

POLICY REVIEW & PERFORMANCE
SCRUTINY COMMITTEE

7 January 2014

AUDIT COMMITTEE MINUTES – INFORMATION REPORT

Reason for the Report

1. To present for information copies of the minutes of the Audit Committee, which are attached at **Appendix A** of this report. The Audit Committee currently receives copies of the minutes of Policy Review and Performance Scrutiny Committee meetings for information. Minutes of the Audit Committee's meetings will be presented to this Committee at appropriate points in the Committee's work schedule.

Way Forward

2. These minutes are attached for information purposes only.

Legal Implications

3. The Scrutiny Committee is empowered to enquire, consider, review and recommend but not to make policy decisions. As the recommendations in this report are to consider and review matters there are no direct legal implications. However, legal implications may arise if and when the matters under review are implemented with or without any modifications. Any report with recommendations for decision that goes to Cabinet/Council will set out any legal implications arising from those recommendations. All decisions taken by or on behalf of the Council must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers of behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council e.g. Scrutiny Procedure Rules; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's

fiduciary duty to its taxpayers; and (h) be reasonable and proper in all the circumstances.

Financial Implications

4. The Scrutiny Committee is empowered to enquire, consider, review and recommend but not to make policy decisions. As the recommendations in this report are to consider and review matters there are no direct financial implications at this stage in relation to any of the work programme. However, financial implications may arise if and when the matters under review are implemented with or without any modifications. Any report with recommendations for decision that goes to Cabinet/Council will set out any financial implications arising from those recommendations.

RECOMMENDATION

Members are recommended to note the minutes of the Audit Committee attached to this report.

MARIE ROSENTHAL

County Clerk and Monitoring Officer (Democratic Services)

30 December 2013

AUDIT COMMITTEE

16 SEPTEMBER 2013

Present: Sir Richard Lloyd Jones and Prof. Maurice Pendlebury

County Councillors Cowan, Howells, Marshall, McGarry,
Mitchell, Murphy and Walker.

Apology: Sir Jon Shortridge and Councillor Holland

14 : CHAIRPERSON

RESOLVED – That in the absence of the Chairperson Prof. Maurice Pendlebury be appointed as Chair of this meeting

(Prof. Maurice Pendlebury in the Chair)

15 : MEMBERSHIP

To note that Full Council at its meeting on 25 July 2013 appointed Councillor Holland to the vacancy on the Committee.

16 : DECLARATIONS OF INTEREST

The Chairperson reminded Members of their responsibility under Article 16 of the Members' Code of Conduct to declare any interest, and to complete personal interest forms at the commencement of the item of business.

The following declarations were made:

<u>Member</u>	<u>Item</u>	<u>Interest</u>
Sir Richard Lloyd Jones	General Interest	Personal Interest as spouse is Chair of a Charity which receives funding from Cardiff Council (Families Need Fathers Cymru)
Councillor Mitchell	General Interest	Pecuniary interest as Chair of the Riverside Advice Limited as a Third Sector advice service.

17 : MINUTES

RESOLVED – That the minutes of the meeting 8 July 2013 were agreed as a correct record and signed by the Chairperson.

18 : MATTERS ARISING

(i) Street Lighting

In response to a query on matters arising from the ongoing internal Street Lighting audit, the Audit & Risk manager confirmed that a follow up audit was scheduled for December and this would be report as part of the quarterly report.

It was noted that should matters remain outstanding or unsatisfactory that this matter would be reported to the Committee and the relevant officers asked to attend.

(ii) Executive Summary Reports on Unsatisfactory Audit Reports

Copies of the Executive Summary reports for the one unsound and five unsatisfactory audits had been circulated to all Members. These would be discussed further under Item 10.4.

(iii) Budget Update

The Interim Section 151 Officer provided a verbal updated. The Budget Strategy had been agreed by Cabinet and Council in July and was the focus of the Policy Review & Performance Scrutiny Committee in early September. The Committee was advised that directorates had been informed of their specific, individual savings targets, and been asked to submit proposed budget savings by the end of September in readiness for meetings with Cabinet during the autumn. The announcement for the 2014/15 settlement was due in October, and the indications remained that there would be a significant financial challenge for all Local Authorities in 2014/15.

