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**AUDIT COMMITTEE MINUTES – INFORMATION REPORT**

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**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 on 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  
26 March 2014

## AUDIT COMMITTEE

2 DECEMBER 2013

Present: Sir Jon Shortridge (Chairperson) and Prof. Maurice Pendlebury.

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

Apologies Sir Richard Lloyd Jones

### 32: 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.

### 33: MINUTES

RESOLVED – That the minutes of the meeting of the Audit Committee of 16 September 2013 were agreed as a correct record of the meeting and signed by the Chairperson subject to the following correction:

Minute No 23 – Financial Statements 2013/13 – Page 9, paragraph 7, deletion of 'Deputy Auditor General' to be replaced with 'Assistant Auditor General'.

### 34: MATTERS ARISING

#### (i) Budget Update

An Updated Budget Strategy – Question and Answer document was distributed to the Committee and Marcia Sinfield, Interim Section 151 Officer, provided a verbal update. The Q&A document included information on the following:

- Approval of the strategy
- Focus of the strategy
- Level of funding the Council will receive in 2014/15
- Impact of the settlement on the 2014/15 budget gap
- How the required savings are to be apportioned

- Whether or not some services will be protected from cuts
- The picture after 2014/15

The Committee suggested that if the required savings are to be made by taking staff levels down too far then this could result in some serious control issues.

RESOLVED – That the update be noted.

(ii) Constitution Committee Task and Finish Group - Property & Procurement Delegations

This update was presented by Marie Rosenthal, County Clerk and Monitoring Officer.

Proposals have been drawn up for the management of future projects. The case of the Thornhill Road children's home, a project with which there have been significant problems, could be used as a case study for proposals on future procurement. It has been established that the project manager for Thornhill Road was unqualified and that Social Services had no experience of managing capital projects. In future, there should be a project framework for all projects. A training need has also been identified. Councillors should receive some training so that in future they will be able to challenge officers on the specifics of projects of this kind. There are lots of lessons to be learned from the Thornhill Road project and there is to be a refreshed scheme of delegation for projects of this kind.

RESOLVED – That the outcome of the Task and Finish Group set up by the Constitution Committee will be shared with the Audit Committee which will then determine if any further action is needed on its part.

(iii) Minute number 29 of 16 September 2013 - Audit Executive Reports

The Committee was to receive a report on Domicillary Care. Derek King, Audit and Risk Manager, advised the Committee that it is part of the internal audit programme and that the Committee can be provided with an update at its meeting in January 2014.

RESOLVED - That Minute 29 of September Audit Committee is to be addressed at January meeting of the Audit Committee.

(iv) Action Plan

At each meeting the Committee would like to receive with the minutes an action checklist. The actions on it should be all outstanding actions and not just those arising from the previous meeting. This will allow the progress that is being made on actions to be tracked.

RESOLVED – That the requested action plan be provided with the minutes at each meeting.

35: OPERATIONAL ITEMS

(i) Pentyrch Primary School – Internal Audit Report Update

The purpose of this report was to provide the Audit Committee with an update regarding the audit of Pentyrch Primary School. The Audit & Risk Manager had shared Executive summary reports with Committee members in July and this school had been assessed with an “unsound” audit opinion. Financial control was found to be unsound and issues were also noted primarily in relation to governance and procurement (including the management of contracts). The report had 69 recommendations, of which 22 were classed as “red”. The audit had revealed that fundamental aspects of audit control were lacking.

Derek King informed the Committee that following a visit to the school in October there is a commitment from the school to address the issues. Audit is due to visit the school again in a few months time.

The Chair welcomed Cath Jones, headteacher of Pentyrch Primary School.

The Chair advised Cath Jones that the Committee was aware that she was not the headteacher at the school when the audit was undertaken. She had been invited to the Committee to give an update on the progress that is being made on the implementation of the recommendations that were made following the audit. The Committee wanted to be assured that proper financial controls are being put in place at the school.

Cath Jones informed the Committee that matters are in hand at the school. Some policies have been re-written and at present are being read by the school governors prior to them being signed off. A new administrative

officer has been appointed who has undertaken all available training. The officer is very competent. The school is committed to rectifying all the problems that were identified and has an action plan. Most of the recommendations have now been complied with. The financial regulations have been updated; the hospitality register is going before the governors; the governors have received training and a record of their training is being kept; and the administrative officer has received training on SIMS, the financial management system for schools.

The Chair invited Members of the Committee to ask questions.

