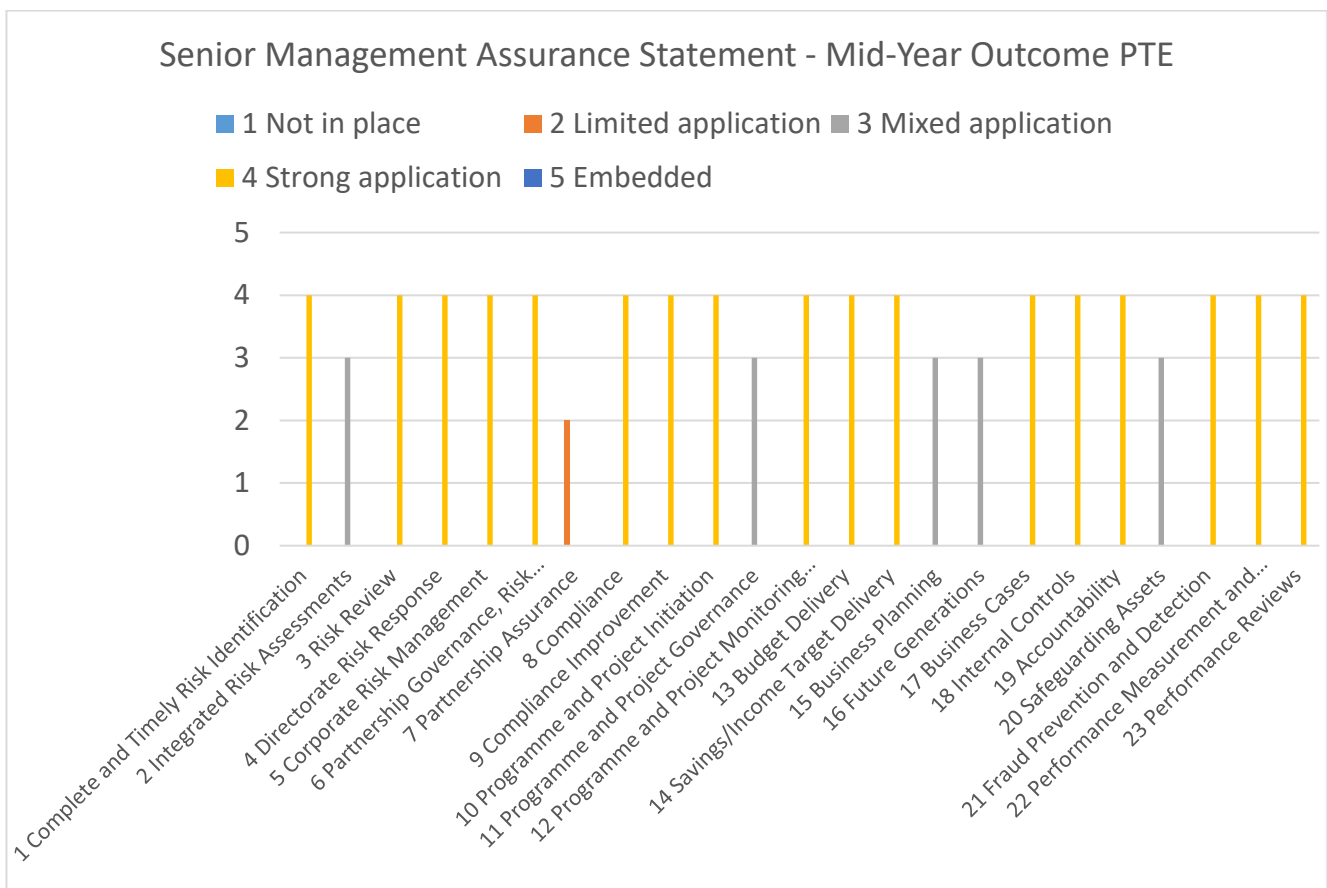
8. The Directorate Management Team continues to be actively engaged in the review of the Directorate Senior Management Assurance Statements, with the most recent review taking place at the mid-year stage during September 2019 (see table and chart below for outcomes). Overall there is strong application of governance and controls across the Directorate with many robust systems in place to monitor and improve matters (see item 3 above). There are however, a number of areas that need to be reviewed and strengthened, particularly where outcomes are currently “limited or where there is mixed application”, further consideration needs to be given to the following SMAS areas of management:

- Integrated Risk Assessments – undertaking a management refresh to help ensure further consideration of all relevant risks impacting on the directorate
- Partnership Assurance – to gain further collaborative insights and identify relevant risks across key interested parties
- Programme & Project Governance – upskilling project managers to build in additional monitoring and control where required
- Business Planning – to ensure officers are more actively involved in the initial and ongoing planning process to achieve robust plans, particularly at team level
- Future Generations – to build in principles of the Act and 5 ways of working i.e. longer term planning, more involvement with stakeholders and prevention management
- Safeguarding Assets – to ensure integration of asset management plans and policies across the Directorate and wider Council

9. Additionally, a number of significant issues have been highlighted including:

- Detailed / robust and innovative plans required for savings across the service – where we need to proactively manage and deliver detailed budgetary measures relating to the in-year position and Medium Term Financial Plan.
- Major Programme Delivery – where all major delivery programmes in energy, transport, highways and planning/development need to be effectively managed and led.

No	Statement	Status Year Start / Mid-Year
1	Complete and Timely Risk Identification	Strong Application
2	Integrated Risk Assessments	Mixed Application
3	Risk Review	Strong Application
4	Directorate Risk Response	Strong Application
5	Corporate Risk Management	Strong Application
6	Partnership Governance, Risk Management and Control	Strong Application
7	Partnership Assurance	Limited Assurance
8	Compliance	Strong Application
9	Compliance Improvement	Strong Application
10	Programme and Project Initiation	Strong Application
11	Programme and Project Governance	Mixed Application
12	Programme and Project Monitoring and Reporting	Strong Application
13	Budget Delivery	Strong Application
14	Savings/Income Target Delivery	Strong Application
15	Business Planning	Mixed Application
16	Future Generations	Mixed Application
17	Business Cases	Strong Application
18	Internal Controls	Strong Application
19	Accountability	Strong Application
20	Safeguarding Assets	Mixed Application
21	Fraud Prevention and Detection	Strong Application
22	Performance Measurement and Management	Strong Application
23	Performance Reviews	Strong Application



### (c) Internal Audit Engagement and Response

10. The table below includes audits for the Directorate. All audits are sent to the Director, officers involved in the audit and business support team. Regular meetings are held with the Council's Audit Team and Directorate Management Team to help monitor and implement agreed actions.

Audit	Report Status	Audit Opinion	Outstanding Actions	Completed Actions	Total Actions	Implementation Status
<b>2018/19</b> (& 1 older outstanding recommendation re. Adopted Land))						
Adopted Land	Final	Limited Assurance	1	4	5	Revised Action Date - not yet due
Commissioning and Procurement - City Operations	Final	Effective with opportunity for improvement	0	3	3	Completed
Budgeting and Forecasting - PTE	Final	Effective with opportunity for improvement	0	2	2	Completed
Flood Risk Management	Final	Effective with opportunity for improvement	0	2	2	Completed
<b>2019/20</b>						
Building Control	Final	Effective with opportunity for improvement	3	3	6	Not yet due

### (d) Wider Assurance

11. Essentially, assurance and independent assessment is provided from the following external organisations, all certifications have been retained:

- British Standards Institute (BSI) – accreditation and registration to BS ISO 9001:2015 Quality Management System for Highway Operations (Street Lighting, Highway Electrical Apparatus, Barrier Repair and Traffic Management). Additionally this accreditation supports retention of our relevant National Highway Sector Schemes 8, 10b, 12a and 12b, which essentially are bespoke Quality Management Systems for organisations working on the UK road network relating to the operations noted above.
- Highway Electrical Association (HEA/HERS) – which provides a standard of excellence for highway operations and in particular street lighting and highway electrical apparatus.
- Association for Public Service Excellence (APSE) – providing validation for performance benchmarking for Cemetery and Crematorium Services, Roads, Highways and Winter Maintenance.
- Planning Inspectorate Wales - dealing with planning appeals, national infrastructure planning applications, examinations of local plans, other planning-related and specialist casework.

### (e) Coastal Risk Management – Updated Committee Briefing Note

12. Since 2004, England and Wales have operated its Emergency response processes under the Civil Contingencies Act (CCA 2004). The Act promotes the importance of working



together to maximise the limited resources available to public bodies to respond to major incidents.

13. The Act also directs public bodies to draw up public facing risk registers, to ensure the general public can be aware of what the risks are. In Cardiff, the greatest risk is flooding, from the sea, rivers and surface water.
14. The Bristol Channel has the second highest tidal range in the world. This provides in the most extreme conditions (spring high tide/low barometric pressure/heavy rain/high winds) a significant risk of coastal inundation. The area affected would be extensive running through Gloucestershire, Somerset, Newport, Cardiff, Vale of Glamorgan and Bridgend.
15. The Natural Resources Wales (NRW) and the Environment Agency (EA) in England along with the Metrological Office would through monitoring the tides and the weather, be able to predict such an event within a five day window.
16. On receipt of this information, Cardiff Resilience Unit (previously known as the Emergency Management Unit) would brief our Gold Officer and Silver Officer cohort. They in turn would be invited to briefings by the partnership group of Civil Contingencies partners in South Wales, which consists of (Police, Fire and Rescue, Ambulance, Coastguard, Health Board, Armed Services, Utilities, Highways and Transport) in order to create a strategy.
17. The strategy created by South Wales would have to be aligned with that of Gwent and to a large degree with Somerset and Avon. Given the size of the risk, Regional and Central Government would set up their respective control centres, in Wales ECCW and Central Government, COBRA.
18. Cardiff Council would then embed a Gold Officer in the South Wales regional response control centre, they would then feed into Cardiff's own Gold and Silver control to ensure clarity of command and control.
19. Cardiff Council knowing the potential for over a thousand properties to be flooded in this scenario would have to recommend a mass evacuation. These affected properties are highlighted on existing NRW maps and each property has the ability to reference automatic telephonic message warning. Through social media and direct messaging, householders would be told of the risk and advised to leave their properties. There is no legal power to enforce evacuation (other than terror incidents) so householders could and have in the past remained in situ during evacuation orders.
20. Cardiff Council would initially direct people wherever possible to stay with friends and family, or if this was not possible, temporary reception would be set up to accommodate those affected. Long term accommodation if needed, would be discussed with Welsh Government and neighbouring authorities.
21. Traffic management during a mass evacuation would have to be monitored closely. There is a real risk of traffic collision and vehicle failure. For all the householders who refused to leave, there would have to be close monitoring and be supported as far as is practical.
22. There would be little to no possibility to stop the seawater entering the environment of the City. The seawater would flood large areas, with sewage and other pollutants and toxic material being an issue during both response and recovery. This scenario would be replicated throughout the surrounding region.

23. There would only be limited capability available within the UK to deal with this disaster. Central Government would have to make very difficult decisions as to where resource would be sent.
24. Cardiff Council would have to work with Welsh Government and other Welsh local authorities on how the Recovery operation would be managed.

### **Legal Implications**

25. The statutory functions of the Audit Committee include the duty to review, scrutinise and issue reports and recommendations on the appropriateness of the authority's risk management, internal control and corporate governance arrangements (pursuant to Part 6 Chapter 2 of the Local Government (Wales) Measure 2011). In discharging its functions, the Audit Committee must have regard to all relevant guidance, in particular the CIPFA guidance for Audit Committees.

### **Financial Implications**

26. There are no direct financial implications arising from this report. The coastal risk management scheme is included within the Capital Programme. In respect of reactive incident management there are business continuity plans in place which when rolled out will have the consideration of spending commitments which reflect the need of the situation. All such commitments will be recorded along with the business reason for incurring the cost. These costs will then be met through a combination of use of reserves, available funds or any associated grants and support offered post event.

### **RECOMMENDATIONS**

27. That the Audit Committee considers and notes the content of the report.

**Andrew Gregory**  
**Director, Planning Transport & Environment**

The following are attached:

- Appendix A:** Audit Committee Presentation  
**Appendix B:** Cardiff Coastal Defences Project Leaflet  
**Appendix C:** Public Engagement Review  
**Appendix D:** Flooding Scheme Note  
**Appendix E:** Briefing Note on the Law Surrounding Coastal Flood Risk in Wales



**Audit Committee – Andrew Gregory, Director, PTE**

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**Internal Audit**

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# Service Structure



- Andrew Gregory – Director, Planning, Transport & Environment
- Matt Wakelam - Assistant Director, Street Scene
- Paul Carter - Transport Policy and Delivery
- James Clemence - Planning
- Gary Brown - Highways Infrastructure and Operations
- Gareth Harcombe - Energy & Sustainability
- Martin Birch – Bereavement, Registration and Cardiff Dogs Home

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# Corporate Risks



Tudalen 22

Risk	Current Risk rating	Target Risk Rating	Target Reduction Date
Air Quality	B1	C3	>12 months
Coastal Erosion	B1	C1	>12 months
Climate Emergency	A1	B1	>12 months



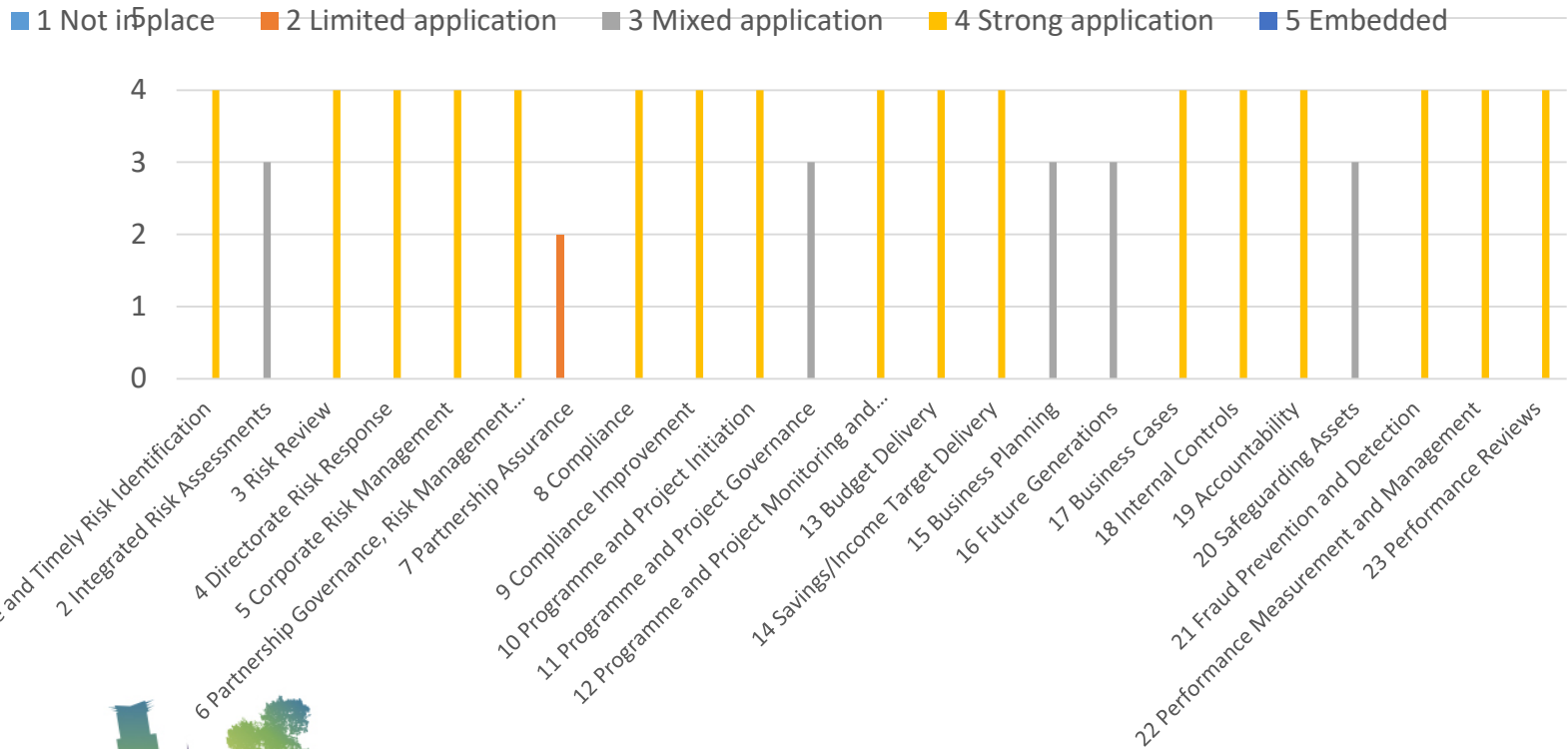
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# Senior Management Assurance Statement



Senior Management Assurance Statement - Mid-Year Outcome PTE



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# Internal Audit



Tudalen 24

Audit	Report Status	Audit Opinion	Outstanding Actions	Completed Actions	Total Actions	Implementation Status
<b>2018/19</b> (& 1 older outstanding recommendation re. Adopted Land))						
Adopted Land	Final	Limited Assurance	1	4	5	Revised Action Date - not yet due
Commissioning and Procurement - City Operations	Final	Effective with opportunity for improvement	0	3	3	Completed
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<b>2019/20</b>						
Building Control	Final	Effective with opportunity for improvement	3	3	6	Not yet due



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# Coastal Risk Management Summary



Completion date for detailed design and Full Business Case (FBC) anticipated May 2020.

Full Business Case to be submitted to Welsh Government for approval & funding confirmation

Tender scheme promptly following support from Welsh Government. Contract will be developed as part of detailed design process to support tender process.

Anticipated construction starting late 2020 - early 2021, subject to the above.

Updated Committee Briefing Note included in Audit Committee Report.

Tudalen 25

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Mae'r dudalen hon yn wag yn fwriadol

# CARDIFF COASTAL DEFENCES PROJECT

The Tremorfa and Pengam Green areas of Cardiff are at significant risk of flooding from the sea and the Rhymney River.

Much of the coastline in this area is eroding and flood risk will increase in the future due to rising sea levels caused by climate change.

Along the west bank of the Rhymney River are low sections of flood defence, which will overtop as sea levels rise, increasing flood risk to areas to the west. The Lamby Way roundabout and Rover Way are behind these defences and are at risk of being lost to erosion within 20 years.

The flood defences along the east bank of the Rhymney River and the coastal defences to the east of the river mouth are also at risk of erosion. It is estimated that the sea will begin to erode Lamby Way Tip within 20 years, releasing waste material into the Severn Estuary.

# PROJECT AMDDIFFYNFEYDD ARFORDIR CAERDYDD

Mae ardaloedd Pengam Green a Thremorfa yng Nghaerdydd mewn perygl sylweddol o lifogydd o'r môr a'r Afon Rhymni.

Mae rhan helaeth o'r morlin yn yr ardal hon yn erydu a bydd y perygl o lifogydd yn cynyddu yn y dyfodol oherwydd cynnydd yn lefel y môr a achosir gan newid yn yr hinsawdd.

Ar hyd glan orllewinol yr Afon Rhymni mae rhannau isel o amddiffynfeydd rhag llifogydd, a fydd yn cael eu gorlifo wrth i lefelau'r môr godi, gan gynyddu'r perygl o lifogydd i ardaloedd i'r gorllewin o'r afon. Mae cylchfan Ffordd Lamby a Rover Way wedi'u lleoli yn union y tu ôl i'r amddiffynfeydd hyn ac maent mewn perygl o gael eu colli i erydiad o fewn 20 mlynedd.

Mae'r amddiffynfeydd llifogydd ar hyd glan ddwyreiniol yr Afon Rhymni a'r amddiffynfeydd arfordirol i'r dwyrain o aber yr afon hefyd mewn perygl o erydiad. Amcangyfrifir y bydd y môr yn dechrau erydu Tip Ffordd Lamby o fewn 20 mlynedd, gan ryddhau deunydd gwastraff i Aber Hafren.



Cardiff Council is developing a project to improve the existing flood defences along the coast and the Rhymney River, to provide greater protection to people and property.

**We would like to invite you to view and discuss the project with us. We hope you can call in – we welcome hearing your views.**

**Date: Tuesday 14th May and Wednesday 15th May 2019**

**Time: 12pm – 8pm**

**Location: Tesco Extra, Eastern Bay Rd, Pengam Green, Cardiff, CF24 2HP**

Mae Cyngor Caerdydd yn datblygu project i wella'r amddiffynfeydd llifogydd presennol ar hyd yr arfordir a'r Afon Rhymni, i ddarparu amddiffyniad gwell i bobl a chartrefi.

**Hoffem eich gwahodd i weld a thrafod y project gyda ni. Gobeithiwn y gallwch alw heibio – byddwn yn hapus i gael eich barn.**

**Dyddiad: Dydd Mawrth 14 Mai a dydd Mercher 15 Mai 2019**

**Amser: 12m – 8pm**

**Lleoliad: Tesco Extra, Eastern Bay Rd, Pengam Green, Caerdydd, CF24 2HP**

For further details, please visit [www.cardiffcoastaldefences.net](http://www.cardiffcoastaldefences.net) or contact us at:  
Am ragor o fanylion, ewch i [www.cardiffcoastaldefences.net](http://www.cardiffcoastaldefences.net) neu cysylltwch â ni:

Mae'r dudalen hon yn wag yn fwriadol

## FILENOTE

JBA Project Code: 2019s0183  
Contract: Cardiff Coastal Design  
Client: Cardiff City Council  
Date: 3 June 2019  
Author: Ben Sullivan and David Revill  
Reviewer: Anne-Marie Moon  
Subject: Review of Public Engagement Events (14–15<sup>th</sup> May 2019)



## 1 Introduction

A two-day public engagement event was held on the 14<sup>th</sup> and 15<sup>th</sup> May 2019 to publicise the Cardiff Coastal Defences project and to enable public comment on the outline design proposals.

The event was held in the foyer of the Tesco Extra store in Pengam Green, which is located within the scheme area and will benefit from the project through reduced flood risk. Several alternative venues were considered but the Tesco store was chosen because it effectively acts as the community hub for that area and has a high footfall, providing an opportunity to publicise the project to the largest possible audience.

A range of information materials were presented at the venue. This included information on the existing and future flood risk, summary details of the outline design proposals and an overview of the project programme through to completion of construction.

The event was successfully held over the two days. Approximately 90 people actively engaged in the event, whilst approximately a further 1,000 people would have become aware of the project whilst visiting the store (these individuals did not actively engage with the project, but had their awareness raised by the presence of a stall in the foyer of Tesco).

This filenote presents a summary of the engagement event and its outcomes and identifies a series of recommendations to inform the development of the project and subsequent future engagement events.

## 2 Event organisation

### 2.1 Choice of venue

A range of venues were considered for the events. The Tesco Extra store, located immediately north of Rover Way in Pengam Green, was chosen for three reasons:

- There was no obvious alternative community centre in the local area to use as a venue;
- It was considered advantageous to host the event in a venue likely to be visited by large numbers of people, meaning the event would reach both those specifically attending the event and those who were not otherwise aware of it.
- The Tesco store is anticipated to flood during a present day 1 in 200-year event. Under the proposed scheme, it would benefit from reduced flood risk.

### 2.2 Publicising the event

The event was publicised in three ways:

- Leaflet drop to approximately 500 residential properties on the 3<sup>rd</sup> May 2019. All residential properties that were due to benefit from the proposed scheme received a leaflet; this provided a brief summary of the flood risk issue and the flood defence project, and advertised the date, time and location of the event. It also contained the web address for the website for the project ([www.cardiffcoastaldefences.net](http://www.cardiffcoastaldefences.net)), where further project information could be obtained and an email address for the scheme ([cardiffcoastaldefences@cardiff.gov.uk](mailto:cardiffcoastaldefences@cardiff.gov.uk)), where further scheme information could be requested. The leaflet, website content and email address were provided in both English and Welsh language versions.
- A poster publicising the project and engagement event was placed in 10 community facilities i.e., post office, doctor's surgery, rugby club, etc, on the 3<sup>rd</sup> May 2019.

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- On 14<sup>th</sup> May 2019, Cardiff Council's official Twitter account publicised the engagement event, stating when and where the event was taking place and containing a link to the website for the scheme ([www.cardiffcoastaldefences.net](http://www.cardiffcoastaldefences.net)).

### 2.3 Information materials

A range of information materials were prepared for the engagement event. A series of four A1 size information boards were produced and displayed in the Tesco store foyer for the duration of the event. Information on the boards was in both English and Welsh. The themes of the four boards were as follows:

- 'Why is this project happening?' – summary of existing and future flood and erosion risks.
- 'What has informed the project?' – summary of community/social/environmental aspects/features that have informed scheme development.
- 'What are we proposing to do?' – outline summary of preferred option and flood risk benefits.
- 'What happens next?' – overview of the project to delivery.

An A4 handout was also prepared, to be offered to attendees. It contained summary information on the flood risk, preferred scheme, and project programme.

A feedback form was also produced. It contained a series of 10 questions designed to enable feedback of the event itself and the scheme proposals presented.

All information materials were provided in both English and Welsh language.

### 2.4 Event duration

The engagement event took place on the 14<sup>th</sup> and 15<sup>th</sup> May 2019. The event began at 12pm and finished at 8pm on both days. This was intended to enable people to attend both during and after the working day and also to attract interest from passing visitors to the store during its busiest periods i.e., during lunchtime and during the post-work rush hour.

### 2.5 Staff attendance

The event was attended by staff from Cardiff Council and JBA Consulting. A minimum of four staff were present throughout the two days, including a native Welsh speaker. Natural Resources Wales also had a staff member present on the 14<sup>th</sup> May only, who provided information on flood risk and related NRW activities.

## 3 Event outcomes

### 3.1 Attendance

A total of 90 people attended the event over the two days. These people actively viewed the information materials and engaged with the project staff, asking questions about the project and providing opinions. Approximately 50 other people took a project handout and were asked to make contact if they had any questions. Approximately 1,000 other people passed the event whilst visiting the store but did not engage with the event or take a handout; however, it is reasonable to assume that their awareness of the project was increased by having passed the information materials.

Approximately half of the attendees were already aware of the scheme as a result of the leaflet drop and were specifically attending the event. These people lived in the residential areas to the north and west of the store and were likely to benefit from the proposed scheme. The other attendees had no prior awareness of the scheme or event, were visiting the store and took the opportunity to engage in the event. The majority of these people

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worked in the local area but did not live there. A smaller number of people were residents of Tremorfa, Splott, Cardiff Bay and Pen-y-Lan. Figure 3-1 shows the distribution of local attendees engaged with at the event.



**Figure 3-1: Distribution of local attendees at the engagement event**

### 3.2 Comments received

The following section provides a summary of the comments received from attendees during the event. All comments provided by attendees were verbal and were recorded by project staff. No feedback forms were completed during the event.

- Attitudes toward the scheme were almost exclusively positive, with broad agreement that improved flood defences would be beneficial. Most attendees voiced their support for the scheme and many expressed their gratitude that Cardiff Council were prioritising funds to protect the areas of Pengam Green and Tremorfa.
- Awareness of the existing flood risk to the area was generally very low. More than half of the attendees who were residents of Pengam Green or Tremorfa expressed surprise that they are at risk and now wanted to further understand the level of risk and the potential consequences of this, particularly in relation to their building insurance premiums. The current and future level of flood risk was explained, and it was confirmed that insurance companies already had access to flood risk information; therefore, no increase in insurance premiums is likely and that increased flood risk protection may benefit insurance provision. Several residents confirmed that they were already aware of the flood risk and stated that this was already affecting their insurance premiums.
- A small number of attendees questioned the purpose of the scheme, stating that they did not believe the area is at risk of flooding. One person stated that they would rather the money was spent on other public facilities. It was explained that the area

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has historically been protected from flooding, but due to climate change, there is a need to improve these defences.



Figure 3-2: Engagement event, 14<sup>th</sup> May 2019

- Representatives from Tremorfa Park Community Group and Pengam Green Community Group attended the event. These attendees recommended that Cardiff Council use their community social media profiles (particularly Facebook groups) to publicise any future engagement events or scheme information updates. They specifically enquired whether there is scope to relocate the local Traveller Community as part of the scheme, and whether the proposed Rover Way upgrade scheme (to a dual carriageway) was going to be built. They also asked whether construction of the scheme was going to result in traffic congestion on Rover Way.
- A small number of attendees expressed concern about environmental issues in the River Rhymney and the Severn Estuary. Knowledge of the importance of the habitat was relatively widespread with several attendees identifying the use of these areas by birds. It was explained to attendees that environmental assessment forms a key part of the design of the flood defences and that the project is focused on minimising its environmental impacts. It was also explained that due to the imminent threat of erosion of the Lamby Way Tip and continued erosion of the Frag Tip, the scheme would benefit the local environment by protecting it from continued pollution.



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- A representative of the Rhymney Sailing and Angling Club attended the event having seen the event poster displayed in the club boathouse. He raised concern about how Cardiff Council would pay for the project. It was explained that majority funding was being sought from Welsh Government, but that a case for Council funding would need to be made. It was also explained that construction of the scheme is likely to impact on use of the Rhymney River and this might have implications for access to the sailing club and to the river. It was agreed that a further meeting with the club would be needed when further construction phase information is available to ensure that impacts to the club are minimised.
- Several attendees, primarily residents of the Beaufort Square area, raised concerns about flood defences in this area potentially increasing flood risk upstream or downstream. It was explained that one condition of receiving funding from the Welsh Government is that no detriment is caused to other areas.
- Several attendees noted that there is a proposed solar farm to be installed on Lamby Way Tip and asked whether these developments would affect one another. It was explained that whilst the two proposals were not expected to impact one another, cumulative impacts on the environment as a result of the two developments would be assessed during the design of the flood defences and appropriate mitigation applied as necessary.
- Several attendees enquired whether recent news reports on the BBC website and WalesOnline website, which stated that the proposed designs for the defences consisted of a high steel sheet pile wall, were correct. They expressed concern that views would be impacted. It was explained to them that designs were still being finalised, but at present there were no plans to install a high sheet pile wall and that the claims in the media were unfounded.
- One attendee, who was deaf, complained that they had no access to the information as there wasn't a representative that could speak British Sign Language. Their contact information was taken, and an action agreed for Cardiff Council to contact them following the event to discuss the scheme.
- Proposals to enhance the adjacent section of the Wales Coast Path as part of the scheme were very popular with many attendees, including local residents and those from further afield. Many stated that the river could have significant amenity value if the area was more managed.
- A representative from the Living Levels Landscape Partnership attended the event to find out more about the proposed scheme and to raise awareness of the partnership objectives. It was agreed that further engagement with the partnership would be undertaken following the event to explore opportunities to support the partnership's objectives.
- No health and safety incidents or near misses occurred during the event.

## 4 Conclusions and recommendations

The following conclusions and recommendations have been made:

- Feedback on the proposed scheme was almost wholly positive, with many attendees voicing support for the project. Only a very small number of attendees expressed concern about the project and the associated use of public funds.
- The engagement event raised awareness amongst the local community and other stakeholders on: (1) the current and future flood risk; (2) the purpose and objectives

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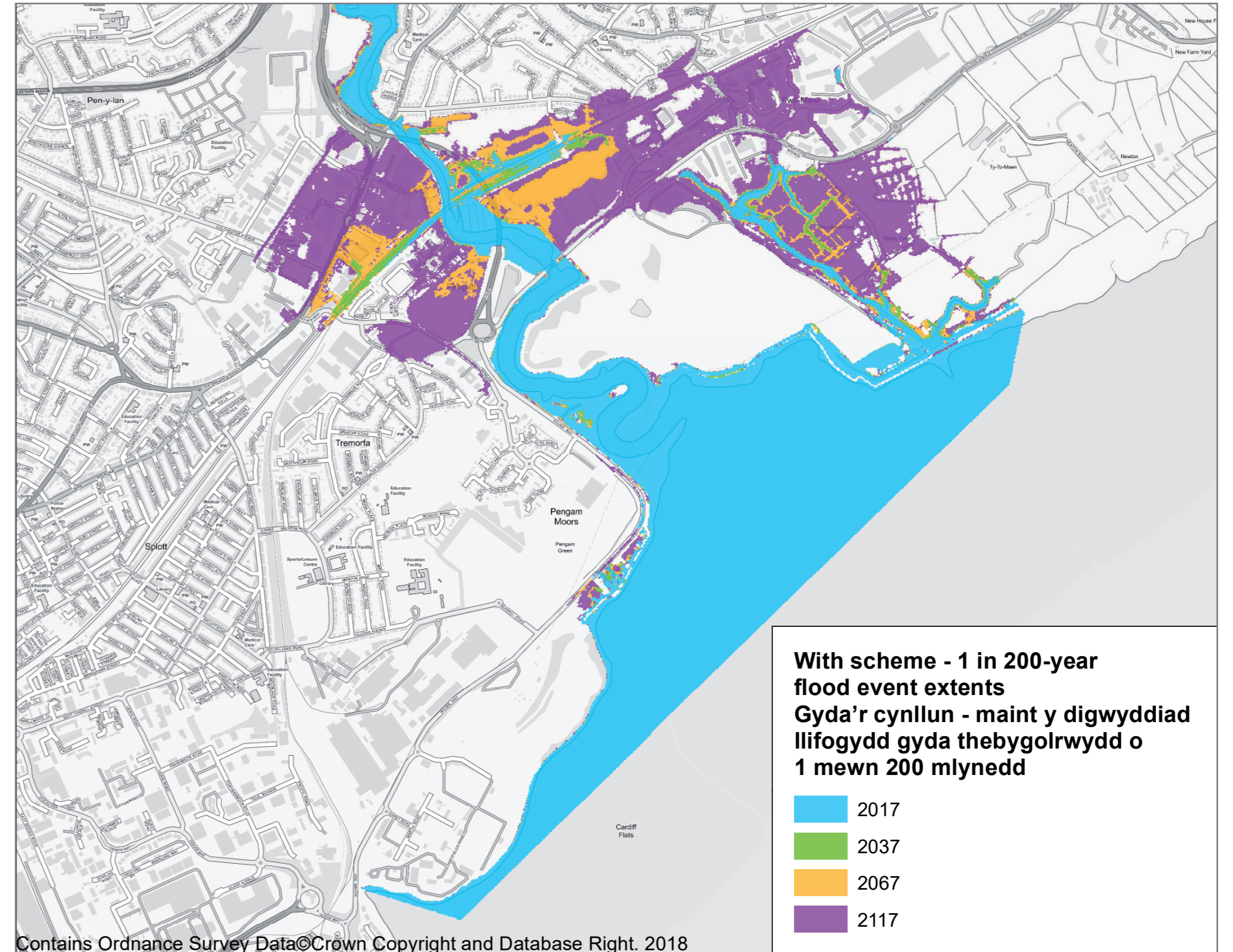
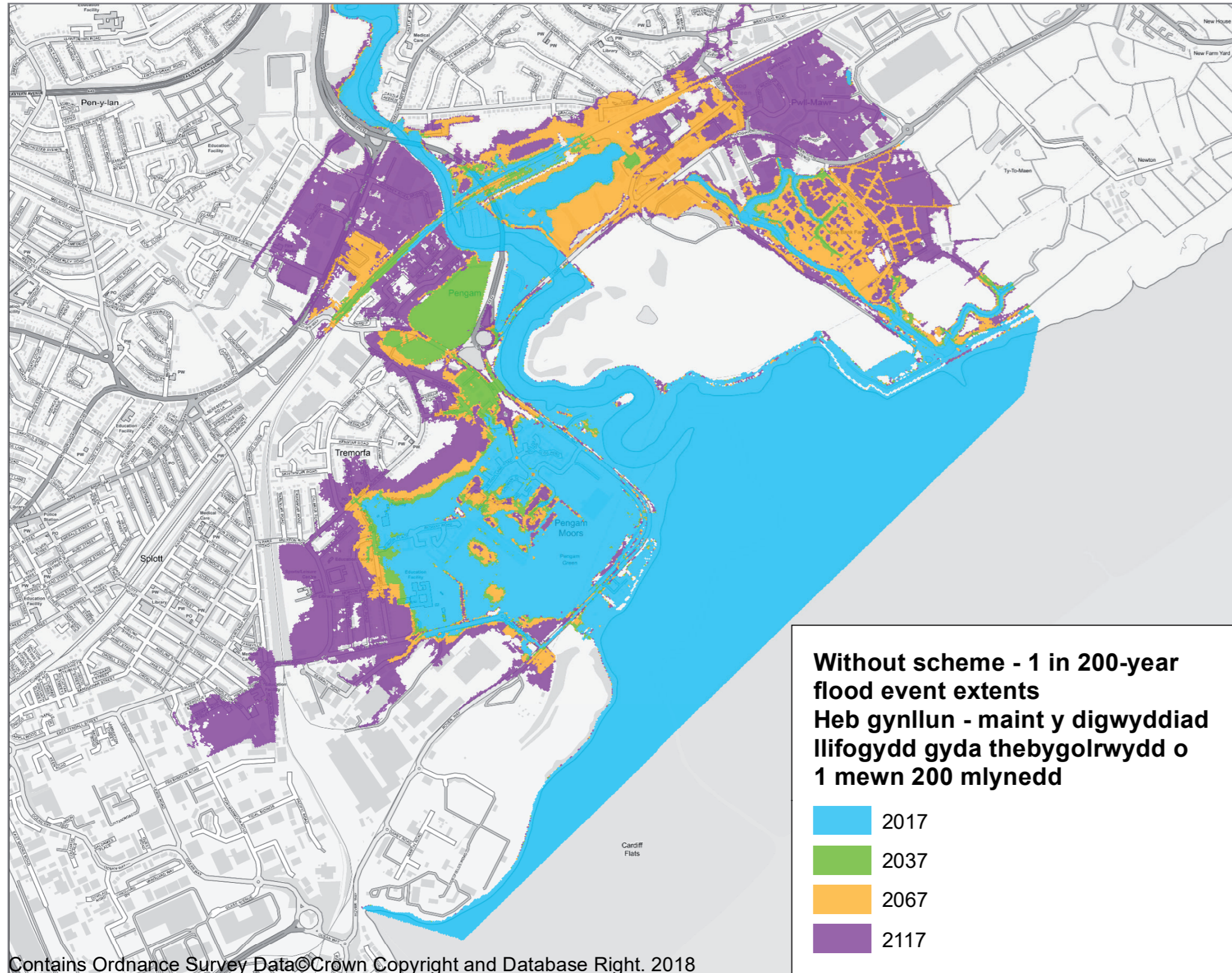
of the project: (3) high level engineering option characteristics; and (4) the project timeline.

