

**AUDIT COMMITTEE: 2 APRIL 2019**

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**UPDATE ON THE COUNCIL'S CONTROL ENVIRONMENT**

**REPORT OF CHIEF EXECUTIVE**

**AGENDA ITEM: 5.1**

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**Reason for this Report**

1. This report provides the view of the Chief Executive on the Council's Control environment.
2. The Audit Committee Terms of Reference requires the Audit Committee to:
  - Consider the Council's framework of assurance and ensure that it adequately addresses the risk and priorities of the Council.
  - Monitor the effective development and operation of risk management in the Council.
  - 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.

**Background**

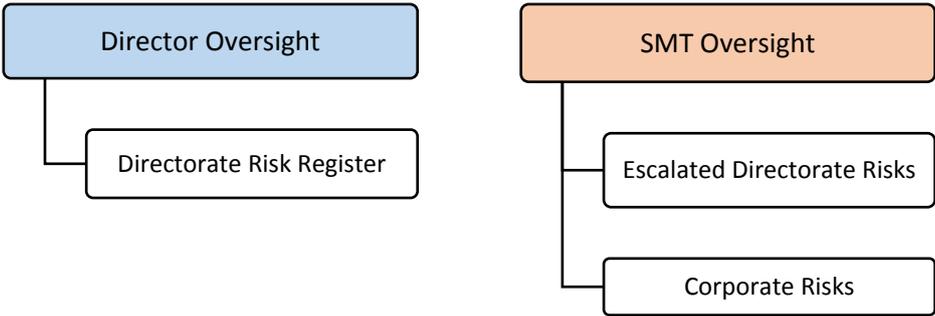
3. The Audit Committee requests an annual attendance from the Chief Executive, as part of its approach to receiving assurance from members of senior management team. The Chief Executive last attended Audit Committee on 26 June 2018.

**Issues**

**(a) Risk Management**

4. The Council's Capital Ambition involves the coordination of a wide range of diverse functions and programmes of work. Delivering our objectives requires the management of a wide range of risks on a daily basis at both operational and strategic levels. We have a progressive risk management approach, which focuses on identifying the key risks to our delivery, in order to develop and implement actions to achieve targeted risk levels.
5. Our approach to risk management ensures that Senior Managers are supported to identify and report risks at the right level in a timely manner. Officer risk champions and operational managers support each director in formally identifying and reviewing their operational and strategic risks on a quarterly basis, and are on hand for ongoing advice, guidance and support.
6. To report new and emerging risks, we have a process of risk escalation through which our directors communicate significant risks to SMT to raise collective awareness and support.

Whilst directors are accountable for deciding which risks they escalate to SMT, as a minimum requirement all ‘red’ residual risks are escalated each quarter.



- 7. The corporate risk register is formally reviewed and updated on a quarterly basis to ensure that it is a current reflection of the primary risks to our objectives. Management of the Council’s most critical risks is prioritised, with particular attention paid to red residual risks, and any increase in residual risk.
- 8. Target risk ratings have been developed for ‘red’ residual corporate risks, and challenging, but achievable, timescales for reducing these risks have been set. Of twelve such risks at the end of Q3 2018/19, target residual risk levels have been identified for nine risks as follows.

**Red Risk Targets – Corporate Risk Register Quarter 3 2018/19.**

No.	Risk	Risk Rating		Target Date
		Current	Target	
1	Coastal Erosion	B1	C1	Q4 2021/22
2	Air Quality	B1	C3	Q1 2021/22
3	Schools Delegated Budgets	B2	B3	Q1 2019/20
4	Brexit	B2	B3	Q3 2019/20
5	Waste Management	B2	C2	Target date to be set following conclusion of internal investigation and landfill tax liability analysis
6	Financial Resilience	B2	C2	Q4 2018/19
7	Budget Monitoring - Control	B2	C2	Q4 2018/19
8	Statutory Building Maintenance	B2	D3	Q4 2018/19
9	ICT Platforms Unsuitable / Outdated	B2	D3	Risk subject to change in line with regular review cycle.

- 9. It is not currently possible to target overall risk reductions for the three remaining corporate risks. This is because of external factors, which have presented uncertainty and limited levels of actual control.
  - a. **City security**  
The current focus is on making targeted incremental improvements through investment in the City infrastructure. The Council is actively engaged in partnership working to prevent, protect and prepare for a major security-related incident, but this is against the backdrop of the UK threat level of ‘severe’.