RESOLVED – That the update be noted.

(iv) Audit Self Assessment

A meeting of the Chair, WAO and the Risk & Audit Manager had been arranged to review and prepare the process for the Audit Committee Self Assessment which would be undertaken as part of the December meeting.

RESOLVED – That the position be noted

- (vi) Protocol for WAO Reports & Letters to Audit Committee
The Interim Section 151 Officer, and the Wales Audit Office confirmed that WAO reports would be submitted to Audit Committee as soon as practicable after receipt for consideration.

19 : OPERATIONAL ISSUES: - BRIEFING REPORT – 150
THORNHILL ROAD CHILDREN’S HOME

The Audit Committee Chair had received a letter from Councillor Evans, Chair of the Corporate Parenting Panel expressing concerns on process and project management arrangements for the re- provisioning of Thornhill Road Children’s Home and in particular the governance and project assurance methodology and the need to identify clear lessons that could be drawn from the experience, including firm proposals on the framework within which such future projects should be managed.

The Committee received a briefing report and an updated from Tony Young, newly appointed Director of Children’s Services and Angela Bourge, Operational Manager which provided a critical analysis of the factors that lead to the Local Authority taking the decision to withdraw the registration of the children’s home at 150 Thornhill Road; matters raised as part of the CCSIW inspection and registration; background information on the capital investment for the new building; outline of the project brief that set out the business case for the re-development of the facility; the rationale for the service area reaching the conclusion that the design and layout of the building was not suitable for its intended purpose for Looked After Children (LAC); the market sounding exercise and feedback from external providers; and the future use of the building for the welfare and benefit of the children in accordance with the covenant arrangements.

The Committee expressed concerns and discussed a number of issues with the Director and Operational Manager. The key issues raised were: -

- that the provision did not meet the Statement of Purpose and the operational model and design was not fit for purpose;
- the failure of project assurance process and poor governance resulting in a £1.6m spend on a facility that could not be used;
- the failure of senior officers to recognise the inadequacies of the model and design at an early stage so that the project could be modified;

- concerns that the Council was not meeting its obligation for LAC in Cardiff. The Committee was reassured by the Director that the needs of all LAC in Cardiff were currently being fully met, although there was a need for a provision for children outside of Cardiff which did not meet the Council's aspiration to provide services locally and that are accessible.
- Members noted that the Council was providing supported accommodation for placements for the 16 to 17 vulnerable homeless that were not previously looked after and these were not being provided within the children's home environment.
- Members noted that the Director had indicated that there was an increase in the number of young people requiring supported accommodation and that the Local Authority would continue to meet the needs of looked after children and commission appropriate placements for them. Members had concerns that the loss of the Thornhill Road facility was putting added pressure on the provision of appropriate placements at a time when the need had increased.
- Members noted that the provision at the Crosslands Children Home was recognised as a good model for the provision for LAC's.
- Members underlined the need for staff to be able to put their views forward in the future and that there are checks and balances in place.
- The Committee noted the Director's assurance that Children's Services was a different service and that staff concerns had been heard and that he was confident that this would not happen again; that lessons had been learnt; and staff were involved in moving forward and reviewing ways of providing services in the future.
- Members reiterated their concerns that a vital capital asset needed for LAC provided for by the John Kane family, was not being used for the purpose set out in the covenant, but noted that officers were in discussion with the John Kane family to ensure the widest scope for the use of the building within the covenant as a facility for the education and welfare of children. Members also noted that the review of the use of the building would be undertaken as part of the wider Council Accommodation Strategy.
- Members had concerns on the ongoing cost of the upkeep and security of the site, and if the current weekday usage was to be expanded what other services could be located at the site. Members stressed the need for any proposals going forward to be robust and fully costed.
- Members noted the work undertaken on a market sounding exercise and the feedback from potential operators.

