

## AUDIT COMMITTEE

8 DECEMBER 2014

Present: Independent Members: , Ian Arundale,  
Professor Maurice Pendlebury and Hugh Thomas

Councillors Howells, McGarry, Mitchell, Murphy, Robson, Walker  
and Weaver

Apologies: Sir Jon Shortridge

### 30 : ELECTION OF CHAIRPERSON

In the absence of the Chairperson, Professor Maurice Pendlebury was elected to act as Chairperson of the meeting.

### 31 : COMMITTEE MEMBERSHIP

Councillors Marshall and Cowan have left the Committee and the Chairperson thanked both councillors for their contribution to the work of the Committee.

The Committee welcomed Councillor Robson who has been appointed as a new Member of the Committee.

### 32 : DECLARATIONS OF INTEREST

The Chairperson reminded Members of their responsibility under Part III of the Members' Code of Conduct to declare any interest in general terms and to complete personal interest forms at the start of the meeting and then, prior to the commencement of the discussion of the item in question, specify whether it is a personal or prejudicial interest. If the interest is prejudicial Members would be asked to leave the meeting and if the interest is personal, Members would be invited to stay, speak and vote.

### 33 : MINUTES

The Committee noted that many of the items on the Action Plan have now been actioned satisfactorily and completed.

RESOLVED – That the minutes of the meeting of the Audit Committee of 15 September 2014 be agreed as a correct record of the meeting and signed by the Chairperson.

### 34 : ORGANISATIONAL DEVELOPMENT PROGRAMME IN CONTEXT WITH THE WAO CORPORATE ASSESSMENT

The Chairperson welcomed Councillor Phil Bale, Leader and Cabinet Member for Economic Development and Partnerships, Paul Orders, Chief Executive, and Martin Hamilton, Chief Officer, Change & Improvement.

The Chief Executive gave a presentation.

Committee was informed that the work undertaken over the past six months has been carried out within the framework of the Welsh Audit Office (WAO) report, the headlines of which were as follows: fragmented leadership and management, particularly in key service areas; inadequate planning; uncertainty over the local authority's ability to deliver savings; poor assessment management; and compliance over key processes. Rather than respond to the WAO criticisms in a piecemeal fashion, it was decided that an overall plan was needed, which led to the development of the Organisational Development Plan (ODP). The aim is to take action to improve performance in key areas and take steps to address the rising demand for services, both of which have to take place within the context of rapid budget reductions. A new corporate planning framework is to be put in place, the local authority will broaden its networks, particularly with other core cities, and work closely with other local authorities that are already involved in partnership working to a greater degree.

The Corporate Plan has a much sharper focus than previously, which reflects the challenging budget situation within which the Council is now working. There is also much greater focus on challenge within the corporate culture. There is also a particular focus on outcomes for vulnerable people, especially for children.

We are improving the emphasis on employee engagement and compliance generally with particular attention being given to improvement of performance management through the Personal Performance and Development Review (PPDR) system.

The Committee heard that there are particular concerns about Children's Services, about Health & Social Care and about Education. Regarding education, experienced educationalist Professor Mel Ainscow and the Director of Education for Ceredigion Council have been working with the Education Directorate.

Improved exam results give grounds for cautious optimism in relation to the improvement in the performance of schools, and there are good trends in relation to school attendance. The focus is on taking action where individual schools have not made the progress that has been expected, and where this has occurred letters have been sent to headteachers and governing bodies. Regarding Children's Services, action has been taken to address the issue of the high caseloads that social workers have. There has been an improvement in the recruitment and retention of social workers, and improvements in performance with regard to initial assessments. Of concern, is whether the service has the ability to sustain the improvements, and also the rising demand the service will face in future years.

The Chief Executive informed Committee of his concerns that there may have been some plateauing in the impact of the measures that have been taken to reduce sickness absence levels across the authority as a whole; he has conveyed this concern to managers.

The Chairperson invited questions and comments from the Committee.