- The event was relatively well attended (approximately 10% of residents who received a project leaflet in advance attended the event). The choice of venue was positively received and the venue was probably a significant factor behind the number of attendees. It is recommended that any future public engagement events utilise the same venue.
- The use of the foyer ensured that people visiting the store would need to pass the information materials. This contributed to the number of people who attended the event. However, for future engagement events, it may be more beneficial for the information materials to be positioned immediately inside the store as this has the potential to further increase the visibility of the scheme to store visitors.
- Future engagement events should make use of existing community forums and social media profiles to publicise events and the scheme detailed design.
- The project should consider issuing a formal press release to local media outlets to further publicise the scheme and future engagement events and the means available for stakeholders to access project information and provide comment.
- The project website should be updated regularly during the project to provide further information on the detailed design, environmental assessment and potential environmental and social enhancements. The website provides the key means to disseminate project information, raise stakeholder awareness and enable stakeholder comment prior to any further engagement event.

# How much will our scheme reduce flooding? Faint fydd ein cynllun yn lleihau llifogydd?

Our preferred scheme will reduce the risk of flooding to more than 1,000 homes and 70 businesses in Tremorfa and Pengam Green during an extreme flood event (predicted to occur once every 200 years), taking account of future climate change. It will also prevent the further erosion of the Frag Tip and provide protection for Lamby Way Tip.

Bydd ein cynllun dewisol yn lleihau'r risg o lifogydd i fwy na 1,000 o gartrefi a 70 o fusnesau yn Nhremorfa a Pengam Green yn ystod digwyddiad llifogydd eithafol (gyda thebygolrwydd o 1% o ddiwydd bob blwyddyn), gan ystyried newid yn yr hinsawdd yn y dyfodol. Bydd hefyd yn atal erydiad pellach o Tip y Frag ac yn darparu amddiffyniad ar gyfer Tip Lamby Way.



## What happens next?

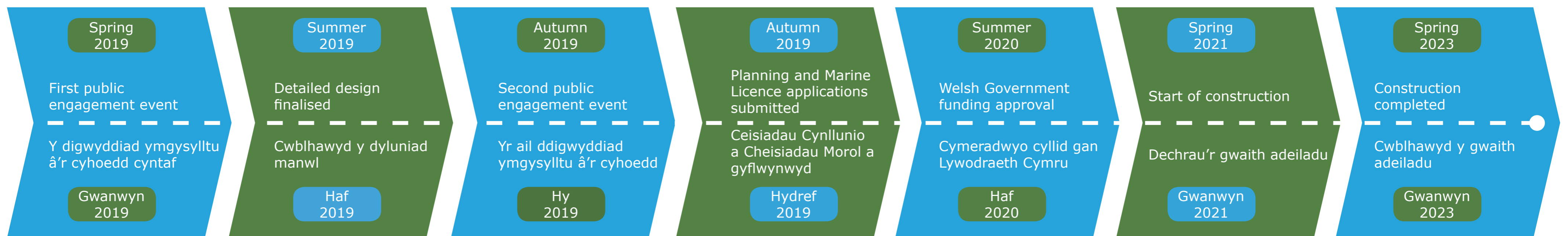
We will take on board comments and views we receive today and, if appropriate, revise the design of our preferred option. The preferred option will be finalised during summer 2019 and we will carry out another public engagement exercise like this one to let the local community and other stakeholders comment on the final design.

A Full Business Case will be completed and this will be presented to Cardiff Council and the Welsh Government for funding approval. We believe there is a strong social and economic case for undertaking a scheme in Cardiff. Once funding has been approved, we will apply for planning permission and other consents to allow the project to proceed. We anticipate that construction of the scheme will commence in spring 2020 and will last for approximately 18 months.

## Beth fydd yn digwydd nesaf?

Byddwn yn ystyried sylwadau a sylwadau a dderbyniwn heddiw ac, os yw'n briodol, byddwn yn adolygu dyluniad ein dewis delfrydol. Bydd yr opsiwn a ffeirir yn cael ei gwblhau yn ystod haf 2019 a byddwn yn cynnal ymarfer ymgysylltu â'r cyhoedd arall fel yr un hwn er mwyn rhoi gwybod i'r gymuned leol a rhanddeiliaid eraill am y dyluniad terfynol.

Bydd Achos Busnes Llawn yn cael ei gwblhau, a bydd hwn yn cael ei gyflwyno i Gyngor Caerdydd a Llywodraeth Cymru i'w gymeradwyo. Credwn fod achos cymdeithasol ac economaidd cryf dros gynnal cynllun yng Nghaerdydd. Unwaith y bydd y cyllid wedi'i gymeradwyo, byddwn yn gwneud cais am ganiatâd cynllunio a chaniatadau eraill i ganiatáu i'r prosiect fynd rhagddo. Rydym yn rhagweld y bydd y gwaith o adeiladu'r cynllun yn dechrau yng ngwanwyn 2020 ac y bydd yn para tua 18 mis.



## Please tell us what you think.. Dywedwch wrthym beth yw eich barn chi...

It is very important to us that we receive your views. The project team is on hand to discuss flood risk, the proposed scheme and answer your questions. Feedback forms are available and we will use these to inform our proposals. We would be particularly interested in hearing your thoughts on the following:

Maen'n bwysig iawn i ni ein bod yn derbyn eich barn. Mae tim prosiect wrth law i drafod y perygl o lifogydd, y cynllun arfaethedig ac i ateb eich cwestiynau. Mae ffurflenni adborth ar gael a byddwn yn defnyddio'r rhain i lywio ein cynigion. Byddio gennym ddiddordeb arbennig mewn clywed eich barn ar y canlynol:

<p>Did you know parts of Pengam Green are at risk of flooding?</p> <p>Oeddech chi'n gwybod bod rhannau o Pengam Green mewn perygl o lifogydd?</p>	<p>Have you ever flooded before?</p> <p>Ydych chi wedi profi llifogydd o'r blaen?</p>	<p>What enhancements could we include as part of the scheme?</p> <p>Pa welliannau y gallem eu cynnwys fel rhan o'r cynllun?</p>	<p>How can we improve on the scheme presented?</p> <p>Sut allwn ni wella'r cynllun a gyflwynir?</p>
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Want to know more?

Further details of the scheme are available here:

[www.cardiffcoastaldefences.net](http://www.cardiffcoastaldefences.net)

e-mail: [cardiffcoastaldefences@cardiff.gov.uk](mailto:cardiffcoastaldefences@cardiff.gov.uk)

Eisiau gwybid nwy?

Mae rhagor o fanylion am y cynllun ar gael yma:

[www.cardiffcoastaldefences.net](http://www.cardiffcoastaldefences.net)

e-bost: [amddiffynfyddarfordircaerdydd@caerdydd.gov.uk](mailto:amddiffynfyddarfordircaerdydd@caerdydd.gov.uk)

Mae'r dudalen hon yn wag yn fwiadol

Section 8 of the Flood & Water Management Act 2010 (“the Act”) requires Welsh Government to ‘develop, maintain and apply a strategy for flood and coastal erosion risk management in Wales’.

In order to comply with the requirements of the Act, the strategy must specify—

- the Welsh risk management authorities,
- the flood and coastal erosion risk management functions that may be exercised by those authorities in relation to Wales,
- the objectives for managing flood and coastal erosion risk,
- the measures proposed to achieve those objectives,
- how and when the measures are to be implemented,
- the costs and benefits of those measures, and how they are to be paid for,
- the assessment of flood and coastal erosion risk for the purpose of the strategy,
- how and when the strategy is to be reviewed,
- the current and predicted impact of climate change on flood and coastal erosion risk management, and
- how the strategy contributes towards the achievement of wider environmental objectives.

In 2011, Welsh Government published National Strategy for Flood and Coastal Erosion Risk Management in Wales (“the Strategy”). It remains the only one published to date. However, Welsh Government consulted on its replacement last Summer. The consultation closed in September 2019, but there have been no developments since. Therefore this briefing note is based on the current 2011 Strategy.

The Strategy provides a framework for flood and coastal erosion risk management in Wales. It does this by setting four overarching objectives for managing flood and coastal erosion risk. The responsibility for achieving these objectives rests with Welsh Government and the Welsh Risk Management Authorities, of which Cardiff is one.

The four objectives are:

- 1. Reducing the consequences for individuals, communities, businesses and the environment from flooding and coastal erosion;**
- 2. Raising awareness of and engaging people on flood and coastal erosion risk;**
- 3. Providing an effective and sustained response to flood and coastal erosion events; and**
- 4. Prioritising investment in the most at risk communities.**

Therefore, any work carried out by Cardiff, or its contractors, in fulfilling its obligation as a Risk Management Authority will need to meet one or more of those objectives.

In implementing these objectives, Welsh Government has set out within the Strategy that it expects Risk Management Authorities to act in a way that:

- embeds sustainable development as the central organising principle informing decisions and enhancing the economic, social and environmental wellbeing of people and communities, achieving a better quality of life for our own and future generations;
- is focused on the needs of individuals, communities and businesses and which recognises that different groups have different needs and varying capacity to deal with flood risk and that the service they receive must be tailored accordingly;
- supports the wider economic renewal programme, ensuring investment in infrastructure is sustainable from a flood and coastal erosion risk perspective and investing in developing the skills required to implement effective and innovative risk management measures across Wales;
- promotes equality and does not exacerbate poverty;
- is based upon a holistic understanding of the risks and consequences;
- considers the full range of risk management responses including broader potential environmental, economic or social opportunities;
- contributes to the holistic management of our water, land and marine resources reflecting the ecosystem approach set out in the Natural Environment Framework;
- facilitates long term resource and investment planning;
- enables effective prioritisation of investment, resources and actions;
- maximises opportunities to adapt to climate change; and
- takes account of the requirement of relevant European and domestic legislation including the Flood Directive, the Water Framework Directive and the Habitats Directive

In 2017 Welsh Government, under new powers granted to it by the Environment Act 2016, abolished the old Flood Risk Management Wales Committee, and replaced it with new body which has a wider advisory and co-ordinating role between the various bodies involved in the implementing the Strategy.

**AUDIT COMMITTEE: 21<sup>st</sup> JANUARY 2020**

**RESOURCES INTERNAL CONTROL ENVIRONMENT & HEALTH AND SAFETY GOVERNANCE UPDATE** **AGENDA ITEM: 5.2**

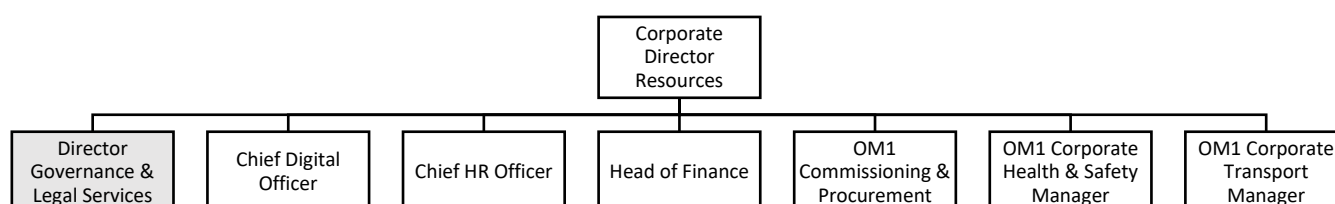
**REPORT OF THE CORPORATE DIRECTOR, RESOURCES**

**Reason for this Report**

1. This report has been produced in response to the Audit Committee's request for an update on the control environment within the Resources Directorate, and includes an update on Health and Safety Governance arrangements for the Council.
2. The Audit Committee has requested this update in respect of its role to:
  - Monitor progress in addressing risk-related issues reported to the committee.
  - Consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
  - Consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
  - Review the assessment of fraud risks and potential harm to the council from fraud and corruption.

**Background**

3. The Senior Management Structure of the Resources Directorate consists of the following:



4. The Resources Directorate provides a wide range of support services and corporate enablers for the organisation and plays a vital role in supporting the operational Directorates in the delivery of their services. The Directorate provides a high level service acting as "Gatekeepers for Value for Money"; offering customer support to citizens via Connect to Cardiff and 24/7 services as well professional business support and guidance on Finance, Health & Safety, HR, Commissioning & Procurement, Digital and Technological issues to all Services. During the year, it also assumed responsibility for Central Transport Services.

5. Services within Resources include:
- **Commissioning & Procurement:** 31.61 FTE, across Operational, Strategic, and Transactional Procurement Teams.
  - **Central Transport Services:** 42.41 FTE, delivering Transport Co-ordination services, Fleet Support, and a vehicle repairs and maintenance workshop.
  - **Customer & Digital Services:** 380.67 FTE, providing 24/7 Services, the C2C Contact Centre, Corporate Customer Services (including technical support services), the Emergency Management Unit, ICT Services, and Rent Smart Wales.
  - **Finance:** 265.65 FTE, delivering Accountancy Services, Business Support, the Capital Ambition Delivery Team, Information Governance, Insurance and Risk, Internal Audit, and Revenue Services.
  - **Health and Safety:** 20.25 FTE, providing corporate Health & Safety support and advice, as well as a specialist advice service for schools (Described in more detail in paragraph 16).
  - **HR People Services:** 93.52 FTE, across the Cardiff Academy, Corporate Apprenticeships and Traineeships, Employee Relations, Management Support Services, Occupational Health Services, Organisational Development, the People Services Contact Team, Recruitment, and Specialist Support Services.
6. Robust performance management arrangements are in place across Resources at both an individual service and overall management level. Balanced scorecard approaches are adopted across services and the Resources Management Team oversees performance and instigates corrective action where appropriate.

## Issues

### (a) Management / mitigation of the directorate's risks on the Corporate Risk Register

7. Risks relevant to the directorate are managed on an ongoing basis alongside service area delivery plans and reported on a quarterly basis via the Resources Management Team and appointed Risk Champions, through the Directorate and Corporate Risk Registers. Escalated Directorate Risks and Corporate Risks for which the directorate holds responsibility are reviewed by the Council's Senior Management Team and subsequently reported to Cabinet and Audit Committee.
8. Risks within the directorate include those related to Finance (Financial Resilience, Budget Monitoring, Information Governance, Capital Ambition and Fraud, Bribery and Corruption), ICT (Cyber Security, and ICT Platforms Unsuitable/Outdated), Health and Safety, Business Continuity and Workforce Planning, in addition to joint ownership of the City Security risk along with the Director of Planning, Transport & Environment.
9. As reported to Audit Committee via the quarterly Corporate Risk Management reporting process, all the above risks are mitigated through a variety of controls, actions and policies in order to ensure the current (residual) rating is reduced from the inherent rating and is acceptable in respect of the Council's risk appetite. The majority of Corporate Risks have further targeted reductions with future actions planned in order to achieve these. However, a small number including City Security, Business Continuity, Capital Ambition and Workforce Planning are expected to remain at their current risk ratings as, whilst planned future actions will prevent an increase in risk levels, it is not considered possible to reduce the risk significantly from the current levels at the present time.



**(b) Senior Management Assurance Statement**

10. The Senior Management Assurance Statement is collated by the Directorate’s Business Support Team and reviewed / signed off by the Corporate Director.
11. The 2019/20 mid-year position for Resources was assessed and is displayed in the table below.

1. Complete and Timely Risk Identification	Strong Application
2. Integrated Risk Assessments	Strong Application
3. Risk Review	Strong Application
4. Directorate Risk Response	Strong Application
5. Corporate Risk Management	Strong Application
6. Partnership Governance, Risk Management and Control	Strong Application
7. Partnership Assurance	Strong Application
8. Compliance	Strong Application
9. Compliance Improvement	Strong Application
10. Programme and Project Initiation	Strong Application
11. Programme and Project Governance	Strong Application
12. Programme and Project Monitoring and Reporting	Strong Application
13. Budget Delivery	Strong Application
14. Savings / Income Target Delivery	Strong Application
15. Business Planning	Strong Application
16. Future Generations	Mixed Application
17. Business Cases	Strong Application
18. Internal Controls	Strong Application
19. Accountability	Strong Application
20. Safeguarding Assets	Strong Application
21. Fraud Prevention and Detection	Strong Application
22. Performance Measurement and Management	Strong Application
23. Performance Reviews	Strong Application

**(c) Internal Audit Engagement and Response**

12. All completed Audits are reviewed by the Corporate Director and officers involved in the audit. Where appropriate issues are escalated through relevant service management teams and wider to the Resources Management Team. Performance against compliance is monitored monthly as part of the core data reporting process and the Corporate Director meets regularly with Audit Team officers.
13. Audits completed during 2018/19 and to date in 2019/20 are as follows:

Audit	Report Status	AUDIT OPINION	Outstanding Actions	Completed Actions	Total Actions	Implementation Status
<b>2018/19</b>						
Commissioning and Procurement - Resources	Final	Effective with opportunity for improvement	2	5	7	Not yet due
Creditor Payments Processes (including procurement)	Final		0	4	4	Completed
Health and Safety Framework	Final		1	0	1	Not yet due
Risk Management	Final		0	4	4	Completed
Cloud (saas)	Final		0	2	2	Completed
IT Governance	Final		2	3	5	Not yet due
Income and Debtors	Final		1	2	3	Not yet due

Audit	Report Status	AUDIT OPINION	Outstanding Actions	Completed Actions	Total Actions	Implementation Status
VFM - Review of Sickness Absence	Final		0	2	2	Completed
Purchasing Cards	Final	Insufficient with Major Improvement Needed	2	4	6	Not yet due
2019/20						
Main Accounting- In year testing 2019	Final	Effective	1	0	1	Not yet due
Treasury Management	Draft		5	0	5	
Insurance	Final	Effective with opportunity for improvement	12	0	12	Not yet due
Payroll 2018/19 - In year Testing	Final		3	3	6	Not yet due
Payroll Overpayments	Final		1	1	2	Not yet due
Stock Systems - Vectec	Final		4	2	6	Not yet due
Information Governance	Final		6	0	6	Not yet due
VFM - Overtime	Final		0	1	1	Completed
VFM - Personal Review	Final		2	0	2	Not yet due
VFM - Consultancy, Interim and Agency Workers	Final		0	2	2	Completed
Identity and Access Management	Draft		5	0	5	Not yet due
Purchasing Cards (CTS)	Final		Insufficient with Major Improvement Needed	0	3	3
Stock Systems - Tranman	Final	0		9	9	Completed
IT Inventory and Asset Management	Draft	4		0	4	Not yet due

14. In respect of those audits where the outcome was rated 'Insufficient with Major Improvement Needed', the following action is noted:

- Purchasing Cards** – The audit recommended the development of a corporate policy for all P card users to underpin the Council's user guide and support consistent practices, and has recognised a need to improve the timeliness of receipting, approving transactions and some aspects of monitoring. The draft policy has been prepared and will form part of further strategies on payment methods.
- Purchasing Cards (CTS)** – The draft report recommended a review of P-card requirements for the service and to create function-specific guidance. Areas for attention include the prompt return of receipts, review and return of electronic spreadsheets for suppliers, and documentation of roles and responsibilities. All actions raised have been implemented.
- Stock Systems (Tranman)** – An audit of the CTS stock processes identified that count sheets could not be located for 2018/19, and there was a lack of separation between the stock count and authorisation processes. In addition, controls for allocating stock were insufficient, and processes for write offs, disposals, and stock returns need review. The Fleet Manager is in the process of implementing the recommendations raised, and is being supported by colleagues in Procurement and Internal Audit.
- It Inventory and Asset Management** – An audit recognised a consistent regime for logging assets upon acquisition by central IT service, however, limited inventory records are maintained at a directorate level. To support service managers to deliver their responsibility to maintain asset registers and carry out periodic assurance checks, guidance and communications are being prepared by the corporate IT team.

#### (d) Wider Assurance

15. The Resources Directorate is subject to various forms of external review including by Wales Audit Office, Statutory Inspectorates and other Government Bodies. Benchmarking data is also used extensively across the Services to challenge service delivery and identify areas for improvement.

#### (e) Health and Safety Governance

16. At the request of Audit Committee, further detail is provided in respect of the Health and Safety Function within Resources:
  - **Corporate Health and Safety Team** – A competent multidiscipline team is now in place, providing support across the Council, this includes a specific team supporting H&S improvements in schools. The Corporate Team includes specialist Fire Safety, Asbestos and Construction support officers to ensure that Service Areas are meeting legal requirements in these high risk disciplines. New IT systems have been introduced in the past two years to manage and monitor statutory maintenance, accident and violent incident reporting and recording of risk assessments. Framework of H&S Policy and guidance reviewed and updated including the Corporate H&S Policy. All documents currently being translated prior to launch of a H&S quick link on the intranet.
  - **Organisational Structure for H&S** – Health and Safety is a standing item on all Joint Consultative Meetings with union representatives, in addition health and safety committees/working groups are in place across directorates. This network reports into and receives information from the Corporate Health & Safety Advisory Forum, Chaired by the Cabinet Member for Resources, attended by Elected Members, Union Branch Secretaries and relevant Council Officers. This robust network permits dissemination, reporting and monitoring of health and safety matters across the Council. In addition health performance is reported to Senior Management Team on a bi-monthly basis.
  - **Arrangements for High Risk Issues** – Issues such as Electrical Safety, Fire Safety, Asbestos, Legionella and Construction have been prioritised for action over the past two years. This focus of support has resulted in improvements to compliance on these high risk matters, including implementation of new policy and arrangements. Schools and Street Scene have received specific H&S support due to concerns raised and risk involved in these service areas. Annual H&S Objectives are set corporately and progress monitored by the Health and Safety Team and reported at year end. In addition reviews of several service areas have been undertaken and improvement plans developed and monitored.
  - **Next Steps** – Audit are currently undertaking H&S reviews across service areas which will highlight improvements needed as well as areas requiring additional support from H&S going forward. Outcomes of the reviews will form work plans over the next 12 months. Continued improvement is required on statutory maintenance, including a review of leased premises. A review of stress management is planned as well as implementation of a Corporate Asbestos Management Plan. Dealing with Violence at Work as well as improving site security are key areas for H&S in Schools, along with traffic management improvements and reviewing welfare provision for pupils in line with standards set by the Welsh Government and Children's Commissioner for Wales.

## **Legal Implications**

17. The statutory functions of the Audit Committee include the duty to review, scrutinise and issue reports and recommendations on the appropriateness of the authority's risk management, internal control and corporate governance arrangements (pursuant to Part 6 Chapter 2 of the Local Government (Wales) Measure 2011). In discharging its functions, the Audit Committee must have regard to all relevant guidance, in particular the CIPFA guidance for Audit Committees.

## **Financial Implications**

18. The financial implications (if any) arising from this report have been contained within the body of the report.

## **RECOMMENDATIONS**

19. That the Audit Committee considers and notes the content of the report.

**Christopher Lee**  
**Corporate Director, Resources**

The following is attached:

**Appendix A:** Audit Committee Presentation



# Resources Internal Control Environment

Christopher Lee – Corporate Director Resources

Donna Jones – Corporate Health & Safety Manager

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Gweithio dros Gaerdydd, gweithio gyda'n gilydd  
Working for Cardiff, working together

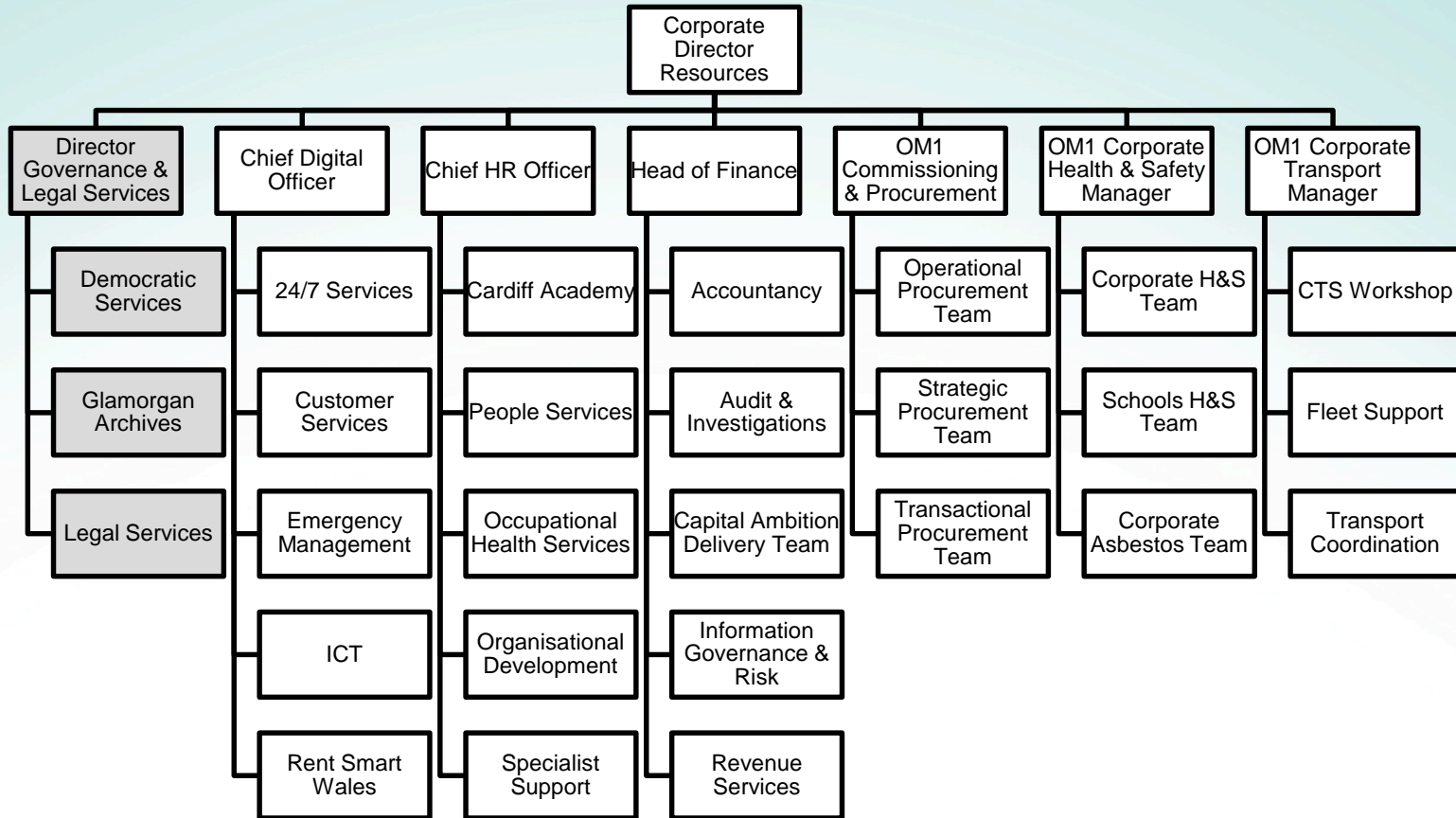


# Contents

- Establishment
- Corporate Risks
- Senior Management Assurance Statement
- Audit Recommendations



# Establishment



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# Corporate Risks

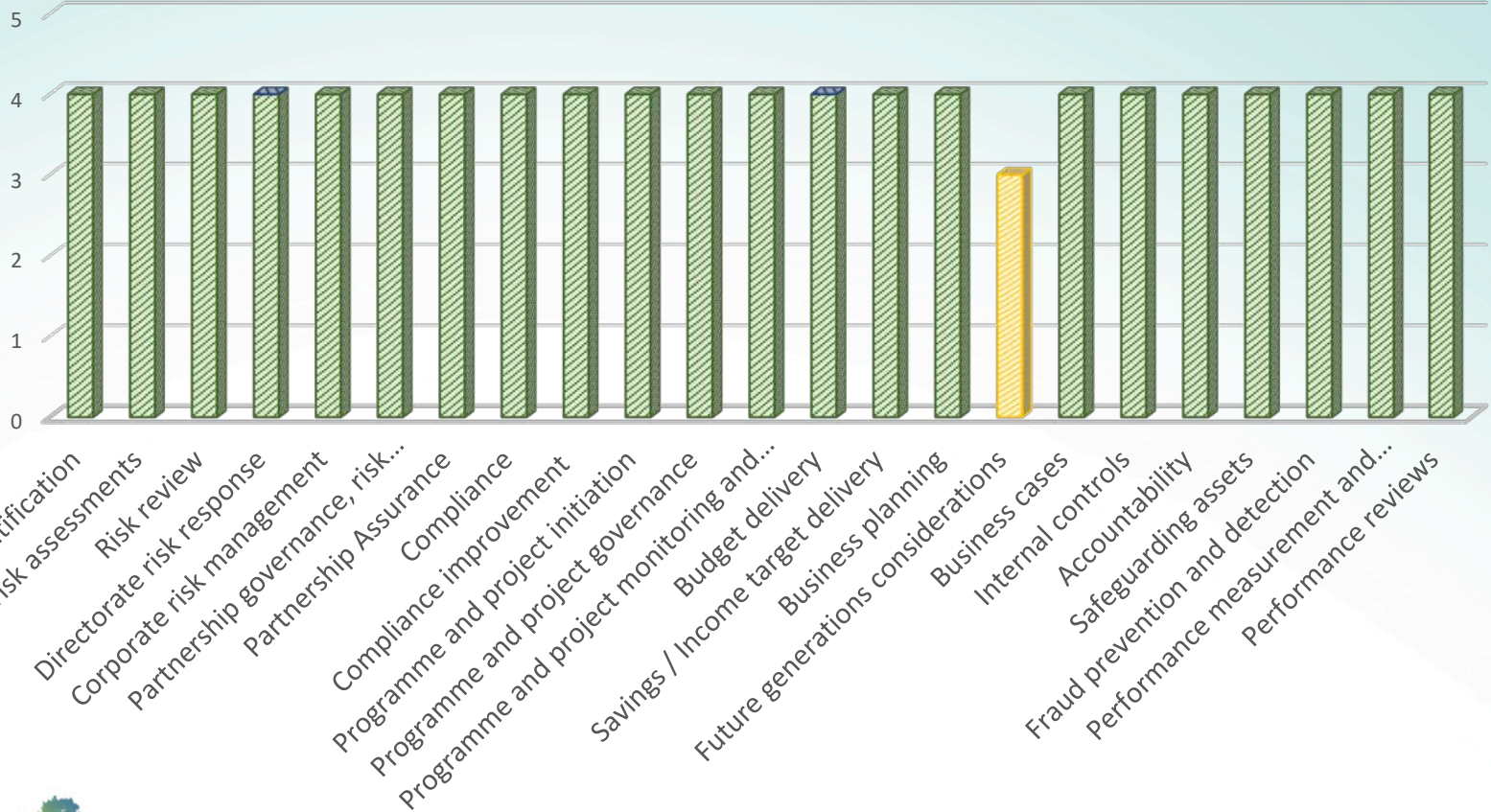
Inherent Risk Rating	Corporate Risk Title	Residual Risk		Target Risk	
		Rating	Movement from Q1	Rating	Movement from Q1
Tudalen 48 A1	City Security	B1	↔	B1	↔
	Financial Resilience	B2	↑	C2	↑
	Cyber Security	C1	↔	E1	↔
	Budget Monitoring (Control)	C2	↔	D2	↔
	Health and Safety		↔	D3	↔
	Information Governance	D1	↔	D2	↔
A2	ICT Platforms Unsuitable/ Outdated	B2	↔	D3	↔
B1	Business Continuity	D1	↔	D1	↔
	Delivering Capital Ambition Programme		↔	D2	↔
B2	Fraud, Bribery and Corruption	D2	↔	D3	↔
	Workforce Planning		C3	↔	C3





# Senior Management Assurance Statement

■ 1. Not in Place   
 ■ 2. Limited Application   
 ■ 3. Mixed Application   
 ■ 4. Strong Application   
 ■ 5. Embedded



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# Audit Recommendations

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Audit	Report Status	AUDIT OPINION	Outstanding Actions	Completed Actions	Total Actions	Implementation Status
<b>2018/19</b>						
Commissioning and Procurement - Resources	Final	Effective with opportunity for improvement	2	5	7	Not yet due
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IT Inventory and Asset Management	Draft		4	0	4	Not yet due

CREV GWIR IN THESE STONES  
FEL GWYR YDR HORIZONT  
OR WYNAIS AWENING

# Health & Safety - Key Improvements

## 1. H&S Policy and Guidance

Corporate Policy re-written and 16 other Policies and Guidance documents reviewed and updated. All H&S policy & guidance currently being translated, a quick guide to be included on the intranet once completed. Terms of Reference for the Health & Safety Advisory Group reviewed and updated – change to a strategic Forum to agree H&S strategy and policy prior to reporting to Cabinet.

## 2. Corporate H&S Team

H&S Team established in May 2018. Multidiscipline Team, with extensive experience. Support provided for high risk issues within service areas. Introduction of new processes to manage and monitor health and safety performance.

## 3. Schools H&S Team

- Established in September 2018.  
- Programme of improvement works implemented:-

**Statutory Maintenance Compliance**  
**Fire Safety**  
**Legionella**  
**Asbestos Review**  
**Review Policy and Risk Assessment**  
**Traffic Management Risk Assessment**  
**Lock Down Procedure**  
**Food Safety Review**  
**Roller Shutter**  
**Contractor Vetting**  
**Moving & Handling Equipment**  
**Food Preparation Review**

## 4. Violence at Work

ALERT System Implemented across the Council. Currently **1200 users and rising....**  
**400** Records held.  
Corporate Violence at Work Policy Updated.  
Revised Policy for Keeping Schools Safe Issued.

## 5. Statutory Maintenance

Implementation of RAMIS  
**500** Building Management Responsibilities

### Current Compliance rating:

Communities (including Street Scene) - 81%  
PTE – 79%  
Social Services 76%  
Education (Including Schools) – 75%  
Economic Development – 65%  
**Overall Council Compliance 75%**

## 7. Street Scene

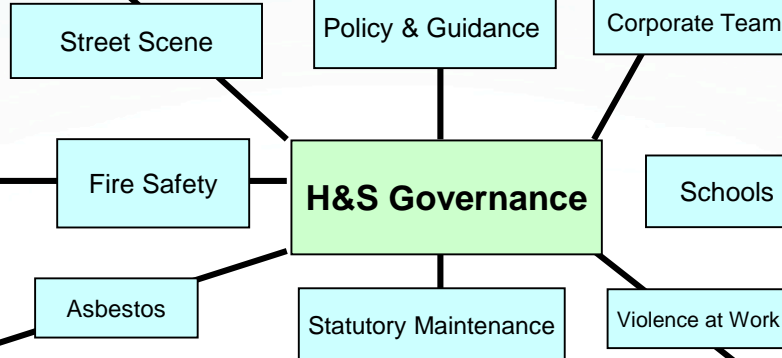
Physical Improvements to Lamby Way  
Review of Risk Assessments/Safe Systems of Work across all services.  
High risk issues progressed  
H&S Training Provided  
New welfare facility planned – April 20.  
External review completed – positive feedback received.

## 7. Fire Safety

- Fire Safety Officer recruited to undertake fire risk assessments in house.
- Rolling programme of reviews in place.
- Potential ACM's reviewed.
- Revised policy and guidance issued.
- Fire safety remedial works monitored and reported through H&S meetings, SMT, H&S Forum.

## 6. Asbestos

Assessment of all asbestos information held. All buildings categorised as High, Medium or Low risk.  
Programme of New Surveys Implemented  
Asbestos Management Plan drafted – Cabinet Feb 20.



# H&S Next Steps

## Corporate H&S

- Continued Improvement in Statutory Compliance
- Review of Leased Premises
- Asbestos Management
- Legionella Management
- Fire Safety
- Stress & Wellbeing

## Schools H&S

- Headteacher Training
- Hygiene Inspections
- Statutory Compliance
- Traffic Management
- Violence/Aggression
- Stress and Wellbeing
- D&T Review

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# LOCAL GOVERNMENT AND ELECTIONS (WALES) BILL

Audit Committee- 21 January

# The Road to Reform

- 2013:** Williams Commission on Public Service Governance and Delivery
- 2014:** 'Reforming Local Government' White Paper  
'Public Services Staff Commission' White Paper
- 2015:** 'Reforming Local Government: Power to Local People' White Paper  
Draft Local Government (Wales) Bill
- 2017:** 'Reforming Local Government: Resilient and Renewed' White Paper  
'Electoral Reform in Local Government in Wales' Consultation
- 2018:** 'Strengthening Local Government: Delivering for People' Green Paper
- 2019:** Local Government and Elections (Wales) Bill

# Part 1. Elections

- **Extending the franchise:**
  - Votes for 16 and 17 year olds in local government elections
  - EU citizens and citizens of other countries
- **The voting system: First Past the Post or Single Transferable Vote**
- **Electoral cycles: Councils to be 5 years**
- **Electoral registration**
  - Provides for a power for EROs to add an individual to the electoral register without the need for them to apply.
  - Provides a power for the Welsh Ministers, by regulations, to establish and maintain an all-Wales database of electoral registration.

# Part 1. Elections

- **Candidates:**

- Allows a citizen of any country to stand for election.
- Provides that council officers and employees, other than those holding politically restricted posts, will be entitled to stand for election to their own council

- **Electoral Pilots:**

- Enable the Welsh Ministers to direct a Returning Officer, ERO or local authority (where appropriate) to conduct a specific electoral pilot at a local government election.



## Part 2. General Power of Competence

- Move away from a position where Councils have to identify a specific power in order to undertake a particular activity, to one in which it is assumed they can do something unless there is a statutory restriction preventing it.
- Promote innovation, raise funding etc.

# Part 3. Promoting Access

- Councils will be required to **prepare, consult on, publish and review a ‘public participation strategy’**
- Includes provisions to require a principal council to make a **petition scheme** setting out how it will handle and deal with petitions, including e-petitions.
- A duty will be placed on principal councils to **publish an electronic and postal address for each member** of the council on its website to support this objective.
- A requirement to publish a **‘layman’s guide’ to the Council’s constitution**
- Require principal councils to **broadcast those meetings which are open to the public electronically as they take place**, and to make the broadcast available electronically for a reasonable period after the meeting.
- Provisions to make **remote attendance at Council meetings easier**

# Part 4. Local Authority Executives, Members, Officers and Committees

- **Chief Executives:**

- Clarification of role
- Requirement for all Council's to have one
- Performance management: Leader to conduct Performance Review & prepare report for Council on CEX delivery of Executive's Agenda

- **Executives of principal councils:**

- May appoint "Assistants to Executive"
- Leader must have regard to equality and diversity when selecting members of the executive.
- Cabinet may exceed max size to accommodate job share

- **Family Absence:**

- Extend to councillors similar family absence entitlements available to officers of those authorities

# Part 4. Local Authority Executives, Members, Officers and Committees

## • **Conduct of Members**

- Leaders of groups must take reasonable steps to promote and maintain high standards of conduct by their group
- Supported by Standards Committee who must report significant matters they have dealt with and any trends in Annual Report to Council
- Council must respond to recommendations within 3 months

## • **Overview and Scrutiny Committees**

- Requires prior notice of 'key decisions' i.e. those with significant financial implication or a significant effect on local communities
- Regulations so that Councils may be required to establish a joint scrutiny committee

# Part 5. Collaborative Working by Principal Councils

- The Bill will enable the creation of **corporate joint committees** by regulations.
- Local authorities will be able to request they are established in relation to any of their functions.
- Welsh Ministers will be able to establish them transport, economic development, strategic planning for the development and use of land and improving education.
- Specific functions established through regulation.
- Concurrent service delivery accepted
- Must be made up of 'senior executive members'
- Ministers cannot add functions without consent of Councils
- 'Planning and Transport immediately'

# Part 6: Performance and Governance of Principal Councils

- **Increased focus on self-assessment and peer review**
  - Requirement to undertake and consult upon an annual performance assessment
  - External peer review required once per administration
- **Governance and Audit Committee**
  - New name and new functions to strengthen internal governance
  - Amended rules relating to the membership and proceedings of the committee
- **Co-ordination between regulators**
  - Auditor General for Wales and the relevant regulators (Estyn and Care Inspectorate Wales) have regard to the need for co-ordination when exercising their functions.

