

# AGENDA

Committee	AUDIT COMMITTEE
Date and Time of Meeting	MONDAY, 19 JANUARY 2015, 1.00 PM
Venue	COMMITTEE ROOM 4 - COUNTY HALL
Membership	Sir Jon Shortridge (Chair), Ian Arundale, Professor Maurice Pendlebury and Hugh Thomas  Councillors Howells, Marshall, McGarry, Mitchell, Murphy, Robson, Walker and Weaver

*Time approx.*

- |          |  |         |
|----------|--|---------|
| <b>1</b> | <b>Apologies for Absence</b>   | 2.00 pm |
|          | To receive apologies for absence.  |         |
| <b>2</b> | <b>Declarations of Interest</b>  |         |
|          | To be made at the start of the agenda item in question, in accordance with the Members' Code of Conduct.   |         |
| <b>3</b> | <b>Minutes</b> ( <i>Pages 1 - 14</i> )   |         |
|          | To approve as a correct record the minutes of the meeting of 8 December 2014.  |         |
| <b>4</b> | <b>Finance</b>   | 2.05 pm |
|          | <b>4.1</b> Budget Update   |         |
| <b>5</b> | <b>Governance &amp; Risk Management</b> ( <i>Pages 15 - 60</i> )   | 2.10 pm |
|          | <b>5.1</b> Risks & Challenges – Andrew Gregory, Director Strategic Planning, Highways and Traffic & Transport.   |         |
|          | <b>5.2</b> Senior Management Assurance Statement 2014/15   |         |
|          | <b>5.3</b> Audit Committee Annual Report – discussion  |         |
| <b>6</b> | <b>Wales Audit Office</b>  | 3.10 pm |
|          | <b>6.1</b> Corporate Improvement Assessment – verbal update  |         |
| <b>7</b> | <b>Treasury Management</b> ( <i>Pages 61 - 104</i> )   | 3.20 pm |
|          | <b>7.1</b> Performance Report  |         |
|          | <b>Appendix 1 to this report contains exempt information as defined in Section 100(l) (1A) of, and paragraphs 14 &amp; 21 of Part 4 of Schedule 12A to, the Local Government Act 1972 and is not for</b> |         |

**publication.**

**7.2** Strategy 2015-16

**8** **Internal Audit** (*Pages 105 - 134*)

3.50 pm

**8.1** Quarter 3 Progress Update to include:  
Executive Summary Reports

**Appendices C and E to Annex 1 to this report contain exempt information as defined in Section 100(l) (1A) of, and paragraphs 14 & 21 of Part 4 of Schedule 12A to, the Local Government Act 1972 and is not for publication.**

**8.2** Value for Money Audits

**9** **Outstanding Actions**

No items to report.

**10** **Work Programme Update - attached** (*Pages 135 - 136*)

**11** **Urgent Business (if any)**

**12** **Minutes of the Policy Review and Performance Scrutiny Committee**

Please refer to the Cardiff Council website – [Policy Review & Performance Scrutiny Committee](#)

**13** **Date of Next Meeting**

**The next meeting will be held on Monday 23 March 2015 at 2.00pm in Committee Room 4, County Hall.**

**Date of next meeting - Monday, 23 March 2015**

**Christine Salter  
Corporate Director (Resources)**

Date: Date Not Specified  
Contact: Paul Burke,  
029 2087 2412, PaBurke@cardiff.gov.uk

## AUDIT COMMITTEE

8 DECEMBER 2014

Present: Professor Maurice Pendlebury, Ian Arundale and Hugh Thomas

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

Apologies: Sir Jon Shortridge (Chairperson)

### 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 AND ACTION PLAN

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

#### RESOLVED –

- 1) 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 PLAN IN THE CONTEXT OF THE WALES AUDIT OFFICE 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.

Audit Committee  
8 December 2014

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

Audit Committee  
8 December 2014

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  
8 December 2014

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 (WAO)

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.

Audit Committee  
8 December 2014

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: URGENT BUSINESS

There was no urgent business.

43: 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 closed at 5.30pm

Signed \_\_\_\_\_  
Chairperson

Date \_\_\_\_\_

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(Updated following meeting held on 8 December 2014)