- Members highlighted the need to engage with young people and families to ensure that whatever provision is put in place is informed and meets the need going forward.
- Members noted the problems experienced in recruiting and attracting a Residential Manager; and issues around the registration of the service;
- Members had significant concerns around tender, procurement and contract management across the Council, and in particular in this case where there were obvious shortcomings in the in-house expertise and were concerned that it appeared that the then Cabinet Member was not fully aware of the issues.
- Members felt that there was a need for better working across the Council and not in silos and for clear and transparent decision-making processes to be put in place.
- The Committee was advised of the Project Board mechanisms, and that each project has a Senior Responsible Officer (SRO) responsible for reporting the key milestones and financial position to the Board on a monthly basis, and that the Cabinet Member was actively involved in the day-to-day operational business of the Children's Services Directorate and attended management meetings and briefings. The Director assured the Committee that the stewardship of resources and effective use of resources was being closely monitored and there was close working with corporate colleagues.
- The Committee noted that the Audit and Risk Manager's comments regarding the internal audit process which had highlighted issues about procedures and compliance and the need for assurances and the strengthening of arrangements going forward.

The Committee then considered that the way forward

RESOLVED – That

- (1) in light of the briefing and issues raised in relation to project assurance; contract management and procurement; governance and compliance it was proposed that consideration be given to setting up a Task and Finish Group to investigate and report back on these matters;
- (2) it was noted that Councillors Cowan, Marshall and Mitchell had indicated an interest in the Task & Finish Group;
- (3) the Chair in consultation with the officers be delegated to prepare and review a scope for the Task and Finish Group.

20 : OPERATIONAL ISSUES: - BRIEFING REPORT – WELFARE REFORM

The Committee received a detailed briefing on the risks and impacts for the Council of Welfare Reform from Jane Thomas, Operational Manager-Communities and Housing. The presentation highlighted the considerable impact on the citizens of Cardiff, and the issues and risks for both the Council and its partners.

The work of the Welfare Reform Task Group, set up in the summer of 2012 to mitigate these challenges was detailed along with the impacts on homelessness, increase in debt; and also wider social impacts around health and crime; and the economic impact of the changes.

The key issues impacting on the Council were:

- Reduction in Housing Benefit levels for private tenants.
- Social Housing Size Restrictions (Bedroom Tax);
- Introduction of the Benefit Cap
- Council Tax Support ;
- Introduction of Universal Credit
- Changes to / reassessment of disability benefits;
- Increase in homelessness and the number of people in temporary accommodation.

The Committee noted that the detail contained in the report and made the following comments

- it was noted that Marsh had undertaken a risk assessment report for the Risk Management Steering Group;
- Members were concerned that the removal of the discretionary housing payments to support tenants waiting to move may be withdrawn;
- Members were interested to hear what level of budgetary advice was being given to tenants and support to avoid getting into debt and eviction. It was noted that there was a joint agency approach through the Citizens Hubs. The type of support being given to tenants included providing information on banking, budgetary planning as well as online claims.
- it was recognised that this was a huge challenge and that the Council needed to respond in some way.
- in respect of the digital inclusion Members wondered whether library staff could be trained to provide information on how to access the data

online, and that support was given to colleagues across the Council to disseminate as much of this information to tenants as possible.

- it was noted that the outcome of a recent tribunal case had ruled on what contributed as a bedroom and that in some cases an additional bedroom space could be designated for care and support.
- Members recognise that there was a need for resources to be made available to support the advice process.

The Committee considered the way forward.

RESOLVED – That the briefing be noted

21 : OPERATIONAL ISSUES: - BRIEFING REPORT – BUSINESS CHANGE PROGRAMME UPDATE

The Committee received an update on the current Business Change Programme position since its last briefing in December 2012, together with the 2012/13 outturn position from the change activity under the former Transformation Portfolio.

Project activity had been re-focussed with a reduction in the number of programmes and projects as they reach their conclusion. The remaining and new change activity had been embedded within the organisation, with improvements been owned and driven from within.

Based on the revised approach for 2013/14 change activity was being taken forward as part of two Business Change Programmes namely:

- *Resources Programme* – containing projects that support efficiencies within the central services and which will build capacity and enablers for other change;
- *Customer Programme* – including a range of interrelated projects that will improve the way the Council responds and interacts with its customers. It also contains projects which support process redesign, facilitate the development of a functional approach to service delivery and implement specific technology into operational delivery.