The Committee asked whether the school now has a completely new governing body. The Committee was informed that some members of the current governing body were governors at the time of the audit. All governors are committed to acquiring the knowledge that they need. They want to be sure that they know and understand what is going on in the school.

The Committee asked whether the whole staff team at the school has moved forward following the audit. The Committee was informed that members of staff have welcomed the change of management and are keen that everything is as it should be at the school.

The Committee asked whether the role of the financial sub-committee has changed and asked who the chairperson of it is now. The Committee was informed that the sub-committee is chaired by the Chair of Governors, who is new. The person who was Chair of the Governing Body and of the Finance sub-committee when the audit took place, was still a governor. The Vice Chair of Governors also sits on the Finance sub-committee. *(Following the meeting it was established that the person who was Chair and who is still a member of the Governing Body was not the Chair at the time of the audit).*

The Committee asked whether protocols and controls for the school's petty cash system are now watertight. The Committee was informed that the new administrative officer is very thorough and follows procedures to the letter.

The Committee asked what is still left to be done on the implementation of the recommendations. The Committee was informed that there are still one or two policies to be signed off by the governors.

The Chair thanked Cath Jones for attending and for giving the Committee her strong assurances that the situation at the school is improving.

The Committee agreed that it would like to be informed when all points of the action plan have been completed, as it would not wish to see any drift on this matter. The Committee would like an update on progress on the action points at its next meeting and this should be followed up by another formal audit.

Cath Jones left the meeting.

The Committee agreed that another formal audit should take place at the school within six months to a year.

The Committee was concerned about a lack of accountability for the situation that had arisen at the school. Although the person who was headteacher at the time of the audit has now left, the Chair and Vice Chair of the Board of Governors are still in place and both still hold positions on the school's financial sub committee. The Committee was advised that the Council does have the power to remove the Chair, although as he is a parent governor this would be more problematic. The Chair offered to write to the Director of Education expressing the Committee's concerns about governance at the school and about the fact that the person who was Chair of Governors at the time of the audit still occupies that position. A Member had some concern about the Committee expressing its opinions about a parent governor who is, after all, a volunteer. The Member suggested that perhaps the problem was more of a training issue.

RESOLVED –

- 1) That the Audit & Risk Manager provide an update at the next meeting outlining the extent to which recommendations had been actioned and reasons if others remain outstanding.
- 2) That another formal audit should take place at the school within six months to a year.
- 3) That the Chair of the Audit Committee should write to the Director of Education highlighting the Committee's concerns relating to the poor controls and governance arrangements at Pentyrch Primary School.

(ii) Briefing Report: Job Evaluation Effectiveness Review

The Audit Committee has received periodic updates on Job Evaluation and Single Status. The last update was 28 January 2013

Having considered the report provided for today's meeting, the Committee felt that Job Evaluation had been a largely successful negotiation of a difficult and sensitive exercise.

The Committee noted that it has previously discussed the impact of Job Evaluation on staff morale. In January the Committee had been informed that there had been no corresponding increase in sickness levels but the Committee noted that payment protection for those members of staff who are in detriment following Job Evaluation ended in April and that those staff are now living with the effects of it. The Committee was advised that an employee survey is currently underway and that it would include the subject of Job Evaluation. It was agreed that the Employee Survey would be a good source of information to be used to identify whether or not there has been any impact on staff morale.

RESOLVED –

- 1) That the Committee be provided with further information on whether an impact assessment has been undertaken following the end of the Job Evaluation pay protection period.
- 2) That the Committee receive information from the employee survey once this is available.
- 3) That Attendance and Wellbeing be on the agenda for the January 2014 meeting.

(ii) Briefing Report: Personal Performance and Development Reviews (PPDRs)

The view of the Committee was that the low levels of compliance on PPDRs is very worrying and reflects a lack of support being given to members of staff. The Committee noted the following:



- At 25 November 2013 the level of compliance by managers in initiating the 2013/14 PPDR process stood at 80.56% across the Council.
- At 25 November 2013 the level of compliance by managers in the completion of the process for setting 2013/14 PPDR objectives stood at 66.47% across the Council.

The Committee was particularly concerned to see the low level of compliance in Children's Services.

RESOLVED –

- 1) That the Chair write to Paul Orders, Chief Executive, to express the Committee's concerns over the number of PPDRs that have been completed to date.
- 2) That the Audit Committee be provided with a year end update of PPDRs completed, detailed by Directorate in June 2014. Figures are to include a comparison with the previous year.
- 3) That an analysis be undertaken of the year end figures, identifying the categories awarded to employees, i.e. effective, outstanding.