The Committee asked how the major processes are fundamentally changing and how the programme of change is coming together. The Chief Officer for Change & Improvement advised that there is now performance management within the organisation as a whole, from top to bottom. A year ago far fewer people would have had their performance objectives set. Regarding the Corporate Plan, the WAO felt that it was very difficult to glean from the previous plan what the corporate objectives were, that the ODP is much

clearer, and that these objectives cascade down the organisation, from directorate objectives to team and individual objectives.

The Committee raised the point that there still appeared to be about 10% of staff who have not had PPDRs completed and was advised that the figures can be affected by the numbers of new starters and of those on maternity leave.

The Leader stated that a number of key indicators had been taken when drafting the ODP, which can be used to compare performance with that of other cities and also be used by the Council to compare its objectives with those of its partners, such as Health.

The Chief Executive informed the Committee that previously the level of challenge within the organisation had been variable and passive, and performance reports from that time did not really capture the true picture. The aim now is to get a much sharper understanding of where the pinch points are. The emphasis to officers has been to “tell it like it is.” An example of this would be the candid report on Children’s Services that the Audit Committee received earlier this year. This frankness in reporting is being replicated across the organisation; there are quarterly reports, Cabinet reports and reports for Scrutiny committees. Meetings of the Senior Management Team provide a forum for challenge and challenge is also given through peer review.

The Committee suggested some performance indicators (PIs) do not truly reflect the work that is being undertaken. The Chief Executive advised that this is a crucial point; targets have to be calibrated to reflect resource allocation, which will then open up debate.

The Committee recognised that the ODP is challenging and ambitious, but was aware that financial pressures will increase over the next two years. The Committee asked what key messages have emerged from analysis of the implementation of the first phase of the plan and to what extent the Council has started determining milestones. The Leader advised that the Council has launched the Cardiff Debate, a wide reaching set of engagements with stakeholders, ranging from strategic partners to communities and individual service users, to explore the challenges facing the public sector, and exploring how best to address them. Through the Cardiff Debate it was found that there were very low levels of awareness of the seriousness of the Council’s financial situation. The Debate enabled the Council to increase awareness and this fed into the plan to have a longer period of consultation on budget proposals. The key message to emerge is that the quality of service is more important than the location from which the services are provided, and that there is a need for the Council to generate more income.

The Chief Executive informed members that new three year milestones for the ODP are being developed and when completed, a report detailing delivery timelines and savings would be shared with the Committee. The Leader emphasised again the benefits of publishing the coming year’s budget proposals earlier than in previous years, which has given the Council more preparation time as it goes in to the next financial year.

The Committee enquired to what extent budgetary issues were embedded into PPDRs and how rigorously the requirement to meet budgetary objectives is applied. Directors and Operational Managers have objectives for financial management and savings built into their PPDRs, as well as mitigation plans in case those objectives cannot be met. If objectives are not met then that will be reflected in the assessment of performance. Where managers at lower levels have budgetary responsibilities, this process would apply equally to them.

The Committee asked about recruitment and retention in Children's Services, pointing out that financial pressures can lead to an increase in stress levels for staff, which may result in them leaving the Council. The Committee enquired how this issue can be addressed. The Committee also had some concerns about the use of unqualified social work assistants. The Committee was advised that in Children's Services there has been a situation where social workers' caseloads have been high, and this has led to the use of agency staff. In order to relieve this pressure on social workers and reduce spending on agency staff, a team of social workers was brought in for a fixed period to look at cases, close them where appropriate, and bring caseloads down. Also, a new approach to recruitment and retention has been implemented. Both of these measures are beginning to show results. Caseloads have reduced and vacant posts have been filled. The challenge is to avoid the situation recurring once the intervention by that team has ended. One problem that is still to be solved is the number of referrals that are received by Children's Services. It is found that many referrals can be closed at the point of assessment.

The Committee pointed out that by 2020 the re-organisation of local government in Wales, as recommended by the Williams report, will have taken place. It has been recommended that Cardiff merges with the Vale of Glamorgan and the Committee asked what part this proposal has played in the thinking behind the strategy contained in the ODP. The Leader advised that the Vale of Glamorgan has made it clear that it wishes to merge with Bridgend only, something that may or may not happen. If this happens, Cardiff will still work closely with the Vale and Bridgend on things like the introduction of joint regionalised regulatory services.