Service area budgets for 2012/13 included £10.2 million of efficiency savings and an addition £0.4 million brought forward from 2011/12 as base budget efficiency savings still to be found. This included efficiency savings in commissioning and performance, service redesign and shared services. £7.7 million of savings were achieved against budget providing a

shortfall of £2.9 million which service areas were required find additional savings within their base budget to achieve a balanced position. Work is continuing to ensure that any outstanding efficiency savings are still achieved in 2013/14. The 2013/14 budget savings target was £ 5.6 million from Business Change activity.

The Chair invited further discussion on the report during which the following matters were discussed:-

- concerns on the shortfall in efficiency savings and the impact on budgets going forward;
- Committee was assured that the current year £5.6 million savings total would be achieved with some budget shortfall in some projects being found from other savings.

The Committee noted the 3 categories of saving drivers, namely: -

- Policy Led Savings involving exploring new models of service delivery. This type of savings is likely to have a longer lead in time and may need to be factored into future years of the Medium Term Plan. Areas for consideration included:-
 - establishing new organisations;
 - setting up or exploiting existing partnership contracts with other organisations;
 - identifying collaboration opportunities;
 - exploiting opportunities to sell services or trade services;
 - commissioning and procurement policy decisions;
 - service reductions.
- Business Process Led Corporate Efficiency Savings which can be considered under the three broad programme headings of Resources, Customer and Operations. These will be delivered from business as usual settings with accountability resting with the relevant directors. Key ongoing projects include Commissioning and Procurement and Customer Management.
- Discrete directorate led savings –more traditional savings which, in the first year of the MTFP are likely to form a substantial part of the savings target given that the types of savings referred to above are likely to take time to identify and deliver. Directors will work with their directorate and Cabinet Member to develop these proposals in particular to reduce budgets on supplies and services spend.

The Committee had noted that the Statement of Accounts 2012/13 had managed to balance the budget to within £200,000 surplus, however Members were interested to know what sanctions would be put in place and how Directors would be accountable for the consequences of not meet their budget targets and savings in 2013/14. The Committee was advised that Directors had regular budget monitoring data and there was a clear message that any delayed savings would need to be made up from in year savings. SRO's all monitored the Business Change Programme and reported to the Business Change Board.

Members noted that further work was being undertaken on the road map and in particular the scheduling of improvements and innovation in technology platforms. Members raised concerns about IT and security of data particularly in the areas of mobile working.

The Committee considered the way forward.

RESOLVED – That the position be noted and the Committee continue to receive regular updates

22 : WALES AUDIT OFFICE: PERFORMANCE AUDIT PROGRAMME UPDATE

The Committee received an update on the WAO Regulatory Programme of work for 2013/14. It was noted that the Corporate Assessment would be undertaken in February 2014; that the recent WLGA Peer Review assessment undertaken in July would be reported to Cabinet in October, and this would help inform the Corporate Assessment. .

It was noted that Cardiff Annual Improvement Plan for delivering improvement objectives would be subject to Council in October and published by 31 October 2013. The assessment of performance audit validating performance information was to be issued in November 2013. It was noted that this data gave an indication on performance of all Council's in accordance with the Welsh Government key indicators.

During discussions a number of issues were discussed including raised:

- the National Study on Welfare Reform – and in particular the effects on service delivery and consequential gaps in the provision of advocacy and legal services as a result the changes. Concerns were raised about grant funding of the Third Sector and the future distribution of funding.

- the National Study on Delivering With Less - in particular the impact to Council services of the reduction in resources and the consequential impact to the Council of increases in demand for services;
- the need for WAO to monitor and review the Council's Budget Strategy not just as part of the Corporate Assessment but in the context of monitoring financial performance in meeting the target efficiency and business change savings; senior management costs; service overspends.

WAO noted these issues and would consider these concerns in the context of each programmed audit.