36: WALES AUDIT OFFICE (WAO)

(i) Annual Improvement Report

This report was presented by Steve Barry (WAO) and responded to by Mike Davies, Head of Service (Improvement & Information Management).

The Committee suggested that the Council's Annual Improvement Report can not be easily accessed by members of the public and pointed out that one improvement proposed in the WAO's Improvement Assessment letter was that the Council should adopt 'publication arrangements that ensure the Council's annual report of its performance is easily accessible to its citizens and other stakeholders'. The Committee pointed out that there are still a lot of people who do not have access to the internet and asked if there are other ways that people can view the Council's Annual Improvement Report. The Committee was informed that copies are

provided to libraries and there were Twitter feeds to give people information on where the report could be accessed. A summary document has also been produced.

(ii) WAO Programme Update December 2013

Steve Barry from the WAO offered to provide the Committee with more detail on the programmes listed in the report it had received. A Member requested that the Committee be provided with a copy of the detailed programme concerning the Local Government national study into Welfare Reform.

RESOLVED – That the WAO is to provide the Audit Committee with copies of the appropriate Project briefs.

37: TREASURY MANAGEMENT

(i) Treasury Performance Report as at 31 October 2013

This report provided the Committee Members with performance information and a position statement on Treasury Management as at 31 October 2013 and highlighted key changes from the previous report received as at 31 July 2013.

Anil Hirani, Operational Manager, (Capital & Treasury), informed the Committee that there has been little additional borrowing and that the strategy is still on track. The Council will have a new banking partner from April, 2014.

The Committee was advised that it is assumed that there will be no further borrowing during this financial year but it is likely that there will be some during the following year to protect the local authority from rises in interest rates.

RESOLVED – That the report be noted.

(ii) Treasury Management Mid- Year Report 2013 -14

The purpose of this report was to provide the Committee with the Treasury Management Mid-Year Report for 2013/14 before submission to the Cabinet and then the Council in accordance with the Council's Treasury Management Policy.

The report stated that compared to the strategy approved in February 2013, the latest interest rate forecast of the treasury advisor indicates that the Bank Rate will stay at low levels for a longer period of time, with the base rate remaining at 0.5% until September 2016 at least. The Committee asked how realistic the forecast of interest rates now is. The Committee was informed that the Council relies on its advisors for these forecasts and they are constantly being reviewed and challenged. A meeting with the advisors is due to take place in the next few weeks and that will provide another opportunity to challenge the advisors on the forecasts.

RESOLVED – That the Committee commends the report to the Cabinet and to the Council.

### 38: INTERNAL AUDIT

#### (i) Internal Audit Half Year Progress Report – 30 September 2013

The purpose of this report was to provide the Committee with an update on the work of Internal Audit until 30 September 2013.

With regards to planned time, Derek King, Audit & Risk Manager, informed the Committee that there has been some slippage on audit days. The Audit team has lost one internal auditor because that person was in detriment following Job Evaluation. Another auditor is also due to leave in March 2014 and neither of them are to be replaced.

The report identified that there were 59 open audits of which some went back beyond the current year. It was explained that at times there can be a delay between the sign-off of the audit and the implementation of audit recommendations by the service area, as events planned for the future may resolve some of the control issues. Every audit is logged on CIS (the Cardiff Improvement System element of the intranet) and progress is monitored every quarter. Derek King has met with all of the new Directors and was encouraged by their understanding of the importance of the audit function and by their willingness to follow audit procedures and it was emphasised to them the importance of timely actioning of audit recommendations and that failure to do so may lead to officers being invited to answer to the Committee.

Risk management and governance have been a significant area of work over the past quarter. There are two items on the agenda outlining some major developments over the past 6 months.

In audit reports issued over the past six months, 101 recommendations have been identified as Red risks. Audit is currently looking at trends to target resources over coming months.

It was explained that Appendix D - Follow up Actions on Unsatisfactory Reports - was in a new format for this type of report to show separately the actions that are on hold and some of the cases that can now be closed due to satisfactory outcome. The Committee was concerned that in Appendix D the risk rating for Procurement in Street Lighting was still shown as High.

Appendix F provided information on cases of fraud. There has been a noticeable increase in these cases, from 18 to 41 this year to date. The Fraud, Bribery and Corruption Policy is currently being redrafted and the Committee will be provided with it once drafted.

The Chair invited Members to ask questions.