The Chairperson thanked the Leader, the Chief Executive and Chief Officer for attending the meeting, for their presentation and for answering questions from Members.

RESOLVED – That Chief Executive offered to provide the Committee with a report on the delivery timelines associated with the ODP. This to identify achievements linked to timescales, including benefit realisation.

## 35 : FINANCE

### Budget Update

The Committee was given an update by the Section 151 Officer. With regards to the current year monitoring position, the Committee was advised that in November the Cabinet received a six-month report. Directorates are projecting an overspend of £7.5 million but due to savings elsewhere, the Council's position is projected to be an overspend of £0.7 million.

In relation to the budget for next year, the Council's provision settlement was better than expected, with funding being reduced by 2.9%. The budget gap for next year will be £48.3 million. The budget proposals should result in savings of £35 million. The consultation period for the proposals runs from November 2014 to January 2015. When the budget strategy was set in July 2014, the plan was to increase council tax by 5%, to make savings from reduced employee costs and a reduction of growth to schools (growth beyond Assembly protection).

In July 2014, the budget gap was £9 million less than it is now. This is because at that time the directorates had not been asked to give their areas of budget pressure. Also, the pay award for employees has only just been accepted and this will cost more than was expected.

In relation to the current surplus in council tax collection, the Committee was advised that in Cardiff it can be difficult to collect council tax because of the high number of transients in the city. It is hoped that the collection rate can be pushed up to 98.3%, but it is the case that each time there is a rise in council tax, the tax becomes harder to collect. A 5% increase should yield about £5 million.

RESOLVED – That the report be noted.

## 36 : GOVERNANCE AND RISK MANAGEMENT

### Information Governance Audit Report

The Committee welcomed Vivienne Pearson, Operational Manager for Improvement and Information, who gave a presentation which covered the following:

- Legislative Framework
- Information Requests
- Information Security
- Information as an Asset
- Information Sharing
- Improvements Needed
- Progress against findings of Information Commissioner's Office (ICO) report

The Committee was advised that the local authority receives 2,500 requests for information per year. There is a statutory timeframe for compliance for regulations and a £500,000 fine for a breach of the regulations. If this occurred, the Council would also suffer reputational damage. The ICO is responsible for enforcing and promoting compliance with the Data Protection Act 1998. The ICO has carried out an audit and the Council has been given an Amber rating. An action plan has been created.

RESOLVED – That the report be noted.

### Corporate Risk Register Mid-Year Review 2014 - 2015

The Audit and Risk Manager advised the Committee that there are twenty-four current risks. A risk register comparison has been made with the English Core Cities group and it was found that there is a lot of common ground, although there was some variation in terms of the number of corporate risks. The outcome of the comparison gave confidence in the risk register, which has a manageable number of risks on it. Councillor Hinchey, Cabinet Member for Corporate Services & Performance, is the new Member 'risk champion'. Ongoing risks will remain as Red and will be considered in determining the Committee's work programme.

RESOLVED – That the Corporate Risk Register is noted and that the Committee have regard to its content when considering its Work Programme.

### Audit Committee Self-Assessment Review 2013-2014

The last Audit Committee Self-Assessment Workshop was held in January 2014. An Action Plan was produced, consisting of eight 'Proposed Improvement Actions' and six 'Future Considerations' for the Committee to consider. Four of the actions can now be closed and the remaining ones can be considered at the next workshop, which is to be held on 19 January 2014.

#### RESOLVED –

- 1) That the ODP in relation to the WAO report be considered at the Self-Assessment Workshop on 19 January 2014.
- 2) That at the Self-Assessment Workshop consideration is given to the agenda management of the Committee.

### Reflecting on Good Governance – Feedback from Grant Thornton Seminar

Chartered accountants, Grant Thornton UK, ran a seminar based on its publication 'A Guide to Local Authority Accounts' and several members of the Audit Committee attended. It was felt that the event was useful. It re-affirmed the importance of audit scrutiny in times of austerity and emphasized the need for effective challenge by audit committees.