RESOLVED – That the programme be noted

23 : FINANCIAL STATEMENTS 2012/13

The Committee received the Financial Statements for 2012/13 and the WAO Audit report and final letter providing its unqualified opinion on the Statement of accounts. The WAO Audit had highlighted that there were no significant difficulties were identified during the audit; the overall the Statement of Accounts and associated working papers provided for audit were of a good standard; no material weaknesses in internal control were identified that have not been reported already; no significant matters were discussed and corresponded upon with management which need to be reported; no other matters significant to the oversight of the financial reporting process need to be reported; and no other matters specifically required by auditing standards to be communicated to those charged with governance.

Anthony Barrett, Deputy Auditor General reported that there was a misstatement in the annual accounts that would not impact on the proposed audit opinion, but that it had been requested to be corrected. The issue was in relation to a grant allocation of £9 million from the Welsh Government's Department for Education and Skills (DFES) at year end earmarked in respect of an early start on the 21st century schools programme; which the Welsh Government stipulated had to be spent within 2012/13. The Council had included the amount in debtors (Balance Sheet) and capital grants income (Comprehensive Income and Expenditure Statement) as at 31 March 2013 but no grant monies had been received at the balance sheet date. Mr Barrett that the auditors view was that as no formal grant offer had been made at the 31 March 2013 the Council could not have reasonable assurance that they had met the terms

and conditions of the grant the £9 million grant should not be recognised in the 2012/13 Statement of Accounts.

The Section 151 Officer clarified the Council's view, which was that the grant, as directed by Welsh Government, was used for expenditure incurred in 2012/13 and the Council made a corresponding debtor accrual for receipt of this income from Welsh Government to pay for the costs incurred in 2012/13. A note to qualify the position would be included in the final accounts to Council.

In discussions Members raised matters relating to the Statement of Accounts as follows;

- Pension fund investments.
- Current year budget monitoring and predicted end of year balance based on first 3 months out-turn.
- Use of reserves current year and future and the appropriate levels of reserves to be maintained.

RESOLVED – That

- (1) the Section 151 Officer and the Finance team be thanked for all their work and diligence in preparing the annual statement of accounts;
- (2) the statement of accounts and accompany compliance report be noted.

24 : TREASURY MANAGEMENT - ANNUAL REPORT

The Committee received the Treasury Management Annual Report 2012/13, which is a statutory report produced at the end of each financial year. The report gave a summary of investments, outturn and borrowing and outlines the issues facing the Council in 2013/14.

The report provided the details of the Council's Treasury Management activities for 2012/13, which covered:

- the economic background to treasury activities;
- investment strategy and outturn;
- borrowing strategy and outturn;
- debt rescheduling;
- compliance with treasury limits and prudential indicators;

- treasury management issues for 2013/14.

The Treasury Management Strategy was approved in February 2013 as part of the Budget Proposals report. For 2013/14 the main issues to be monitored closely included:- the credit worthiness of counterparties; timing of new borrowing in order to minimise short term costs of holding debt against the risk of higher long term costs should interest rates rise significantly; and additional borrowing requirements for the Housing Revenue Account, should housing reform be implemented during 2013/14.

RESOLVED – That the Treasury Management Annual Report for 2012/13 be noted.

25 : TREASURY MANAGEMENT - PERFORMANCE REPORT

The report provided performance information and a position statement on Treasury Management as at 31 July 2013, and highlight key changes from the previous report to 31 May 2013. The Committee was advised that little had changed in the investment and borrowing position. Members attention was drawn to a new table detailing the Lender Option Borrower Option (LOBO) maturity dates. The officer advised that there was a move to lengthen the maturity profile from 3 months to 12 months but that there was not a significant level of longer term borrowing.

The Committee noted the long term forecast and the policy for repaying loans; temporary cash balances and reserves.

RESOLVED – That the report be noted.

26 : INTERNAL AUDIT – CIPFA CERTIFICATE IN CORPORATE GOVERNANCE

The Committee welcomed Wendy Wright, Senior Auditor (Governance & Risk) to the meeting and received her report prepared as part of the assessment process for the completion of the CIPFA Certificate in Corporate Governance.