# Part 7. Mergers and Restructuring

- Makes provision for the **voluntary merger of principal councils**.
- A power which enables a principal council to submit a request for it to be abolished.
- **Clearer powers for WG to restructure/merge failing Councils** (even if no request has been made) subject to WAO special inspection recommendations

# Part 8. Local Government Finance

- **Council Tax**

- Provision to ensure that any re-instatement of the power to imprison people who have failed to pay Council Tax requires secondary legislation.

- **NNDR**

- A number of provisions aimed at reducing opportunities for avoidance behaviour relating to non-domestic rates
- Provides Billing Authorities with powers to request information from ratepayers and third parties and to inspect properties for the purposes of exercising their functions in relation to non-domestic rates billing and collection.
- Use of CPI rather than RPI in setting NNDR



# Part 9. Miscellaneous

- **Head of Democratic Services:**

- The Bill amends the 2011 Measure and the Localism Act so that the head of democratic services is treated as a chief officer and afforded appropriate statutory protection.
- It also removes the statutory bar on a local authority's monitoring officer also being the head of democratic services.

- Provides for the **abolition of community polls**, and implementation of a system of petitions in their place

# Next steps

- Bill introduced into National Assembly for Wales (NAW) on 18 November 2019
- Stage 1 consideration of Bill by NAW Equality, Local Government and Communities Committee and other NAW Committees
- Bill expected to be passed by NAW in summer 2020
- Implementation ahead of next Council elections in May 2022

# CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD



## AUDIT COMMITTEE: 21 January 2020

### AUDIT COMMITTEE ANNUAL REPORT DISCUSSION 2019/20

#### REPORT OF THE AUDIT MANAGER

#### AGENDA ITEM: 7.2

1. In accordance with its terms of reference, the Audit Committee is required:
  - To report to Council on the Committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of the governance, risk management and internal control frameworks, financial reporting arrangements and internal and external audit functions.
  - To report to Council on an annual basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.

#### Background

2. The Audit Committee prepares an Annual Report, in which it discloses the outcomes of a Self-Assessment of the effective delivery of its role, and it provides an account of its activities, findings and opinion in respect of its terms of reference. The Audit Committee Chairperson presents the Audit Committee Annual Report to Council in the autumn, following the end of the municipal year.
3. To support the Audit Committee to consider its indicative observations and findings from its programme of work in the municipal year 2019/20 to date, the following information follows a desktop review of the Audit Committee Agenda, Work Programme and Minutes for the year to date. Audit Committee consideration and discussion of this indicative analysis will support the development of its Draft Annual Report 2019/20, for consideration on 23 June 2020.

#### Issues

4. The following paragraphs outline the standard and one-off Audit Committee items and reports received and planned for the municipal year 2019/20, together with the indicative key observations to date, and the primary initiatives taken forward to further progress the delivery and impact of its work. This information is considered to represent the key summary information for Audit Committee to consider, for development within its Annual Report 2019/20 as the year progresses.

##### a. Standard Items

5. The Corporate Director Resources (Section 151 Officer) has provided financial updates at each meeting outlining the budget strategy, financial resilience and the Council's overall financial position. The Audit Committee has continued to seek assurance on controls in place to mitigate overspends, and unrealised savings targets, and has

requested and received an account of the overspends and their reasons in the Social Services for the last three years.

6. The Audit Committee has considered the contents of the Corporate Risk Register quarterly and the Senior Management Assurance Statements (SMAS) biannually. The Audit Committee has continued to invite senior officers to account for how they have discharged effective governance, risk management and control. In particular, assurance has continued to be sought in respect of Brexit, Health and Safety, and Coastal Risk Management, through a combination of risk updates and briefings from senior officers and risk owners, and consideration of the work of colleagues in scrutiny.
7. The Audit Committee has continued to receive the Treasury Management Annual Report, Mid-Year Report, Treasury Management Strategy and the Treasury Performance and Practices Reports. Audit Committee areas of challenge and requests for assurance have related to the levels and nature of investments and borrowing, for which some benchmarking has been considered by Committee. The Audit Committee has also received a briefing on the roles of internal and external audit treasury management assurance, and has received an independent report on Compliance, Evidence, Delivery and Review (CEDR) of the treasury management function.
8. External Audit letters, financial audit reports and updates in national and regional studies have been reported to, and considered by, Audit Committee. This work has been relied upon by the Audit Committee, in seeking assurance in relation to its terms of reference.
9. Audit Committee has continued to place reliance on the work of the Council's Internal Audit Team. The Committee has approved the Audit Charter and Audit Plan for 2019/20, and has received and considered key progress reports which have included regular updates on conformance with the Public Sector Internal Audit Standards, and critical findings and emerging trends from the work undertaken and the audit tracker of recommendations issued and progress in delivery. Particular assurance has continued to be sought in respect of schools, school traded services, and the control environment in respect of the waste management function, for which lower levels of internal audit assurance have been provided.

#### **b. One-off Items**

10. The Audit Committee has invited senior officers to provide first-hand assurance in relation to the internal control environment for their respective areas of responsibility. A number of Directors have attended Audit Committee to provide an overview of their governance, risk management and control assurance.
11. The Audit Committee has also invited senior officers to provide assurance in specific areas, following Audit Committee review of standard item information and outputs. In particular, senior responsible officers have attended, or are arranged to attend Audit Committee this year in respect of the following areas.
  - Schools Governance, Balances and Deficits
  - Risk Based Verification – Housing and Council Tax Benefit Assessments
  - Coastal Risk Management (January 2020)
  - Health and Safety Governance (January 2020)

### c. Key Observations

12. The Key observations of the Audit Committee in the 2019/20 municipal year to date have been documented as follows:
- **Budget Management / Control**
    - Management of overspends in particular directorates
    - Achievement / Control of budget savings proposals
  - **Financial / Internal Control**
    - Continued invitations for Directors to attend and provide assurance on their internal control environments in Audit Committee Meetings
    - Specific areas of governance and risk management have been explored in Committee meetings –Risk Based Verification (November 2019), Coastal Risk Management (January 2020) and Health and Safety Governance (January 2020)
    - Ongoing monitoring of Brexit risk management, through corporate risk register reviews, considering corporate communications and the work of scrutiny, and receiving Wales Audit Office and WLGA publications and guidance
    - Particular attention given to waste management assurance, with the attendance of the Corporate Director - People and Communities brought to an earlier Committee meeting, when they were allocated interim oversight responsibilities in this area.
  - **Financial Resilience (including treasury management)**
    - Updates provided in each Committee meeting
    - Focus on use of reserves, investments, borrowing and risks
  - **Schools Governance and Compliance**
    - Report received on School Governance, Balances and Deficits (September 2019),
    - Ongoing concerns that certain schools have not achieved a satisfactory level of stewardship, internal control and management of school balances.

### d. Initiatives

13. The Council's Audit Committee Chairperson hosted the all Wales Audit Committee Chairs' Network. The network has been established across all local authorities in Wales, to bring together Chairs in an environment where there is the opportunity to network, share ideas and problem solve with peers performing similar roles. The WLGA sponsored the event, and agenda items were delivered by the Wales Audit Office and CIPFA, with contributions from Heads of Audit and Chairs.
14. Through the Chairs' Network we focused on governance, risk and assurance and how to develop the influence of our respective Audit Committees. Within the governance item we received a particularly informative overview of the proposed changes to the role of the Audit Committee through the Draft Local Government and Elections (Wales) Bill. The Bill proposes to expand the remit of the Committee, through a renaming of the Committee as Governance and Audit Committee, and expanding its responsibilities into areas of performance management. The Bill also proposes changes to the composition of the Committee, with minimum proportions of lay members (1/3 of Committee) and the requirement for a lay chairperson.
15. The Committee is keen to understand how its responsibilities may increase through the Bill, and to ensure it effectively responds and continues to discharge its role

comprehensively. The Wales Audit Office will be asked to deliver a session of practical guidance and support to our next Chairs' Network, scheduled for July 2020.

16. Important outputs from the Chairs' Network will be utilised as part of the Audit Committee Self Assessment Workshop, including risk management benchmarking information, and the outputs of a peer to peer consideration of areas to develop areas of Audit Committee influence.
17. This year, targeted training has been delivered in the areas in which Committee Members scored themselves as lower in their individual assessments against the CIPFA core knowledge and skills framework. To date, training has been delivered in areas of financial management and accounting and internal audit, and arrangements are underway to arrange treasury management training as the next topic. The final area for targeted training based on the 2018/19 self assessment is counter-fraud, for which arrangements will be made for delivery prior to the end of the 2019/20 municipal year.

### **Reason for recommendation**

18. To enable the Audit Committee to consider its indicative observations and findings for development within its draft Audit Committee Annual Report.

### **Legal Implications**

19. There are no direct legal implications arising from this report.

### **Financial Implications**

20. There are no direct financial implications arising from this report.

### **Recommendation**

21. Audit Committee to consider the contents of this report and to discuss the development of the Audit Committee Annual Report.

**CHRIS PYKE**  
**AUDIT MANAGER**

# CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD



**AUDIT COMMITTEE: 21<sup>st</sup> January 2020**

## SENIOR MANAGEMENT ASSURANCE STATEMENT AND AGS ACTION PLAN 2019/20 (MID-YEAR)

### REPORT OF CORPORATE DIRECTOR RESOURCES

**AGENDA ITEM: 7.3**

#### Reason for Report

1. The Audit Committee's Terms of Reference requires Members to review the Annual Governance Statement (AGS) prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account the internal audit opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk and internal control.
2. The specific components of the AGS reported individually to the Audit Committee are the bi-annual Senior Management Assurance Statements (SMAS) and the AGS Action Plan of significant governance issues, following approval by the Senior Management Team (SMT). This report provides members of the Audit Committee with the mid-year review conducted by SMT.

#### Background

3. Senior Management Assurance Statements (SMAS) are used to assess governance maturity in application of the 'Delivering Good Governance in Local Government' framework, developed by CIPFA / SOLACE.
4. Through the SMAS, each Director responds to 23 good governance statements using a 5-point maturity scale for their areas of responsibility ranging from 'not in place', 'limited application', 'mixed application', 'strong application' to 'embedded'.
5. During 2019/20 a decision was made, as a result of the scope of the issues identified within the Waste Management function, to undertake an additional SMAS specifically for Street Scene and to use the output as part of the function's improvement agenda.
6. Each of these 23 statements link to the 9 categories:
  - Risk Management
  - Partnership/Collaborate Governance
  - Compliance
  - Programme and Project Assurance
  - Budget Monitoring
  - Planning and Decision Making
  - Internal Control Environment
  - Fraud & Financial Impropriety
  - Performance Measurement & Management

7. During 2019/20, and in line with the Action Plan, SMAS returns have been reviewed by Subject Matter Experts brought together from across the Council to undertake a ‘triangulation exercise’. The Officers reviewed information and evidence submitted through the SMAS process in order to identify areas of improvement or support the self-assessment at half year point. The exercise aimed to test the levels of the assessments in a controlled and safe environment which will add value to the maturity and depth of the assessments by the year end. The results of this exercise were reviewed by SMT at their meeting of 14<sup>th</sup> January 2020.

## Issues

8. The 23 assurance statements summarized by 9 categories, showed an overall rate of strong or greater governance at 66%. This is comparable to 2018/19 end of year assessment and reflects the assessment of the seven Directorates plus the Street Scene. The Mid-year 2019/20 self-assessment level for each Directorate is set out in the table below;

<b>Directorate / Service</b>	<b>Self-Assurance Level</b>	<b>Change since end of 2018/19</b>
Economic Development	Mixed (bordering on strong assessment)	None
Education	Mixed (middle range of assessment)	None
Governance and Legal Services	Mixed (middle range of assessment)	None
People and Communities	Strong (lower range of assessment)	None
Planning, Transport and Environment	Mixed (middle range of assessment)	None
Resources	Mixed (bordering on strong Assessment)	None
Social Services	Mixed (middle range of assessment)	None
Street Scene	Limited	N/A

9. In the mid-year assessments the greatest maturity was reported in respect to risk management with a score that bordered on a Strong Assessment. All other areas reflected a mixed assessment but the scores for Partnership and Collaboration whilst still in the same range were markedly lower than the rest. The mid-year assessment also continues to highlight the relative lower assurance level in respect to Future Generations which contributes to the assessment on Planning & Decision Making. The Mid-year 2019/20 self-assurance level for each Assurance category is set out in the table below;



Category	Assessments challenged
Risk Management	Mixed (bordering on strong)
Partnership and Collaboration	Mixed (middle range of assessment)
Compliance	Mixed (middle range of assessment)
Programme and Project Assurance	Mixed (middle range of assessment)
Budget Monitoring	Mixed (middle range of assessment)
Planning and Decision Making	Mixed (middle range of assessment)
Internal Control Environment	Mixed (middle range of assessment)
Fraud & Financial Impropriety	Mixed (middle range of assessment)
Performance Measurement & Management	Mixed (middle range of assessment)

#### Significant Governance Issues – Action Plan Update

10. The SMAS for 2019/20 indicated that there was further work to do in relation to:-
- informed, evidenced based decision making (including Future Generations)
  - Compliance, specifically around understanding the gaps in the compliance framework to provide a more focussed assessment
11. The following table sets out the detailed actions and the progress made against each at the mid-year point:-

Issues	Agreed Actions	Progress Mid-Year 2019/20
‘Informed evidence based decision making’ including aspects of Future Generations and further assurance work in relation to partnership and collaborative governance	Review the decision making processes to ensure that all aspects connected with legal and regulatory compliance are embedded into the processes to support the management of risk	On a four to six weekly basis, SMT consider Assurance items as part of its work programme with regular reports in respect to compliance, risk and internal controls. All Directors consider their legal and regulatory responsibilities and seek advice where appropriate.
	Further strengthen and develop compliance information provided through the Assurance SMT as part of the decision making process and identify where improvements are needed as appropriate	This has been undertaken as part of the triangulation process. The process has been used to review mid-year position. Feedback to SMT. Corporate Director meeting to be arranged with Directors to inform submissions of year-end position.

Issues	Agreed Actions	Progress Mid-Year 2019/20
	<p>Implement the Partnership and Collaborative Governance Framework to improve the assurance around the governance of these models of service delivery</p>	<p>This Framework has been issued to Directorates to use as a reference point to consider the level of assurance. Particular issues relating to Partnerships and collaboration have been referred to SMT in the first instance.</p>
	<p>Embed a consistent understanding and application of the Future Generations principle and five ways of working to improve outcomes for its citizens</p>	<p>Directors have identified Future Generations as an area which needs to have a strong level of assurance across each directorate. Action plans have been put in place to promote awareness, enhance application and ensure common understanding.</p>
<p>Compliance, specifically around understanding the gaps in the compliance (conformance) with the corporate process to provide a more focused assessment</p>	<p>Review the compliance framework to ensure that all aspects are reflected in to 'Compliance' category of the Senior Management Assurance Statement</p>	<p>This has been undertaken as part of the triangulation process. The process has been used to review mid-year position. Feedback to SMT. Corporate Director meeting to be arranged with Directors to inform submissions of year-end position.</p>
	<p>Implement the process of triangulation of Assurance Statement in line with the Council's Code of Corporate Governance and provide feedback through the Relationship Management Process to ensure that all aspects of compliance are representative</p>	<p>Process used to review the Mid-year position. Feedback to SMT. Corporate Director meeting to be arranged with Directors to inform submissions for the year-end position.</p>

**Reason for Recommendation**

- 12. To enable the Audit Committee to note the mid-year position in respect to self-assessments and action plan update.

**Legal Implications**

- 13. There are no direct legal implications arising from this report.

## **Financial Implications**

14. There are no direct financial implications arising from this report.

## **Recommendation**

15. The Audit Committee to review and comment upon the self-assessed elements of the Senior Management Assurance Statements, and Action Plan of Significant Governance Issues.

**CHRISTOPHER LEE**  
**CORPORATE DIRECTOR RESOURCES**  
21<sup>st</sup> January 2020

Mae'r dudalen hon yn wag yn fwriadol

## Cardiff Council

### Work Programme update including 2019-20 Audit Plan update

#### Performance Audit work

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2018-19 Performance Audit Work	Scope	Status
<b>Annual Improvement Report (AIR)</b>	Annual report summarising the audit work undertaken in the last year which also includes a summary of the key findings from reports issued by 'relevant regulators'	Complete. Final report presented Audit Committee 12 <sup>th</sup> November 2019
<b>Leisure</b>	As part of our 'delivering for less' programme we will follow up progress made by the Council in implementing our proposals for improvement from our 2015 Leisure report.	Report going through internal clearance.
<b>Well-being of Future Generations Act (Wales) 2015 (WFG Act) examinations</b>	Examination of the extent to which the Council has acted in accordance with the sustainable development principles when taking the following step: "Develop and launch a new Transport and Clean Air Vision for the City' which sits under the Council's Well-being objective of 'Cardiff grows in a resilient way'.	Complete. Final report presented to Audit Committee 12 <sup>th</sup> November 2019.
<b>Environmental health</b>	Review of the arrangements the Council has put in place to deliver environmental health services building on the study previously undertaken by the Auditor General as part of the 'delivering with less' themed studies.	Complete. Final report presented Environmental Scrutiny Committee 20 <sup>th</sup> November 2019.

Eitem Agenda 8.1

	The review will seek to answer the question: Is the Council's environmental health service continuing to deliver its statutory obligations given the financial challenges?	
<b>Corporate safeguarding arrangements</b>	Review of the effectiveness of corporate safeguarding arrangements building on the study previously undertaken by the Auditor General in this area.	Complete. Final report presented to Children and Young People Scrutiny Committee on 24 <sup>th</sup> September 2019
<b>2019-20 Performance Audit Work</b>	<b>Scope</b>	<b>Status</b>
<b>Improvement Plan audit</b>	Checks Council compliance with Local Government Measure (Wales) 2009 requirement to publish a self-assessment of performance in the previous year by 31 October.	Final Certificate issued 11 <sup>th</sup> April 2019
<b>Performance audit</b>	Checks Council compliance with Local Government Measure (Wales) 2009 requirement to set improvement objectives.	Final Certificate issued 20 <sup>th</sup> August 2019
<b>Annual Improvement Report (AIR)</b>	Annual report summarising the audit work undertaken in the last year which also includes a summary of the key findings from reports issued by 'relevant regulators'	July 2020
<b>Assurance and risk assessment</b>	Project to identify the level of audit assurance and/or where further audit work may be required in future years in relation to risks to the Council putting in place proper arrangements to secure value for money in the use of resources.	Presentation to Senior Management Team scheduled for 21 <sup>st</sup> January 2020
<b>Well-being of Future Generations Act (Wales) 2015 (WFG Act) examinations</b>	Examination of the extent to which the Council has acted in accordance with the sustainable development principle when taking steps to meet its Priority for 2019-20 to Support Sports, Leisure, Culture and Green Spaces.	Report going through internal clearance.
<b>Financial Sustainability</b>	The project will seek to assess the sustainability of councils' short to medium-term financial position. This will include a	Drafting report

	<p>focus on reviewing financial ‘indicators’ of each council’s financial position in relation to:</p> <ul style="list-style-type: none"> <li>• Performance against budget</li> <li>• Delivery of savings plans</li> <li>• Use of reserves</li> <li>• Council tax</li> <li>• Borrowing</li> </ul>	
<b>Waste Management/recycling</b>	A project to look at the pressures in this area and understand the Council’s plans to improve performance.	Final Project Brief issued 19 <sup>th</sup> December 2019.
<b>Social Services budget and cost pressures</b>	A project to look at social services budgetary and cost pressures.	Planning
<b>2018-19 Local Government Studies</b>	<b>Scope</b>	<b>Status</b>
First point of contact assessments under the Social Services and Well-being (Wales) Act 2014	<p>The Welsh Government introduced the Social Services and Well-being (Wales) Act 2014 (the 2014 Act), which focuses on reforming and simplifying the law relating to social services. The 2014 Act introduced new duties for local authorities, local health boards and other public bodies and covers adults, children and their carers, and came into force on 6 April 2016. The study will review first point of contact and assessments for adult social care.</p> <p>Detailed fieldwork in five local authorities. We are planning to undertake fieldwork in Cardiff City Council, Denbighshire County Council, Merthyr Tydfil County Borough Council, Pembrokeshire County Council and Carmarthenshire County Council</p>	Published 12 <sup>th</sup> September 2019 <a href="#">Here</a>
Tackling violence against women, domestic abuse and sexual violence	In 2015 the Welsh Government passed the Violence against Women, Domestic Abuse and Sexual Violence (Wales) Act (the 2015 Act). The overarching objective of the 2015 Act is to improve the Public Sector response to violence against	Published 21 <sup>st</sup> November 2019 <a href="#">Here</a>

	<p>women, domestic abuse and sexual violence; provide a strategic focus on these issues; and ensure consistent consideration of preventative, protective and supportive mechanisms in the delivery of services. The review will focus on determining whether local authorities and their partners are effectively working together to prevent gender-based violence and domestic abuse, and protecting all of the people involved.</p> <p>Our fieldwork sites are Swansea City and County Council, Conwy County Borough Council, Flintshire County Council, Rhondda Cynon Taff County Borough Council, South Wales Police and South Wales Fire and Rescue Authority</p>	
<p>Planning Services: Improving the wellbeing of Wales</p>	<p>Planning services are an important part of the democratic jigsaw that allows the detailed consideration of proposals to improve the economic prospects of the nation. Good planning decisions can have a positive impact on the wellbeing of people and places. Poor planning decisions can have a detrimental impact on people’s wellbeing and can stifle economic development. This study will provide independent assurance that planning authorities are supporting sustainable development and delivering for the future long-term wellbeing of their communities and for Wales</p> <p>We are planning to undertake fieldwork in Bridgend County Borough Council, Gwynedd County Council, Newport City Council, Torfaen County Borough Council and Ceredigion County Council.</p>	<p>Published 6<sup>th</sup> June 2019</p> <p><a href="#">LINK</a> to Published report</p>
<p><b>2019-20 Local Government Studies</b></p>	<p><b>Scope</b></p>	<p><b>Status</b></p>
<p><b>Review of Public Service Boards and the effectiveness of partnership working</b></p>	<p>This review will provide assurance and insight on how well PSBs are delivering the expectations of the Well-being of Future Generations Act, and by working together in tackling complex hard to shift problems. This includes examining the practicalities of joint working, what resources are being used,</p>	<p>Report published 8 October 2019</p> <p><a href="#">Here</a></p>



	<p>whether current arrangements are fit for purpose, and what needs to change.</p> <p>This review will also allow us to identify how decisions are communicated to partners and the public and whether decisions are transparent to help build a picture of how relationships work in reality.</p> <p>We will undertake fieldwork looking at how partners recognise and deal with problems of rough sleeping including public and voluntary bodies in three areas – Cardiff, Swansea and Wrexham.</p>	
<p><b>The impact of austerity on discretionary services in local government</b></p>	<p>The focus of the study is to provide independent assurance by looking at councils approaches to sustaining discretionary services and identify if councils are ensuring changes in provision or cessation of activity do not adversely impact future generations or those with protected characteristics.</p> <p>The study will provide insight on an issue that is much talked about but not well evidenced and provides us with a good opportunity to comment on services which are much valued by citizens across Wales. The review will take a strong focus on risk management and consider how well councils manage the transition from direct service providers towards a different role based on what will be affordable in the future.</p>	<p>In development.</p>
<p><b>Commercialisation in local government</b></p>	<p>Our review will focus on producing good practice case studies and support materials to help authorities develop their approaches to commercialisation. This will cover the key building blocks required to effectively manage commercialisation.</p> <p>The study will comment on long-term approaches to financial sustainability and how commercial activity supports organisations to deliver their wider wellbeing objectives and corporate priorities. Given commercialisation should have a strong ethical focus we are likely to touch on equality issues</p>	<p>Underway.</p>

and we will provide a commentary on how public bodies collectively are responding to ensuring fairness and accountability for commercial ventures.

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National Studies	Update and link to report
Integrated care fund	Published 18 <sup>th</sup> July 2019 <a href="#">LINK</a>
Reflecting on Year One – Well-being of Future Generations Act	Published 10 <sup>th</sup> May 2018 <a href="#">LINK</a>
Waste management	Recycling module (published <a href="#">Link</a> ); waste prevention (published <a href="#">Link</a> ) and waste treatment infrastructure modules (published <a href="#">Link</a> )
Managing the Impact of Brexit on the Rural Development Programme	Published November 28 <sup>th</sup> November 2018 <a href="#">Link</a>
European Structural Funds Programme 2014-2020	Published August 2018 <a href="#">Link</a>
Primary care services in Wales	Published Oct 2019 <a href="#">Link</a>
Preparations in Wales for a no-deal Brexit – follow-up letter	Published Sept 2019 <a href="#">Link</a>
Public spending trends in Wales 1999-00 to 2017-18	Published Oct 2019 <a href="#">Link</a>

**CARDIFF COUNCIL  
CYNGOR CAERDYDD****AUDIT COMMITTEE:****21 JANUARY 2020**

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**TREASURY PERFORMANCE REPORT – POSITION AT 31  
DECEMBER 2019****REPORT OF CORPORATE DIRECTOR RESOURCES****AGENDA ITEM: 9.1**

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**Appendix 1 and 2 of this report is not for publication as it contains exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972.**

**Reason for this Report**

1. The Audit Committee Terms of Reference sets out their responsibility for seeking assurances that the Council has complied with the Treasury Management Strategy and Practices by demonstrating effective control of the associated risks and pursuing optimum performance consistent with those risks.
2. This report has been prepared to provide Audit Committee Members with performance information and a position statement on Treasury Management as at 31 December 2019 – Appendix 1
3. Audit committee received a Treasury Management benchmarking report collated by officers in November 2019. This can support members in understanding the Council's investments and borrowing position. In November 2019, the Committee also received an independent Compliance, Evidence, Delivery and Review (CEDR) report of the Treasury Function. This report provides a management response and sets timescales and actions for any improvements identified.

**Performance**

4. At 31 December 2019, investments total £123 million. The forecast level of interest receivable from treasury investments is circa £1 million based on current cash flow and interest rate assumptions. This is primarily as a result of timing of cash flows as well as interest on funds held on behalf of others.
5. Borrowing is £730.5 million, with the average rate being 4.49%. The total interest forecast to be payable on borrowing at 31 December 2019 is marginally lower than that initially budgeted, £32.8 million and includes interest payable by the Housing Revenue Account.

6. The forecast level of internal borrowing at 31 March 2020 is £56 million, however this is subject to the level of capital expenditure and funding of that expenditure at the end of the year as well as the timing and quantum of external borrowing. This forecast will be updated in the final Treasury Management Strategy proposed for 2020/21 as part of the budget proposals.

## **Investments**

7. Pages 2 and 3 of Appendix 1 considers the position on investments. The charts on the Performance Report show the position at a point in time and investments continue to be closely monitored.
8. The current investments list details each investment, the interest rate, the start date and maturity date. They also link this back to the credit criteria approved by Council in February 2019 by a colour coding which indicates the perceived strength of the organisation.
9. The balance of investments is at a point in time and will fluctuate depending on the timing of income and expenditure e.g. payments to suppliers, receipt of grants, capital receipts etc.
10. The charts that surround this table provide additional information and the key areas to highlight are shown below.
  - **Counterparty Exposure** displays actual investment against the maximum permitted directly with an organisation.
  - **Remaining Maturity Profile of Investments.** Maturities of investments have been spread to achieve a balanced profile.
  - **Investments by Institution.** This expresses the investments held with different institutions as a percentage of the total. It can be seen that investments remain diversified over a number of organisations.
  - **Geographic Spread of Investments** as determined by the country of origin of relevant organisations. All countries are rated AA and above as per our approved criteria.
  - **Investments by Financial Sector.** The majority of investments are with banks.

## **Borrowing**

11. During the year to date, Welsh Government Repayable Loan funding of £2.810 million at nil interest has been received and is to be used specifically for town centre regeneration schemes in Butetown and Grangetown. In addition £10m of long term PWLB loans have been taken towards part of the Council's overall borrowing requirement. Maturing loans of £4.2 million have been repaid.

## **Compliance, Evidence, Delivery and Review (CEDR) of Treasury Function**

12. The purpose of the CEDR report was to undertake an independent examination of the following: -

- **Compliance:** do your policies / procedures comply with the CIPFA Code of Practice on Treasury Management, the CIPFA Prudential Code and Welsh Government investment guidance?
  - **Evidence:** can you provide evidence to internal / external scrutiny that the above is the case?
  - **Delivery:** how do your policies, procedures and level of staffing impact on the delivery of your treasury function?
  - **Review:** following the outcomes of this health check will you review your processes and approach to how you do treasury management?
13. It looked independently at the team's skills, compliance with best practice, required regulations and professional guidance. Appendix 2 sets out a management response to the findings and suggested areas of improvement identified in this report.

### **Reason for Report**

14. To provide Audit Committee Members with a performance position statement at 31 December 2019 as well as other information following an assessment of the effectiveness of the Treasury Function.

### **Legal Implications**

15. No direct legal implications arise from this report.

### **Financial Implications**

16. Treasury management activities undertaken by the Council are governed by a range of policies, codes of practice and legislation. This report has no direct financial implications.

### **RECOMMENDATIONS**

17. That the Treasury Performance Report for 31 December 2019 as well as the management response to improvement actions be noted.

**CHRISTOPHER LEE**  
**CORPORATE DIRECTOR RESOURCES**  
**21 January 2020**

*The following appendices are attached*

Appendix 1 – Cardiff Council Treasury Management Performance Report – 31 December 2019

Appendix 2 – Compliance, Evidence, Delivery and Review (CEDR) of Treasury Function - Management Response

Mae'r dudalen hon yn wag yn fwriadol

Yn rhinwedd paragraff (au) 14, 21 Rhan (nau) 4 a 5 o Atodlen 12A  
o Ddeddf Llywodraeth Leol 1972.

Mynediad Cyfyngedig i'r Ddogfen

Mae'r dudalen hon yn wag yn fwriadol



Yn rhinwedd paragraff (au) 14, 21 Rhan (nau) 4 a 5 o Atodlen 12A  
o Ddeddf Llywodraeth Leol 1972.

Mynediad Cyfyngedig i'r Ddogfen

Mae'r dudalen hon yn wag yn fwriadol

**AUDIT COMMITTEE:**

**21 January 2020**

**DRAFT TREASURY MANAGEMENT STRATEGY 2020/21 AND**

**REVISED ANNUAL MINIMUM REVENUE PROVISION (MRP)  
POLICY FOR REPAYMENT OF CAPITAL EXPENDITURE**

**REPORT OF CORPORATE DIRECTOR RESOURCES**

**AGENDA ITEM: 9.2**

**Reason for this Report**

1. The Audit Committee Terms of Reference sets out their responsibility for undertaking scrutiny of the accounting, audit and commercial issues in relation to the Council's Treasury Management Strategy and practices.
2. A Treasury Management Strategy for 2020/21 is required to be approved as part of the Budget Report to Council in February 2020. This report has been prepared to provide Audit Committee Members with the draft Treasury Management Strategy for 2020/21.
3. This report also includes an update to the previous MRP policy following a review which is prudent and allows a strengthening of financial resilience.

**The Draft Treasury Management Strategy**

4. The strategy is included at Appendix 1 and covers the following areas:-
  - The current treasury position
  - Economic background and prospects for interest rates
  - Capital Programme Plan and Capital Financing Requirement (CFR)
  - Borrowing, including:-
    - Policy
    - Annual Minimum Revenue Provision (MRP) Policy Statement
    - Council borrowing requirement
    - Borrowing Strategy and choice between internal and external borrowing
  - Treasury management indicators and limits for 2020/21 to 2024/25
  - Treasury investment policy and strategy, including security and investments approved for use
  - Highlighting changes in the Treasury Management Code in respect of Non Treasury investments
  - Training.

5. It should be noted by the Committee that many of the indicators are dependent on the final Capital Programme which will only be determined at Council in February 2020. The figures included in this draft will be subject to change for the updated capital monitoring position at Month 9 and currently assumes no additional capital expenditure is approved to be paid for by borrowing as part of the updated capital programme. However, were additional expenditure commitments be deemed affordable and recommended for approval as part of the budget, then the level of such expenditure is unlikely to result in a material change to the strategy proposed.
6. The draft strategy includes any suggested recommendations arising from the independent review undertaken and reported to Audit Committee in November 2019. The main points to note in the draft Treasury Management Strategy are:
  - It is a single integrated strategy for the Council as a whole rather than separate strategies for the Housing Revenue Account and the Council's General Fund. The Council currently maintains a single pool of debt, however this is something that will need to be the subject of testing and review during 2020/21. This is to ensure that the original justification for such an approach remains valid and there are no adverse impact on financial resilience and costs of their respective activities and as a result of wider Council investment activity such as the acquisition of investment property.
  - The strategy is drafted in accordance with the requirements of the CIPFA Treasury Management Code (2017) and Welsh Government guidance on investments updated in 2019.
  - Consistent with previous years, the strategy shows a significant increase in the Council's underlying need to borrow to meet capital expenditure commitments approved as part of the capital investment programme in the medium term. Investment includes addressing the condition of assets, pre-commitments to specific projects and also 21<sup>st</sup> Century Schools Band B. A significant increase proposed in future periods also relates to the Housing Revenue Account, with increases in expenditure proposed for new affordable housing to meet affordable housing need in the City as well as to contribute to national targets.
  - Includes the revised approach to provision for debt repayment for supported borrowing as outlined later in the report and at Appendix 2.
  - The timing of borrowing decisions, associated risks and financial implications will be important in order to achieve a balance between using temporary cash balances held (internal borrowing) in the short term or external borrowing. The Strategy proposes that given the higher level of borrowing rates compared to investment rates, the Council continues to use internal borrowing in the short term.
  - The priority for Treasury investments remains security, liquidity then yield, with the Strategy retaining the potential use of a range of investment options to increase diversification where possible. Joint committee temporary cash will be managed within criteria and parameters set out in the strategy.

- Strong credit criteria are set for investments undertaken by the Council based on Fitch Credit Criteria.
- Interest rates on investments are likely to remain low. Whilst forecast to rise in the long term, borrowing rates are subject to significant variation due to economic and political uncertainty.
- The Strategy applies from the date of approval by Council.
- The Council is progressing significant capital projects which could have significant Treasury Management Implications. The impact on the Council as a result of these schemes and governance arrangements in place to deliver them will need to be closely monitored to ensure no adverse financial implications for the Council.

### **Minimum Revenue Provision Policy - Review**

7. The Council has a statutory duty to calculate and set aside each year from its revenue budget an amount 'which it considers to be prudent', for the repayment of historic capital expenditure - (MRP). This results in a reduction in the Council's underlying need to borrow known as the Capital Financing Requirement (CFR).
8. Council approved the current MRP policy for 2019/20 as part of the Budget Proposals in February 2019. The report indicated that the approach to what was deemed to be a prudent provision was to be tested and reviewed during 2019/20.
9. Audit committee last received a report in November 2016 on changes to the approach to Minimum Revenue Provision and the approach has remained the same up until this review.
10. Appendix 2 and relevant annexes show the work undertaken to review and test the approach to prudent revenue provision particularly with respect to 'supported borrowing'. This includes:
  - Key terms
  - Regulatory background
  - The Council's and other authority approaches
  - Review process, outcomes and wider considerations
  - Proposed approach and strengthening of financial resilience
11. It should be noted that once set the MRP policy should not be changed regularly. The approach deemed prudent should be one deemed so now and in the very long term. Accordingly it is essential that the approach is carefully considered with the advice of the Section 151 Officer.
12. Subject to Council approval of policy, the outcome of this review is a revision to the approach for supported borrowing to 45 year straight line basis, from the previous reducing balance basis. This is the approach included in the Draft Treasury Management Strategy for 2020/21 and it will be proposed that this policy will apply from the 2019/20 financial year.

## **Reason for Report**

13. To note the proposed Draft Treasury Management Strategy for 2020/21 (including the Minimum Revenue Provision Policy) and provide any comments as necessary that can be factored into the final document.

## **Legal Implications**

14. No direct legal implications arise from this report.

## **Financial Implications**

15. The Treasury Management Strategy does have financial implications which will need to be consistent with and form part of the budget proposals for 2020/21, Medium Term Financial Plan and Capital Strategy to be considered by Council in February 2020.
16. The revenue budget impact of the proposed change in the approach to Prudent Provision for Supported Borrowing, will need to be considered as part of the revenue budget monitoring position for 2019/20, budget for 2020/21 as well as future years Medium Term Financial Plan. The main financial implications are shown in Appendix 1 and these will also need to be factored into revised prudential indicators and forecast included within the budget proposals recommended for Council to approve in February 2020.

## **RECOMMENDATION**

17. That Audit Committee note the proposed Treasury Management Strategy for 2020/21 and provide comments as necessary with any amendments being considered for inclusion in the final Strategy which will be considered by Cabinet prior to approval by Council as part of the 2020/21 Budget Proposals Report.
18. That Audit Committee note the change to the Minimum Revenue Provision Policy Statement for 2019/20 and future years and provide comments as necessary with any amendments being considered for inclusion in the final Policy which will be considered by Council as part of the 2020/21 Budget Proposals Report.

**CHRISTOPHER LEE**  
**CORPORATE DIRECTOR RESOURCES**  
**21 January 2020**

*The following appendices are attached*

Appendix 1 – Draft Treasury Management Strategy 2020/21

Appendix 2 – Minimum Revenue Provision Policy - Review

# Draft Treasury Management Strategy 2020/21

Cardiff Council



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## Treasury Management

The Council carries out its treasury management activities in accordance with a Treasury Management Code of Practice for public services, updated by CIPFA in 2017. This requires the Council to set out the policies and objectives of its treasury management activities and adopt four Clauses of Treasury Management. These were formally adopted by the Council in February 2010. The last section of this strategy includes a glossary of terms used in this document.

CIPFA has adopted the following as its definition of treasury management activities:

*The management of the organisation's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.*

The definition of 'Investments' above includes:

- Treasury Management investments (held for the prudent management of financial affairs), as well as
- Non-Treasury Investments, undertaken as part of a Capital Strategy either in the course of provision of services; or made for commercial reasons purely to make a financial gain. These are managed outside of normal treasury management activity.

## Governance and Reporting

In compliance with Codes and Council policy, full Council receives a report on:

- the Treasury Management Strategy at the start of a forthcoming year
- a mid-year update and
- an outturn report.