#### 37 : WALES AUDIT OFFICE

The Chairperson welcomed Non Jenkins, WAO Local Government Manager (South East) Wales region, Janet McNicholas, WAO Audit Manager, and Chris Pugh, WAO Auditor and Grants Specialist.

Regarding the ODP, the WAO officers advised the Committee that the WAO will be looking at the culture of the local authority, at its engagement with its staff and with elected members. They will look at its ability to set its priorities, and at its capacity to identify problems and arrive at solutions. The WAO has met with the Leader and with the Chief Executive, and will meet the various scrutiny committee chairs. The next six months will be a time during which the local authority should prove the effectiveness of its plans. By March 2015, which will be about a year to eighteen months after the Council's improvement programme began, the WAO will be giving the Committee an indication as to when it will be carrying out its corporate assessment follow-up.

#### RESOLVED –

- 1) That WAO to report updates in relation to the ongoing Improvement work at each meeting and to advise of when the follow up to the Corporate Assessment exercise will be undertaken.
- 2) That consideration be given to the WAO offer to run a session for the Audit Committee without officers being present.

#### 38 : TREASURY MANAGEMENT

## Performance Report

Appendix 1 and Annexes A and B of Appendix 2 to the report for agenda item 9.1 (Treasury Management – Performance Report) contained exempt information as defined in Section 100 (1) (1A) of, and paragraphs 14 and 21 of Schedule 12A to, the Local Government Act 1972. It was agreed that the public be excluded for the duration of the discussion of this item of business on the grounds that if members of public were present during the discussions, due to the nature of the business to be transacted there would be disclosure to them of exempt information of the description in Paragraphs 14 and 21 of Schedule 12A of the Local Government Act, 1972. No members of the public and press were present.

The Operational Manager, Capital & Treasury, presented this report, which focussed on the position as at 31 October 2014. The Committee was advised that since the last report to the Committee the Council has taken an additional £5 million of borrowing. The level of internal borrowing at 31 March 2015 is projected to be £26 million. The borrowing that is required in respect of the 'buy out' from the Housing Revenue Account subsidy system will be included in the figures for this year.

RESOLVED – That the report be noted.

## 39 : INTERNAL AUDIT

Appendices B and E in Annex 1 to the report for agenda item 10.1 (Internal Audit Half-Yearly Progress Report) contained exempt information as defined in Section 100 (1) (1A) of, and paragraphs 14 and 21 of Schedule 12A to, the Local Government Act 1972. It was agreed that the public be excluded for the duration of the discussion of this item of business on the grounds that if members of public were present during the discussions, due to the nature of the business to be transacted there would be disclosure to them of exempt information of the description in Paragraphs 14 and 21 of Schedule 12A of the Local Government Act, 1972. No members of the public and press were present.

### Internal Audit Half-Yearly Progress Report

The Audit and Risk Manager informed the Committee that Internal Audit resources have now reduced to 11.6 Full Time Equivalent (FTE) posts in terms of audit work, with further potential savings to be made. Appendix A to the report shows Audit Reports Issued and the format has been amended to include an audit opinion for those issued in draft as an indication of the final likely outcome. There are still concerns regarding schools, and the finalised audit reports for four out of eight with limited assurance opinion over the past 12 months relating to schools. A new control risk self assessment (CRSA) questionnaire has been developed and shared with a pilot group of head teachers and over coming months the hope is that 8 - 10 schools per month use this approach, albeit this is an ambitious target.

The aim is to raise awareness of what good governance and managing risks looks like, and for schools to self assess their performance against best practice controls, raising ownership of these key areas, within and across schools. To supplement this, some thematic audits are being carried out and will be considered for next year's Audit Plan. This will involve a themed approach to audits with about six to eight schools visited and

the resulting report will pick up areas of weakness and good practice to be shared with others. Regarding contract audits, the compliance in some areas continues to be a concern. In Children's Services, safeguarding and review is still a concern and a follow up audit still only gives Limited Assurance on this. The Director of Children's Services is aware of the risk and is trying to deliver change at a time when the service is under great pressure in terms of resources. Two Programme and Project Assurance (PQA) specialists have developed a corporate guide for project risk management to help standardise the categorisation of risks.