**b. Welfare reform**

As Universal Credit has been rolled out, there has been considerable impact on our citizens and the Council will continue to work with partners to mitigate the effects going forward. The roll out across Cardiff and the impact being seen mean that it is not currently possible to identify and progress formal risk reduction targets.

**c. Increase in Demand (Children's Services)**

A number of new strategies and projects are in the process of being rolled out alongside a continued focus on improving the recruitment and retention of children's social workers. Until these strategies have been fully implemented and embedded, and outcomes evaluated, it remains difficult to identify and progress formal risk reduction targets.

10. I am aware that Audit Committee has expressed specific assurances on the management of risk in respect of Brexit and the budget overspends.

Brexit

11. Audit Committee has been advised that Brexit was formally recognised in the Corporate Risk Register from Quarter 3. Members will be aware that a number of activities are underway to manage the risk of Brexit, having requested information from the Leader of the Council, and received the Corporate Risk Register entry in early March, following approval by the Senior Management Team. The Corporate Risk focusses on the potential for Brexit (and any subsequent decisions) to create severe disruption to the city and hinder its ability to continue to deliver effective services and maintain community cohesion. This risk will be regularly monitored and tested against business continuity plans and any directorate-specific risks that are identified.
12. A number of controls are already in place to manage the impact of Brexit, including a review of business continuity plans and regular contact with WLGA, Welsh Government, respective public partners and suppliers.
13. A review of existing business continuity planning arrangements in respect of known Brexit risks has taken place over recent weeks. On 26 February 2019, each directorate was tasked with reviewing their arrangements in respect of known Brexit risks to ensure the resilient delivery of public services, particularly in relation to reviewing risks and arranging for appropriate mitigations to be put in place, focused especially on supplier and supply chain risks.
14. Each directorate was instructed to engage with supply chains regarding resilience issues and to provide an assurance statement to the Emergency Management Unit (EMU) in March 2019 to confirm that any significant Brexit risks have been identified and that appropriate mitigation was in place. For example, identified risks that are being addressed include: school meals, meals on wheels, fuel supply, social care, waste issues and the nature of products imported through Cardiff Port. This information was then reported subsequently to a meeting of the Brexit Response Group (BRG) on 21 March 2019 and SMT on 26 March 2019. As the outcome of Brexit becomes clearer, priority areas will become the main focus of attention, with further work undertaken to identify longer-term implications on areas such as workforce planning.
15. The Council's Emergency Management Unit (EMU) is fully briefed on the national Command, Control and Communication infrastructure and aware of expectations. Local intelligence is reported into the Local Resilience Forum (LRF), with information collated and reported to Regional and Central Government. The EMU is fully engaged with these arrangements and is working with national and regional leads from the Welsh Government

and Emergency Services to manage communications on negative activity linked to a 'No Deal' Brexit through the Civil Contingencies Command and Control structures.

16. The EMU will be collating Daily Reports, which will be provided to the LRF as the central point of contact. Lead officers on Brexit matters have been identified within each directorate to collate information that will be reported to the Council's Gold Command (the Emergency Response Structure). Each directorate will ensure that the Daily Directorate Report for their area is completed and emailed to the EMU, with any issues marked with the appropriate Black, Red, Amber, Green, White (BRAGW) rating.
17. To ensure that a co-ordinated approach to responding to Brexit is taken across the city's public services, the Leader of the Council called an Extraordinary Meeting of the Cardiff Public Services Board (PSB) on 17 January 2019. Representatives from each PSB member organisation to provide an update on the risks associated with a 'No Deal' Brexit from their perspective and the mitigating actions that were being taken forward. Given the ongoing lack of clarity on the detail and timescale for decision points of the UK Government's negotiations with the EU, it was agreed that a programme of diarised meetings would not be productive. Instead, it was agreed that the Leader, as Chair, will call a meeting as and when the national debate develops in a way that provides greater clarity on the nature and terms of Brexit and how public services in Cardiff should best respond.
18. An operational Brexit Response Group (BRG) was also established in January 2019, chaired by the Chief Executive of the Council. The core membership includes senior managers responsible for social services, transport, regulatory services, economic development, emergency management, community cohesion and communications. Meetings are held on a fortnightly basis with representation from PSB partners as required. The Chief Executive of the Council also represents the Capital Region on the Welsh Government / Local Government [EU] Preparedness Advisory Panel Meeting. This ensures that the Council is linked into the national response and that the Welsh Government are alerted to any local issues arising from Brexit.