The Council has delegated responsibility for Treasury Management to the Corporate Director of Resources and S151 Officer. The Council's Treasury Management Practices identifies specific responsibilities of officers as well as setting out schedules highlighting the way in which treasury activities are managed.

Responsibility for treasury decisions ultimately remains with the Council however, the Council recognises the value in the use of treasury advisors to support the management of risk and to access specialist skills and resources. Support provided by Link Asset Services, Treasury Solutions includes advice on timing of decision making, training, credit updates, economic forecasts, research, articles and advice on capital finance.

Audit Committee undertakes scrutiny of the accounting, audit and commercial issues in relation to the Council's Treasury Management Strategy and practices and various reports are produced highlighting treasury management activities in accordance with council policy.

## Treasury Management Strategy

The strategy covers the following areas:

- Borrowing to finance the cash requirements arising from the Council's Capital Programme and Strategy. Costs of servicing that financing is linked to the Council's Medium Term Financial Plan.
- Treasury investments determining how short term cash flows will be safely managed to meet the Council's financial commitments and objectives.
- Highlighting the approach to Non-Treasury Management Investments. Whilst these impact on the treasury function, they arise from capital expenditure plans which are reported separately from day to day treasury management activities. Accordingly this strategy focuses on Treasury investments.

The Council accepts that no treasury management activity is without risk. However the overriding objective is to minimise the risk of adverse consequences or loss, whilst at the same time not unduly constraining investment returns or unnecessarily incurring interest costs.

The identification, monitoring and control of risk are integral elements of treasury management activities with risks including credit and counterparty, liquidity, interest rate, refinancing, fraud and regulatory. The Council has Treasury Management Practices to address and mitigate these risks which were updated in March 2019 following a review by Internal Audit and Audit Committee.

The proposed strategy is an integrated strategy for the Council including the Housing Revenue Account (HRA). This integrated approach is proposed for review for future years, however the current strategy includes:

- the current treasury position
- economic background and prospects for interest rates
- borrowing, including:
  - policy
  - annual Minimum Revenue Provision (MRP) policy statement
  - council borrowing requirement based on its capital expenditure plans and choice between internal and external borrowing and
  - borrowing strategy
- treasury management indicators and limits for 2020/21 to 2024/25
- investment policy and strategy, including security and investments approved for use
- non treasury investments and
- training.

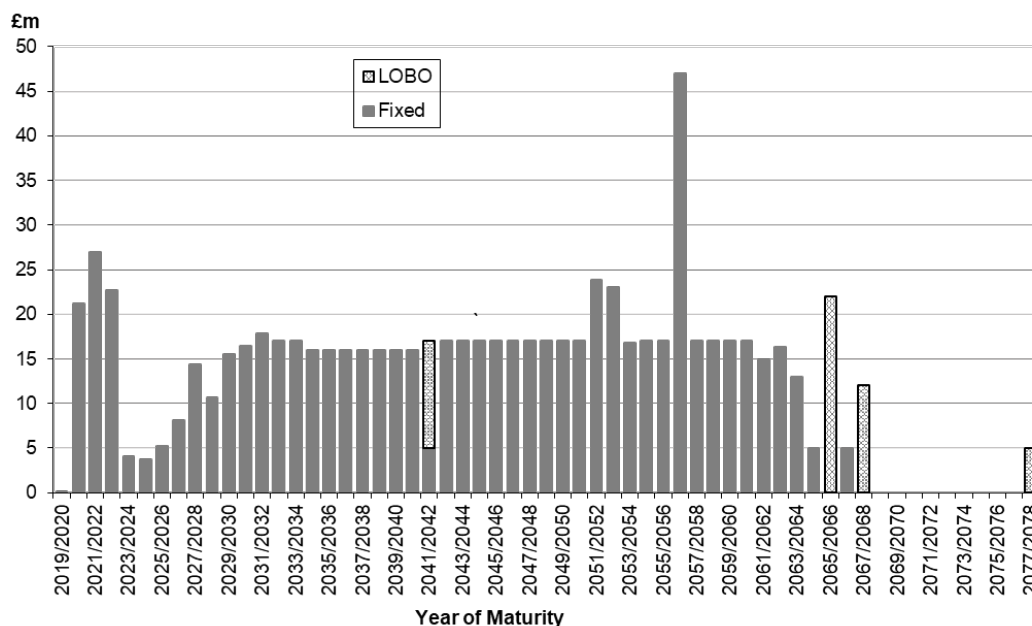
## The Treasury Position

Borrowing and investments as at 10 January 2020 and at the same date in the prior year, are shown in the following table. Borrowing is predominantly made up of fixed interest rate loans payable on maturity. Investments fluctuate daily and are represented by fixed term deposits, notice deposit accounts and money market funds. These balances arise due to the timing of cash flows and working capital as well as the existence of reserves, provisions and balances required for future use.

	10 January 2019		10 January 2020	
	Principal	Average	Principal	Average
	£m	Rate %	£m	Rate %
<b>External Borrowing</b>				
Public Works Loan Board (PWLB)	(643.9)	4.7	(668.9)	4.6
Market (Lender Option Borrower Option)	(51.0)	4.0	(51.0)	4.0
Welsh Government	(4.5)	0	(6.1)	0
Local Authority	0	0	(58.3)	1.45
Other	(5.3)	0	(4.2)	0
<b>Total Debt</b>	<b>(704.7)</b>	<b>4.58</b>	<b>(788.5)</b>	<b>4.27</b>
<b>Treasury Investments (Internally Managed)*</b>				
Banks	34.0	0.96	89.0	0.91
Building Societies	10.0	0.84	10.0	0.75
Money Market Funds	43.9	0.75	40.3	0.71
<b>Total Treasury Investments (Net)</b>	<b>87.9</b>	<b>0.84</b>	<b>139.3</b>	<b>0.84</b>
<b>Net Treasury Investments / (Borrowing)</b>	<b>(616.8)</b>		<b>(649.2)</b>	

\*Note all investments are currently managed internally and no external fund management arrangements are in place.

The Council's debt maturity profile at 10 January 2020 is shown in the following graph on the assumption that all loans run to their final maturity. This includes short term loans taken for the recent acquisition of the Red Dragon Centre site in Cardiff Bay.



LOBO products are loans to the Council where the lender can request a change in the rate of interest payable by the Council on pre-determined dates. The Council at this point has the option to repay the loan without penalty. The Council has six such loans totalling £51 million.

Apart from the option to increase rates these loans are comparable to PWLB loans and have no other complications such as variation in interest rates or complex terms. Interest rates on these loans range between 3.81% and 4.35% and are below the Council's average rate of interest payable. Details of the loans are shown in the next table.

Lender Option Borrower Option (LOBO) Loans			
Potential Next Repayment Date	Loan Value £m	Option Frequency Every	Full Term Maturity Date
01/03/2020	6	6 months	23/05/2067
21/05/2020	6	6 months	21/11/2041
21/05/2020	6	6 months	21/11/2041
21/05/2020	6	6 months	23/05/2067
21/11/2020	22	5 years	23/11/2065
15/01/2023	5	5 years	17/01/2078

It should be noted that £24 million of the LOBO loans are currently subject to the lender potentially requesting a change in the rate of interest payable every six months. A further £22 million and £5 million have call options in November 2020 and January 2023 respectively and every five years thereafter. The likelihood of a request for an increase in rate is negligible.

The following table gives the Council's treasury management advisor's latest forecast of interest rates taking into account the twenty basis point certainty rate reduction available for PWLB loans. It is a central forecast, acknowledging for example that there are upside and downside risks. The rates above are predicated on an assumption of a trade agreement being reached between the UK and the EU.

	<b>Actual 31/12/2019</b>	<b>March 2020</b>	<b>March 2021</b>	<b>March 2022</b>	<b>March 2023</b>
Bank Rate	0.75%	0.75%	1.00%	1.00%	1.25%
5yr PWLB rate	2.43%	2.40%	2.60%	2.90%	3.20%
10yr PWLB rate	2.67%	2.70%	2.90%	3.20%	3.50%
25yr PWLB rate	3.22%	3.30%	3.60%	3.90%	4.10%
50yr PWLB rate	3.05%	3.20%	3.50%	3.80%	4.00%

Forecast at December 2019

Economic and interest rate forecasting remains difficult with so many external influences on the UK economy. Growth and consumer confidence for the UK economy was dampened particularly as a result of brexit uncertainty during 2019. This uncertainty is likely to continue, limiting growth to around 1% until there is more certainty after the trade deadline is passed in December 2020.

As for inflation, the latest Monetary Policy Report issued by the Bank of England revised its inflation forecasts down to 1.5% in 2020, and 2.0% in 2021; hence, the Monetary Policy Committee views inflation as causing little concern in the near future. However it was noted that events triggering a weakening pound could change this as a result of the potential for increased import costs.

International factors also impact significantly on the UK economy. In the United States, the Federal Reserve started a series of rate reductions from its previous policy of unwinding from historic lows. Rates were set at 1.5% to 1.75% in October 2019. Trade tensions and implementation of tariffs, particularly between the United States and China, has also created uncertainty in financial markets in relation to impact on growth and risk of escalation. World central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this will militate against central banks increasing interest rates. In addition they are working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and corporate debt due to the exceptionally low levels of borrowing rates that have prevailed since 2008. This remains a significant risk.

The above issues including growth in the UK, growth globally, price and wage inflation are key factors used by the Bank of England in determining when to change interest rates. The bank last increased the base rate by 0.25% to 0.75% on 2 August 2018. The forecasts in the table above assume a modest recovery

in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

PWLB rates are based on Government borrowing rates (Gilts) and can be the subject of exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments over the forecast period. In addition we have seen from HM Treasury intervention in 2010 and more recently in 2019, a significant margin of 100 basis points each time being added in determining PWLB borrowing rates.

This makes a 'cost of carry', i.e. where borrowing rates are greater than investment rates even more likely to continue in the medium term. Accordingly, an approach of deferring external borrowing by using temporary cash balances will continue to result in short term savings, whilst cash balances allow. However, caution should be adopted to avoid incurring higher borrowing costs in the future when new borrowing is unavoidable.

Downside risks to PWLB rates are:

- Bank of England raises bank rate faster than anticipated causing UK economic growth and increases in inflation, to be weaker than anticipated.
- An approach to Brexit which is deemed to have a major downturn on UK economic growth.
- Geopolitical risks in Asia, Europe and the Middle East, which could lead to increasing safe haven flows to the UK.
- Resurgence of the Eurozone sovereign debt crisis due to high level of government debt, low rate of economic growth and vulnerable banking and political systems of certain countries.
- The level of debt accumulated by corporations during the decade of low interest rates.

The potential for upside risks especially for longer term PWLB rates include:

- The Bank of England is too slow in its pace and strength of increases in bank rate and, therefore, allows inflation pressures to build up too strongly within the UK economy.
- Brexit – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- UK inflation returning to sustained significantly higher levels.
- Increases in the pace and strength of reversal of quantitative easing.

## Borrowing Policy

Borrowing to pay for capital investment has long-term financial consequences and risks, with decisions taken many years ago impacting currently and in the future in the form of interest and provision for repayment of capital expenditure. Expenditure decisions are assumed in the Capital Strategy and detailed programme approved by Council with the recurring cost implications factored into the Council's Medium Term Financial Plan. All borrowing is undertaken in the name of the Council and secured on all revenues of the Council.

The Council can consider various sources and debt instruments to pay for capital expenditure as well as its short term working capital requirements including unexpected cash outflows. This includes the Public Works Loan Board, the financial markets, Municipal Bond Agency, Local Authorities and other public bodies, finance leases, public private partnership models and the issuing of bonds for significant levels of funding or smaller bond schemes linked to specific themes such as green growth. These are detailed in the Council's Treasury Management Practices and the advantages and disadvantages of such products would need to be considered including risks, track record and cost of issuance, supported by external advice in respect of different options.

Best Treasury management practice is that loans are not taken on a project by project basis, however this may be a consideration for investment property purchases or similar, where there may be a need to meet specific cash flows or track performance in the short term.

The Council's currently maintains a single pool of all Council debt for all activities of the Council and the rationale for this approach was last reviewed in 2015/16. However given the changes in the last few years of the respective activities of the Housing Revenue Account and General Fund as well as some of the more complex expenditure commitments being undertaken and assumed to be paid for by borrowing, a further review will need to be undertaken. This is to ensure the current approach maintains a 'fair' interest cost for respective activities. The scope of this review will be scheduled in 2020/21, subject to the resourcing to ensure this can be undertaken effectively.

Whilst interest rates for borrowing are greater than interest rates the Council receives for investments (the cost of carry), it makes financial sense to use any internal cash balances held in the short-term to pay for capital expenditure and minimise costs (internal borrowing), rather than undertake external borrowing. However, there is a risk that the Council may have to borrow at higher rates when it does actually need to borrow in future and so this position is kept under continuous review.

The Council's Borrowing Strategy considers all options to meet the long-term aims of:

- promoting revenue cost stability to aid financial planning and avoid a stop-start approach to service delivery, although it is recognised that this may have a financial impact
- pooling borrowing and investments to ensure the whole Council shares the risks and rewards of treasury activities
- ensuring borrowing plans are aligned to known capital expenditure spending plans and financial reserve levels
- achieving a balanced maturity profile
- having regard to the effects on current and future Council Tax and rent payers.

The Council does not intend to borrow in advance of need and will not do so just to gain financially. However, this option may be considered if it is felt that borrowing in advance allows opportunities to lock into favourable long-term rates. This will be limited to no more than the expected increase in the Council's borrowing requirement over a three year period.

### **Prudent Repayment of Capital Expenditure – Annual Minimum Revenue Provision (MRP) Policy Statement for 2019/20 and 2020/21**

The Council has a statutory duty to calculate and set aside each year from its revenue budget a minimum amount 'which it considers to be prudent'. It is also allowed to undertake additional voluntary payments if required (Voluntary Revenue Provision – VRP). Voluntary provision can, if needed, be reclaimed in later years if deemed necessary or prudent.

Making MRP and VRP results in a reduction in the Council's underlying need to borrow known as the Capital Financing Requirement (CFR).

Legislation does not define what constitutes a 'prudent provision'. Instead WG has provided guidance and examples in order to interpret that term. Decisions in respect of the allocation of MRP have short, medium and very long term impacts over generations.

The previous approach to MRP was based on a reducing balance basis. This has been tested and reviewed during 2019/20 and it is recommended a change in approach is adopted whereby current and future generations who make use of assets, will pay an equal and consistent amount of MRP and there is a defined point at which debt will be fully provided.

*It is proposed that the Council's MRP Policy to apply for 2019/20 and for future years is as follows, with any change in the level, timing and method of provision in year delegated to the Section 151 Officer.*

- *Council expenditure undertaken based on 'supported borrowing' approved by WG is to be provided for on a straight line basis over 45 years*
- *HRA supported borrowing, which was part of the previous housing subsidy system is to be provided for at 2% on a straight line basis. MRP on the significant*



*£187 million settlement buyout payment is to be on 2% straight line basis as a minimum.*

- *Additional borrowing for a general increase in investment either in the Council Fund or HRA to balance the Capital Programme in a year is to be provided for on a straight line basis over the estimated average life of the assets created.*
- *Any additional expenditure linked to specific schemes e.g. Invest to Save, 21st Century Schools etc. is to be provided for on a straight line basis, or annuity basis, over the estimated useful life of assets being created or a shorter period as determined by the Section 151 Officer or suggested periods determined by WG as is the case with Local Government Borrowing Initiative.*
- *Voluntary Revenue Provision in excess of the above requirements can be made subject to affordability and following advice of the Section 151 Officer.*
- *Subject to agreement of the S151 Officer, MRP may be waived on expenditure recoverable within a prudent period of time through capital receipts (e.g. land purchases, loan repayments) or deferred to when the benefits from investment are scheduled to begin or when confirmed external grant payments towards that expenditure are expected.*
- *The MRP charged against liabilities under finance leases, or contracts that have the characteristics of finance leases, shall be equal to the principal element of the lease repayment, calculated on an annual basis.*

### **Council's Borrowing Requirement**

The following table shows the actual level of external borrowing currently held by the Council including planned external borrowing in 2019/20 and scheduled loan repayments in future years. It compares this to the projected CFR i.e the need to borrow based on estimates and timing of the Council's capital expenditure, proposed MRP policy and funding plans as set out in the budget report for 2020/21. The difference between the projected CFR in 2024/25 (£1,049 million) and the actual level of external borrowing after any planned repayments (£768 million) is £281 million, i.e. there is insufficient cash held by the Council to support this projected level of under borrowing and this means there is a requirement for the Council to undertake further external borrowing over the medium term.

## Borrowing

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m	£m	£m
External borrowing at 1 April	693	722	788	787	780	776	772
Known / New borrowing	33	70	tbc	tbc	tbc	tbc	tbc
Scheduled repayments	(4)	(4)	(1)	(7)	(4)	(4)	(4)
<b>External Borrowing at 31 March</b>	<b>722</b>	<b>788</b>	<b>787</b>	<b>780</b>	<b>776</b>	<b>772</b>	<b>768</b>
Capital Financing Requirement	767	844	878	966	1,049	1,055	1,049
<b>Shortfall / (Surplus) borrowing requirement</b>	<b>45</b>	<b>56</b>	<b>91</b>	<b>186</b>	<b>273</b>	<b>283</b>	<b>281</b>
<b>Requirement as % of CFR</b>	<b>5.9%</b>	<b>6.6%</b>	<b>10.4%</b>	<b>19.3%</b>	<b>26.0%</b>	<b>26.8%</b>	<b>26.8%</b>

Within the external borrowing figures above in 2019/20, short term borrowing of £58m relates to capital expenditure on the commercial investment in the Red Dragon Centre. This is just over 7% of the estimated level of actual external debt at 31 March 2020. This is made of a series of one, two and three year loans rather than long term borrowing as the acquisition is a first step in delivering arena. Accordingly the approach to future retention of the site as an investment in full or part is uncertain. Short term borrowing is cheaper but will also involve an element of refinancing risk when there is certainty of approach.

It should be noted that the borrowing requirement may increase further if the affordability envelope identified in the budget report for the indoor arena is triggered following consideration of affordability and approval of relevant business cases.

The CFR projections show a continuing increasing trend and are based on:

- agreed expenditure pre commitments in the capital programme approved in 2019/20 and prior years
- an assumption that the council has the capacity and can implement the capital programme in accordance with the timescale in which funding is requested
- an assumption that the non earmarked capital receipt target of £40 million set in 2018/19 and other capital receipts assumed are achievable and receivable in a reasonable time frame

Changes in the CFR projection compared to prior year include:

- Expansion in the HRA capital programme in respect of new build and other commitments such as cladding
- Acquisition of the Red Dragon Centre site
- A revision to the MRP policy for supporting borrowing from a reducing balance approach to a straight line approach

The CFR figures included in the above table currently assume no additional capital expenditure is approved to be paid for by borrowing as part of the updated capital programme. However, were additional expenditure commitments be deemed affordable and recommended for approval as part of the budget, then the level of such expenditure is unlikely to result in a material change to the treasury strategy proposed.

The section below sets out the approach to meeting the known borrowing requirement including use of temporary cash balances, external borrowing, sources of borrowing and timing.

### **Borrowing Strategy**

In the short term, continuing with an approach of internal borrowing, using temporary cash balances available will continue to be a cost effective way of meeting part of the borrowing requirement. A high level balance sheet review undertaken suggests that a maximum level of internal borrowing could be circa £80 million (c9% of the 2020/21 CFR).

Whilst having regard to the risks of comparison, data was compiled by the Council's Treasury Advisors, and included as part of a Benchmarking report provided to Audit Committee in November 2019, from their Local Authority clients in 2018/19 showing internal borrowing as a percentage of their CFR. This showed that Welsh Councils averaged 11.9%; English Unitary 20.5% and 16.8% for all Authority clients. The Council will continue to undertake various benchmarking activities to support the understanding of treasury performance, position and risk.

As mentioned previously, the Council will consider various sources and debt instruments to meet the borrowing requirement. Prior to the 100 basis points increase in rates in October 2019, most local authorities preferred source of long term borrowing was the PWLB, given the transparency and control that its facilities provide. The Council continues to qualify for borrowing at the 'Certainty Rate' (0.20% below the PWLB Standard Rate). It is unclear whether the recent move by HM Treasury is one that was a short term reaction which would be reviewed. However whilst this uncertainty remains, it is very likely that alternative providers of finance will step into the market for lending to local authorities. Options will be reviewed closely as the position develops, in conjunction with the Council's treasury management advisors early in the new year, particularly given the scale of the borrowing requirement.

Given the risks within the economic forecasts, setting a fixed target for the quantum and timing of borrowing is not deemed appropriate. A pragmatic approach will be adopted by Council's Section 151 Officer due to changing circumstances with the following strategy proposed to manage the Council's Capital Financing Requirement:

- Whilst investment rates remain lower than long term borrowing rates internal borrowing will be used to minimise short-term costs
- External borrowing (short, medium and long term) will be taken for the balance of the Council's borrowing requirement, with timing delegated to the Council's Section 151 Officer. This will aim to keep internal borrowing to approximately £80 million, subject to balance sheet capacity and future interest rate forecasts.
- External borrowing is likely to be at fixed rates to meet the long term borrowing policy aims and current forecasts for rates.

If there was a significant risk of a sharp rise in long and medium-term rates than that currently forecast, then fixed rate external borrowing may be undertaken sooner to reduce the level of internal borrowing. If there was a significant risk of a sharp fall in rates, then long-medium term borrowing would be deferred, following consideration of internal borrowing capacity.

Current interest rates on the Council's existing debt portfolio compared to new borrowing rates and penalty rates charged for early debt repayment, results in limited options for restructuring of debt. Options have previously been considered for early repayment of LOBO loans, however the penalties outweighed the benefits. This position is expected to continue to be the case in the next few years.

The Council is required to set treasury management indicators as part of the CIPFA Treasury Management Code of Practice 2017 as well as Capital expenditure indicators in the overall budget report to consider affordability indicators.

## Authorised Limit

The Council must set and keep under review how much it can afford to borrow from debt or other long-term liabilities for the forthcoming year and the following two financial years (the Affordable Borrowing Limit). It must have regard to the Prudential Code and locally determined indicators when setting this limit and be content that the impact upon future Council Tax payers and Council tenants is acceptable.

Based on the capital programme proposed, it is recommended that the Council approve the following authorised limits (Statutory limit under Section 3 (1) of the Local Government Act 2003) and operational boundaries (figures for 2019/20 are for comparison only). The undertaking of other long-term liabilities, within the overall limit, is delegated to the Section 151 Officer based on the outcome of financial option appraisals and best value considerations.

Authorised limit for external debt	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Limit for external borrowing and other long-term liabilities	990	1,055	1,055	1,055	1,055	1,055

This limit is consistent with proposals contained within the budget for capital expenditure with the addition of financing and accounting requirements in relation to landfill obligations. The overall limit for the Council has been set at a constant level of £1,055 million for 2020/21 to 2024/25.

It should be noted that the borrowing requirement may increase further if the affordability envelope identified in the budget report for the indoor arena is triggered following consideration of affordability and approval of relevant business cases. Any increase or change in treasury indicators would be reported to Council as part of the regular reports to Council on treasury management activities.

The Government retains an option to control either the total of all council's plans, or those of a specific council, although this power has not yet been exercised.

## Operational Boundary

The proposed operational boundary or projected level of external debt (excluding landfill) is set at the anticipated level of the CFR at the end of each year. This will be subject to the level and timing of borrowing decisions.

Operational boundary	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Boundary for external borrowing and other long-term liabilities	788	878	966	1,049	1,055	1,049

## Maturity Structure of Borrowing

Limits are set to guard against a large element of the Council's debt maturing and having to be refinanced in a very short space of time, when it may not be economically favourable to do so. The limits have been set to reflect the current debt portfolio, and to allow enough flexibility to enable new borrowing to be undertaken for the optimum period. The table assumes that loans run to their final maturity, however a separate column is also included to show the maturity profile should the Council repay its LOBO loans early.

Maturity structure of borrowing in 2020/21	Upper limit %	Lower limit %	Actual to Maturity %	Actual if LOBOs Repaid Early %
Under 12 months	10	0	2.69	8.52
12 months and within 24 months	10	0	3.42	3.42
24 months and within 5 years	15	0	3.86	4.49
5 years and within 10 years	20	0	6.82	6.82
10 years and within 20 years	30	0	20.83	20.83
20 years and within 30 years	35	0	21.43	19.91
30 years and within 40 years	35	0	26.97	26.97
40 years and within 50 years	35	0	13.35	9.04
50 years and within 60 years	15	0	0.63	0.00
60 years and within 70 years	5	0	0.00	0.00

## Treasury Investment Policy

The Council has regard to the CIPFA Treasury Management Code and also complies with Welsh Government guidance on investments. The Council's investments include those arising from its own temporary cash balances as well as balances held from the activities of Joint Committees for which it is the Accountable body.

The Council recognises that given the nature of investments, a trade-off between security, liquidity and yield cannot be avoided i.e. there is risk of default. The Council's risk appetite for treasury investments is low and its current business model for financial assets for treasury management investments is to collect contractual cash flows as part of the prudent management of its financial affairs. It aims to achieve the optimum return on investments commensurate with proper levels of security and liquidity. Risk will be contained by ensuring:

- all investments and repayments are in sterling
- investment instruments identified for use in the financial year are listed under 'Specified' investments and 'Non-Specified' investment categories, dependant on their complexity and risk
- a list of highly credit worthy counterparties with whom to invest is created and monitored
- diversification of approach, investment product and counterparties are sought where possible to avoid concentration of risk
- any set limits are implemented with immediate effect following approval of this Treasury Management Strategy by the Council
- continual monitoring of treasury activities with the categories of investments that may be used, the credit criteria and associated limits in determining with whom to invest and timing of decisions being delegated to the S151 Officer.

The Markets in Financial Instruments Directive (MiFID II) was implemented from 3 January 2018. Where requested by counterparties to do so, the Council has opted up to be classed as a 'professional' client following the submission of qualitative and quantitative information on its treasury activities.

Economic, Social and Governance issues are important to the Council and can play an important part in long term investments decision making. However the key aim for the Treasury Management of temporary cash balances is Security, Liquidity and then Yield for short term cash balances. Accordingly consideration of wider ethical issues such as climate change are not currently a key factor in the options for placing of short term cash balances.

## Treasury Investment Strategy

The Council will retain access to a range of products and organisations available to manage short term investment balances and to achieve diversification. It uses WG guidance and judgements to define products available for use as specified

# Treasury Management Investments

or non specified and sets credit criteria to mitigate credit risk. These are defined in the sections below. Any funds held by the Council on behalf of joint committees will be managed in accordance with this strategy.

The ability to change credit criteria and the approach to investments is delegated to the S151 Officer. This allows a prompt response to uncertainties in financial markets, with the Council being kept informed of significant changes through the various reports it receives on treasury activities during the course of the year.

The Council aims to have sufficient liquid funds to ensure it does not become a forced borrower for a significant period of time at rates in excess of what may be earned on such investments. Short term cash flow forecasts and a longer term balance sheet review is undertaken as part of the calculation of Prudential Code indicators to determine maximum periods for investments.

## Specified Investments

A specified investment is defined as one:

- being for a period up to one year
- which is in straightforward easily understood low risk products
- not involving corporate share or loan capital
- where the principal sum to be repaid at maturity is the same as the initial principal sum invested.

Specified investments may comprise up to 100% of the Council's total investments.

Instruments approved for use	Minimum Credit Criteria
Term deposits – UK government and other Local Authorities	Assumed Government Guarantee
Term deposits – banks and building societies	Long-term A- /Short-term F1 or Government Equity Support

## Non-Specified Investments

These are all other investments not meeting the definition of a specified investment which could be used in order to achieve diversification and manage liquidity needs. A maximum upper level of £90 million is to be set for non-specified investments including investments for greater than one year.



# Treasury Management Investments

Instruments approved for use	Min Credit Criteria	Max % of total investments	Max. maturity period
Term deposits with Local Authorities (with maturities in excess of 1 year)	Assumed Government Guarantee	30	2 Years
Term deposits – banks and building societies (with maturities in excess of 1 year)	Long-term AA- /Short-term F1+ or part nationalised	30	2 Years
Term deposits with variable rate and variable maturities in excess of 1 year e.g. structured investment products	Long-term AA- /Short-term F1+	10	2 Years
Certificates of Deposit	Long-term AA- /Short-term F1+	10	Maximum 2 year duration
UK Government Gilts and Gilt funds	Assumed Government Guarantee	40	Maximum 3 year duration
Treasury Bills	Assumed Government Guarantee	40	6 months
Collective Investment Scheme structures – Constant as well as Low Volatility Money Market Funds	AAA – (Fitch, Moody's or S&P)	100	Liquid
Collective Investment Scheme Structures – Ultra Short Dated Bond Funds	AAA - (Fitch, Moody's or S&P)	20	Liquid
Collective Investment Scheme Structures - Government Bond Funds, Corporate Bond Funds, Gilt Funds and Floating Rate Notes	AA-	10	Weighted Average Maturity 3 years

The Council can utilise collective investment funds which pool together investments in a diversified portfolio of products and sectors. These may include short-term money market instruments such as bank deposits, certificates of deposit, government guaranteed bonds, corporate bonds and commercial papers, together with a weighted average maturity of up to 60 days. It should be noted that any such funds are triple A rated and allow instant access.

## Security / Creditworthiness Policy

The Council uses Fitch credit ratings as a basis for assessment of credit worthiness of institutions it will invest with. Changes in the criteria and decisions with whom to invest are delegated to the S151 Officer. Commercial organisations (counterparties) on its approved list will have at least the short-term credit rating of F1 and be authorised institutions within the meaning of the Financial Services and Markets Act 2000. The rating F1 infers “Highest Credit Quality” - the strongest capacity for timely payment of financial commitments.

Whilst Fitch ratings form the basis of the Council’s threshold criteria, the Council will also have regard to the following when determining with whom to invest:

## Treasury Management Investments

- rating updates provided by treasury advisors in respect of all three credit rating agencies, as well as other market data.
- media reports as well as sovereign credit ratings. No minimum sovereign rating is applied to the UK, however for non UK based institutions the minimum Fitch sovereign rating is AA-
- the informed judgement of treasury staff and treasury management advisors after consideration of wider economic factors
- financial sector and country exposure
- the extent to which organisations who do not meet the above criteria, are nationalised.

Local authorities usually do not have a credit rating, but are expected to assume the UK Sovereign rating. In accordance with the Local Government Act 2003, a person lending money to a local authority shall not be bound to enquire whether the authority has power to borrow the money and shall not be prejudiced by the absence of any such power. All loans are secured on future revenues of local authorities and this includes the ability to take legal action if any debts are not repaid. As demonstrated in benchmarking of treasury management investments, inter local authority lending is a significant option being used for short term investment balances, and is an option that continues to be available as part of the strategy proposed.

The Council's lending list for direct investment in an organisation is based on the following credit criteria, with the maximum limit for direct investment in any one group of related companies, whether ring fenced or otherwise, being £12 million:

Fitch Ratings (minimum)	Long term	Short term	Limit £m
Overnight to three months	A-	F1	5
Overnight to one year	A	F1	10
Overnight to two years	AA-	F1+	12
UK Part Nationalised Banks overnight to two years	n/a	n/a	12

Where link recommend a shorter duration than would be allowed in accordance with Fitch criteria above, then the shorter period is adhered to.

The Council's current list of approved counterparties is shown below:

	£	Duration
<b>Australia AAA</b>		
Australia and New Zealand Banking Group	12m	2 years
Commonwealth Bank of Australia	12m	2 years
National Australia Bank	12m	2 years
<b>Canada AAA</b>		
Canadian Imperial Bank of Commerce	12m	2 years
National Bank of Canada	10m	1 Year
Toronto Dominion Bank	12m	2 years
<b>France AA</b>		
Credit Industriel et Commercial	10m	1 year
Societe Generale	10m	1 year

# Treasury Management Investments

	£	Duration
<b>Germany AAA</b>		
DZ Bank (Deutsche Zentral-Genossenschaftsbank)	12m	2 years
<b>Netherlands AAA</b>		
Cooperatieve Rabobank U.A.	12m	2 years
<b>Singapore AAA</b>		
DBS Bank	12m	2 years
Oversea Chinese Banking Corporation	12m	2 years
United Overseas Bank	12m	2 years
<b>Sweden AAA</b>		
Skandinaviska Enskilda Banken	12m	2 years
<b>Switzerland AAA</b>		
UBS AG	12m	2 years
<b>U.K AA*</b>		
Barclays Bank (NRFB)	10m	1 Year
Close Brothers	10m	1 Year
Goldman Sachs International Bank	10m	1 Year
Handelsbanken	12m	2 years
HSBC Bank plc (RFB)	10m	1 year
Santander UK plc	10m	1 Year
Standard Chartered Bank	10m	1 Year
Bank of Scotland (RFB)	10m	1 Year
Lloyds Bank (RFB)	10m	1 Year
National Westminster Bank (RFB)	12m	2 Years
Royal Bank of Scotland (RFB)	12m	2 Years
Coventry BS	5m	3 Months
Leeds BS	5m	3 Months
Nationwide BS	10m	1 Year
Skipton BS	5m	3 Months
Yorkshire BS	5m	3 Months
UK Local Authority (per Authority)	12m	2 Years
Debt Management Agency Deposit Facility	n/a	6 Months
<b>Money Market Funds</b>		
Aberdeen Liquidity Fund	12m	Liquid
BlackRock ICS Sterling Fund	12m	Liquid
Deutsche Managed Sterling Fund	12m	Liquid
Fidelity GBP ICF	12m	Liquid
Goldman Sachs Sterling Reserves Fund	12m	Liquid
HSBC GBP Liquidity	12m	Liquid
Insight Sterling Liquidity Fund	12m	Liquid
JPMorgan	12m	Liquid
LGIM Sterling Liquidity Fund	12m	Liquid

\* In respect of the Council's day to day banking provider, there is a risk that the counterparty limit would be exceeded for a short period on receipt of unexpected funds.

The above list has been determined having regard to current participation in the financial markets and brokerages, sovereign countries whose banks we would be content to use and selecting some of their highest rated organisations.

Credit ratings are monitored regularly through use of the treasury management advisor's credit service. If a downgrade results in the counterparty or investment scheme no longer meeting the Council's criteria, its further use for new investment will be withdrawn immediately. Investments already held with that counterparty will be reviewed and options to call back funds before maturity would be investigated. It should be noted that any early repayment is only at the discretion of the borrower and often at a penalty.

In addition to treasury management investment activity, local authorities can utilise their powers to borrow in order to invest in other financial assets. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios primarily for a financial return. Whilst these impact on Treasury Management activity, they are managed outside of this Treasury Management Strategy and approved separately as part of the Council's Capital expenditure plans arising from its Capital Strategy. Regulator concerns in relation to the extent of this activity have resulted in recent updates to CIPFA professional Codes of Practice including the Treasury Management Code. Whilst no national monetary, financial or other controls or limits are in place currently, regulations have been updated to ensure the risks and implications of such activities are clearly governed and understood over a long term period.

The most significant investments currently held by the Council and managed outside of normal treasury management activity are the Council's 100% shareholding in Cardiff Bus, the Council's investment properties, which include various historic freeholds within the City held for income generation or capital appreciation. The Council has also recently secured the Red Dragon Centre site with a view to providing options for an arena and or securing future rental income.

Investment for non-treasury management purposes paid for by additional borrowing requires careful investment management. Any previous and future proposals for such investments form part of the approved Capital Strategy and Capital Programme, setting out where relevant, the risk appetite and specific policies and arrangements for non-treasury investments. This will include an appropriate investment management and risk management framework, making it explicit in any decision making:

- the powers under which investment is made
- the governance process including arrangements in place to ensure appropriate due diligence to support decision making
- the extent to which capital invested is placed at risk
- proportionality of any income to resources available to the Council
- the impact of potential losses on financial sustainability
- the methodology and criteria for assessing performance and monitoring process
- how knowledge and skills in managing such investments is arranged and that these are monitored, reported and highlighted explicitly in the decision making process and due diligence.
- creation of Treasury Management practices which specifically deal with how non treasury investments would be carried out and managed

Guidance has indicated the importance of the Council's S151 (Responsible Finance) Officer role in reviewing and informing decisions being made in relation to Non-Treasury Investments.

## Treasury Management Training

Treasury staff directly and regularly involved in borrowing and lending activities are provided access to a wide range of training. This includes seminars and workshops organised by treasury advisors bringing together practitioners from different authorities; seminars organised by CIPFA and other national bodies; regular contact with a client relationship manager as well as their briefing notes and articles. Staff responsible for treasury activity on a day to day basis have a recognised accountancy qualification and are encouraged to undertake relevant treasury management training.

Audit Committee Members who are responsible for reviewing and seeking assurance on treasury management activities have also been provided with the opportunity for specific internal and external training. The development of further training will be informed by individual and collective Audit Committee self-assessments.

## **Bank Rate**

The rate of interest set by the Bank of England as a benchmark rate for British banks.

## **Bonds**

A long-term debt security issued by a company, a financial institution, a local authority, national government or its affiliated agencies. It represents an undertaking to repay the holder the fixed amount of the principal on the maturity date plus a specified rate of interest payable either on a regular basis during the bond's life (coupon) or at maturity.

## **Borrowing**

Loans taken out by the authority to pay for capital expenditure or for the prudent management of the Council's financial affairs, which are repayable with interest.

## **Capital Expenditure**

Capital expenditure pays for improvements to existing and new assets used in the delivery of Council services as well as other items determined by Regulation. Capital resources are scarce, costly and also have long term revenue implications over many years and even generations where capital expenditure is funded by borrowing. Hence the requirement of the Prudential Code to ensure what is charged as Capital Expenditure is Prudent, Sustainable and Affordable.

The statutory definition of capital expenditure is given in the Local Government Act 2003, the Local Authorities (Capital Finance) Regulations 2003 and 2004 as amended. Statute relies on the accounting measurement of cost in International Accounting Standard (IAS) 16 to determine whether expenditure is eligible to be capitalised or whether it should be treated as revenue expenditure. Key to what is eligible as capital spend are the following words in IAS 16 - 'Costs directly attributable to bringing the specific asset into working condition for its intended use'.

## **Capital Financing Requirement (CFR)**

An authority's underlying need to borrow for a capital purpose. It measures capital expenditure incurred but not yet financed by the receipt of grants, contributions and charges to the revenue account.

## **Capital Market**

A market for securities (debt or equity), where companies and governments can raise long-term funds (periods greater than one year). The raising of short-term funds takes place on other markets (e.g. the money market).

## **Capital Programme**

The Capital Programme sets out the Council's capital expenditure plans for the forthcoming financial year as well as for the medium term. It is approved annually at Council and identifies the estimated cost of those schemes, their projected phasing over financial years as well as the method of funding such expenditure.

## **Certificates of Deposits (CDs)**

A certificate issued for deposits made at a deposit-taking institution (generally a bank). The bank agrees to pay a fixed interest rate for the specified period of time, and repays the principal at maturity. CDs can be purchased directly from the banking institution or through a securities broker. An active interbank secondary market exists to buy and sell CDs.