The 7 modules covered the following themes:

- Hallmarks of Effective Governance
- Effective Corporate Governance

- Servicing the Board
- Risk & Assurance
- Making Accountability Real
- Promoting Corporate Values & Behaviours
- Governance in Practice.

The second requirement was to undertake a work based project on a relevant or topical aspect of corporate governance and submit a report of approximately 3,500 words. The subject chosen was a project based on the Audit Committee of the Council. The project set out to determine any benefits / dis-benefits in relation to the governance arrangements of the Council's Audit Committee, following the change from Audit Panel and any changes brought about by the Local Government Measure.

The Committee's attention was drawn to the report findings in particular in relation to the structure of the Committee; self evaluation; networking of Chairs of Audit Committee's in Wales; role of the Wales Audit Office; the role of Committee Members and training and development.

Members commented on the need for broadening of the knowledge and expertise of the Committee in particular in relation to the accounts and Treasury Management to improve the level of challenge, and that this could be programmed in conjunction with the work programme for 2013/14.

It was noted that Cardiff had the greatest representation of externally appointed Members on its Committee, and Members were keen that the number of external members remained the same.

RESOLVED – That

- (1) Wendy Wright be congratulated on the report and her success in achieving CIPFA Certificate in Corporate Governance;
- (2) as part of the future work programme going forward opportunities be considered for providing the Committee with development opportunities to support their expertise in specific topic areas to facilitate knowledge and a greater level of challenge of reports.

27 : INTERNAL AUDIT – BRIEFING REPORT: NEW ASSURANCE ARRANGEMENTS PROGRAMME PROJECTS

The Committee was advised of the new arrangements for independent assurance of programmes and projects across Cardiff Council. The Audit

and Risk Manager advised that following the new approach adopted for Business Change there had been an exchange of staff from the former TMO office to the Internal Audit Service bringing experienced programme and project Management professionals.

RESOLVED – That the report be noted

28 : BRIEFING REPORT: AUDIT OPINION

The Audit Committee at its meeting 27 March 2013 requested that the Audit and Risk Manager review the classification of audit opinions and to consider information from other local authorities in doing so. General discussion felt the opinion should give more of an indication of the auditor's view of the level of assurance that he/she could provide from undertaking the audit.

The Audit and Risk Manager presented the proposed classifications

RESOLVED – That the revised classification be supported

29 : BRIEFING REPORT: AUDIT EXECUTIVE REPORTS

The Audit Committee at its meeting 8 July, 2013 requested that in future the Audit Manager provide copies of Executive Summaries for all audits where the audit opinion is considered to be less than satisfactory. For those with an unsound opinion the Committee also requested a copy of the Audit report Action Plan.

The Committee received an update on the 6 reports that had been circulated to them following 8 July.

It was noted that Internal Audit would be undertaking a follow up audit at Pentyrch Primary School in October 2013; and on Domiciliary Care before Christmas.

Members raised a number of concerns in relation to the unsound and unsatisfactory reports and the need for Senior Responsible Officer to be accountable to the Committee. Members also believed that the Wales Audit Office should investigate findings of these reports particularly in areas where there are unsound practices.

Members had particular concerns around Procurement and Contract practices – and the Housing Maintenance Contract – and the poor quality of work; the awarding of the Families First Contract and matters relating to consortia bids.

The Wales Audit Office indicated that in areas where unsound or unsatisfactory opinion was found that they would wish to consider some of the findings and that they would liaise with the Audit and Risk Manager to avoid duplication of work. .

RESOLVED – That the report be noted and Officers and Wales Audit Office consult and a way forward in relation to unsound and unsatisfactory audit opinion reports in the future.

30 : WORK PROGRAMME UPDATE

The Committee received an updated work programme. It was noted that the Audit Committee Self Assessment would be undertaken in December; and that following earlier discussions further opportunities to provide Committee Members with training and development in key areas of financial and treasury management would be included in the programme going forward.

31 : MINUTES POLICY REVIEW & PERFORMANCE SCRUTINY COMMITTEE

The Committee received the minutes of the Policy Review and Performance Scrutiny Committees held 5 and 18 June on 2013 for information.

RESOLVED – That the minutes as circulated be noted.

(The meeting closed at 17.55pm)