### Budget Monitoring Controls

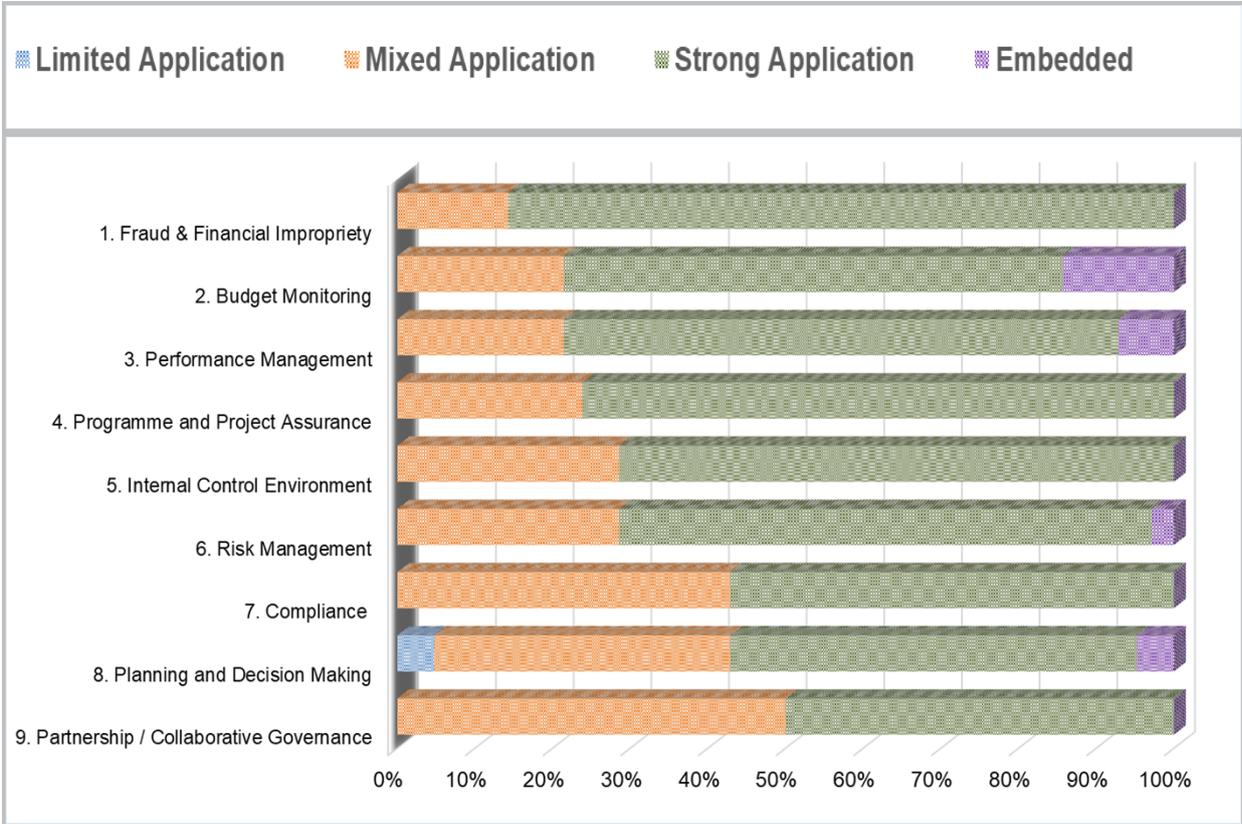
19. The Council's monitoring approach is robust and includes challenge sessions to provide assurance on the in-year financial monitoring position, through which the actual and projected overspends are reported to SMT for review and mitigation. Cabinet portfolio holders are also kept informed of the monitoring position on a regular basis.
20. The overall council position continues to be projected to be balanced for 2018/19. However, the monitoring report continues to identify an overspend of £4.9 million across directorates with the significant over spends being in Social Services (£3.23 million), Planning, Transport & Environment (£1.049 million), Education & Lifelong Learning (£0.768 million) and Corporate Management (£0.489 million) respectively. As mitigation, the 2018/19 budget provided for a £3.0 million general contingency budget in order to reflect the size, risk and planning status of the proposed savings. Further mitigation has shown itself through collecting more Council Tax and identifying underspends in areas such as Capital financing and Transitional Grant Relief.
21. I am aware that the Audit Committee has shown a significant interest in respect to the budget monitoring performance of Social Services. In preparing for future budget allocations my Senior management team considers the impact the 2018/19 budget monitoring performance will have on future years budget. An example of this is where the contingency budget for children's services has been increased by £1.05 million to £2 million

in recognition of the difficulties faced in accurately predicting the potential numbers of looked after children.