### **Chartered Institute of Public Finance & Accountancy (CIPFA)**

CIPFA is the professional body for accountants in public finance. As a specialised public services body, it provides information, guidance, and determines accounting standards and reporting standards to be followed by Local Government.

### **Collective Investment Scheme Structures**

Schemes whereby monies from a number of investors are pooled and invested as one portfolio in accordance with pre-determined objectives.

### **Corporate Bonds**

Bonds that are issued by a company or other non-government issuers. They represent a form of corporate debt finance and are an alternative means of raising new capital other than equity finance or bank lending.

### **Counterparty**

One of the parties involved in a financial transaction with whom the Council may place investments.

### **Counterparty / Credit Risk**

Risk that a counterparty fails to meet its contractual obligations to the Council to repay sums invested.

### **Credit Criteria**

The parameters used as a starting point in considering with whom the Council may place investments, aimed at ensuring the security of the sums invested.

### **Credit Default Swaps**

A financial transaction which the buyer transfers the credit risk related to a debt security to the seller, who receives a series of fees for assuming this risk. The levels of fees reflect the perceived level of risk.

### **Credit Rating**

A credit rating assesses the credit worthiness of an individual, corporation, or even a country. Credit ratings are calculated from financial history and current assets and liabilities. Typically, a credit rating tells a lender or investor the probability of the subject being able to pay back a loan. Ratings usually consist of a long-term, short term, viability and support indicators. The Fitch credit rating of F1 used by the Council is designated as "Highest Credit Quality" and indicates the strongest capacity for timely payment of financial commitments.

### **Debt Management Account Deposit Facility (DMADF)**

The Debt Management Office provides this service as part of its cash management operations and of a wider series of measures designed to improve local and central government's investment framework and cash management. The key objective of the DMADF is to provide users with a flexible and secure facility to supplement their existing range of investment options while saving interest costs for central government.

### **Debt Restructuring**

Debt restructuring is a process that allows an organisation to reduce, renegotiate and undertake replacement debt.



## **Diversification of Investments**

The process of creating a portfolio of different types of financial instruments with regard to type, price, risk issuer, location, maturity, etc. in order to reduce the overall risk of the portfolio as a whole.

## **Duration (Maturity)**

The length of time between the issue of a security and the date on which it becomes payable.

## **External Borrowing**

Money borrowed from outside of the Council.

## **Financial Instrument**

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. Typical financial liabilities are borrowing and financial guarantees. Typical financial assets include bank deposits, amounts owed by customers, loans receivable and investments.

## **Fitch Credit Ratings**

A commercial organisation providing an opinion on the relative ability of an entity to meet financial commitments, such as interest, preferred dividends, repayment of principal, insurance claims or counterparty obligations. The opinion is usually provided in the form of a credit rating.

## **Fixed Rate**

An interest rate that does not change over the life of a loan or other form of credit.

## **Floating Rate Notes**

A money market security paying a floating or variable interest rate, which may incorporate a minimum or floor.

## **Four Clauses of Treasury Management**

In compliance with the First Clause, this Council will create and maintain, as the cornerstones for effective treasury management:

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.
- Suitable Treasury Management Practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

In compliance with the Second Clause, this Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy in advance of the year, a mid year review and an annual report after its close, in the form prescribed in its TMPs.

In compliance with the Third Clause, this Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Cabinet, and for the execution and administration of treasury management decisions to the Corporate Director Resources in accordance with existing delegations, who will act in accordance with the organisation's policy statement, TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

In compliance with the Fourth Clause, this Council requires the scrutiny of the accounting, audit and commercial issues of its Treasury Management Strategy and Practices to be undertaken by the Council's Audit Committee due to the technical nature of the documents.

### **Fraud / Error Risk**

Risk of losses being incurred as a result of fraud, error or corruption in treasury management and failure to institute adequate systems, procedures and other arrangements to prevent irregularities.

### **Housing Revenue Account (HRA)**

The HRA is an account of expenditure and income that every local authority housing department must keep in accordance with the Local Government & Housing Act 1989. The account is kept separate or ring fenced from other Council activities. Income is primarily generated by the rents and service charges paid by tenants, while expenditure is on the management and maintenance of the housing stock, and capital financing charges on the HRA's outstanding loan debt.

### **Interest Rate Risk**

Risk that fluctuations in interest rates could impose extra costs against which the Council has failed to protect itself adequately.

### **Internal Borrowing**

Money borrowed from within the Council, sourced from temporary internal cash balances.

### **Investments**

The purchase of financial assets in order to receive income and/or make capital gain at a future time, however with the prime concern being security of the initial sum invested.

### **Lender Option Borrower Option Loans (LOBOs)**

Loans to the Council where the lender can request a change in the rate of interest payable by the Council at pre-defined dates and intervals. The council at this point has the option to repay the loan.

### **Liquidity**

The ability of the Council to meet its financial obligations as they fall due.

### **Market Loans**

Borrowing that is sourced from the market i.e. organisations other than the Public Works Loan Board or a Public Body.

### **Medium Term Financial Plan**

Plan outlining the financial strategies and actions that are envisaged by the Council in the medium term regarding the budget.

### **Markets in Financial Instruments Directive (MiFID)**

EU legislation that regulates firms who provide financial instrument services. MiFID was applied in the UK from November 2007, but was revised with changes taking effect from **3 January 2018 (MiFID II)**.

## Glossary of Terms

The aim is to ensure financial institutions undertake more extensive checks on their client's suitability for investment products. Organisations undertaking investments will be either classified as 'retail' or 'professional'.

MiFID II requires all Local Authorities to be initially treated as "retail clients" unless they "opt up" to a "professional client". The assumption being that retail clients require a greater level of due diligence and support for investment decision making. Financial institutions will owe a greater duty of care to retail clients, however, they will have no greater financial protection than professional clients.

### **Minimum Revenue Provision (MRP)**

This is the amount which must be charged to the authority's revenue account each year and set aside as provision for repaying external loans and meeting other credit liabilities. The prudent amount is determined having regard to guidance issued by WG. This has the effect of reducing the Capital Financing Requirement (CFR).

### **Money Market**

The market for short-term securities or investments, such as certificates of deposit, commercial paper or treasury bills, with maturities of up to one year.

### **Money Market Funds**

An investment fund which pools the investments of numerous depositors, spreading those investments over a number of different financial instruments and counterparties. Funds with a Constant Net Asset Value (CNAV) are those where the sum invested is the same on maturity, Low Volatility Net Asset Value (LVNAV) are those where any sum invested is likely to be the same on maturity. Funds with a Variable Net Asset Value (VNAV) are those where the sum on maturity could be higher or lower due to movements in the value of the underlying investments.

### **Net Asset Value (NAV)**

The market value of an investment fund's portfolio of securities as measured by the price at which an investor will sell a fund's shares or units.

### **Pooling**

The process whereby investments or loans are held corporately rather than for specific projects or parts of the Council, with recharges to those areas for their share of the relevant income and expenditure using an agreed methodology, where such a recharge is required to be made.

### **Prudential Code for Capital Finance**

The system introduced on 1 April 2004 by Part 1 of the Local Government Act 2003 which allows local authorities to borrow without Government consent, provided that they can afford to service the debt from their own resources and that any such borrowing is prudent and sustainable. This requires the preparation and approval of various indicators.

### **Public Works Loans Board (PWLB)**

The Public Works Loans Board is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

### **Refinancing Risk**

Risk that maturing borrowing or other financing of capital projects cannot be renewed on terms that reflect existing assumptions and that the Council will suffer extra costs as a result.

### **Regulatory Risk**

Risk that actions by the Council or by any person outside of it are in breach of legal powers or regulatory requirements resulting in losses to the Council, or the imposition of extra costs.

### **Ring Fencing**

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity’s core activities are not adversely affected by the acts or omissions of other members of its group.

### **Security**

Protecting investments from the risk of significant loss, either from a fall in value or from default of a counterparty.

### **Sovereign Credit Ratings**

The credit rating of a country. It indicates the risk level of the investing environment of a country, taking into account political risk and other factors.

### **Sterling**

The monetary unit of the United Kingdom (the British pound).

### **Term Deposits**

A term deposit is a money deposit at a banking institution that cannot be withdrawn for a certain "term" or period of time.

### **Treasury Management**

The management of the organisation’s borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

### **Treasury Bills**

Debt securities issued by a government with a short-term maturity of up to 6 months.

**UK Government Gilts**

Fixed-interest debt securities issued or secured by the British Government. Gilts are always denominated in sterling though the Government occasionally also issues instruments in other currencies in the Eurobond market or elsewhere.

**Variable Rate**

An interest rate that changes in line with market rates.

**Yield**

The annual rate of return paid out on an investment, expressed as a percentage of the current market price of the relevant investment.

Mae'r dudalen hon yn wag yn fwriadol

## Review of Minimum Revenue Provision (MRP)

### Purpose of this Paper

1. This paper is to appraise the Audit Committee of the outcomes of a review into the Council's Minimum Revenue Provision (MRP) policy and the resultant approach to MRP that will be recommended to Council for approval.

### Minimum Revenue Provision (MRP) – Key Terms

2. The table below explains some of the key terms used throughout this report.

Term	Explanation
<b>Capital Financing Requirement (CFR)</b>	<ul style="list-style-type: none"> <li>• The Capital Financing Requirement (CFR) is the underlying need to borrow money.</li> <li>• If the Council incurs capital expenditure without an immediate resource to pay for it (e.g. a grant or a capital receipt), it results in the need to borrow money.</li> <li>• It may not be necessary to take additional borrowing immediately, but the Council's underlying need to borrow, (its CFR), will increase.</li> </ul>
<b>Minimum Revenue Provision (MRP)</b>	<ul style="list-style-type: none"> <li>• In order to reduce the CFR, the Council has a statutory duty to make a "prudent provision" for the repayment of debt.</li> <li>• This takes the form of a charge to the revenue account, called the Minimum Revenue Provision (MRP.)</li> <li>• The MRP spreads the costs of borrowing, and helps to ensure that the Council is able to service the debt associated with the current and historic capital programmes.</li> </ul>
<b>Supported Borrowing</b>	<ul style="list-style-type: none"> <li>• Supported borrowing refers to borrowing costs that are supported by a funding allocation from Welsh Government (WG) within the Revenue Support Grant (RSG).</li> </ul>
<b>Unsupported Borrowing</b>	<ul style="list-style-type: none"> <li>• Unsupported borrowing (or prudential borrowing) is borrowing that is not supported by Government Grant. The Council must therefore determine that it can meet the borrowing costs itself from existing revenue resources or from savings (e.g. on an invest-to-save basis.)</li> </ul>

### Regulatory Background in respect of MRP

3. There is a duty on Local Authorities to make an annual charge for MRP. Previously, regulations prescribed how much an authority should charge as MRP, based on a formula linked to the CFR. However, the system was changed significantly in 2008 by the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008. These regulations, along with supplementary WG guidance, are intended to offer authorities much more local discretion in deciding the basis of their annual MRP. They replace the previous prescriptive MRP calculation with a requirement for local authorities to make a 'prudent provision' for the repayment of debt.

### What is a Prudent Provision for MRP?

4. Regulations do not specifically define what constitutes a 'prudent provision.' The responsibility for determining what is 'prudent' is a matter for individual authorities on the advice of the Council's Section 151 Officer.
5. Guidance suggests that the broad aim of a 'prudent provision' is to ensure that debt is repaid over a period reasonably commensurate with the period over which the associated capital expenditure will benefit service delivery, or in the case of supported borrowing, over a period that is reasonably commensurate with the period implicit in the determination of the RSG.
6. WG guidance provides four examples to illustrate what may constitute prudent provision and these are set out at Annex A. Whilst Local Authorities must always have regard to this guidance, alternative approaches are permissible, should a local authority determine that they are more appropriate to the local context.

### Cardiff Council's Approach to MRP

7. The Council regularly reviews its MRP policy. A high-level overview of the approaches used over the years are summarised in the table below:

Period	Supported Borrowing	Unsupported Borrowing
2004/05 – 2012/13	Straight line over 25 years	Straight line basis over 25 years / asset life if shorter
2013/14 – 2016/17	4.5% reducing balance basis	Straight line basis over 15 years for balances at that date and based on asset life going forward
2017/18 - current	4% reducing balance basis	Straight line basis / annuity based on asset life or life identified in financial modelling.

8. The Council's current policy with regards unsupported borrowing is linked to asset life. This approach is still considered appropriate and it is proposed that it remains unchanged.
9. The current approach with regards supported borrowing was previously linked to government support for debt repayment. However, it is considered that the system of local government finance has evolved considerably in recent years, to the extent that it is now difficult to relate back to the element of RSG for debt repayment. Previous links between government support for debt repayment and the annual MRP charge have been further eroded due to the reduction in overall Council funds over the last decade. It is therefore considered timely to review this aspect of the policy.

### The Approach of Other Local Authorities to MRP

10. For benchmarking and comparative purposes, the following table summarises the MRP policies of other Welsh Local Authorities with regards supported borrowing.



MRP Policy for Supported Borrowing	No of Welsh LAs
50 years (2%) Straight Line	9
45 Years (2.22%) Straight Line	2
40 Years (2.5%) Straight Line	6
50 years annuity	1
49 years annuity	1
3% reducing balance	1
4% reducing balance (including Cardiff)	2

11. Care should be taken in benchmarking information of this nature because, as already set out, what constitutes prudent provision must be determined with particular reference to local circumstances.

### MRP Review January 2020 – an overview

12. The Council last changed its MRP policy in 2017/18, following a detailed option appraisal. Whilst annual consideration is given to the setting of an appropriate policy, three years on from the last detailed appraisal, it was considered timely to conduct another in depth option appraisal in respect of potential policies. The intention to conduct an MRP review during 2019/20 was noted in the 2019/20 Budget Report.
13. The Council approached its Treasury Advisors, Link Asset Services, to conduct an independent review of the Council's MRP policy with a focus on supported borrowing. They were requested to consider alternative options that may also meet the definition of a prudent provision. The alternative options considered included:
- A straight line approach (including 30yr, 40yr, 45yr, 50yr)
  - An annuity approach (including 30yr, 40yr, 45yr, 50yr)

### MRP Review January 2020 – summary of detailed findings

14. The following table summarises the findings of Link Asset Services, comparing potential straight-line approaches to the current 4% reducing balance method. The table shows the difference in the charges to revenue that would be made if the MRP policy were to be changed to each of the listed approaches. In order to take account of the time value of money, the NPV of each option using a discount rate of 3.5% is also shown.

Year	Potential Straight Line Approaches			
	50yr SL £000	45yr SL £000	40yr SL £000	30 yr SL £000
2019/20	(5,316)	(4,725)	(3,987)	(1,772)
Years 2-5	(15,836)	(13,666)	(10,954)	(2,819)
Years 6-10	(10,660)	(8,336)	(5,430)	3,284
Years 11-25	(1,853)	3,139	9,378	28,096
Years 26-40	11,679	14,659	18,383	2,385
Years 41-60	5,926	1,340	(5,632)	(5,632)
Year 60 onwards*	(1,608)	(1,608)	(1,608)	(1,608)
<b>Total NPV @ 3.5%</b>	<b>(17,667)</b>	<b>(9,198)</b>	<b>150</b>	<b>21,935</b>

- *Years 60 onwards relate to the comparison with the 4% reducing balance method. This approach will take in excess of 300 years to fully provide for the debt.*

15. The following table summarises the findings of Link Asset Services comparing potential annuity approaches to the current 4% reducing balance method.

Year	Potential Annuity Approaches			
	50yr Annuity	45yr Annuity	40yr Annuity	30 yr Annuity
	£000	£000	£000	£000
2019/20	(7,975)	(7,462)	(6,797)	(4,510)
Years 2-5	(24,967)	(22,951)	(20,237)	(11,500)
Years 6-10	(19,088)	(16,652)	(13,406)	(3,110)
Years 11-25	(12,457)	(5,685)	3,158	30,262
Years 26-40	14,927	20,964	28,604	7,989
Years 41-60	12,308	5,399	(5,632)	(5,632)
Year 60 onwards*	(1,608)	(1,608)	(1,608)	(1,608)
<b>Total NPV @ 3.5%</b>	<b>(38,861)</b>	<b>(27,995)</b>	<b>(15,889)</b>	<b>11,891</b>

- *Years 60 onwards relate to the comparison with the 4% reducing balance method. This approach will take in excess of 300 years to fully provide for the debt.*

16. Purely in financial terms, and focussing on the NPV analysis as an overall means of comparison, the above tables suggests that the various options range from a £38.861 million saving to revenue over the medium term (under the 50 yr annuity approach) to an additional cost of £21.935 million over the medium term (under the 30 year straight line method.)
17. The next section sets out the wider considerations that need to be considered in assessing which of the above, (or indeed the current policy), is on balance, the most appropriate approach to MRP for 2020/21 onwards.

### **MRP Review January 2020 - Wider Assessment of Potential Approaches including impact on Future Generations**

18. A key factor in evaluating a potential MRP policy is its impact on Future Generations. The Wellbeing of Future Generational (Wales) Act 2015 requires authorities to ensure that decisions are sustainable whereby the needs of the present are met without compromising the ability of the future generations to meet their own needs.”
19. The following table considers the implications for MRP payments, from a future generations’ perspective of each of the three over-arching methods.

Method	Summary of Approach and the consequent MRP Provision in future
Reducing Balance	<ul style="list-style-type: none"> <li>• A reducing balance methodology for MRP front-loads provision</li> <li>• A downside of a reducing balance methodology is that it will take hundreds of years to fully provide for the debt.</li> </ul>
Straight Line	<ul style="list-style-type: none"> <li>• A straight-line methodology has a fixed end-point at which point debt will have been fully provided for (e.g. 50 years, 45 years, 40 years or 30 years under the considered scenarios.)</li> <li>• The debt burden is fully relieved over a much shorter period compared to a reducing balance basis.</li> </ul>
Annuity	<ul style="list-style-type: none"> <li>• An annuity basis takes into account the time value of money – i.e. that paying £100 in 10 years' time is less of a burden than paying it now</li> <li>• Like the straight-line method, an annuity method also has the advantage of having a fixed end-point at which point debt will have been fully provided for (e.g. 50 years, 45 years, 40 years or 30 years under the considered scenarios.)</li> <li>• A downside of this approach from a future generations' perspective is that because it adjusts for the time value of money, it weights MRP payments to future generations.</li> </ul>

20. In view of the above, a straight-line approach is considered to strike the most appropriate balance between current and future generations' perspective. Spreading debt repayments more evenly over the generations that will benefit from the associated assets, has the effect of reducing debt provision requirements in the short to medium term. This has the advantage of providing an opportunity to put the Council in a stronger position financial position for the future, by establishing a Treasury Management Reserve to mitigate key current and future risks (described in more detail in paragraph 27.)

### The Proposed Approach

21. It is proposed that it is more prudent for outstanding debt to be written down through MRP over a fixed period of 45 years, in preference to the current 4% reducing balance basis.
22. As set out in the previous section, the attraction of a straight-line methodology is that both current and future generations who make use of assets, will pay an equal and consistent amount of MRP and there is a defined point at which debt will be fully provided. The Authority's asset life is considered to be between 40 and 45 years. As such, 45 years, is considered the most appropriate of the straight-line options considered.
23. The table below outlines the impact the proposed approach would have on charges to the revenue account in the current and next five financial years:

	<b>£000</b>
2019/20	(4,725)
2020/21	(4,300)
2021/22	(3,892)
2022/23	(3,500)
2023/24	(3,124)
2024/25	(2,762)

24. Other approaches, (including an annuity approach or a 50-year straight-line approach) would result in increased revenue savings for the Authority. However, whilst the potential for revenue savings is a factor in decision-making, it is not the impetus of this review. In fact, it is proposed that the reduction in revenue charges outlined above are **not** taken as a revenue budget saving.
25. Instead, it is proposed that the revenue budget made available by changing the MRP policy is used to strengthen the Local Authority's financial resilience in respect of capital and treasury, through the development of a Treasury Management Reserve. This approach will provide the Authority with greater capacity and flexibility in a number of respects. In particular it should:
- Assist with the management of risk in relation to major projects. This would include providing flexibility to help smooth costs and to meet costs of a one off nature such as feasibility costs.
  - Assist with the management of risk in relation to the wider capital programme, including for example the timing and quantum of anticipated capital receipts.
  - Improve financial resilience by creating a specific reserve for treasury and capital risk. Cardiff's reserves are currently one of the lowest in Wales.
  - Assist in mitigating any future adverse changes to interest rates, as well as providing an element of flexibility as to the timing of borrowing.
  - Assist with asset management planning and asset maintenance strategies.
  - Assist in managing any timing issues associated with Invest to Save Schemes
  - Act as a mitigation for any potential future changes in WG policy re: supported borrowing within the RSG.

### Summary

26. It is proposed that there is a change in approach to MRP policy from a 4% reducing balance basis to a 45-year straight-line basis. The revised MRP policy recommended for Council to approve is include in the Draft Treasury Management Strategy for 2020/21. It is also proposed that this policy will apply from the 2019/20 financial year.

## **Annex A**

### **Annexe A – Options for prudent provision – Extract from WG Guidance (First Issued 2008)**

#### **Option 1: Regulatory Method**

MRP is equal to the amount determined in accordance with the former 2003 regulations, as if they had not been revoked by the 2008 Regulations. For the purposes of that calculation, the Adjustment A should normally continue to have the value attributed to it by the authority in the financial year 2004- 05.

#### **Option 2: CFR Method**

MRP is equal to 4% of the non-housing CFR at the end of the preceding financial year.

#### **Option 3: Asset Life Method**

Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP is to be determined by reference to the life of the asset. There are two main methods by which this can be achieved, as described below. Under both variations, authorities may in any year make additional voluntary revenue provision, in which case they may make an appropriate reduction in later years' levels of MRP.

##### **(a) Equal instalment method**

MRP is the amount given by the following formula:

$$\frac{\mathbf{A - B}}{\mathbf{C}}$$

where-

**A** is the amount of the capital expenditure in respect of the asset financed by borrowing or credit arrangements

**B** is the total provision made before the current financial year in respect of that expenditure

**C** is the inclusive number of financial years from the current year to that in which the estimated life of the asset expires.

## **(b) Annuity method**

MRP is the principal element for the year of the annuity required to repay over the asset life the amount of capital expenditure financed by borrowing or credit arrangements. The authority should use an appropriate interest rate to calculate the amount. Adjustments to the calculation to take account of repayment by other methods during the repayment period (eg by the application of capital receipts) should be made as necessary.

Commencement of provision. Subject to paragraph 13 below, MRP should normally commence in the financial year *following* the one in which the expenditure was incurred.

Asset life. The estimated life of the asset should be determined in the year that MRP commences and not subsequently be revised.

Freehold land. If no life can reasonably be attributed to an asset, such as freehold land, the life should be taken to be a maximum of 50 years. However, in the case of freehold land on which a building or other structure is constructed, the life of the land may be treated as equal to that of the structure, where this would exceed 50 years.

MRP commencement. When borrowing to provide an asset, the authority may treat the asset life as commencing in the year in which the asset first becomes operational. It may postpone beginning to make MRP until the financial year following the one in which the asset becomes operational. "Operational" here has its standard accounting definition. Investment properties should be regarded as becoming operational when they begin to generate revenues.

## **Option 4: Depreciation Method**

MRP is to be equal to the provision required in accordance with depreciation accounting in respect of the asset on which expenditure has been financed by borrowing or credit arrangements. This should include any amount for impairment chargeable to the Income and Expenditure Account.

For this purpose standard depreciation accounting procedures should be followed, except in the following respects:

- (a) MRP should continue to be made annually until the cumulative amount of such provision is equal to the expenditure originally financed by borrowing or credit arrangements. Thereafter MRP shall be zero.
- (b) On disposal of the asset, the charge should continue in accordance with the depreciation schedule as if the disposal had not taken place. But this does not affect the ability to apply capital receipts or other funding sources at any time to repay all or part of the outstanding debt.
- (c) Where the percentage of the expenditure on the asset financed by borrowing or credit arrangements is less than 100%, MRP should be equal to the same percentage of the provision required under depreciation accounting.

## **CONDITIONS FOR USING THE OPTIONS**

Options 1 and 2 may only be used in relation to:

- (a) capital expenditure incurred before 1 April 2008; and
- (b) capital expenditure incurred on or after that date which the authority is satisfied forms part of its Supported Capital Expenditure.

For expenditure incurred on or after 1 April 2008 which does not form part of the authority's Supported Capital Expenditure, prudent approaches include Options 3 and 4 (which may also be used at the authority's discretion in relation to all capital expenditure, whether or not supported and whenever incurred).

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**AUDIT COMMITTEE: 21 January 2020**

**INTERNAL AUDIT PROGRESS REPORT**

**REPORT OF THE AUDIT MANAGER**

**AGENDA ITEM: 10.1**

**Appendices D and E of the report are not for publication as they contain exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972**

**Reason for this Report**

1. Audit Committee's Terms of Reference requires that Members consider reports from the Audit Manager on Internal Audit's performance during the year.
2. A progress report has been prepared to provide Audit Committee Members with an update on the work of Internal Audit as at 31 December 2019 for the current financial year.

**Background**

3. The Audit Committee agreed the risk-based Audit Plan 2019-20 on 2 April 2019. A progress report is prepared for each Committee meeting to provide a meaningful update on the work and performance of Internal Audit over the reporting period. As part of progress updates, there is an opportunity to consider emerging risks, issues and sources of assurance, and to potentially refocus priorities. Prior to presentation to Audit Committee, the progress report is discussed with the Corporate Director Resources.
4. In accordance with PSIAS 2010 (Planning), the risk-based plan is linked to an Audit Strategy. The Audit Strategy provides the strategic intentions of the audit service, and outlines how the audit service is developed and delivered in accordance with the Audit Charter. Audit Committee considered the Audit Strategy in its meeting in June 2019.
5. The Internal Audit Section reports to the Audit Manager. To meet the provisions of PSIAS 1100 (Organisational Independence), the Audit Manager is not responsible for managing any functions beyond the Investigations and Internal Audit teams. The Audit Manager reports administratively to the Head of Finance and functionally to the Audit Committee for audit-related matters. There have been no impairments of independence or objectivity.

**Issues**

6. The Internal Audit Progress Update (**Annex 1**) sets out performance in relation to the Internal Audit Plan, for the period to 31 December 2019. It summarises the work performed, the priority recommendations raised, the critical findings, emerging trends, and relevant value for money findings across the Council for the assurance of the Audit Committee.

## Audit Delivery

7. **Appendix A** shows a list of audits and their reporting status in the current year until 31 December 2019. This includes all outputs finalised since April 2019, and all draft outputs issued at the reporting date.
8. There have been twenty-two new audit outputs in the reporting period, and twelve audit outputs have been concluded and finalised. Outputs have been issued with an opinion of effective or effective with opportunity for improvement in 75% of the audit opinions provided in 2019-20, as at 31 December 2019. There were 79 reports issued to at least draft report stage at the end of quarter three. Although this is below the proportionate target for this point in the year, it is in line with the quarter three position in 2018/19.
9. A small number of factors have affected the delivery of the audit plan over quarter 3. Firstly, there has been an increase in the number of short-term sickness absences within the team. One long-term sickness case, which commenced in quarter 3, is ongoing. Additionally, an adjusted approach to delivering thematic audit engagements, through which senior team members have been allocated a lead role, has contributed to slippage in audit delivery. The approach has offered developmental benefits for lead auditors, and supported co-ordinated delivery of audit engagements in key assurance areas. Whilst most audits are materially complete, a number of the thematic audits had not been issued by the end of the quarter as planned, and will follow in quarter 4.
10. One new audit engagement has been added to the audit plan since the last reporting period, which is highlighted in 'green' in the Audit Plan (**Appendix B**). The audit is in respect of Bereavement Services, for which an assurance audit engagement of systems and processes has been requested by the Director to take place in quarter 4. The audit is relatively small, and accordingly has been agreed within the authority delegated to the Audit Manager (via the Audit Charter 2019-20).
11. If there is a continuation of the current rates of sickness in quarter 4, or other factors, which could affect the productive audit resource, the team will deliver a lower proportion of the audit plan than 2018/19. The Audit Manager considers that reasonable slippage can be accepted, as the audit plan has been delivered in a targeted, risk-based manner, to ensure that throughout the year, a comprehensive assurance opinion is being developed. Audit Committee will also be aware from the benchmarking information provided in September and November 2019 (Welsh Local Authorities and Core UK Cities) that there are a higher number of audit engagements delivered annually in Cardiff Council than the average for each benchmarking group.
12. Further information on audit progress, and the audits targeted for delivery in quarter 4 are provided below:
  - There has been significant progress in the delivery of the thematic audits of asset management and health and safety across all directorates. These audits will be concluded in early quarter 4, and thematic work on commissioning and procurement will then commence. The final thematic study of income and debtors is targeted to be carried forward to 2020-21
  - Many fundamental audits have been completed, and the audits to be completed in quarter 4 are payroll in-year testing, recruit, and pensions and investments in-year testing. It is intended to carry forward fundamental audits of establishment reviews and creditor year-end testing, for completion in 2020-21 based on the creditors work

already completed this year, and the level of roll out of the DigiGOV establishment review module.

- The delivery of corporate governance audits has been relatively strong, and audits of governance, performance management and ICT Project audits are targeted for delivery in quarter 4. The objectives of the audits of wellbeing of future generations and delegations and decision-making are intended to be delivered in 2020-21.
- A range of follow up audits are targeted for delivery in quarter 4, for assurance on the progress made in addressing the improvements required from unsatisfactory audits. These audits are highlighted in blue in the Audit Plan (Appendix B). A number of other assurance and directorate-level audits are also planned for delivery.

### Audit Findings

13. Section 2.3 of Annex 1 provides details of the critical findings and emerging trends from audit work for the reporting period ending 31 December 2019, with focus given to unsatisfactory and insufficient with major improvement audit assurance.
14. Since the last reporting period, one final audit report has been issued with an '*unsatisfactory*' audit opinion, for which an outline of the draft findings were reported to Audit Committee in its meeting of 12 November 2019. Accordingly, the executive summary is attached in **Appendix C** to this report.
15. There were five draft reports issued, for which opinions of '*insufficient with major improvement*' have been allocated over the reporting period for which the findings are outlined below:
  - An audit of IT Inventory and Asset Management recognised a consistent regime for logging IT assets upon acquisition by central IT service for support and servicing purposes. However, limited IT inventory records were held and maintained at a directorate level. It has been reported that there is a need to communicate clear processes to reaffirm the responsibility to service management for maintaining a register of IT assets and a system of periodic independent checks, for assurance that all IT assets are properly accounted for and held by the officers to which they have been assigned.
  - An audit of the contract of Domiciliary Care, through which approximately £23.5m of care is provided per annum, identified generally effective contract management practices, and project-based arrangements to prepare for the commission a new contract. However, whilst there were checks in place to mitigate the risk of payments being made for service receipts (invoices) which exceeded an approved package of care, and to follow up on any changes of circumstance which may have an impact on care packages (e.g. hospital, respite stays, service termination etc.) there was no checking regime prior to payment to confirm the actual receipt of services. Management have been recommended to develop a process to systematically verify services delivered as part of control processes.
  - An audit of Health and Safety within Waste Management services recognised significant management attention and response to high-risk areas. There was joint working with the corporate health and safety team to review risk assessments to support a consistent and co-ordinated approach across the directorate. However, through discussions with, and observations of, operatives during audit visits, there

were some gaps in their understanding and application of safe working practices. The auditor observed two cases during site visits where health and safety practices were not being followed, which were reported to operational management by the auditor. Recommendations have focussed on the need to translate good risk management into consistent application across the service.

- The audit team reviewed processes and systems within the Film Office, which operates as a traded and self-funding Cardiff Council Service within the Economic Development directorate to promote and facilitate filming in Cardiff. Whilst the service has delivered a balanced budget, there was insufficient guidance and training for operational staff, in key areas such as finance, procurement and information governance. A process to properly record and verify income due and received needed to be established. Concerns were also raised in respect of a web-based film application and permit system, for which a data protection impact assessment had not been completed. Management have been signposted to the information governance team, in order for all necessary requirements to be met.
- An audit of Health and Safety within Waste Management services recognised significant management attention and response to high-risk areas. There had been good joint working with the corporate health and safety team to review risk assessments to support a consistent and co-ordinated approach across the directorate. However, through discussions with, and observations of, operatives during audit visits, there were some gaps in their understanding and application of safe working practices. The auditor observed two cases during site visits where health and safety practices were not being followed, which were reported to operational management by the auditor. The cases observed illustrate the cultural challenges that management are focussing on, to translate good risk management awareness into consistent application across the service.
- Section 2.4 of Annex 1 provides the pertinent value for money findings over the reporting period, in which there were no value for money themed audits undertaken within the reporting period. The vast majority of audits undertaken by the Internal Audit Team have objectives which cover value for money assurances, from which a general satisfactory level of assurance can be provided for the reporting period. However, within the audits of a lower assurance opinion, there were control gaps, which need to be addressed to provide assurance that the objectives of these services are being run with proper attention to a combination of economy, efficiency and effectiveness.

### Performance

16. In respect of quarter 3 performance, the reports issued and finalised were on target, as were the average number of productive days per employee (FTE). The percentage of audit recommendations implemented within the agreed timescales has seen a level of improvement from the prior quarter, but continued attention is required in this area as performance remains significantly below target.
17. There were 79 reports issued to at least draft report stage at the end of quarter 3. Although this is below the proportionate target for this point in the year, it is in line with the quarter 3 position in 2018/19. In line with the below target delivery of the plan, the average number of finalised audits per FTE will need to improve in quarter 4.

18. Further information on quarter 3 performance is included within 3.2 of Annex 1.

Audit Recommendations

19. The recommendations and progress at the reporting date are provided in the following appendices.

<b>Appendix D</b>	Contains the red & red / amber open recommendations
<b>Appendix E</b>	Contains the red and red / amber recommendations completed since the last Audit Committee in November 2019.

**Legal Implications**

20. There are no legal implications arising from this report.

**Financial Implications**

21. There are no direct financial implications arising from this report.

**RECOMMENDATIONS**

22. That the Audit Committee:

- Note and consider the contents of the Progress Report.

**CHRIS PYKE**  
**AUDIT MANAGER**

The following are attached:

<b>Annex 1</b>	Internal Audit Progress Report
Appendix A	Report Status as at 31 December 2019
Appendix B	Audit Plan
Appendix C	Executive Summary – Fly Tipping
Appendix D	Red & red / amber open recommendations
Appendix E	Red & red / amber recommendations completed since last Committee

Mae'r dudalen hon yn wag yn fwriadol



# Resources Directorate Internal Audit Section



## Internal Audit Progress Report (as at 31 December 2019)

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# INTERNAL AUDIT PROGRESS REPORT

## 1. INTRODUCTION

### 1.1 Background

The Internal Audit plan for 2019/20 was approved by the Audit Committee at its meeting in April 2019. The plan provides the framework for audit work each year and is aligned to the Council's corporate governance arrangements, whilst also being responsive to any changes to the risks faced by the Council during the year.

The Internal Audit plan for 2019/20 is made up of a total of 2,706 days, with a total of 1,990 chargeable days for the audit team being agreed. This report serves to provide an update on progress against the plan to 31 December 2019.

### 1.2 Independence and objectivity

The Internal Audit section reports to the Audit Manager. In line with the provisions of the Public Sector Internal Audit Standards (1100), organisational independence is maintained, as the Audit Manager is not responsible for managing any functions beyond the Internal Audit and Investigation teams. The Audit Manager reports administratively to the Head of Finance and functionally to the Audit Committee for audit-related matters. There have been no impairments of independence or objectivity.

### 1.3 Continuing Professional Development

The Personal Reviews of performance during 2018/19 were completed by the end of May 2019. The Personal Review process enabled each member of the audit service to discuss progress against agreed objectives, and to consider and agree their overall performance for the year.

Prior to discussing performance, each auditor completed a skills assessment in application of the IIA Professional Competencies Framework. The results have informed both the Personal Review process, and the annual internal Audit Manager review against the Quality Assurance and Improvement Programme (Standard 1300), from which a generally strong baseline of knowledge and skills are held across the audit team.

The new objectives for 2019/20 were discussed with the members of the team and agreed in accordance with the Council's deadline of the end of June.



## 2. SUMMARY OF WORK PERFORMED

### 2.1 Current Activities

The report to Audit Committee in April 2019 set the scene for audit coverage for the year and the planned assignments have been set up in the audit planning, monitoring and control database. Priority has been given to any audits planned for 2018/19 but not completed during that year.

All Auditors have continued to be allocated at least three months' work in advance, with an expectation that their assignments will be effectively managed and delivered. This approach focuses on outcomes, improving performance and the timeliness of reporting.

**Appendix A** shows a list of audits and their reporting status in the current year until the end of 31 December 2019. The listing will include all reports finalised since April 2019, and all new and existing draft reports as at the reporting date.

The table below shows audit outputs separated into those which are new for 2019/20, meaning that a draft report had not been issued in the prior year, and those which were at draft status in 2018/19, but have since been finalised.