The Committee was advised that client feedback remained positive. It has been a busy and challenging year with some slippage on planned work and priorities have been regularly reviewed. Over the past six months those working in the Investigation team, whose role related to housing benefits, have transferred to work for the Department for Work and Pensions (DWP) and the opportunity taken to retain expertise and refocus on non benefit fraud work. A letter has been sent to Corporate Directors emphasising the need for officers to remain vigilant against other types of fraud and give due regard to risks and the internal control environment at a time of rapid change.

The Committee noted from some key performance indicators presented, that the percentage of planned audits completed had fallen to 52% last year and enquired whether this is a result of Internal Audit having insufficient resources. The Committee was advised that that is one cause, but another is the need to react to the changing risk profile of the Council. Internal Audit prepares a Plan in February / March but as the year progresses the risk profile and priorities will change and thus it is vital there is flexibility within the Plan to refocus to maximise the use of the limited audit resources. Many Audit teams across Wales now feel a 3 month Plan more suitable for these reasons. The Audit and Risk Manager advised the Committee that in his annual report he does have to give an opinion on the state of governance within the Council and he will have to carefully consider the impact of Internal Audit staff reductions before giving this opinion in future years.

RESOLVED – That the report be noted.

#### 40 : OUTSTANDING ACTIONS

##### i. Procurement & Contracting Issues Sub-Group

Councillor Cowan was part of the sub-group but is no longer a Member of the Audit Committee. Councillor Robson offered to take her place on the sub-group.

RESOLVED – That the group will meet again in the new year with Cllr Adrian Robson as a new member of the group, to discuss a Terms of Reference and agree a way forward.

##### ii. Glyn Derw Michaelston Federation - Briefing from Director of Education & Lifelong Learning

The Committee was concerned that the report stated that the Federation deficit 'needs to be reduced at some point' and felt that this was too vague. Also, a date by which Cantonian High School should reduce its deficit ought to be set. The Committee requested an update on all schools that have budget deficits.



RESOLVED – That the Director of Education be requested to provide a list of all schools in deficit, together with the dates by which any deficit would be brought back into balance.

iii. Social Housing Fraud Update - Briefing from Audit & Risk Manager

The Committee was advised that Internal Audit is carrying out a data matching exercise in order to identify cases of fraud and that the Committee will receive a report on this.

RESOLVED – That the Committee receives an update on data matching exercises.

iv. Highway Bridges and Structures Update - Briefing from Principal Engineer, Bridge Management

RESOLVED – That the Director of Strategic Planning, Highways and Traffic & Transport is to attend Audit Committee to respond to a Highways Internal Audit Report. The Director is also to provide a view on the briefing note on Highways Structures and Bridges received by the Committee in December 2014 and is to provide assurance relating to his two Corporate Risks.

v. Delayed Transfers of Care (DTOCs) Update - Briefing from Director Health & Social Care

The Committee suggested that it would be more beneficial to receive a simpler statement on the local authority's performance in relation to DTOCs.

RESOLVED – That the Director of Health and Social Care provide updates on Delayed Transfers of Care, with key performance indicators relating to current performance.

vi. Corporate Risk - Social Services Wellbeing Act Update - Briefing from Director Health & Social Care

RESOLVED – That the Director of Health and Social Care provide updates on the Social Services Wellbeing Act Update, with key performance indicators relating to current performance.

41 : WORK PROGRAMME UPDATE

RESOLVED – That the Work Programme be noted.

42 : DATE OF NEXT MEETING

The next meeting will be held on 19 January 2015 in Committee Room 4, County Hall, starting at 2.00pm. This follows the Audit Committee Self-Assessment Exercise/Service Area Review Discussion (1.00-2.00pm, Committee Room 4).

The meeting terminated at 5.30 pm