**(b) Senior Management Assurance Statement (SMAS)**

- 22. The senior management assurance process provides a strong internal challenge for us to continue to identify and target improvements in key areas of governance. The current process of assessing the maturity of our governance has been in place for 2 years, and the approach has continued to be strengthened during the last 12 months. The level of conversation, challenge and focus on improvement from SMT has continued to be positive.
- 23. Each director has worked with their management teams to assess their mid-year directorate position, before submitting their returns for discussion in SMT. The SMT review is attended by the Head of Finance and the Audit Manager who are available to provide independent insight when we consider the overall position.
- 24. The year-end SMAS returns will be collected during April and May 2019, with a detailed discussion and review leading to the overall assurance statement at SMT prior to the June Audit Committee. The output from this discussion will be, the overall assurance statement for the annual governance statement (AGS) and the Action Plan of significant governance issues to sit alongside the Statement of Accounts.

**SMAS Analysis - 2018/19 (mid-year)**



- 25. During 2018/19, there has been a shift in focus to increase the supporting detail that underpins the assessment of maturity. This has led to a greater awareness of the key

issues and a reduction in some of the assessment areas and, consequently, some rankings have changed since the end of last year.

26. The impetus remains that all assurance categories should move towards being at a level of 'strong' or 'embedded'. This position will be tested at the year-end assessment and feed into the Annual Governance Statement (AGS)
27. On review of the seven SMAS returns relating to 2017/18, SMT decided to retain the five governance issues for the ongoing AGS Action Plan for 2018/19. This decision was made as these issues continued to represent the key areas for development and ongoing monitoring. The following areas have continued to be monitored during the year and progress will also feed into the Annual Governance Statement (AGS):
  1. Capacity and Decision Making
  2. Commissioning Capability and Capacity
  3. Relevant Costs and Decision Making
  4. Partnership / Collaborative Governance
  5. Robust and Sustainable Savings
28. At the end of the year, SMT will review whether to retain these as significant governance issues or whether there are other areas that require enhanced monitoring during 2019/20
29. The independent governance reviews from the internal audit team provide a secondary level of challenge and assurance on good governance, which supports senior management in affirming where we are working well, and where we need to develop.

### **(c) Internal Audit Assurance**

30. Audit Committee approves the plan of audits each year, following its development by the Chief Audit Executive in engagement with the Senior Management Team. The Council requires comprehensive audit assurance, for which the appointment of a permanent Audit Manager (Chief Audit Executive) in October 2018 provides a sustainable footing. I meet with the Chief Audit Executive on a regular basis where I receive a summary of the work being undertaken by audit and act as a point of escalation where needed.
31. It is positive that Directors meet with their audit relationship manager on a regular basis to receive audit reports, ensure recommendations are promptly acted upon, and to consider areas of risk in the development of future audit plans. The information I receive provides me with a level of independent assurance that I use in conjunction with the SMAS returns and the Corporate Risk updates.
32. I have asked the Chief Audit Executive to sustain an increased level of audit activity and presence in respect of Waste Management, to achieve the assurance required on the control environment in this area. I note that some schools have provided unsatisfactory audit opinions this year, for which the Director of Education and Lifelong Learning is leading the oversight of improvements, where required. I am aware that the Audit Committee has requested 6-monthly reporting from the Director on school governance assurance to monitor delivery.
33. The need for prompt action on recommendations is a high priority and the improving visible performance across the Council in implementation in this area is positive. However, I recognise that the need to continue to provide assurance on key controls is of paramount importance at a time where the financial and demand pressures facing services is

increasing. I encourage Directors to have a close relationship with the Internal Audit team, and in all areas, there is clear evidence of an effective two-way communication between them.

### **Legal Implications**

34. 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**

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

### **RECOMMENDATIONS**

36. That the Committee considers and notes the contents of the report.

**Paul Orders**  
**Chief Executive**

2 April 2019