**Figure 1.** Audit outputs in 2019/20 (at 31 December 2019)

	Audit	Status as at 31.12.19
<b>NEW Audit Outputs (for 2019/20)</b>		
1	Regional Partnership Board	Draft output issued
2	Insurance	
3	Ysgol Plasmawr – ICT Governance	
4	Treasury Management – In-year testing	
5	Audit of Scrutiny Functions	
6	Ethics and values - Business and Personal Interests	
7	Fly Tipping	
8	Strategic Estates - Processes	
9	Direct Payments	
10	Deprivation of Liberty Safeguards	
11	Learning Disabilities	
12	Roath Park Primary School	
13	Governance and Legal Services - Asset Management	

14	Income Collection in Schools		
15	Governance and Legal Services – Health and Safety		
16	People and Communities – Health and Safety		
17	Waste Management – Health and Safety		
18	Kitchener Primary - Counter-fraud arrangements		
19	Hawthorn Primary - Counter-fraud arrangements		
20	Allensbank Primary - Counter-fraud arrangements		
21	The Hollies - Counter-fraud arrangements		
22	Eastern High - Counter-fraud arrangements		
23	Corpus Christi - Counter-fraud arrangements		
24	Identification and Access Management		
25	IT inventory and Asset Management		
26	St. Francis Primary School		
27	Film Unit		
28	Domiciliary Care		
29	Education Improvement Grant 2018/19		Final output issued
30	Joint Committees - Prosiect Gwyrdd		
31	Joint Committees – Port Health Authority		
32	Joint Committees - Glamorgan Archives		
33	Cardiff Further Education Trust Fund		
34	Storey Arms		
35	Housing Rents		
36	Purchasing Cards (CTS)		
37	Resources – Budgeting and forecasting		
38	Personal Review Process		
39	Radyr Comp – ICT Governance		
40	Llanishen High – ICT Governance		
41	Fitzalan High – ICT Governance		
42	Cardiff High – ICT Governance		
43	Cathays High – ICT Governance		
44	Value for Money – Agency workers, interims and consultants		
45	Music Service – income review follow up		
46	Joint Equipment Stores		
47	Education – Income Processes		

48	Payroll – In-year testing	
49	Bulky Waste	
50	Responsive Repairs	
51	St. Teilo’s - ICT governance	
52	VFM – enforcement	
53	Payroll overpayments	
54	VFM – overtime	
55	Into Work Grant Streams	
56	Bishop of Llandaff – ICT Governance	
57	Cantonian – ICT Governance	
58	Windsor Clive Primary School	
59	Risk Based Verification	
60	St. Peter's Out of School Club and Governors' Fund	
61	Local Housing Allowances 2018/19	
62	Stock systems (Vectec)	
63	Ethics and values – Gifts and Hospitality	
64	Bilingual Cardiff	
65	Education - Commissioning of independent investigations	
66	Stock systems (Tranman)	
67	Building Control	
68	Main Accounting – In year testing	
69	Information Governance	
70	St Peter’s Private Fund	
71	St. Illtyd’s RC High School	
72	Payroll – CRSA	CRSA completed
73	Treasury Management - CRSA	
74	NNDR – CRSA	
75	Main Accounting - CRSA	
76	Pensions and Investments - CRSA	
77	Creditor Payments & Processing - CRSA	
78	Counter-fraud in schools - CRSA development	CRSA developed
79	Contract guidance for schools	Guidance developed
Concluded Reports from the prior year at 31.12.19		
80	Atebion Solutions	Final output issued

81	Risk management arrangements
82	Sickness absence processes
83	County Hall Canteen
84	Education Improvement Grant
85	Youth Innovation Grant
86	Creditors 2018/19
87	St. Peter's R.C. Primary School
88	Willows High School
89	Ysgol Glantaf
90	Health and Safety Framework
91	Contracts in Waste Management
92	Gatehouse
93	Whitchurch High School
94	Norwegian Church Trust
95	Communities - Partnership & Collaborative Governance
96	Music Service Expenditure Review
97	IT Governance
98	Cloud Computing
99	Stock Check Observation - Lamby Way
100	Stock Check observation - Brindley Road

The opinions given in outputs issued to 31 December 2019 are shown in the table below. The majority of audit opinions allocated through drafts issued have recognised a sufficient level of internal control and governance in the areas reviewed.

**Figure 2.** Audit outputs and opinions (at 31 December 2019)

Output Stage	Number of outputs	Opinion				No opinion given
		Effective	Effective with opportunity for improvement	Insufficient with major improvement needed	Unsatisfactory	
Draft	28	3	16	8	1	0
Final	72	2	42	9	3	16
<b>TOTAL</b>	100	5	58	17	4	16

Since the last reporting period, five draft reports have been issued with opinions of insufficient with major improvement needed, and one draft report has been finalised issued with an opinion of

unsatisfactory assurance. Information on the findings of these reports is provided within Section 2.3 – Critical Findings or Emerging Trends.

Further to the table above, the outputs that were not been given an assurance opinion and the reasons for this were as follows:

**Figure 3.** Outputs without an assurance opinion (at 31 December 2019)

Audit	Comments
Payroll – CRSA completed	CRSA completed and discussed with payroll colleagues
Treasury Management – CRSA completed	CRSA completed and discussed with Treasury Management colleagues
NNDR – CRSA completed	CRSA completed and discussed with Revenue Services colleagues
Main Accounting – CRSA completed	CRSA completed and discussed with Accountancy colleagues
Creditor Payments & Processing - CRSA completed	CRSA completed and discussed with Finance colleagues
Education – income processes	Consultation review consolidating discrete assurance reviews – no further audit opinion.
Joint Committees - Prosiect Gwyrdd	Work to support completion of Statement of Accounts, 2018/19
Joint Committees - Port Health Authority	
Joint Committees - Glamorgan Archives	
Cardiff Further Education Trust Fund	Completion of audit of accounts for 2017/18
Schools Contract guidance development	Guidance for schools on contracts, tendering, etc. and the publication of an exemplar policy.
Counter-fraud in schools – CRSA developed	Development of a counter-fraud CRSA for Schools.
Pensions and Investments - CRSA	CRSA developed and being completed by Finance colleagues
Risk Based Verification	Consultancy on the draft policy and controls in the proposed Northgate Module.
St. Peter's Out of School Club and Governors' Fund	Audit certification.
St Peter's Private Fund	Audit certification.

## 2.2 Annual plan

The annual plan was agreed by Audit Committee at its meeting in April 2019 and was designed to be risk based and co-ordinated in application of the “three lines of defence” model. Assurance mapping exercises are carried out at periodic intervals during the year.

One new audit engagement has been added to the audit plan since the last reporting period, which is highlighted in ‘green’ in the Audit Plan (**Appendix B**). The audit is in respect of Bereavement Services, for which an assurance audit engagement of systems and processes has been requested by the Director to take place in quarter 4. The audit is relatively small, and

accordingly has been agreed within the authority delegated to the Audit Manager (via the Audit Charter 2019/20).

The approach to auditing health and safety within the People and Communities Directorate was subject to adjustment over the reporting period. During initial audit fieldwork, the decision was taken to audit and report upon waste management as a separate assurance engagement, as there were material differences in systems, and indicative audit opinion of the separate areas at this stage. The draft reports have issued in quarter 3, for which a lower assurance opinion has been provided in respect of waste management, for which further details are provided within the following section of this report.

### 2.3 Critical findings or emerging trends

In accordance with PSIAS, Internal Audit is required to report to Audit Committee on critical findings or emerging trends. Within this section, particular attention is drawn to the findings of the reports, which provided audit opinions of lower assurance over the reporting period, with findings reported on an exception basis. A number of the reports referred to below are at a draft status, for which the findings will be discussed with management, and once the reports are finalised, the final opinion and recommendations will be reported to Audit Committee.

Since the last reporting period, one final audit report has been issued with an '*unsatisfactory*' audit opinion, for which an outline of the draft findings were reported to Audit Committee in its meeting of 12 November 2019. Accordingly, the executive summary is attached in **Appendix C** to this report.

There were five draft reports issued, for which opinions of '*insufficient with major improvement*' have been allocated over the reporting period. Firstly, an audit of IT Inventory and Asset Management recognised a consistent regime for logging IT assets upon acquisition by central IT service for support and servicing purposes. However, limited IT inventory records were held and maintained at a directorate level. It has been reported that there is a need to communicate clear processes to reaffirm the responsibility to service management for maintaining a register of IT assets and a system of periodic independent checks, for assurance that all IT assets are properly accounted for and held by the officers to which they have been assigned.

An audit of the contract of Domiciliary Care, through which approximately £23.5m of care is provided per annum, identified generally effective contract management practices, and project-based arrangements to prepare for the commission a new contract. However, whilst there were checks in place to mitigate the risk of payments being made for service receipts (invoices) which exceeded an approved package of care, and to follow up on any changes of circumstance which may have an impact on care packages (e.g. hospital, respite stays, service termination etc.) there was no checking regime prior to payment to confirm the actual receipt of services. Management have been recommended to develop a process to systematically verify services delivered as part of control processes.

An audit of Health and Safety within Waste Management services recognised significant management attention and response to high-risk areas. There had been good joint working with the corporate health and safety team to review risk assessments to support a consistent and co-ordinated approach across the directorate. However, through discussions with, and observations of, operatives during audit visits, there were some gaps in their understanding and application of safe working practices. The auditor observed two cases during site visits where health and safety practices were not being followed, which were reported to operational management by the auditor. The cases observed illustrate the cultural challenges that management are focussing on, to translate good risk management awareness into consistent application across the service.

The audit team reviewed processes and systems within the Film Office, which operates as a traded and self-funding Cardiff Council Service within the Economic Development directorate to promote and facilitate filming in Cardiff. Whilst the service has delivered a balanced budget, there was insufficient guidance and training for operational staff, in key areas such as finance, procurement and information governance. A process to properly record and verify income due and received needed to be established. Concerns were also raised in respect of a web-based film application and permit system, for which a data protection impact assessment had not been completed. Management have been signposted to the information governance team, in order for all necessary requirements to be met.

An audit of St Francis Primary School recognised recent improvements in financial controls, with a number of policies being ratified by the Governing Body, the development of an Authority List and improvements in some areas of record keeping. However, the auditor was unable to locate all records, as there was a gap in the documentation available in the school. Attention was

needed for the control of contracts and leases, for which the school did not have documented procedures, and there was no register of leases or contracts in place, or records of comparative quotes obtained prior to establishing contracts to demonstrate best value. Orders were also being raised retrospectively upon receipt of invoices, rather than using the invoice to match any payment to an approved order.

#### 2.4 Value for Money findings

There were no value for money themed audits undertaken within the reporting period.

The vast majority of audits undertaken by the Internal Audit Team have objectives which cover value for money assurances, from which a general satisfactory level of assurance can be provided for the reporting period. However, within the audits of a lower assurance opinion, there were control gaps, which need to be addressed to provide assurance that the objectives of these services are being run with proper attention to a combination of economy, efficiency and effectiveness.

#### 2.5 Resources

There have been 1,380 chargeable days to 31 December, against a pro-rata plan of 1,493 days, which includes all operational auditors and the audit assistant. As outlined in previous progress reports, it has been agreed for a senior auditor to reduce their hours temporarily from 37 to 32 hours per week for the financial year 2019/20, for which the planned days have been adjusted.

Since the last progress report one member of the team has completed their final CIA exam and qualified with the IIA. Two members of the team continue to be supported through a CIA qualification with the IIA. One auditor is working towards their third and final exam, and one auditor is working towards their second exam. The team also contains a CIPFA trainee who is progressing well in their second year of the three year professional qualification, having passed all exams to date.

### **3. AUDIT PERFORMANCE AND ADDED VALUE**

#### 3.1 Added value

Relationship Manager meetings have been arranged with every Director and diarised for quarterly meetings throughout 2019/20. These are useful in progressing matters relating to audits completed and planned; and for discussing corporate and directorate risks, issues and



areas for potential audit input. Meetings were held with Directors in October / November 2019 to review the audits undertaken in quarter 2, those planned for quarter 3 and any changes to internal controls that could affect the audit plan. The changes to the audit plan, informed by these meetings and wider considerations, are detailed in section 2.2 (Annual Plan).

Audit has issued 50 client questionnaires this year (as at 31 December) and has received 24 responses (a response rate of 48%). One question asked of clients is whether they considered that the audit work added value to their service; 21 out of the 24 clients responded to advise that it did. Since the last reporting period one client felt the audit did not add value, as they were aware of what they needed to address, and whilst the audit action plan did not provide anything new, the client considered that it helped them to structure their work. The client views in respect of two previous cases, one where the client considered the audit did not add value, and another in which the question was not answered, were reported to Audit Committee in the meeting of 12 November 2020.

In the reports issued to date (as at 31 December), there have been 574 recommendations made, of which audit clients have agreed 351, with 223 presently being considered through draft audit reports. These are summarised below:

**Figure 4.** Recommendations raised and agreed

Rating	Recommendations made	Recommendations agreed	Recommendations being considered
Red	30	18	12
Red / amber	280	178	102
Amber / green	214	121	93
Green	50	34	16
<b>TOTAL</b>	<b>574</b>	<b>351</b>	<b>223</b>

### 3.2 Benchmarking and Performance

The audit team is a member of the Welsh Chief Auditors and Core Cities benchmarking groups. The position in respect of the Welsh Chief Auditors was reported to the Audit Committee in the progress report on 10 September 2019, and the Core Cities position was reported on 12 November 2019.

The table below shows the actual performance achieved in 2018/19 and the targets and outcomes for 2019/20 to date.

**Figure 5.** Performance against targets for 2019-20 (to date)

Performance Indicator	2018/19 Outcome	2019/20 Target	Q1 Outcome	Q2 Outcome	Q3 Outcome
The percentage of audit reports delivered within six weeks	78%	85%	80%	71%	79%
The average number of audit productive days per FTE	142	170	42	86	132
The average number of finalised audits per FTE	12	12	3	6	8
The percentage of audit recommendations implemented within the agreed timescale	67%	90%	52%	59%	64%
The percentage of the audit plan completed	77%	80%	19%	35%	49%

For the quarter 3 position, the average number of productive days per auditor was strong and there was an improvement against the previous quarter on the level of audit reports delivered within six weeks. The level of audit recommendations implemented on time was improving, but continued attention is required in this area as performance remains significantly below target.

There were 79 reports issued to at least draft report stage at the end of quarter 3. Although this is below the proportionate target for this point in the year, it is in line with the quarter 3 position in 2018/19. In line with the below target delivery of the plan, the average number of finalised audits per FTE will need to improve in quarter 4.

A small number of factors have impacted on the delivery of the audit plan over quarter 3. Firstly, there has been an increase in the number of short-term sickness absences within the team. One long-term sickness case, which commenced in quarter 3, is ongoing. Whilst the audit team has benefitted from having low rates of sickness for some time, the recent increase in sickness has had an impact on the conclusion of fieldwork in a number of audit engagements.

This quarter an adjusted approach to delivering thematic audit engagements, has also contributed to slippage in audit delivery. The audits of 'asset management' and 'health and safety' have been delivered through empowering lead senior members of the audit team to co-

ordinate the audit engagements across all directorates. Lead auditors have supported initial risk assessments, the approach to planning and delivery, and have provided ongoing advice and guidance to operational auditors. The approach has offered developmental benefits for lead auditors, and supported co-ordinated delivery of audit engagements in key assurance areas. Whilst most audits are materially complete, a number of the thematic audits had not been issued by the end of the quarter as planned, and will follow in quarter 4.

Although there has been slippage on audit delivery, 60% of the audit plan has been actively worked upon, and materially progressed at the end of quarter 3. The remaining quarter 3 allocation is due to be issued in January 2020, and further information on the work targeted for quarter 4 is provided in section 3.3 – Audit Plan Delivery.

### 3.3 Audit Plan Delivery

In addition to monitoring and managing the numbers of audits delivered, audit engagements are allocated in order to ensure that there is a breadth of assurance by the financial year-end, upon which to provide a complete audit manager annual opinion.

All audits have been assigned for quarter 4, and although the performance target was set to deliver 80% of the audit plan, the priority is extensive audit coverage and assurance. A substantial number of audit engagements have already been completed with a good breadth of audit coverage.

If there is a continuation of the current rates of sickness in quarter 4, or other factors which could affect the productive audit resource, the team will deliver a lower proportion of the audit plan than 2018/19. The Audit Manager considers that reasonable slippage can be accepted, as the audit plan has been delivered in a targeted, risk-based manner, to ensure that throughout the year, a comprehensive assurance opinion is being developed.

Audit Committee will be aware from the benchmarking information provided in September and November 2019 (Welsh Local Authorities and Core UK Cities) that there are a higher number of audit engagements delivered annually in Cardiff Council than the average for each benchmarking group. In allocating 80% of the audit plan, the Audit Manager is targeting actual delivery comparable with 2018/19, with the expectation that the audits not delivered will be materially progressed, with indicative audit opinions formed to support the annual opinion.

Further information on audit progress, and the audits targeted for delivery in quarter 4 are provided below:

- There has been significant progress in the delivery of the thematic audits of asset management and health and safety across all directorates. These audits will be concluded in early quarter 4, and thematic work on commissioning and procurement will then commence. The final thematic study of income and debtors is targeted to be carried forward to 2020/21.
- Many fundamental audits have been completed, and the audits to be completed in quarter 4 are payroll in-year testing, recruit, and pensions and investments in-year testing. It is intended to carry forward fundamental audits of establishment reviews and creditor year-end testing, for completion in 2020/21 based on the creditors work already completed this year, and the level of roll out of the DigiGOV establishment review module.
- The delivery of corporate governance audits has been relatively strong, and audits of governance, performance management and ICT Project audits are targeted for delivery in quarter 4. The audits of wellbeing of future generations and taxation are intended to be carried forward to 2020/21. The audit of delegation and decision making is deferred for the time being, but it is intended for the objectives to be delivered as part of a proposed thematic audit of 'pre-contract assurance', as referred to in summary audit plan for 2020/21, within agenda item 10.3.
- A range of follow up audits are targeted for delivery in quarter 4, for assurance on the progress made in addressing the improvements required from unsatisfactory audits. These audits are highlighted in blue in the Audit Plan (Appendix B). A number of other assurance and directorate-level audits are also planned for delivery.

### 3.4 Recommendations

Included within **Appendix D** are the red and red/amber open recommendations including the current management response for the information and monitoring of the Audit Committee. **Appendix E** contains the red and red/amber recommendations, which have been completed

since the last Audit Committee Meeting. Amber / green and green recommendations are provided to Committee via a separate route.

The table below shows the instances where implementation dates have been revised by audit clients on SharePoint (as at 31.12.19). This reporting mechanism is used to monitor progress and target discussions on the effective management of risk management in relationship management meetings each quarter.

**Figure 6.** Revised recommendation implementation dates and status

Directorate / Audit Category	Number of recommendations with revised dates	Actions now implemented	Actions still open
Education and Lifelong Learning	43	12	31
Social Services	18	13	5
Resources	7	4	3
Housing and Communities	6	5	1
Planning Transport and Environment	9	8	1
Street Scene	37	24	13
Central Transport Services	3	3	0
Economic Development	14	9	5
External and grants	0	0	0
Fundamental	5	0	5
Corporate Governance	2	2	0
Governance and Legal Services	1	0	1
Other assurance	9	3	6
	154	83	71
Schools	114	54	60
<b>TOTAL</b>	<b>268</b>	<b>137</b>	<b>131</b>

#### 4. **CONCLUSION**

##### 4.1 Summary

Whilst the delivery of the audit plan at the quarter 3 position is comparable with last financial year, it is below target. Slippage on the audit plan has been caused by a spike in sickness, and the conclusion of two sets of thematic audit engagements. Through the thematic audits, a new approach has been trailed to develop senior members of the team to co-ordinate and supervise each directorate audit. This approach is considered to be positive for development and co-ordinated delivery, but has caused some slippage in issuing the respective draft reports to a number of directorates.

Audits have been allocated for delivery in quarter 4 to provide a breadth of assurance in inherently high-risk areas. A series of follow up audits are also planned for assurance on the implementation of control improvements for audit reports where unsatisfactory audit opinions have been provided, in accordance with the Audit Protocol.

### Report Status (as at 31 December 2019)

Audit Opinion	Audit Area	High Risk Recommendations		Status (If not Final)
		Proposed	Agreed	
<b><i>Fundamental / High</i></b>				
Effective	Resources - Budgeting and forecasting 2019-20			Drafts Issued
	Main Accounting – In Year Testing			
	Treasury Management – In-year testing			
	Health and Safety - People and Communities			
Effective with opportunity for improvement	Health and Safety Framework			Drafts Issued
	Risk management arrangements 2018-19			
	Housing Rents			
	Creditors 2018-19			
	Payroll - In year testing 2018-19	1	1	
	Payroll Overpayments			
	Local Housing Allowance 2018-19			
	Information Governance			
	Ethics and values – Gifts and Hospitality			
	Ethics and Values - Business and Personal Interests			
	Health and Safety – Governance & Legal Services			
	Asset Management – Governance & Legal Services			
Insufficient with major improvement needed	Direct Payments	1		Drafts Issued
	Health and Safety – Waste Management	1		
<b><i>Medium</i></b>				
Effective	Eastern High - Counter-fraud arrangements			Draft Issued
Effective with opportunity for improvement	Atebion Solutions			Drafts Issued
	Sickness absence processes			
	Willows High School			
	Youth Innovation Grant			
	Communities - Partnership and collaborative governance			
	Stocktake observation - Brindley Road 2018-19			

Audit Opinion	Audit Area	High Risk Recommendations		Status (If not Final)
		Proposed	Agreed	
	Stocktake observation - Lamby Way 2018-19			
	Storey Arms			
	VFM – Agency workers, interims and consultants			
	Personal Review Process			
	Radyr High – ICT Governance			
	LLanishen High – ICT Governance			
	Fitzalan High – ICT Governance			
	Cardiff High – ICT Governance			
	Cathays High – ICT Governance			
	IT Governance			
	Cloud Computing			
	Joint Equipment Stores			
	Bulky Waste			
	Responsive Repairs			
	St. Teilo's – ICT Governance			
	VFM – Enforcement			
	VFM – Overtime			
	Into Work Grant Streams			
	Bishop of Llandaff – ICT Governance			
	Stock systems (Vectec)			
	Building Control			
	Bilingual Cardiff			
	Education – Commissioning of Independent Investigations			
	Music Service - expenditure review	1	1	
	St. Illtyd's RC High School			
	Regional Partnership Board			
Ysgol Plasmawr – ICT Governance				
Insurance				
Audit of Scrutiny Functons				
Learning Disabilities				



Audit Opinion	Audit Area	High Risk Recommendations		Status (If not Final)
		Proposed	Agreed	
	Identification and access management			
	Kitchener Primary - Counter-fraud arrangements			
	Hawthorn Primary - Counter-fraud arrangements			
	Allensbank Primary - Counter-fraud arrangements			
	The Hollies - Counter-fraud arrangements			
	Corpus Christi - Counter-fraud arrangements			
	Income collection in schools			
Insufficient with major improvement needed	County Hall Canteen	1	1	
	Ysgol Glantaf	2	2	
	Purchasing Cards (CTS)			
	Review of Gatehouse	2	2	
	Whitchurch High School	1	1	
	ICT governance in Schools – Cantonian			
	Windsor Clive Primary School	1	1	
	Stock systems (Tranman)	1	1	Draft Issued
	Strategic Estates – Processes	1		
	Deprivation of Liberty Safeguards			
	Roath Park Primary School	1		
	IT inventory and asset management	1		
	Film Unit	1		
	St. Francis	4		
	Domiciliary Care	1		
Unsatisfactory	St. Peter's R.C. Primary School	5	5	
	Music Service – income review follow up	3	3	
	Contracts in Waste Management	1	1	
	Fly Tipping	4		Draft Issued
<b>Grants / Accounts / External Bodies</b>				
Effective with opportunity for improvement	Education Improvement Grant 2017-18			
	Norwegian Church Trust 2018-19			
	Education Improvement Grant 2018-19			

Audit Opinion	Audit Area	High Risk Recommendations		Status (If not Final)
		Proposed	Agreed	
No assurance opinion given	Joint Committees - Prosiect Gwyrdd	Statement of Accounts Reviews / Certification / Support		
	Joint Committees – Port Health Authority			
	Joint Committees - Glamorgan Archives			
	Cardiff Further Education Trust Fund			
	St. Peter's Out of School Club and Governors' Fund			
	St. Peter's Private Fund			
<b><i>Other assignments</i></b>				
No assurance opinion given	Payroll – CRSA	CRSA		
	Treasury Management – CRSA			
	Counter-fraud in schools – CRSA			
	Main Accounting – CRSA			
	NNDR – CRSA			
	Creditor Payments & Processing - CRSA			
	Pensions and Investments – CRSA			
	Contract guidance for schools	Guidance		
	Education – income processes			
	Risk Based Verification			

AUDIT PLAN, 2019/20 (as at 31 December 2019)

Audit Category	Risk	Engagement Type	Original audit plan	Assignment	Days	Follow Up Days	Audit Scope	National Issue	Report Status 31.10.19	Audit Opinion
Fundamental Audits - S151 Assurance	High	Assurance	60	CRSA 2019/20	5		Payments are authorised, accurate and timely for goods / services ordered and received.		Completed	No opinion given
				In year testing (mid year 2019/20)	25					
Creditor Payments & Processing (including procurement)	High	Assurance	0	In year testing (year end 2019/20)	25				Final output issued	Effective with opportunity for improvement
				To be agreed with Director	5					
Payroll	High	Assurance	65	CRSA 2019/20	5		Recruitment processes are transparent and robust, only bona fide, authorised and accurate payments are made, with effective prevention, detection and recovery of errors.		Completed	No opinion given
				In year testing 2019/20	15					
Council Tax	High	Assurance	0	Payroll overpayments	15				Final output issued	Effective with opportunity for improvement
				Recruit	15					
NNDR	High	Assurance	20	Establishment reviews	15				Final output issued	Effective with opportunity for improvement
				Payroll in year testing 2018/19 (carried forward from 2018/19)	0					
Local Housing Allowances	High	Assurance	10	CRSA 2019/20	5		Business Rate collection and control is working effectively and efficiently.		Completed	No opinion given
				In year testing 2018/19 and 2019/20	15					
Treasury Management	High	Assurance	10	Local Housing Allowances In-year Testing (carried forward from 2018/19)	10		Effective controls to ensure accurate processing of bona fide claims.		Final output issued	Effective with opportunity for improvement
				CRSA 2019/20	4					
Main Accounting	High	Assurance	15	In year testing 2019/20	6		Effective Treasury Management Strategy, governance, risk magement and monitoring framework.		Completed	No opinion given
				CRSA 2019/20	5					
Income and Debtors	High	Assurance	0	In year testing 2019/20	10		The main accounting system and processes are well controlled and operating effectively.		Completed	No opinion given
				CRSA 2019/20	5					
Asset Management	High	Assurance	0						Final output issued	Effective
Housing Rents	Medium	Assurance	0	Housing Rents (carried forward from 2018/19)	0		Effective control processes are in place for managing and recovering housing rents		Final output issued	Effective with opportunity for improvement
<b>Total</b>			<b>180</b>		<b>180</b>	<b>0</b>				
<b>Corporate Governance Assurance - Audit</b>			<b>Original audit plan</b>	<b>Assignment</b>	<b>Days</b>					
Audit of risk management arrangements	High	Assurance	10	Audit of risk management arrangements	10		Risk Management arrangements are effective, and operated consistently			
				Audit of risk management arrangements (carried forward from 2018/19)	0					
Audit of governance arrangements	High	Assurance	20	Audit of governance arrangements	20		Effective application of the Council's Code of Corporate Governance.		Final output issued	Effective with opportunity for improvement
Audit of scrutiny functions	Medium	Assurance	20	Audit of scrutiny functions	20		Effective scrutiny activities and outcomes		Draft report issued	Effective with opportunity for improvement
Audit of ethics and values	High	Assurance	0	Audit of ethics and values (carried forward from 2018/19) - business and personal interests	0		Policy alignment to organisational values, with appropriate disclosures made.		Draft report issued	Effective with opportunity for improvement
				Audit of ethics and values (carried forward from 2018/19) - gifts and hospitality	0					
Audit of Wellbeing of Future Generations	High	Assurance	15	Wellbeing of Future Generations	15		Effective application of Wellbeing of Future Generations requirements.	y		
Audit of performance management	High	Assurance	20	Audit of performance management	20		Performance management arrangements are effective, and operated consistently.			
Audit of Health and Safety	High	Assurance	0	Audit of health and safety framework (carried forward from 2018/19)	0		Effective application of the Council's Health and Safety Framework.		Final output issued	Effective with opportunity for improvement
Audit of Information governance	High	Assurance	15	Audit of Information Governance	15		Effective mechanisms and systems for the requirement of the Data Protection Act 2018.	y	Final output issued	Effective with opportunity for improvement
<b>Total</b>			<b>100</b>		<b>100</b>	<b>0</b>				

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Other Assurance			Original audit plan	Assignment	Days				
Digital Services	Medium	Assurance	30	IT project audits 1 - Hybrid Mail	15		Project management arrangements are operating effectively, as per corporate requirements.		
				IT project audits 2 - Virtual Agent	15				
Delegation and decision making	High		20	Delegation and decision making	20		Effective application of delegated authority and decision making.		
Programme and projects (including CADT)			0						
<b>Total</b>			<b>50</b>		<b>50</b>	<b>0</b>			
<b>Other Assurance</b>			<b>Original audit plan</b>	<b>Assignment</b>	<b>Days</b>				
Contract Audit	Medium	Assurance	40	Cradle to Grave review - Building Maintenance Framework	20		Effective contract compliance, control and delivery of objectives		
				Cradle to Grave review	20				
			0	Atebion Solutions (carried forward from 2018/19)	0		Effective performance management and charging mechanism		Final output issued
Cardiff Bus - governance			10	Cardiff Bus - governance	10		Section 151 Assurance on governance arrangements		
Education - SOP			20	Review of Band B	20		Delivery of service objectives with effective compliance and control.	y	
ICT Audit			50	Identification and access management	20		Effective access management controls		Draft report issued
				IT inventory and asset management	20		Effective IT inventory and asset management controls		Draft report issued
				Change and patch management controls (to be confirmed)	10		Effective co-ordination and control.		
				IT Governance (Carried forward from 2018/19)	0		Effective co-ordination and control.		Final output issued
				Cloud Computing (Carried forward from 2018/19)	0		Effective co-ordination and control.		Final output issued
Value for Money studies			30	VFM Theme - TBC	15		TBC		
				VFM in Digital Initiatives	15		Assurance on value for money in digital initiatives		
			0	VFM - enforcement (carried forward from 2018/19)	0		Value in use of enforcement practices		Final output issued
				VFM - review of overtime (carried forward from 2018/19)	0		Value in use of overtime		Final output issued
				VFM - agency workers, interims and consultants (carried forward from 2018/19)	0		Value in use of temporary workforce arrangements		Final output issued
				VFM - sickness absence review (carried forward from 2018/19)	0		Effective sickness management policy and practices		Final output issued
				VFM - workforce deployment (carried forward from 2018/19)	0		Value in the deployment of the workforce		
				VFM - personal review process (carried forward from 2018/19)	0		Effective personal review application and management.		Final output issued
Taxation (incl. VAT)			19	Taxation	19		Effective compliance and control.		
System Development		TBC	10	System Development	10		Consultation or assurance services, as relevant		
National Fraud Initiative		Assurance	20	National Fraud Initiative	20		Data matching counter-fraud exercise.		
Pensions and Investments			15	CRSA 2019/20	5		Effective compliance and control.		Completed
				In year testing 2019/20	10				
Insurance			0	In-year testing 2018/19 (carried forward from 2018/19)	0				Draft report issued
Health and safety									
Mileage & subsistence			0						
Fleet Management (pool cars, grey fleet, etc.)	Medium		20	Fleet Management (pool cars, grey fleet, etc.)	20		Delivery of service objectives with effective compliance and control.		
Procurement			0						
Stores	Medium		16	Review of CTS stores	10		Effective and efficient stores management, and stock control		
				Year end stock check 1	3		Disciplined and controlled stock check processes for valuation and accountability		
				Year end stock check 2	3				
Business Continuity			0						
<b>Total</b>			<b>250</b>		<b>250</b>	<b>0</b>			

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Service specific audits			Original audit plan	Assignment	Days										
Planning, Transportation and Environment	High	Assurance	170	Health and Safety	15		Directorate health and safety compliance and risk management.								
				Commissioning and Procurement	15		Commissioning and Procurement compliance and control								
				Asset management	15		Effective Directorate recording, monitoring, management and control of physical assets								
				Income and Debtors	15		Operation of appropriate arrangements to record, monitor and recover sundry debts.								
				Medium				Bulky waste collection (domestic properties)	15		Accurate charging and controlled operation of the service		Final output issued	Effective with opportunity for improvement	
								Commercial waste	0		Delivery of service objectives with effective compliance and control.				
								Bereavement Services	10						
								Recycling in HWRCs	20						
								Stock systems (Tranman)	20		Effective and efficient stock management and control			Final output issued	Insufficient with major improvement needed
								Stock systems (Vectec)	10					Final output issued	Effective with opportunity for improvement
	Purchasing cards (CTS)	10						Delivery of service objectives with effective compliance and control.			Final output issued	Insufficient with major improvement needed			
	Building Control	10									Final output issued	Effective with opportunity for improvement			
	Fly Tipping	15									Draft report issued	Unsatisfactory			
	Trolleys	15													
					FOLLOW UP - Lamby Way Stores		10	Follow up Audit							
					FOLLOW UP - Review of contracts in Waste Management		10	Follow up Audit							
	0				Stock take observation - Lamby Way (carried forward from 2018/19)	0		Disciplined and controlled stock check processes for valuation and accountability		Final output issued	Effective with opportunity for improvement				
					Review of Gatehouse	0		Effective system and access control			Final output issued	Insufficient with major improvement needed			
					Review of contracts in Waste Management	0		Delivery of service objectives with effective compliance and control.			Final output issued	Unsatisfactory			
					Consultation	Fleetwheel	5								
Weighbridge - monitoring and review						0		Consultation and guidance on effective compliance and control.							
People and Communities	High	Assurance	150	Health and Safety - People and Communities	15		Directorate health and safety compliance and risk management.		Draft report issued	Effective					
				Health and Safety - Waste Management				Draft report issued	Insufficient with major improvement needed						
				Commissioning and Procurement	15		Commissioning and Procurement compliance and control								
				Asset management	15		Effective Directorate recording, monitoring, management and control of physical assets								
				Income and Debtors	15		Operation of appropriate arrangements to record, monitor and recover sundry debts.								
				Medium				Independent Living (deferred from 2018/19)	10		Delivery of service objectives with effective compliance and control.				
								Lettings policy in high rise accommodation (deferred from 2018/19)	10						
	Into work grant streams	10						Delivery of service objectives with effective compliance and control.		y	Final output issued	Effective with opportunity for improvement			
	Responsive Repairs	20									Final output issued	Effective with opportunity for improvement			
	Flexibilities funding (Housing)	10								y					
	"Get me home" service	15													
	Joint Equipment Stores	12						Effective and efficient stores management, and stock control			Final output issued	Effective with opportunity for improvement			

	High	Consultation	0	Bilingual Cardiff (carried forward from 2018/19)	0	Welsh Language Standards compliance and control	y	Final output issued	Effective with opportunity for improvement		
				Regional Partnership Board (carried forward from 2018/19)	0	Effective governance and control in partnerships / collaborations	y	Draft report issued	Effective with opportunity for improvement		
				Partnerships and collaborative governance (carried forward from 2018/19)	0			Final output issued	Effective with opportunity for improvement		
				RBV Module	3	Consultancy on the draft policy and controls in the proposed Northgate Module.		Briefing paper Issued	No Opinion Given		
Economic Development	High	Assurance	150	Health and Safety	15	Directorate health and safety compliance and risk management.					
				Commissioning and Procurement	15	Commissioning and Procurement compliance and control					
				Asset management	15	Effective Directorate recording, monitoring, management and control of physical assets					
				Income and Debtors	15	Operation of appropriate arrangements to record, monitor and recover sundry debts.					
	Medium				Income collection (fees and charges) (deferred from 2018/19)	15	Delivery of service objectives with effective compliance and control.				
					Film Unit	15			Draft report issued	Insufficient with major improvement needed	
					Strategic Estates - processes	10			Draft report issued	Insufficient with major improvement needed	
					Channel View	15					
					Stores (leasehold properties)	15	Effective and efficient stores management, and stock control				
					Major Project governance	20	Operation of appropriate arrangements for Major Projects				
					0	Stock take observation - Brindley Road (carried forward from 2018/19)	0	Disciplined and controlled stock check processes for valuation and accountability		Final output issued	Effective with opportunity for improvement
						County Hall canteen (carried forward from 2018/19)	0	Effective compliance and control.		Final output issued	Insufficient with major improvement needed
	Education and Lifelong Learning	High	Assurance	300	Health and Safety	15	Directorate health and safety compliance and risk management.				
					Commissioning and Procurement	15	Commissioning and Procurement compliance and control				
Asset management					15	Effective Directorate recording, monitoring, management and control of physical assets					
Income and Debtors					15	Operation of appropriate arrangements to record, monitor and recover sundry debts.					
Medium					ICT governance - in year testing for schools	40	Effective ICT Governance mechanisms for compliance, business continuity and control		8 Final & 1 Draft outputs issued	(8) Effective with opportunity for improvement, (1) Insufficient with major improvement needed	
					Counterfraud in schools - CRSA development	10	Counter-fraud assurance in school governance, transactional, procurement and recruitment activities		Completed	No opinion given	
					Counterfraud in schools: in year testing in primary schools x 4	40			4 Draft outputs issued	(4) Effective with opportunity for improvement	
					Counterfraud in schools: in year testing in secondary schools x 4	40			2 Draft outputs issued	(1) Effective, (1) Effective with opportunity for improvement	
					Work in individual schools	40	Full audits of systems of governance and internal control within individual schools				
					School 1 - St. Francis RC Primary School					Draft output issued	Insufficient with major improvement needed
					School 2 - Windsor Clive Primary School					Final report issued	Insufficient with major improvement needed
					School 3 - St. Illtyd's RC High School					Final report issued	Effective with opportunity for improvement
			School 4								
			School 5								
		School 6									

				Income collection in schools (incl. lettings, banking)	25		Effective compliance and control in school income collection.		Draft output issued	Effective with opportunity for improvement		
				Contract procedures in schools	25		Effective compliance and control in school procurements					
				Storey Arms	10		Review of systems of governance and internal control		Final output issued	Effective with opportunity for improvement		
				FOLLOW UP - St. Peter's RC Primary School			8		Follow up Audit			
				FOLLOW UP - Pontprennau Primary School			8		Follow up Audit			
				FOLLOW UP - Music Service income			10		Follow up Audit			
				FOLLOW UP - Income Procedures in School Kitchens			10		Follow up Audit			
				Consultation						Completed	No opinion given	
				Assurance	0		Roath Park (carried forward from 2018/19)		0	Full audit of systems of governance and internal control.	Draft output issued	Insufficient with major improvement needed
							Commissioning of independent investigations (carried over from 2018/19)		10	Effective control in the commissioning and monitoring of independent investigations	Final output issued	Effective with opportunity for improvement
							Youth Innovation Grant (carried forward from 2018/19)		0	Effective governance, decision making and performance management	Final output issued	Effective with opportunity for improvement
							Music Service - expenditure (carried forward from 2018/19)		0	Compliance and control in Music Service expenditure	Final output issued	Effective with opportunity for improvement
							Income processes (carried forward from 2018/19)		0	Compliance and control in income processes	Briefing paper issued	No opinion given
							St. Peter's (carried forward from 2018/19)		0	Full audit of systems of governance and internal control.	Final output issued	Unsatisfactory
Willows (carried forward from 2018/19)	0		Final output issued			Effective with opportunity for improvement						
Ysgol Glantaf (carried forward from 2018/19)	0		Final output issued			Insufficient with major improvement needed						
Whitchurch High School (carried forward from 2018/19)	0		Final output issued			Insufficient with major improvement needed						
Music Service - follow up (carried forward from 2018/19)	0	Follow up Audit	Final output issued			Unsatisfactory						
Governance and Legal Services	High	Assurance	50	Health and Safety	10		Directorate health and safety compliance and risk management.		Draft output issued	Effective with opportunity for improvement		
				Commissioning and Procurement	10		Commissioning and Procurement compliance and control					
				Income and Debtors	10		Operation of appropriate arrangements to record, monitor and recover sundry debts.					
				Asset management	10		Effective Directorate recording, monitoring, management and control of physical assets		Draft output issued	Effective with opportunity for improvement		
				<i>To be agreed with Director</i>	10		TBC.					
Resources	High	Assurance	50	Health and Safety	10		Directorate health and safety compliance and risk management.					
				Commissioning and Procurement	10		Commissioning and Procurement compliance and control					
				Income and Debtors	10		Operation of appropriate arrangements to record, monitor and recover sundry debts.					
				Asset management	10		Effective Directorate recording, monitoring, management and control of physical assets					
	TBC		<i>To be agreed with Director</i>	10	TBC.							
	High		0	Budgeting and forecasting (carried forward from 2018/19)	0		Effective financial planning, budgeting and monitoring	Final output issued	Effective			
Social Services	High	Assurance	300	Health and Safety	15		Directorate health and safety compliance and risk management.					
				Commissioning and Procurement	15		Commissioning and Procurement compliance and control					
				Income and Debtors	15		Operation of appropriate arrangements to record, monitor and recover sundry debts.					
				Asset management	15		Effective Directorate recording, monitoring, management and control of physical assets					

				Safeguarding (follow up review)	15		Follow up Audit	
				Direct Payments	20		Effective control, management and monitoring of Direct Payments	
	Medium			ICF schemes (incl. Families First)	15		Delivery of service objectives with effective compliance and control.	
				Early help service (impact of FPOC)	15			
				Children's Placements	20			
				Learning Disabilities	15			
				Mental Health Day Services (CRT)	15			
				Foster carers (incl. safeguarding)	15			
				Deprivation of Liberty Safeguards	20		Delivery of service objectives with effective compliance and control.	
				Sensory Services	15			
				Payments to Care Leavers	20			
				Child Health and Disabilities	20			
				Home Care (mobile scheduling)	15			
			0	Domiciliary Care (carried forward from 2018/19)	0			
			<b>1,170</b>		<b>1,170</b>	<b>56</b>		
			<b>External</b>	<b>Original audit plan</b>	<b>Assignment</b>	<b>Days</b>		
External clients	Medium	Assurance	20	City Deal 2019/20	5		Scope as per rolling SLA	y
	Low			Cardiff Further Education Trust Fund	2		Grant certification / statement of accounts work	
				Norwegian Church Preservation Trust	2			
				Joint Committees	6			
				Rumourless Cities European Grant	8			
				Provision for other work	3			
				St. Peter's Private Fund	2			
				St. Peter's Out of School Club and Governors' Fund (unplanned)	10			
			0	Cardiff Further Education Trust Fund 2017/18 (carried forward from 2018/19)	0			
				Norwegian Church Preservation Trust (carried forward from 2018/19)	0			
Grants		Assurance	10	Provision for grant work	5			
			0	Education Improvement Grant 18/19	5			
			0	Education Improvement Grant 2017/18 (carried forward from 2018/19)	0			
			<b>30</b>		<b>48</b>	<b>0</b>		
			<b>Contingencies</b>	<b>Original audit plan</b>	<b>Assignment</b>	<b>Days</b>		
General Audit			30	General Audit (provision)	12		TBC.	
			<b>30</b>		<b>12</b>	<b>0</b>		
			<b>Management</b>	<b>Original audit plan</b>	<b>Assignment</b>	<b>Days</b>		
Corporate work – Audit Committee, WAO etc.	Medium	Management	50	Corporate work – Audit Committee, WAO etc.	50		Internal Audit management, planning, guidance and support activities.	
Assurance mapping			10	Assurance mapping	10			
CRSA development			0	CRSA development	0			
Process development			20	Process development	20			
Work for Audit Manager			30	Work for Audit Manager	30			
Planning, monitoring & reporting			30	Planning, monitoring & reporting	30			
Review of financial rules etc.			20	Review of financial rules etc.	20			
General advice and guidance			20	General advice and guidance	20			
			<b>180</b>		<b>180</b>	<b>0</b>		
<b>Total chargeable days</b>			<b>1,990</b>		<b>1,990</b>	<b>56</b>		

Draft output issued	Insufficient with major improvement needed
Draft output issued	Effective with opportunity for improvement
Draft output issued	Insufficient with major improvement needed
Draft output issued	Insufficient with major improvement needed
Closed	No opinions given
Closed	No opinion given
Closed	No opinion given
Closed	No opinion given
Final output issued	Effective with opportunity for improvement
Final output issued	Effective with opportunity for improvement
Final output issued	Effective with opportunity for improvement



## Executive Summary

### Fly Tipping

#### BACKGROUND

- 1 An audit review has been undertaken of Fly Tipping operations within the Waste Education and Enforcement Team.
- 2 The fly tipping teams are responsible for education and enforcement activities, to tackle the offence of fly tipping and household duty of care. They are responsible for working reactively and proactively, monitoring and removing waste, and delivering enforcement through investigation, issue of Fixed Penalty Notices and prosecution.