The Committee asked whether the Council will be able to fulfil its statutory obligations, given the requirement for staff savings and the departure of some members of the Audit team. Derek King informed the Committee that Audit will have lost two very experienced members of his team and this will have an impact on planned work. The team could reach a tipping point soon if this continues and there needs to be an understanding of the risks where the audit cycle is pushed back and some medium risks audits, such as primary schools, will only be visited every five or six years.

The Committee was concerned about the outcomes of some cases of internal non-benefit fraud. The Committee's concern was that service areas are dealing with these cases in an inconsistent way. Derek King informed the Committee that he is also concerned about this inconsistency. Disciplinary hearings are chaired by different people and when it comes to deciding on outcomes some are more severe than others, even when offences are of the same kind. Audit is promoting zero tolerance to try and address this problem. The Chair suggested that the Council should establish clear criteria and that perhaps those who chair disciplinary hearings should put their recommendations about the cases

they have considered to a single person, who will then apply a consistency test.

The Committee was concerned about procurement and contract issues, and in particular the potential for the Council receiving poor quality work/service. Directorates should be operating checks to ensure that best value is received. Derek King informed the Committee that Steve Robinson, Procurement Manager, is due to attend the Committee meeting in January 2014 and may be able to provide assurances and address any member concerns about the tendering process.

RESOLVED –

- 1) That the Audit Committee is to receive a final closure update on the position regarding Street Lighting.
- 2) That in future the report on investigations into cases of Internal Non-Benefit Fraud is to include a column showing the Directorates concerned.
- 3) That the Committee is to receive an options paper / proposal to deal with inconsistent sanctions regarding Internal Non Benefit Cases of fraud.
- 4) That following consideration of a proposal / option paper the updated Fraud, Corruption and Bribery Policy is to be presented to the Committee.
- 5) That Steve Robinson, Procurement Manager, is to attend the January meeting of the Committee and that the Committee is to receive a contextual report on procurement from the Internal Audit Team.
- 6) That the Audit Committee is to receive further detail of any open actions in the Audit Database.

39: GOVERNANCE & RISK MANAGEMENT

- (i) Corporate Risk Register – Mid Year Position 2013/14

The purpose of this report was to bring the Corporate Risk Register (CRR) to the attention of the Audit Committee, in order to consider the strategic risks facing the Council.

The Committee was informed that the CRR has been refreshed and updated. This is the first refresh since the new senior management team has been in place. There have been some significant changes. The CRR has been considered by the Senior Management Team (SMT) and discussion has taken place about all service areas taking joint ownership of the CRR. The Audit & Risk Manager considered that the CRR reflects the big challenges that are currently faced by the Council. The new Corporate Directors are scheduled to attend meetings of the Committee to give Members the opportunity to seek assurances around the mitigation of the risks identified in the CRR.

(ii) Revised Risk Management Policy, Strategy and Methodology

The Committee was informed that it was considered timely to review the Policy document and to introduce more information around opportunity risk, partnership risks and further advice on risk description, reporting and escalation. The updated Policy had been presented to the Senior Management team. The new policy stands as a good practice document and it has been made more user friendly.

The Committee was concerned about a statement in the last paragraph of page 12 of Appendix A, which reads as follows:

‘The Audit Committee has responsibility for overseeing all aspects of Risk Management, Governance and Internal Control.’

The Committee’s concern was that if it is to fulfil this role, more time will have to be devoted to it. The Chair was not sure that it will be possible for the Committee to give that amount of time. The Committee suggested that a letter should be sent to the Member Risk Champion who would be presenting the updated policy at Cabinet, to make him aware of this concern.

RESOLVED –

- 1) That the report be noted.

2) Corporate Risk Register - That in future risk and governance items are to be considered earlier in the meeting to allow sufficient time to discuss more fully.

3) Revised Risk Management Policy, Strategy and Methodology - That a letter is to be sent from the Audit Committee Chair to Councillor Huw Thomas (Member Risk Champion) highlighting the work of the Audit Committee in relation to risk management.

#### 40: WORK PROGRAMME UPDATE

RESOLVED – That the dates of the next three meetings be finalised and circulated to all Audit Committee Members as soon as possible.

#### 41: MINUTES POLICY REVIEW & PERFORMANCE SCRUTINY COMMITTEE:

The Committee received for information the minutes of the Policy Review and Performance Scrutiny Committee held on 9 July 2013.

RESOLVED – That the minutes as circulated be noted.

*(Meeting closed at 18.10)*