#### MAIN CONCLUSIONS

- 3 The audit of Fly Tipping operations within the Waste Education and Enforcement Team identified a number of gaps in processes, which required management. An audit opinion of **unsatisfactory** has been allocated, as there was a need to strengthen the recording of the fly tipping activities and recovery, and to improve the approach to performance measurement and management.
- 4 The recording of fly tipping was inconsistent, with different processes in place for recording and evidencing proactive and reactive fly tipping recovery. Records were fragmented, as whilst processes required proactive fly tipping identified through monitoring hot spots and wider patrols to be logged in the StarTraq system, this was not in place for responsive / reactive fly tipping. Management information, such as GPS co-ordinates, were not being regularly recorded against fly tipping cases, and photographic evidence of fly tipping was not systematically held. Following initial recovery of waste, improvements are also required to the case management of associated enforcement activities. There were a number of instances where cases had not been properly progressed on a timely basis.
- 5 Performance was monitored based on the records completed by operatives when collecting fly tipping materials. The monitoring process should make use of actual weighed-in materials through the weighbridge facilities, rather than relying on judgement-based records created upon recovery. There were also no reconciliations of fly tipping materials and volumes recorded upon recovery, and subsequently recorded and receipted through the weighbridge facilities, to provide the necessary ongoing assurance on the completeness and accuracy of records.

## **RECOMMENDATIONS FOR ACTION**

- 6 The audit included seventeen recommendations (four red, eight red/amber and five amber/green).
- 7 Management have agreed all of the seventeen recommendations raised during the audit.

## **LATEST POSITION**

- 8 Management have agreed to deliver all recommendations, through the review and development of their operating and performance management practices.
- 9 Internal Audit will continue to monitor the internal control environment through the recommendation tracker and regular discussions with management. A further follow up audit will be undertaken in line with agreed audit protocols.

Yn rhinwedd paragraff (au) 14, 21 Rhan (nau) 4 a 5 o Atodlen 12A  
o Ddeddf Llywodraeth Leol 1972.

Mynediad Cyfyngedig i'r Ddogfen

Mae'r dudalen hon yn wag yn fwriadol

Yn rhinwedd paragraff (au) 14, 21 Rhan (nau) 4 a 5 o Atodlen 12A  
o Ddeddf Llywodraeth Leol 1972.

Mynediad Cyfyngedig i'r Ddogfen

Mae'r dudalen hon yn wag yn fwriadol

**AUDIT COMMITTEE: 21 January 2020**

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**INTERNAL AUDIT INVESTIGATION TEAM PROGRESS REPORT****REPORT OF THE AUDIT MANAGER****AGENDA ITEM: 10.2**

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**Reason for this Report**

1. The Audit Committee's Terms of Reference requires Members to:
  - Review the assessment of fraud risks and potential harm to the council from fraud and corruption.
  - Monitor the Counter-fraud strategy, actions and resources.
2. This report has been prepared to provide Audit Committee with an update on the work of the Audit Section's Investigation Team, as at the 31<sup>st</sup> December 2019.

**Background**

3. The Audit Manager prepares quarterly progress reports, outlining the work undertaken by the Investigation Team, its key outputs and outcomes.
4. Progress reports focus on the proactive and reactive investigation activities underway, including participation in initiatives, such as National Fraud Initiative (NFI) data matching exercises. Information is also provided on the officer training delivered by the team.

**Issues**Progress Update

5. One hundred and one referrals have been received so far this year at, which is below the number received in the same period last year (of one hundred and fifteen). Fifty-seven investigations are presently ongoing.
6. One hundred and nineteen investigations were concluded by the Investigation Team between April and the end of December 2019 to which £65,359 is attributed, this compares to one hundred and three concluded cases, to which £63,168 was attributed over the same period in 2018. In respect of employee investigations concluded in the year to date, sanctions have comprised one corrective action, one verbal warning, two written warnings, two final written warnings, one prosecution and six dismissals.

## Training and Awareness

7. Mandatory Fraud Awareness Training has been rolled out to all staff:
  - Two thousand, two hundred and fifty nine PC users within the Council have completed the eLearning module
  - Thirty-four face-to-face sessions have been delivered to non-PC users with more than six hundred overall attendees
  - More than seventy Headteachers have received Fraud Awareness Training during their conferences
8. Further information on planned training is provided in **Appendix A**, namely face-to-face Fraud Awareness Training arranged for School Governors in February 2020, and Counter-Fraud Training for Audit Committee, planned for delivery by the end of the municipal year.
9. Cardiff Council participated in International Fraud Awareness Week (17-23 November 2019), supported by messages and guidance for all staff from the Head of Finance on Mandate fraud, the Head of Procurement on Procurement Fraud, and the Chief Digital Officer on Cyber Crime.
10. Mandatory Disciplinary Policy, Investigating Officer training continues to be delivered by the Investigation Team, this year four sessions have been held with a total of forty five attendees.

## Fraud Tracker Exercise

11. In order to provide a council-wide view of the volume, value and risk of fraud and corruption across the organisation, a fraud tracker questionnaire, based on a CIPFA survey, has been produced following engagement with each directorate, and discussion at SMT on 14 January 2020.
12. The Fraud Tracker exercise is designed to complement both the senior management assurance statement (SMAS) and risk register processes for each directorate. It follows the intentions set within the Counter-Fraud and Corruption Strategy to be risk aware, and responsive to the threats faced by the Council.
13. Key messages from the fraud tracker exercise were:
  - Validation of records of fraud volumes and values held centrally.
  - Agreement of particularly good visibility and engagement in allegations of internal fraud through the internal recording and management system, with directorates were reminded of the necessity to report all suspicions of fraud.
  - The level of fraud investigations concluded outside of the corporate team for 2019/20 at the mid-year position were confirmed as:
    - Insurance £8.4k (1 case)
    - Blue Badge (56 badges seized, 9 successful prosecutions, 47 pending court).
  - Each Director has identified their highest fraud risks, and actions have been taken for directorate risk registers to be updated, as appropriate.
  - SMT agreement that there is effective fraud engagement internally and externally, with new policies and initiatives sufficiently developed with regards to fraud prevention controls.



### Investigation Team Action Plan

14. At this stage in the year, an opportunity has been taken to consider the level of delivery of the Action Plan as set in the Investigation Team Annual Report, as reported to Audit Committee on 25 June 2019.
15. The Action Plan is included in **Appendix B**, and shows that the team is on target to achieve the objectives set for this year. The position will be reassessed as part of the Investigation Team Annual Report, for anticipated reporting to Audit Committee on 23 June 2020.

### Wales Audit Office Study

16. Further to the Wales Audit Office report issued to the Public Accounts Committee in respect of Counter-Fraud Arrangements in the Welsh Public Sector, WAO are following this up with a study of arrangements in place at Local Authorities.
17. The findings are to form part of a national study report, but arrangements are being made for the Wales Audit Office to provide Audit Committee with an overview of the findings in respect of Cardiff at a future Committee meeting.

### Policy Review

18. A review has been undertaken of the current Money Laundering Policy and Procedure, a draft revised document has been produced and is being considered by Legal Services.
19. Once internal reviews are complete, the Audit Committee will receive an opportunity to consider the revised policy in a future meeting, in advance of consideration by Cabinet.

### **Legal Implications**

20. There are no legal implications arising from this report.

### **Financial Implications**

21. There are no financial implications arising from this report.

### **RECOMMENDATIONS**

22. That the Committee:
  - Notes the content of the progress report

**CHRIS PYKE**  
**AUDIT MANAGER**

The following appendices are attached:

**Appendix A:** Investigation Team - Progress Report

**Appendix B:** Investigation Team – Action Plan Update

Mae'r dudalen hon yn wag yn fwriadol



# Resources Directorate Internal Audit Section



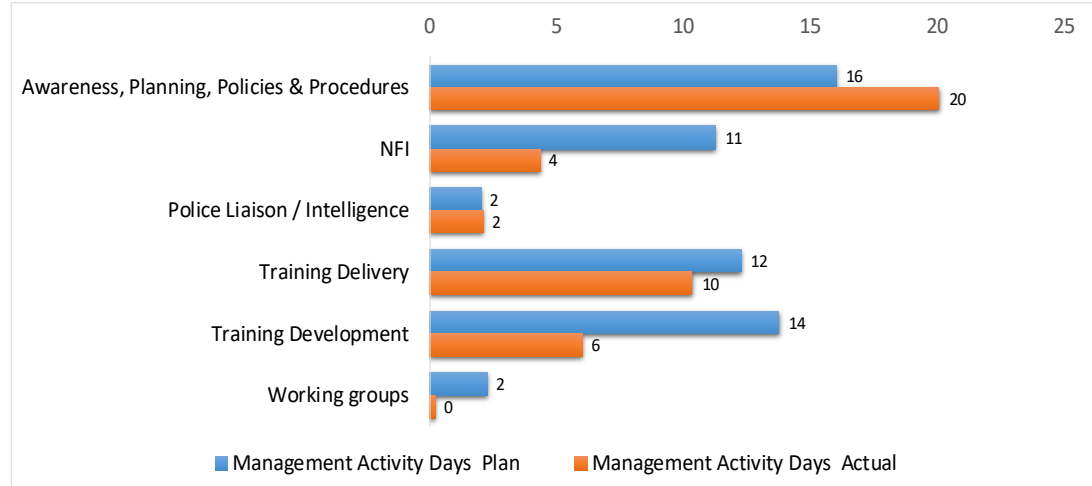
## Investigation Team Progress Report

(as at 31<sup>st</sup> December 2019)

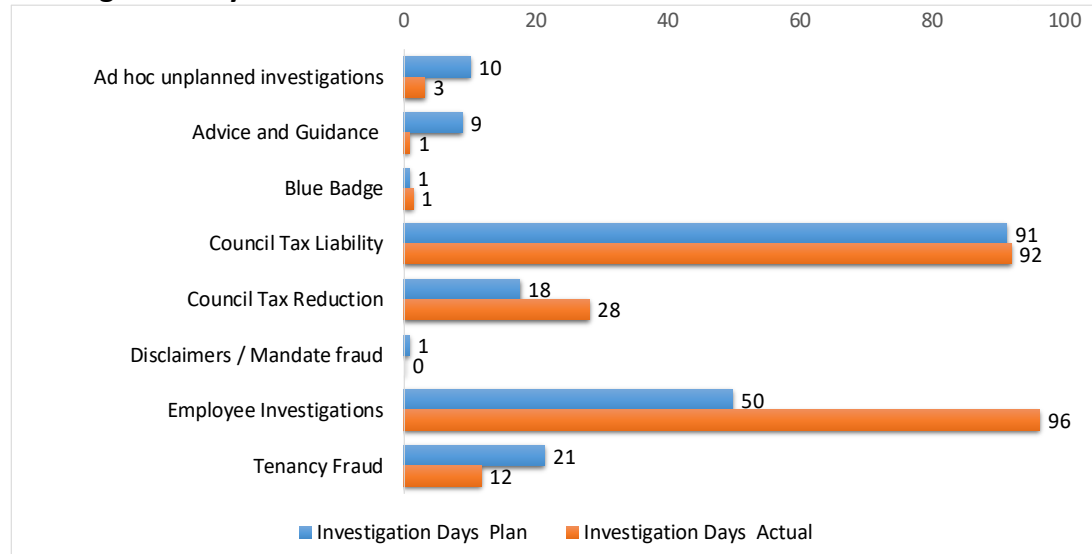


There were 278 days available (based on 1.5 fte.) in the original 2019-20 Investigation plan, which was adjusted to 376 days to account for the additional investigator appointed at the end of quarter 2. For the financial year to 31<sup>st</sup> December 2019, the team have applied 275 days as follows:

### Management Activity Days

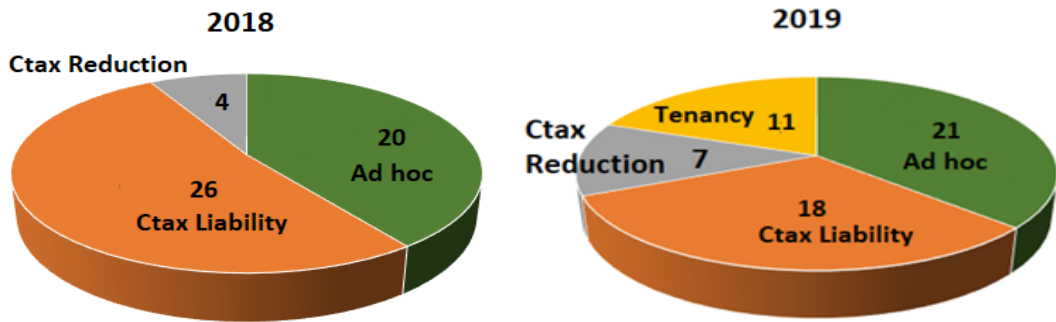


### Investigation Days



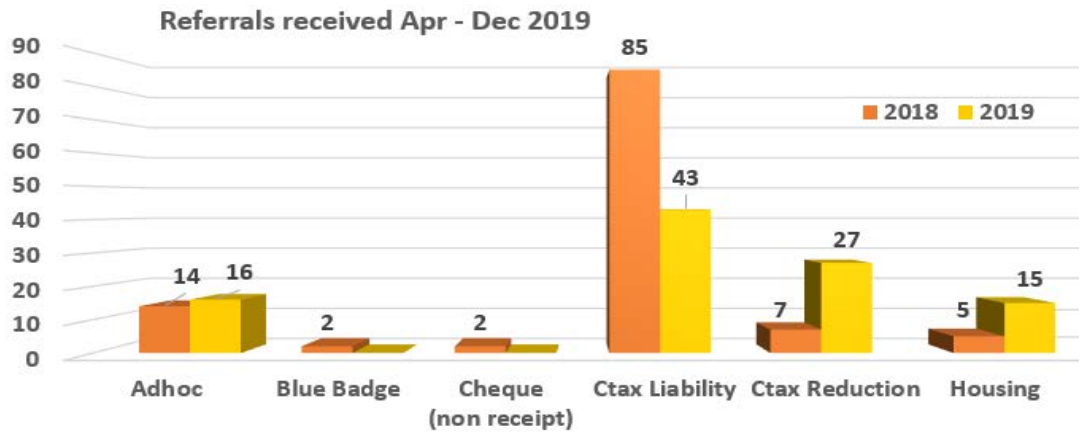
**Ongoing Cases**

There are currently fifty-seven investigations ongoing, compared to fifty for the same period last year:



**Referrals**

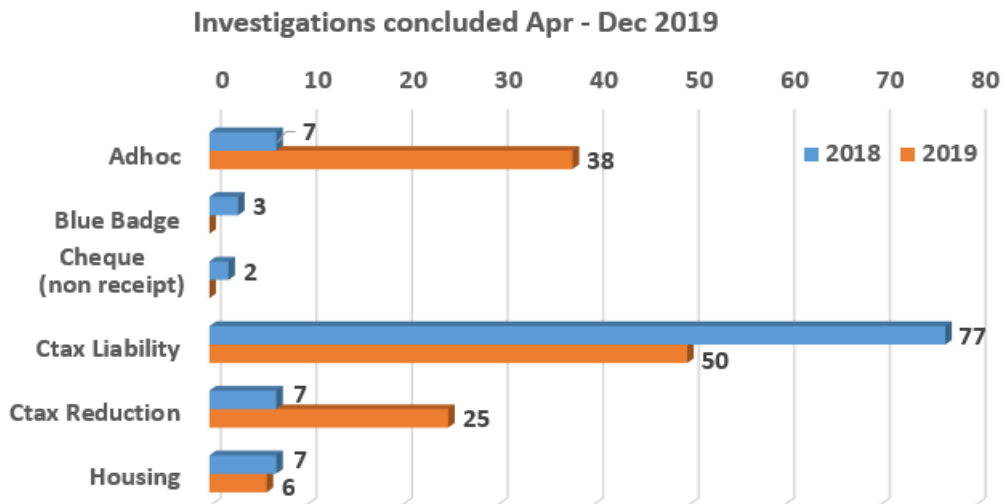
One hundred and one referrals have been received so far this year, compared to one hundred and fifteen for the same period last year:



Ad hoc referrals relate to civil employee investigations and criminal cases not falling under the categories as listed above.

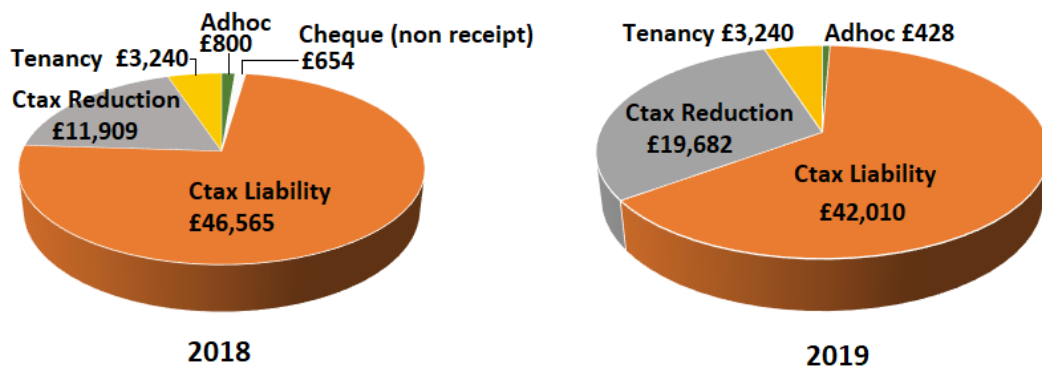
**Investigations Concluded**

One hundred and nineteen investigations were concluded between April and the end of December 2019, this compares to 103 over the same period in 2018.



## Financial Value

In respect of the investigations concluded, £65,359 has been attributed to these cases in 2019, compared to £63,168 for the same period last year:



The tenancy cases related to housing waiting list applicants who were removed from the list following investigation.

The employee investigations led to - 1 corrective action, 1 verbal warning, 2 written warnings, 2 final written warnings, 1 prosecution and 6 dismissals

## Training & Awareness

As reported previously, following Audit Committee review and Cabinet approval of the Counter-Fraud and Corruption Strategy, mandatory Fraud Awareness Training has been rolled out to all staff.

- Two thousand, two hundred and fifty nine PC users within the Council have completed the eLearning module
- Thirty-four face-to-face sessions have been delivered to non-PC users with more than six hundred overall attendees
- More than seventy Headteachers have received Fraud Awareness Training during their conferences

Governor Fraud Awareness face-to-face training has been scheduled for February 2020, to provide practical awareness, guidance and support, and feedback from the CRSA counter-fraud schools audits.

Targeted Audit Committee Counter-Fraud Training is being planned for intended delivery prior to the end of the municipal year.

Cardiff Council participated in International Fraud Awareness Week (17-23 November 2019), supported by messages and guidance for all staff from the Head of Finance on Mandate fraud, the Head of Procurement on Procurement Fraud, and the Chief Digital Officer on Cyber Crime.

Mandatory Disciplinary Policy, Investigating Officer training continues to be delivered by the Investigation Team, this year four sessions have been held with a total of forty five attendees.

## Fraud Tracker

The Chartered Institute of Public Finance & Accountancy (CIPFA), Counter Fraud Centre leads and co-ordinates the fight against fraud and corruption across local and central government, the health, education and charity sectors. The Centre issues a survey (Fraud and Corruption Tracker) in order to provide a national overview of all fraud, bribery and corruption activity across local authorities.

In order to provide a council-wide view of the volume, value and risk of fraud and corruption across the organisation, a fraud tracker questionnaire, based on the CIPFA survey, has been produced following engagement with each directorate, and discussion at SMT on 14 January 2020.

The Fraud Tracker exercise is designed to complement both the senior management assurance statement (SMAS) and risk register processes for each directorate. It follows the intentions set within the Counter-Fraud and Corruption Strategy to be risk aware, and responsive to the threats faced by the Council.

Key messages from the fraud tracker exercise were:

- Validation that records of the volumes and values of fraud held by corporate Investigation Team are sufficiently complete.
- Particularly good visibility and engagement in allegations of internal fraud through the internal recording and management system, but directorates were reminded of the necessity to report all suspicions of fraud.
- The level of fraud investigations concluded outside of the corporate team for 2019/20 at the mid-year position were confirmed as:
  - Insurance £8.4k (1 case)
  - Blue Badge (56 badges seized, 9 successful prosecutions, 47 pending court).

*NB – This year an initiative for tackling blue badge fraud commenced with a third party organisation (BBFI), as reported to Audit Committee on 10 September 2019.*

- Each Director has identified their highest fraud risks, and actions have been taken for directorate risk registers to be updated, as appropriate.
- SMT agreement that there is effective fraud engagement internally and externally, with new policies and initiatives sufficiently developed with regards to fraud prevention controls.

## Annual Action Plan

At this stage in the year, an opportunity has been taken to consider the level of delivery of the Action Plan as set in the Investigation Team Annual Report, as reported to Audit Committee on 25 June 2019.

The Action Plan is included in Appendix B, and shows that the team is on target to achieve the objectives set for this year. The position will be reconsidered, with new actions set as appropriate in reflection on the full year performance of the team, to be reported to the Audit Committee within the next annual report, scheduled for 23 June 2020.

**Fraud  
Arrangements  
Review**

Further to the Wales Audit Office report issued to the Public Accounts Committee in respect of Counter-Fraud Arrangements in the Welsh Public Sector, WAO are following this up with a study of arrangements in place at Local Authorities.

Interviews have been conducted a number of Council, and information and data has been provided as part of the audit. The findings are to form part of a national study report, but arrangements are being made for the Wales Audit Office to provide Audit Committee with an overview of the findings in respect of Cardiff at a future Committee meeting.

**Policy Review**

A review has been undertaken of the current Money Laundering Policy and Procedure, a draft revised document has been produced and is being considered by Legal Services.

Once internal reviews are complete, the Audit Committee will receive an opportunity to consider the revised policy in a future meeting, in advance of consideration by Cabinet.

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## Investigation Team Action Plan 2019/20

	Action	Target	Position as at January 2020
1.	<p>Twice a year, the Investigation Team to review directorate:</p> <ul style="list-style-type: none"> <li>• responses to their assurance statements on the prevention and detection of fraud</li> <li>• risks relating to fraud, bribery and corruption risks, to provide advice and guidance.</li> </ul>	Twice yearly	<p><b>In place and ongoing</b></p> <p>The Investigation Team participated in a review of the mid-year Senior Management Assurance Statements, and provided an independent consideration of the responses in respect of the prevention and detection of fraud, informed by the work and knowledge of the Team.</p> <p>In respect of risk reviews, the decision was made to engage all directorates in the fraud tracker exercise, in which directorates are required to identify their most significant risks of fraud, bribery and corruption. As an outcome of the exercise, many directorates have taken actions to update their risk registers in respect of the matters identified. The Investigation Team will consider the recording and management of these risks following the financial year-end.</p>
2.	<p>A documented assessment against the Fighting Fraud and Corruption Locally checklist to completed annually, and included in the Investigation Team Annual Report.</p>	Following each financial year-end	<p><b>In place and ongoing</b></p> <p>Documented assessments were completed against the Fighting Fraud and Corruption Locally checklist and the Government’s twelve Functional Standards for counter-fraud following the 2018/19 financial year-end. These assessments will be completed again following the 2019/20 financial year-end, and included in the respective Investigation Team Annual Report.</p>

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3.	Awareness campaign for the launch of the Counter Fraud and Corruption Strategy and roll out of mandatory eLearning.	July 2019	<p><b>In place and ongoing</b></p> <p>Mandatory Fraud Awareness Training has been rolled out to all staff:</p> <ul style="list-style-type: none"> <li>• Two thousand, two hundred and fifty nine PC users within the Council have completed the eLearning module</li> <li>• Thirty-four face-to-face sessions have been delivered to non-PC users with more than six hundred overall attendees</li> <li>• More than seventy Headteachers have received Fraud Awareness Training during their conferences</li> </ul> <p>Face-to-face Fraud Awareness Training has been arranged for school Governors in February 2020.</p>
4.	Participate in International Fraud Awareness Week in November each year, working with the Council's Communications Team.	November 2019	<p><b>Completed</b></p> <p>Cardiff Council participated in International Fraud Awareness Week (17-23 November 2019), supported by messages and guidance for all staff from the Head of Finance on Mandate fraud, the Head of Procurement on Procurement Fraud, and the Chief Digital Officer on Cyber Crime.</p>
5.	The use of data matching intelligence at the point of processing Council applications will be tested and advocated through the Internal Audit regime.	Ongoing	<p><b>In place and ongoing</b></p> <p>Internal Auditors were briefed in May 2019 on the expectation to consider the feasibility of services using data matching intelligence at the point of processing Council applications.</p>
6.	In instances of proven fraud and corruption, a post fraud review will be prepared once all associated civil and legal activities have concluded, for reporting to SMT and the Audit Committee, for lessons to be learned	Ongoing	<p><b>Ongoing</b></p> <p>In respect of cases of proven corporate fraud, post fraud reviews will take place as appropriate, from which the findings and relevant actions will be shared with SMT and Audit Committee as appropriate.</p>

			Internal Audit engagements will continue to be targeted in high-risk areas, mindful of any concerns or allegations raised in respect of the Council's control environment.
7.	The level of fraud information reported to SMT to expand.	From 2019	Q2 <b>In place and ongoing</b> The Fraud Tracker Exercise was undertaken in Q3 and results reported to and considered by SMT on 14 January 2020.
8.	The Investigation Team will await any Wales Audit Office recommendations from their ongoing reviews of Counter-Fraud, and respond accordingly.	July 2019	<b>In place and ongoing</b> No specific recommendations or improvement areas were received as a result of the work completed on phase one of the study. The Wales Audit Office are completing the second part of their work, and arrangements will be made for the Cardiff-specific findings to be reported to Audit Committee, and any areas for improvement to be considered and appropriately responded to.

Mae'r dudalen hon yn wag yn fwriadol



**AUDIT COMMITTEE: 21 JANUARY 2020**

**DRAFT INTERNAL AUDIT CHARTER 2020/21 AND DRAFT AUDIT PLAN  
2020/21**

**REPORT OF THE AUDIT MANAGER**

**AGENDA ITEM: 10.3**

**Reason for the Report**

1. The Terms of Reference for the Audit Committee sets out its responsibility:
  - To approve the Internal Audit Charter.
  - To approve the risk-based Internal Audit Plan, containing internal audit's resource requirements, the approach to using other sources of assurances and any work required to place reliance upon those other sources.
2. The Audit Committee has a responsibility to review its Terms of Reference annually.
3. This report has been prepared to provide Audit Committee Members with the Draft Internal Audit Charter for 2020/21 and appendices, including a draft Audit Committee Terms of Reference. The report also provides the Draft Summary Audit Plan for 2020/21.

**Background**

4. At the commencement of each financial year, consideration is given to updating key documents which form part of the Internal Audit function. The draft documents are submitted to Audit Committee at the January meeting to enable members of the Committee to consider and feed in comments which will support the development of final documents to be approved by Committee on 24 March in respect of the new financial year.
5. Under the PSIAS (standard 1110 – organisational independence), the Audit Committee is required to approve the Internal Audit Charter and the risk based Internal Audit Plan. These documents are attached for 2020/21 in draft form, with the audit plan presented at a summary level of detail prior to the detailed review and population of audit engagements in quarter four 2019/20. Accompanying the Charter is a draft version of the proposed Audit Committee Terms of Reference for 2020/21.

**Issues**

**Audit Charter**

6. The Draft Internal Audit Charter set out in **Annex 1** is a formal document which establishes the Internal Audit Service's position within the organisation, the Audit

Manager's functional reporting relationship with the Audit Committee, authorises access to records, personnel, physical properties relevant to the performance of engagements, and defines the scope of internal audit activities. Audit Committee approved the Internal Audit Charter 2019/20 on 2 April 2019.

7. The Draft Audit Charter 2020/21 has been reviewed by the Audit Manager and subject to minor update. The proposed changes are shown in bold text for consideration within the Draft Charter and its appendices.
8. Contained within the Draft Internal Audit Charter are five appendices, which add a further dimension to the Charter by explaining the parameters within which Internal Audit and the Audit Committee operate.
9. Appendix A sets out the Code of Ethics for Internal Auditors and is focussed on the four key principles of Integrity, Objectivity, Confidentiality and Competence. This appendix is formally used in the quality assurance process as part of each audit, and as part of ongoing performance reviews.
10. Appendix B sets out the Core Principles which taken as a whole, articulate internal audit effectiveness. These Core Principles underpin the Mission of the Internal Audit service *'To enhance and protect organisational value by providing risk based and objective assurance, advice and insight'* in recognition of best practice from the IIA.
11. Appendix C sets out the staffing resources allocated to the Internal Audit function as well as outlining the reporting lines between the Audit Manager, the Section 151 Officer and the Audit Committee. This section also outlines the skill base of the team and the commitment to developing staff further through Audit or Investigation qualifications.
12. Appendix D suggests the terms of reference for Audit Committee in recognition of the best practice CIPFA guidance as published in 2018. In accordance with a suggestion received from Audit Committee Members in a meeting which followed the approval of its terms of reference 2019/20, the draft statement of purpose has been expanded on page 10, to reference the independent assurance provided by the Committee to Cardiff citizens and stakeholders, in addition to the members of Cardiff Council.
13. Audit Committee will be aware that the Local Government and Elections (Wales) Bill includes reforms to Audit Committees, including changes to their name, composition and an introduction of further responsibilities. Following Royal Assent of the Bill later this year, and in consideration of anticipated guidance information from the Welsh Government, the Audit Committee's terms of reference will be reviewed, and adjusted where necessary, in accordance with the timetable for implementation.
14. Appendix E sets out the Quality Assurance and Improvement Programme (standard 1300), which is designed to enable an evaluation of the Internal Audit section's conformance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and is used to identify and deliver opportunities for improvement. The QAIP is built around a performance management approach which involves 'setting expectations', 'reviewing performance', and 'reporting performance' at individual auditor and team levels

## Audit Plan, 2020/21

15. Contained within both the Draft Internal Audit Charter and the Terms of Reference are sections outlining the submission of a risk based audit plan to be approved by Audit Committee. **Annex 2** contains the preliminary draft plan for 2020/21, which will be developed into further detail over the financial quarter to be submitted for approval by Audit Committee on 24 March 2020.
16. The draft audit plan is based on 10.28 FTE operational auditors, which is the same as in 2019/20. Whilst the Audit Charter 2019/20 was approved with 10.41 operational auditors, a request was subsequently agreed to reduce the working hours of a Senior Auditor from 37 to 32 hours per week for the year, as reported to Committee on 25 June 2019. The Senior Auditor has requested a continuation of the same reduced hours for 2020/21, which has been agreed by the Audit Manager to support their balance between work, life and IIA study.
17. The number of available operational audit days has decreased (from 1,990 to 1912). This lower number of operational days is largely represented by a combination of the formalised reduction in a Senior Auditor's hours, as referenced above, a provision for non-audit duties (such as trade union duties) and a greater provision for unpaid annual leave (additional and parental leave). In respect of the unpaid leave, an exercise was completed to ask the team to provide their expected unpaid leave requests for the next financial year. Whilst each leave request will need to be submitted for approval, it was a useful exercise for forecasting requests and the impact on operational audit days.
18. The investigations audit plan is based on 2.5 FTEs, with the difference compared to the 2019/20 plan reflecting the appointment of an additional Investigator on 30 September 2019, as advised to Audit Committee. Members will also note that the Audit Manager has not been included in the head count of available operational auditors, as this work focusses on strategy, and overseeing the quality, delivery and output across both audit and investigations teams.
19. The draft plan has been prepared at a summary-level following consideration of a risk based methodology. The detailed components of the audit planning approach take place throughout quarter four, and will result in the full risk-based audit plan for 2020/21. The approach is designed to be risk based and co-ordinated in application of an assurance mapping exercise based on the "three lines of defence" model. The process will involve the application of three basic review principles as follows:
  - (a) **Informed Inherent Risk** - The starting point is the development of an inherent audit need / risk score as a product of the nature of the potential audit area, and the results of Senior Management Assurance Statement (SMAS) responses from Directors.
    - Audit category - There are three broad audit categories which are audited with an inherent frequency in the following priority order from highest to lowest (1) Fundamental systems, (2) Governance functions (e.g. Health and Safety, Performance Management etc.) and (3) Operational audits, such as a school or standard system audit.
    - SMAS submissions - The Directorate self-assessments of maturity in a number of core areas of governance, risk management and internal control are considered and used to moderate the inherent prioritisation of audit engagements.

(b) **Coordination and Reliance** - After considering the inherent need for an audit, the audit plan is refined to account for the level of further sources of assurance and indicators of risk, in considering and accounting for the:

- Information on risk registers
- Planned and programmed projects, scrutiny and management activities
- Existing levels of Internal Audit assurance, and
- Planned and actual work and findings from wider audit, regulatory and consultancy activities.

(c) **Extensive and Appropriate Audit Coverage** - In consideration of the above two stages, audits will be programmed and typically delivered through a combination of Control Risk Self-Assessment (CRSA), thematic and full audit engagements. The above two stages are in the process of development through relationship management and audit link officer mechanisms in directorates.

20. Section 2010 of the PSIAS specifies that the risk-based plan takes into account the organisation's assurance framework and that the work of Internal Audit addresses both local and national issues. This is achieved through the approach as summarised above, with the assurance available from both within and outside the Council assessed to enable informed decisions regarding the audits to be undertaken in 2020/21. Audit Committee will be aware that the Audit Plan is responsive to emerging risks and issues as they arise during the year, and these changes are brought to the Audit Committee as they arise.
21. The "three lines of defence" model is an important part of the Council's internal control environment. Senior managers, as the first line of defence, have a joint and individual responsibility for risk management, governance and the control environment within their directorate; they use their SMAS as a primary disclosure of their delivery of the management controls and report and disclose on the management of their risks and performance. The second line of defence consists of the arrangements in place to monitor and support internal governance through functions which develop, embed and monitor policies and strategies, such as Risk Management, ICT, Information Governance and Health and Safety functions.
22. As the third line of defence, Internal Audit accounts for the assurance of the first two lines of defence together with external audit and regulatory sources of assurance and indicators of risk (e.g. Wales Audit Office and Estyn work), in developing a risk-based audit plan. The summary plan, as set out in Annex 2, will be fully developed during quarter 4 and supported by an assurance map to recognise and account for the respective internal and external sources of assurance and allocate audit resources to enable the Audit Manager to provide a comprehensive opinion on the overall Council control environment.
23. At this incremental stage of audit plan development, the proposed areas for thematic review in 2020/21 are:
- (a) Performance Management
  - (b) Information Management
  - (c) Pre-contract Assurance
24. It is proposed to undertake fundamental audits in 2020/21 in council tax, housing benefits, creditor payments and payroll. However, if there are any major system or



operational changes during the year in systems that are not included in the plan, an audit of that system will be added to the audit plan for 2020/21 (and this change reported to a meeting of this Committee).

### **Legal Implications**

25. There are no legal implications arising from this proposal.

### **Financial Implications**

26. There are no financial implications arising from this proposal.

### **Recommendations**

27. To consider and provide comments on the Draft Internal Audit Charter and the accompanying appendices including the draft terms of reference for Audit Committee.

28. To consider and provide comments on the direction of the draft 2020/21 Internal Audit Plan.

**CHRIS PYKE**  
**AUDIT MANAGER**

**Annex 1:** Draft Internal Audit Charter 2020/21

**Annex 2:** Draft Summary Audit Plan 2020/21

Mae'r dudalen hon yn wag yn fwriadol



Cardiff Council

# DRAFT INTERNAL AUDIT CHARTER 2020/21

## *Mission Statement*

*To enhance and protect organisational value by providing risk based and objective assurance, advice and insight*



Gweithio dros Gaerdydd, gweithio gyda'n gilydd  
Working for Cardiff, working together

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## INTERNAL AUDIT CHARTER

### Definition, Objective and Scope of Internal Audit

1. Internal Audit is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the organisation of Cardiff Council.
2. It assists Cardiff Council in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organisation's full control environment in respect of risk management, control and governance processes.

### Role and Professionalism

3. The internal audit activity is established by the Audit Committee. The internal audit activity's responsibilities are defined by the Audit Committee as part of their oversight role.
4. A professional, independent and objective Internal Audit service is one of the key elements of good governance in Local Government. Cardiff Council's Internal Audit Section seeks to be compliant with the Public Sector Internal Audit Standards and the Local Government Application Note (LGAN), which forms a foundation for an effective Internal Audit service and encompasses the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF). Through compliance with these standards, all members of the section adhere to the Code of Ethics stipulated within the Standards. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.
5. The Code of Ethics is set out in further detail in Appendix A and works in alignment with the Council's code of professional conduct. The internal audit activity will adhere to Cardiff Council's relevant policies and procedures, and the internal audit activity's protocol. The Core Principles through which the Internal Audit service is delivered are included in Appendix B which, taken as a whole, articulate internal audit effectiveness.

### Authority

6. The internal audit activity with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of the organisation's records, physical properties, and personnel pertinent to carrying out an engagement. All employees are required to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity will also have free and unrestricted access to the Audit Committee.

### Organisation

7. The Audit Manager will report functionally to the Audit Committee and administratively to the Head of Finance (Deputy Section 151 Officer).
8. The Audit Committee will approve all reports regarding the performance evaluation of the Internal Audit function.
9. The Audit Committee will approve the internal Audit Charter, the risk based internal audit plan and receive communications from the Audit Manager on the internal audit activity's performance relative to its plan and other matters. The Audit Manager is delegated the authority to make in-year changes

to the internal audit plan and approve audit engagements of no more than 10 planned audit days without seeking approval from the Audit Committee. The Audit Manager will use the audit resources available to deliver the audit plan and buy-in additional resources as required.

10. Management will notify the Audit Manager immediately, in accordance with the Council's Financial Procedure Rules and related policies, of suspected breach, theft or loss of Council assets, and any suspected or detected fraud, corruption or impropriety.
11. The resources allocated to the Internal Audit activity are outlined in Appendix C, in conjunction with the reporting arrangements.

### **Independence and Objectivity**

12. The internal audit activity will remain free from interference by any element in the organisation including matters of audit selection, scope, procedures, frequency, timing, or report content, to permit maintenance of a necessary, independent, and objective mental attitude.
13. **The Audit Manager oversees the Investigation and Internal Audit teams. In any case where the Audit Manager has, or is expected to have, roles and / or responsibilities that fall outside of internal auditing, safeguards will be established to maintain independence and objectivity.**
14. Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records or engage in any other activity that may impair internal auditor's judgement.
15. Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements.
16. Auditors will complete, on an annual basis, a Declaration of ~~Business~~ Interests form and submit it to the Audit Manager for review and authorisation. Any declarations will be used to ensure that there are no conflicts of interest in the audits allocated and to demonstrate transparency. The Group Auditor will not allocate audits to officers where potential conflicts have been identified.
17. The Audit Manager will confirm to the Audit Committee at least annually the organisational independence of the internal audit activity.

### **Responsibility**

18. The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management and internal control processes in relation to the organisation's defined goals and objectives. Internal control objectives considered by internal audit include:
  - Consistency of operations or programmes with established objectives and goals and effective performance
  - Effectiveness and efficiency of operations and employment of resources
  - Compliance with significant policies, plans, procedures, laws and regulations

- Reliability and integrity of management and financial information processes including the means to identify, measure, classify and report such information
  - Safeguarding of assets.
19. Internal Audit is responsible for evaluating all processes of the Council, including governance processes and risk management processes. It also assists the Audit Committee in evaluating the quality of performance of external auditors and maintains a proper degree of coordination with external audit.
  20. Internal audit may perform consulting and advisory services related to governance, risk management and control, as appropriate for the Council. It may also evaluate specific operations at the request of Audit Committee or management as appropriate.
  21. When notified of suspected fraud, corruption or impropriety, the Audit Manager will take appropriate actions in line with the Council's Fraud, Bribery and Corruption Policy for the matter to be properly investigated.
  22. Based on its activity, Internal Audit is responsible for reporting significant risk exposures and control issues identified to the Audit Committee and senior management including fraud risks, governance issues and other matters needed or required.
  23. The Audit Committee has a Terms of Reference, which defines the area in which it operates, and this is set out in Appendix D. The Terms of Reference are reviewed on a periodical basis.

### **Internal Audit Plan**

24. At least annually, the Audit Manager will submit to the Audit Committee an internal audit plan for review and approval including risk assessment criteria. The internal audit plan will include timing as well as budget and resource requirements for the next financial year. The Audit Manager will communicate the impact of resource limitations and significant interim changes to senior management and the Audit Committee.
25. The internal audit plan will be developed based on a prioritisation of all auditable areas using a risk-based methodology including input of senior management and Audit Committee. Prior to submission to the Audit Committee for approval, the plan may be discussed with appropriate senior management. Any significant deviation from the approved internal audit plan will be communicated through the periodic activity reporting process.

### **Reporting and Monitoring**

26. An audit output ~~written report~~ will be prepared and issued by the Audit Manager following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will be communicated to the Audit Committee.
27. The audit output ~~internal audit report~~ may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit output report or provided thereafter by management of the audited area will include a timetable for anticipate completion of action to be taken and an explanation for any corrective action that will not be implemented.

28. The internal audit activity will be responsible for appropriate follow up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

### **Periodic Assessment**

~~29. The Audit Manager is responsible also for providing periodically a self-assessment on the internal audit activity as regards its consistency with the Audit Charter (purpose, authority and responsibility) and performance relative to its plan.~~

~~30. In addition, the Audit Manager will communicate to senior management and the Audit Committee on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.~~

### **Quality Assurance and Improvement Programme - QAIP**

31. The internal audit activity will maintain a Quality Assurance and Improvement Programme that covers all aspects of the internal audit activity. The programme will include an evaluation of the internal audit activity's conformance with the Public Sector Internal Audit standards, encompassing all mandatory elements of the IPPF, including an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency of the internal audit activity and identifies opportunities for improvement.

32. The Audit Manager is responsible upholding the Audit Charter, for ongoing assurance to senior management and Audit Committee on conformance with the Code of Ethics and the Standards, and for reporting audit performance, critical findings and trends in respect of the audit plan.

33. The Audit Manager will communicate to senior management and Audit Committee on the internal audit activity's quality assurance and improvement programme, comprising including the results of:

- ongoing internal quality assurance reviews,
- annual assessments against the Local Government Application Note,
- and external assessments conducted at least every five years.

34. Action taken to ensure that the Quality Assurance and Improvement Programme is effective is set out in Appendix E.



## **CODE OF ETHICS**

### **Public Sector Requirement**

Internal Auditors in UK public sector organisations must conform to the Code of Ethics as set out below. If individual Internal Auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

The purpose of the Institute's Code of Ethics is to promote an ethical culture in the profession of Internal Auditing. A code of ethics is necessary and appropriate for the profession of Internal Auditing, founded as it is on the trust placed in its objective assurance about risk management, control and governance.

The Institute's Code of Ethics extends beyond the definition of Internal Auditing to include two essential components:

- 1. Principles that are relevant to the profession and practice of Internal Auditing;

and

- 2. Rules of Conduct that describe behaviour norms expected of Internal Auditors.

These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of Internal Auditors.

The Code of Ethics provides guidance to Internal Auditors serving others. 'Internal Auditors' refers to Institute members and those who provide Internal Auditing services within the definition of Internal Auditing.

### **Applicability and Enforcement**

This Code of Ethics applies to both individuals and entities that provide Internal Auditing services. For Institute members, breaches of the Code of Ethics will be evaluated and administered according to the Institute's Disciplinary Procedures. The fact that a particular conduct is not mentioned in the Rules of Conduct does not prevent it from being unacceptable or discreditable and, therefore, the member liable to disciplinary action.

### **Public Sector Interpretation**

The 'Institute' here refers to the Institute of Internal Auditors. Disciplinary procedures of other professional bodies and employing organisations may apply to breaches of this Code of Ethics.

#### **1. Integrity**

##### *Principle*

The integrity of Internal Auditors establishes trust and thus provides the basis for reliance on their judgement.

## Rules of Conduct

Internal Auditors:

- 1.1 Shall perform their work with honesty, diligence and responsibility.
- 1.2 Shall observe the law and make disclosures expected by the law and the profession.
- 1.3 Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of Internal Auditing or to the organisation.
- 1.4 Shall respect and contribute to the legitimate and ethical objectives of the organisation.

## 2. Objectivity

*Principle*

Internal Auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.

Internal Auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests, or by others, in forming judgements.

## Rules of Conduct

Internal Auditors:

- 2.1 Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.
- 2.2 Shall not accept anything that may impair or be presumed to impair their professional judgement.
- 2.3 Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

## 3. Confidentiality

*Principle*

Internal Auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority, unless there is a legal or professional obligation to do so.

## Rules of Conduct

Internal Auditors:

- 3.1 Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2 Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

## 4. Competency

### *Principle*

Internal Auditors apply the knowledge, skills and experience needed in the performance of Internal Auditing services.

### **Rules of Conduct**

Internal Auditors:

- 4.1 Shall engage only in those services for which they have the necessary knowledge, skills and experience.
- 4.2 Shall perform Internal Auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing.
- 4.3 Shall continually improve their proficiency, effectiveness and quality of their services.

DRAFT

**CORE PRINCIPLES**

**FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING**

The Internal Audit service is delivered through application of ten Core Principles, which taken as a whole, articulate internal audit effectiveness.

The following Core Principles underpin the mission of the Internal Audit service.

*'To enhance and protect organisational value by providing risk based and objective assurance, advice and insight'.*

1. Demonstrates integrity
2. Demonstrates competence and due professional care
3. Is objective and free from undue influence (independent)
4. Aligns with the strategies, objectives, and risks of the organisation
5. Is appropriately positioned and adequately resourced
6. Demonstrates quality and continuous improvement
7. Communicates effectively
8. Provides risk-based assurance
9. Is insightful, proactive, and future-focused
10. Promotes organisational improvement

## AUDIT ACTIVITY & RESOURCES

### Resources

1. **Audit Manager** –1 FTE - responsible for leading and managing the audit and investigation teams in delivering their roles, as set out within the Public Sector Internal Audit Standards (PSIAS), and other professional Codes of Practice.
2. **Audit Team** – ~~10.41~~ **10.28 FTE** - who undertake system based audits, financial audits, provide advice and guidance to clients on a wide range of matters, and undertake work around efficiency and value for money.
3. **Investigation Team** –~~1.5~~ **2.5 FTE** - dedicated to the prevention, detection and investigation of suspected fraud or financial impropriety.
4. All audit staff are required to maintain the highest standards of professional practice, and comply with professional Codes of Practice. The Public Sector Internal Audit Standards are followed in all aspects of work undertaken.
5. For the purpose of the Public Sector Internal Audit Standards, the Audit Committee acts as the “Board”, members of the Senior Management Team represent ‘Senior Management’, and the Corporate Director of Resources & Section 151 Officer is the Senior Manager overseeing the Internal Audit Function. The Audit Manager is the Chief Audit Executive.
6. All auditors and investigators are suitably qualified and collectively offer a wide range of skills, experience and knowledge. In the Audit team, there are three qualified Accountants, one Chartered Internal Auditor, one Certified Internal Auditor and most other auditors are qualified Accounting Technicians, with ~~four~~ two studying for the Certified Internal Auditor qualification. The Investigation team is led by a Group Auditor who has the CIPFA Certificate in Investigative Practice, and investigators are professionally trained investigators (PINS).
7. Ongoing development and training of auditors is fundamental to the delivery of an effective and professional Audit service. The Council’s Personal Review Scheme is fully adopted within Audit where all members of the team assess themselves against the skills required for their respective roles. This assists in the identification of team and individual development and training opportunities within a robust performance management framework.

## AUDIT COMMITTEE

### TERMS OF REFERENCE

#### Statement of Purpose

- Our Audit Committee is a key component of Cardiff Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
- The purpose of our Audit Committee is to provide independent assurance to the members of Cardiff Council, and its wider citizens and stakeholders, on the adequacy of the risk management framework and the internal control environment. It provides an independent review of Cardiff Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

#### Governance, Risk & Control

- To review the Council's corporate governance arrangements against the good governance framework, including the ethical framework and consider annual governance reports and assurances.
- To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account the internal audit opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control.
- To consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- To consider the Council's framework of assurance and ensure that it adequately addresses the risk and priorities of the Council.
- To monitor the effective development and operation of risk management in the Council.
- To monitor progress in addressing risk-related issues reported to the Committee.
- To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- To review the assessment of fraud risks and potential harm to the Council from fraud and corruption.
- To monitor the Counter-fraud strategy, actions and resources.
- To review the governance and assurance arrangements for significant partnerships or collaborations.

#### Internal Audit

- To approve the Internal Audit Charter.
- To review proposals in relation to the appointment of external providers of internal audit services and to make recommendations.

- To approve the risk-based internal audit plan, containing internal audit's resource requirements, the approach to using other sources of assurances and any work required to place reliance upon those other sources.
- To approve significant interim changes to the risk based internal audit plan and resource requirements.
- To make appropriate enquiries of both management and the audit manager to determine if there are any inappropriate scope or resource limitations.
- To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the Audit Manager. To approve and periodically review safeguards to limit such impairments.
- To consider reports from the Audit Manager on Internal Audit's performance during the year including the performance of external providers of internal audit services. These will include:
  - Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work
  - Regular reports on the results of the Quality Assurance and Improvement Programme (QAIP)
  - Reports on instances where the internal audit function does not conform to the PSIAS and Local Government Application Note (LGAN) considering whether the non- conformance is significant enough that it must be included in the Annual Governance Statement.
- To consider the Audit Manager's annual report:
  - The statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement – these will indicate the reliability of the conclusions of internal audit
  - The opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control together with a summary of the work supporting the opinion – these will assist the Committee in reviewing the Annual Governance Statement.
- To consider summaries of specific internal audit reports as requested.
- To receive reports outlining the action taken where the Audit Manager has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
- To contribute to the Quality Assurance and Improvement Programme and in particular the external quality assessment of internal audit that takes place at least once every five years.
- To consider a report on the effectiveness of internal audit to support the Annual Governance Statement, where required to do so by the Accounts and Audit Regulations.
- To provide free and unfettered access to the Audit Committee Chair for the Audit Manager, including the opportunity for a private meeting with the Committee.

### External Audit

- To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
- To consider specific reports as agreed with the external auditors.
- To comment on the scope and depth of external audit work and to ensure it gives value for money.
- To commission work from internal and external audit.
- To advise and recommend on the effectiveness of relationships between external and internal audit and other inspector agencies or relevant bodies.

### Financial Reporting

- To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
- To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.
- To seek assurances that the Council has complied with the Treasury Management Strategy and Practices by demonstrating effective control of the associated risks and pursuing optimum performance consistent with those risks.

### Accountability Arrangements

- To report to Council on the Committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of the governance, risk management and internal control frameworks, financial reporting arrangements and internal and external audit functions.
- To report to Council on an annual basis and to publish an annual report on the Committee's work, its performance in relation to the Terms of Reference, and its effectiveness in meeting its purpose.
- To raise the profile of probity generally within the Council and to report on matters of concern to the individual Cabinet Member, relevant Scrutiny Committee, Cabinet or to Council as necessary and appropriate.
- To work in synergy with the five Scrutiny Committees of the Council and liaise with other Council Committees as and when appropriate to avoid duplication in work programmes.

### Training & Development

- To attend relevant training sessions in accordance with the Member Development Programme including specialist training tailored for Members of the Audit Committee e.g. Treasury Management.



## **QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME (QAIP)**

A Quality Assurance and Improvement Programme (standard 1300) is designed to enable an evaluation of the Internal Audit section's conformance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics.

The programme also assesses the efficiency and effectiveness of the internal audit activity and is used to identify and deliver opportunities for improvement.

Key principles of the QAIP:

- The Audit Manager has established a system of ongoing monitoring of conformance with the standards and the Code of Ethics as part of each audit engagement, and a system of periodic review and reporting.
- Regular periodic reports and an Annual Internal Audit Report are presented to the Section 151 Officer and to Audit Committee.
- There is a commitment to undergoing an external inspection on conformance to PSIAS every five years.

To support the delivery of an efficient and effective service:

- Each Directorate has a relationship manager with whom they hold regular meetings to discuss risks and emerging issues, progress against and development of the audit plan, and audit outcomes and feedback.
- The Audit Manager has regular contact with the Audit Committee Chair, the Wales Audit Office, Senior Managers including the Chief Executive and the Section 151 Officer, and peers within Welsh Local Authorities and the Core UK Cities.
- Benchmarking exercises are undertaken in order to assess performance against other comparable organisations and report on significant variances, with action plans developed and implemented where appropriate.
- Annual personal reviews include auditor assessments against a skills and competency framework, leading to development goals and targets.
- Quality assurance is delivered through monitoring and review processes at key stages within the audit, to ensure all relevant Codes of Practice and Standards are adhered to.
- All Auditors are required to comply with the Code of Ethics, any other professional standards for the associations to which they belong and the Council's Codes of Conduct.

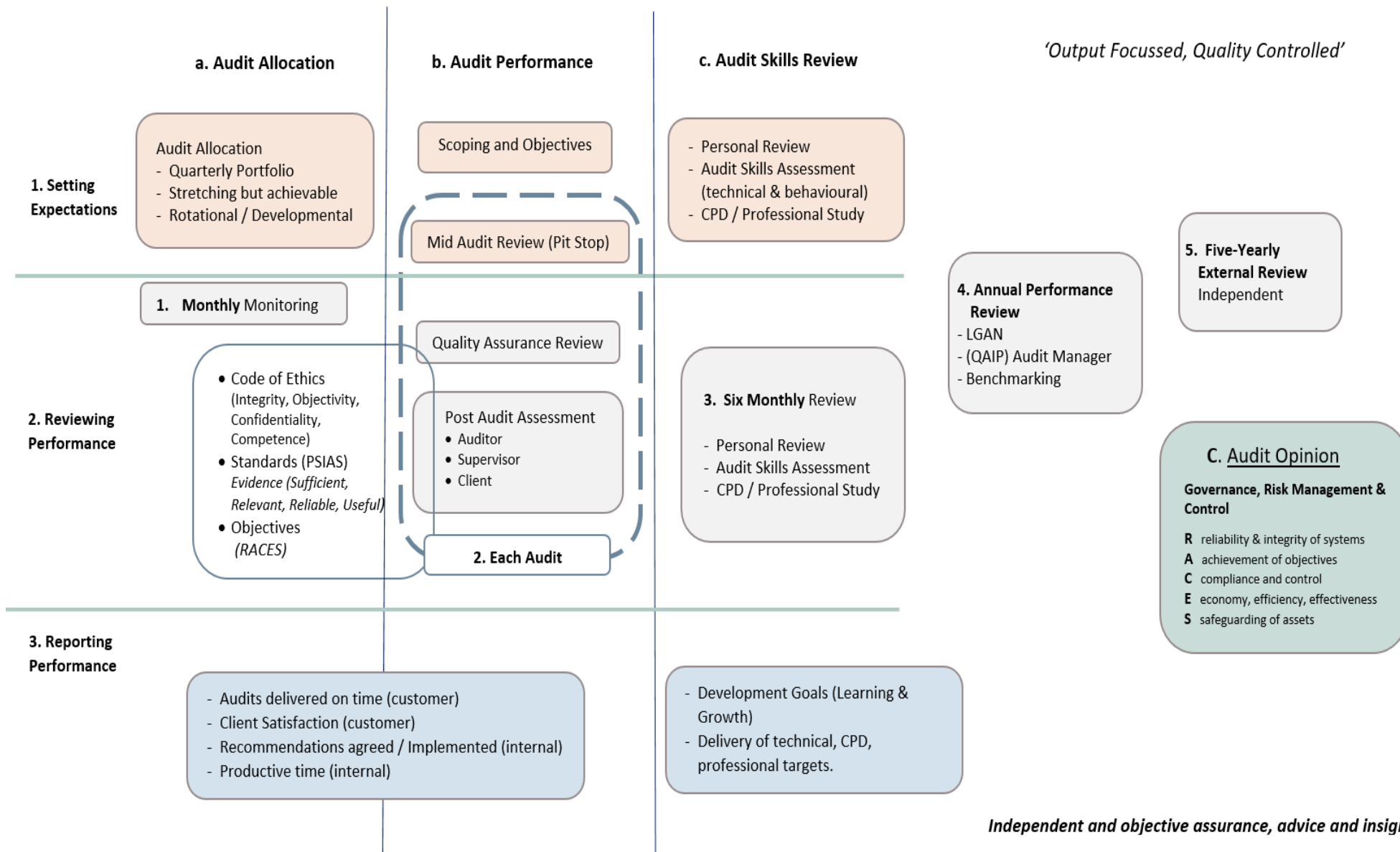
## QAIP - OPERATIONAL APPROACH

The QAIP is built around a performance management approach, which involves 'setting expectations', 'reviewing performance', and 'reporting performance' at individual auditor and team levels. The application of these control stages are summarised as follows.

<p><b>1. Setting expectations</b> - With clear expectations in place, auditors can focus on delivery.</p>
<ul style="list-style-type: none"><li>✓ <b>Audit Allocation</b> - Each auditor has a quarterly allocation of work, which is stretching but achievable. Auditors are responsible for delivering their allocation effectively and on time.</li><li>✓ <b>Scoping and Objectives</b> – Each auditor has clear and documented objectives for each audit engagement, that they are responsible for delivering.</li><li>✓ <b>Audit 'Pit Stop'</b> - When half of the audit time is used, a senior team member completes a short and sharp review of progress against the audit objectives. This can either result in assurance that the audit is being delivered effectively, or it leads to expectations being re-set, with actions developed for the auditor to conclude a high quality audit engagement on time.</li><li>✓ <b>Personal Reviews</b> – Each year delivery, training and development goals and objectives are established for each auditor, in recognition of the individual and collective skills needed to deliver the risk-based plan effectively in the current and medium term.</li></ul>
<p><b>2. Reviewing Performance</b> - Expectations are revisited in quality assurance and control reviews.</p>
<ul style="list-style-type: none"><li>✓ <b>Monitoring</b> - Each auditor attends a monthly monitoring meeting, through which the delivery of their 'Audit Allocation' is reviewed, issues are identified and addressed.</li><li>✓ <b>Quality Assurance Review</b> - Each audit is subject to a quality assurance review by a member of the audit management team, to ensure high quality delivery in accordance with the Code of Ethics and the Standards. The review considers the quality of evidence to support the audit 'Objectives', and the delivery of actions resulting from the audit 'Pit Stop'.</li><li>✓ <b>Post Audit Assessment</b> – Upon conclusion of each audit, the auditor, and a senior team member review the auditor's performance against best practice technical and behavioural qualities. A client satisfaction survey is also used to identify the audit delivery and value from the client's perspective. Any development needs are identified and progressed.</li><li>✓ <b>Six Monthly Personal Review</b> – Progress is measured against the objectives and targets in each Auditor's 'Personal Review', taking account of the findings and outcomes from the activities in the 'Reviewing Performance' control stage. It can lead to new objectives, targets and support.</li></ul>
<p><b>3. Reporting Performance</b> - A range of performance measures are used for reporting and review.</p>
<ul style="list-style-type: none"><li>○ Core performance measures relate to the audits delivered on time, client satisfaction, recommendations agreed / implemented, productivity and the delivery of personal objectives.</li><li>○ Performance information is regularly monitored by the Audit Manager and is considered by the Finance Management Team and the Audit Committee on a quarterly basis.</li><li>○ On an annual basis, the Audit Manager reviews and reports on the application and findings of the performance management Framework that underpins the QAIP to the Audit Committee. An external assessment of conformance with the PSIAS is completed and reported at least every five years.</li></ul>

## QAIP – OPERATIONAL APPROACH (DIAGRAM)

Tudalen 239



*Independent and objective assurance, advice and insight*

Mae'r dudalen hon yn wag yn fwriadol

**DRAFT SUMMARY AUDIT PLAN, 2020/21**

<b>Fundamental Audits - S151 Assurance</b>	<b>Type of engagement</b>	<b>CIPFA classification</b>	<b>Original audit plan 2019/20</b>	<b>Audit plan, 2020/21</b>
Creditor Payments & Processing (including procurement)	Assurance	Chargeable	60	60
Payroll	Assurance	Chargeable	60	60
Council Tax	Assurance	Chargeable	0	20
NNDR	Assurance	Chargeable	20	0
Housing Benefit / Local Housing Allowances	Assurance	Chargeable	0	15
Treasury Management	Assurance	Chargeable	10	0
Main Accounting	Assurance	Chargeable	15	0
Income and Debtors	Assurance	Chargeable	0	0
Asset Management	Assurance	Chargeable	15	0
Housing Rents	Assurance	Chargeable	0	0
<b>Total</b>			<b>180</b>	<b>155</b>
<b>Corporate Governance Assurance - Audit</b>			<b>Original audit plan</b>	<b>Audit plan, 2020/21</b>
Audit of risk management arrangements	Assurance	Chargeable	20	20
Audit of governance arrangements	Assurance	Chargeable	20	20
Audit of scrutiny functions	Assurance	Chargeable	20	0
Audit of ethics and values	Assurance	Chargeable	0	20
Audit of Wellbeing of Future Generations Act	Assurance	Chargeable	20	20
Audit of performance management	Assurance	Chargeable	20	0
Audit of Health and Safety	Assurance	Chargeable	0	0
Audit of Information governance	Assurance	Chargeable	0	0
<b>Total</b>			<b>100</b>	<b>80</b>
Delegation and decision making	Assurance	Chargeable	20	0
Programme and projects	Assurance	Chargeable	0	20
<b>Total</b>			<b>20</b>	<b>20</b>
<b>Other Assurance</b>			<b>Original audit plan</b>	<b>Audit plan, 2020/21</b>
Contract Audit	TBC	Chargeable	50	50
Education - SOP	TBC	Chargeable	20	0
Computer Audit	TBC	Chargeable	50	50
Value for Money studies	TBC	Chargeable	30	45
Taxation (incl. VAT)	TBC	Chargeable	25	20
System Development	TBC	Chargeable	30	30
Pensions and Investments	TBC	Chargeable	15	0
Insurance	TBC	Chargeable	0	15

Mileage & subsistence	TBC	Chargeable	0	15
Fleet Management (pool cars, grey fleet, etc.)	TBC	Chargeable	20	0
Procurement	Assurance	Chargeable	0	0
Stores	TBC	Chargeable	10	20
Business Continuity	TBC	Chargeable	0	20
TBA	TBC	Chargeable	30	32
<b>Total</b>			<b>280</b>	<b>297</b>
<b>Service specific audits</b>			<i>Original audit plan</i>	<b>Audit plan, 2020/21</b>
Planning, Transportation and Environment	TBC	Chargeable	170	80
Housing and Communities	TBC	Chargeable	150	150
Housing and Communities (Waste Management)	TBC	Chargeable		100
Economic Development	TBC	Chargeable	150	120
Education and Lifelong Learning	TBC	Chargeable	300	280
Governance and Legal Services	TBC	Chargeable	50	60
Resources	TBC	Chargeable	50	70
Resources (CTS)	TBC	Chargeable		20
Social Services	TBC	Chargeable	300	240
<b>Total</b>			<b>1,170</b>	<b>1,120</b>
<b>External</b>			<i>Original audit plan</i>	<b>Audit plan, 2020/21</b>
External clients	Assurance	Chargeable	20	20
Grants	Assurance	Chargeable	10	10
<b>Total</b>			<b>30</b>	<b>30</b>
<b>Contingencies</b>			<i>Original audit plan</i>	<b>Audit plan, 2020/21</b>
General Audit		Chargeable	30	30
<b>Total</b>			<b>30</b>	<b>30</b>
<b>Management</b>			<i>Original audit plan</i>	<b>Audit plan, 2020/21</b>
Corporate work – Audit Committee, WAO etc.	Consultation	Chargeable	50	50
Assurance mapping	Consultation	Chargeable	10	10
CRSA development	Consultation	Chargeable	0	0
Process development	Consultation	Chargeable	20	20
Work for Audit Manager	Consultation	Chargeable	30	30
Planning, monitoring & reporting	Consultation	Chargeable	30	30
Review of financial rules etc.	Consultation	Chargeable	20	20
General advice and guidance	Consultation	Chargeable	20	20
<b>Total</b>			<b>180</b>	<b>180</b>

<b>Audit Team Non Chargeable Leave/Sickness/Training</b>			<i>Original audit plan 2019/20</i>	<b>Audit plan, 2020/21</b>
Annual Leave		Non-chargeable	321	346
Public Holidays		Non-chargeable	83	83
Maternity / Paternity / Parental Leave		Excluded	15	18
Sickness		Non-chargeable	22	22
Professional Studies		Non-chargeable	115	104
Courses and seminars		Non-chargeable		
<b>TOTAL AUDIT TEAM NON CHARGEABLE LEAVE/SICKNESS/TRAINING DAYS</b>			<b>556</b>	<b>573</b>
<b>Audit Team Non Chargeable Other</b>			<i>Original audit plan</i>	<b>Audit plan, 2020/21</b>
General Admin. (no identifiable client)		Non-chargeable	80	80
General management		Non-chargeable	11	11
Staff Development		Non-chargeable	24	24
Internal Audit meetings (such as team meetings)		Non-chargeable	45	45
Non-audit duties		Non-audit	0	25
<b>TOTAL AUDIT TEAM NON CHARGEABLE OTHER DAYS</b>			<b>160</b>	<b>185</b>

<b>TOTAL AUDIT TEAM CHARGEABLE DAYS</b>			<b>1,990</b>	<b>1,912</b>
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<b>TOTAL AUDIT TEAM NON CHARGEABLE DAYS</b>			<b>716</b>	<b>758</b>
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<b>TOTAL DAYS</b>			<b>2,706</b>	<b>2,670</b>
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<b>Investigations</b>			<i>Original audit plan</i>	<b>Audit plan, 2020/21</b>
General			390	650
<b>Total</b>			<b>390</b>	<b>650</b>

<b>Investigations Non Chargeable Leave/Sickness/Training</b>			<i>Original audit plan</i>	<b>Audit plan, 2020/21</b>
Annual Leave		Non-chargeable	53	75
Public Holidays		Non-chargeable	12	20
Sickness		Non-chargeable	3	5
Professional Studies		Non-chargeable	3	5
Courses and seminars		Non-chargeable		

TOTAL INVESTIGATIONS NON CHARGEABLE LEAVE/SICKNESS/TRAINING DAYS			71	105
<b>Investigations Non Chargeable Other</b>			<i>Original audit plan</i>	<i>Audit plan, 2020/21</i>
General Admin.		Non-chargeable	6	8
General management		Non-chargeable	10	10
Staff Development		Non-chargeable	11	15
Internal Audit meetings		Non-chargeable	13	18
TOTAL INVESTIGATIONS NON CHARGEABLE OTHER DAYS			40	51
TOTAL INVESTIGATIONS CHARGEABLE DAYS			279	494
TOTAL INVESTIGATIONS NON CHARGEABLE DAYS			111	156
TOTAL DAYS			390	650



Audit Committee Action Plan

## Agenda Item 12

(Updated following meeting held on 12 November 2019)

Minute No. /Agenda No.	Actions	Timeline	Action Owner
<b>Finance (Budget)</b>			
<b>Governance &amp; Risk Management</b>			
12.11.19	Head of Finance to feedback comments on school estate dilapidations, and the publication of this information, to the Director of Education and Lifelong Learning.	Completed 10.01.20	IA
<b>Wales Audit Office (WAO)</b>			
<b>Internal Audit</b>			
25.06.19	Audit Manager to meet with Corporate Communications Officers, to consider opportunities to communicate the outcomes of Internal Audit, and its work more widely.	Ongoing  Discussions commenced in August 2019	CP
<b>Treasury Management</b>			
25.06.19	The Operational Manager, Capital, Corporate & Treasury to: <ul style="list-style-type: none"> <li>prepare a note for a future Audit Committee meeting on the nature of treasury management investments and risks, including the approach to ethical investments, and to;</li> <li>consider ways of providing wider information and context in relation to borrowing activities in future treasury performance management reports to the Audit Committee.</li> </ul>	Ongoing  <b>Point 1</b> To deliver through TM overview report in November 2019, and TM Strategy 2020-21 in January 2020.  <b>Point 2</b> Ongoing	AH
10.09.19	OM Treasury to review the availability of benchmarking on Capital Financing Costs as a percentage of budget, and to highlight any risks of comparison in a future report.	Completed 12.11.19	AH
12.11.19	Head of Finance to provide an action plan and management comments in response to the external report on Treasury Management.	21.01.20	IA
<b>Operational Items</b>			
22.01.19	The Director of Planning, Transport and Environment is recommended to: <ul style="list-style-type: none"> <li>Review the resilience of local incident management plans, and develop specific plans for a flood event arising from the coastal erosion corporate risk;</li> <li>Develop an engagement strategy to communicate to those most at risk;</li> <li>Report progress to a future Audit Committee meeting.</li> </ul>	Ongoing  Interim updates emailed to Members 01 April 2019 and 03 June 19 and 30 October 19 Update provided in Committee meeting of 21 January 2020.	AG

02.04.19	Once disciplinary procedures have concluded within the Waste Management Service, Audit Committee to be informed of the terms of reference and approach for delivering the associated Post Investigation Review.		
12.11.19	RBV Policy to be amended to include a requirement to monitor the impact of implementation, on those with protected characteristics.	Completed 14.11.2019	JT
<b>Work Programme</b>			
10.09.19	The Chair to consider the Audit Committee work programme with regards to receiving ongoing assurance in respect of Brexit.	Ongoing	IA
<b>WAO Tracker/Other Studies</b>			
12.11.19	Audit Manager to request that, subject to report and meeting timings, management responses accompany the presentation of WAO assessments in future Committee meetings.	Noted and ongoing	CP
<b>Outstanding Actions</b>			
<b>Scrutiny Letters</b>			

Topic	Tuesday 25.06.19 at 2pm (CR4)	Tuesday 10.09.19 at 2pm (CR4)	Tuesday 12.11.19 at 2pm (CR1)	Tuesday 21.01.20 at 2pm (CR4)	Tuesday 24.03.20 at 2pm (CR4)	Tuesday 23.06.20 at 2pm (CR4)
				12.30-1.30pm - Committee Self- Assessment		
Wales Audit Office		Audit of Financial Statement Report for City of Cardiff Council (ISA260)	WAO Performance Audit Work Programme Update		Annual Audit Plan 2020	
		Audit of Financial Statement Report - Cardiff & Vale of Glamorgan Pension Fund (ISA260)	Annual Improvement Report		Cardiff & Vale Pension Fund Audit Plan	
			Well-being of Future Generations Examination Report			
	WAO Activity/Report Progress Update	WAO Activity/Report Progress Update	WAO Activity/Report Progress Update	WAO Activity/Report Progress Update	WAO Activity/Report Progress Update	WAO Activity/Report Progress Update
Treasury Management	Performance Report	Performance Report	Performance Report	Performance Report	Performance Report	Performance Report
		Annual Report	Half Year Report			
				Draft Strategy 2020-21	Treasury Management Practices	
Finance	Financial Update including Resilience Issues	Financial Update including Resilience Issues	Financial Update including Resilience Issues	Financial Update including Resilience Issues	Financial Update including Resilience Issues & Benchmarking	Financial Update including Resilience Issues
	Draft Statement of Accounts 2018-19 (including the AGS)	Final Statement of Accounts for 2018-19 (including the AGS)			Accounting Policies and Timescales for 2019/20 Statement of Accounts	Draft Statement of Accounts 2019-20 (including the AGS)
	WAO Tracker / Other Studies	WAO Tracker / Other Studies	WAO Tracker / Other Studies	WAO Tracker / Other Studies	WAO Tracker / Other Studies	WAO Tracker / Other Studies
Internal Audit	Progress Update	Progress update	Progress Report	Progress Update	Progress Update	Progress Update
	Internal Audit & Investigation Annual Report 2018-19			Draft Audit Charter and Draft Audit Plan 2020-21	Audit Charter and Audit Plan 2020-21	Internal Audit Annual Report 2019-20
Governance and Risk Management	Audit Committee Annual Report 2018-19			Audit Committee Annual Report Discussion 2019-20		Audit Committee Annual Report 2019-20
	Senior Management Assurance Statement Review			Senior Management Assurance Statement and AGS Action Plan 2019-20 (Mid-Year)		Senior Management Assurance Statement Review
					Draft AGS 2019-20	
	Corporate Risk Management (Year-End)	Corporate Risk Management (Quarter 1)	Corporate Risk Management (Mid-Year)		Corporate Risk Management (Quarter 3)	Corporate Risk Management (Year-End)
					Audit Committee Self-Assessment Feedback/Action Plan	
Operational matters / Key risks	Neil Hanratty Update on Internal Control Environment	Nick Batchelar Annual Report on School Governance, Balances & Deficits	Sarah McGill Update on Internal Control Environment	Andrew Gregory Update on Internal Control Environment (& Coastal Risk Management)	TBC - Paul Orders Update on the Council's Control Environment	TBC - Claire Marchant Update on Internal Control Environment
			Jane Thomas, Risk Based Verification Policy - Housing and Council Tax Benefit Assessment	Christopher Lee Update on Internal Control Environment (& H&S Governance)	Nick Batchelar Update on Internal Control Environment and School Governance	

Mae'r dudalen hon yn wag yn fwriadol