Minute No. /Agenda No.	Actions	Timeline	Action Owner
<b>Finance</b>			
MN74 25.06.14	<b><u>Draft Statement of Accounts / Annual Governance Statement (AGS)</u></b> The Committee be given details of any changes in accounting policy, in March 2015.  Wales Audit Office to provide advice to Members on their due diligence work in respect of the Financial Statements.	March 2015  March 2015	MS  WAO
<b>Governance &amp; Risk Management</b>			
MN48 20.01.14	<b><u>Business Continuity – IT Infrastructure</u></b> Internal Audit to undertake a review as part of its Audit Plan for 2014/15 and report accordingly.	March 2015	DJK
MN87(i) 15.09.14	<b><u>Senior Management Assurance Statement (SMAS)</u></b> The Audit and Risk Manager should capture the Committee's concerns about compliance in drafting the next Senior Management Assurance questionnaire. This new draft is to be brought before the Committee for comment.	Jan 2015	DJK
MN36(iii) 08.12.14	<b><u>Self Assessment of Audit Committee</u></b> That the ODP in relation to the WAO report be considered at the Self-Assessment Workshop on 19 January 2015.  That at the Self-Assessment Workshop consideration is given to the agenda management of the Committee.	Jan 2015  Jan 2015	DJK/ MR  Chair
MN40(v) 08.12.14	<b><u>Health and Social Care</u></b> The Director of Health and Social Care provide updates on Delayed Transfers of Care (DTOC), with key performance indicators relating to current performance.	March 2015	SW
MN40(v) 08.12.14	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.	March 2015	SW
MN36(ii) 08.12.14	<b><u>Corporate Risk Register Mid-Year Review 2014 - 2015</u></b> The Committee have regard to its content when considering its Work Programme.	June 2015	Chair/ DJK
<b>Wales Audit Office (WAO)</b>			
MN34 08.12.14	<b><u>Organisational Development Plan</u></b> 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.	March 2015	PO/MH
MN37 08.12.14	<b><u>Ongoing updates</u></b> Wales Audit Office to report updates in relation to the ongoing Improvement work at each meeting and advise of when the follow-up to the Corporate Assessment exercise will be undertaken.	Quarterly / ongoing	WAO
MN37 08.12.14	<b><u>Introduction and Priorities (of new WAO team)</u></b> That consideration be given to the WAO offer to run a session for the Audit Committee without officers being present.	March 2015	WAO/ Chair

Minute No. /Agenda No.	Actions	Timeline	Action Owner
<b>Treasury Management</b>			
<b>Internal Audit</b>			
MN62(i) 28.03.14	<b><u>Audit Resources</u></b> Monitor Internal Audit resources through quarterly reports and budget updates.	Quarterly Audit Report	CS / DJK
MN87(ii) 15.09.14	<b><u>Internal Audit Progress Reports</u></b> Future audit progress reports are to identify key areas of control weakness/failure of compliance, and identify potential attendance of Directors to future Committee meetings.	Quarterly audit reports	DJK
MN38(i) 02.12.13	<b><u>Fraud, Bribery and Corruption Policy</u></b> That following consideration of a Proposal paper, the updated Fraud, Corruption and Bribery Policy be presented to the Committee.	When draft finalised (March 2015)	DJK
MN87(ii) 15.09.14	<b><u>Cllr Mitchell – Grant Allocation</u></b> Councillor Mitchell to consider raising his concerns relating to grant allocation with the Audit and Risk Manager if he wished to do so. (Meeting took place 10.11.14). Any proposed action to be reported to a future Committee meeting.	March 2015	Cllr M/ DJK
MN86(i) 15.09.14	<b><u>Payroll Overpayments</u></b> A follow-up audit should be carried out and the results made available to the Audit Committee by the end of 2014/15.	March 2015	DJK
MN61(ii) 28.03.14	<b><u>Treasury Management</u></b> That Internal Audit to report any significant findings to Audit Committee following the next audit.	March 2015	DJK
MN59(iv) 28.03.14	<b><u>Scrutiny referral – Invest to Save</u></b> That Internal Audit undertake an Invest to Save audit / assurance review and report findings to Audit Committee in response to the referral from Policy Review and Performance Scrutiny Committee.	March 2015	DJK
MN57(v) 28.03.14	<b><u>Property and Procurement Delegations</u></b> An internal audit review into the effectiveness of the new arrangements for Property and Procurement Delegations should be undertaken and reported back to Audit Committee.	March 2015	DJK
MN87(i) 15.09.14	<b><u>Sub-Letting</u></b> The Committee should receive a report on the investigation of sub-letting of Council properties by tenants.	Dec 2014	DJK
MN40(iii) 08.12.14	That the Committee receives an update on data matching exercises.	March 2015	DJK
MN40(iv) 08.12.14	<b><u>Highways Audit &amp; Risk Matters</u></b> 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.	January 2015	DJK

Minute No. /Agenda No.	Actions	Timeline	Action Owner
MN40(i) 08.12.14	<p><b><u>Procurement &amp; Contracting Issues Sub-Group – Schools Procurement</u></b></p> <p>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.</p>	Jan 2015	Sub-Group
<b>Outstanding Actions</b>			
MN73(ii) 25.06.14	<p><b><u>Education – Governance</u></b></p> <p>In future, the Committee should receive an annual report on governance in schools and the report should provide the Director's opinion, an update on the relevant governance aspects of the Estyn Action Plan and updated figures and opinion related to the corporate risk in respect of school balances.</p>	June 2015	NB
MN40(ii) 08.12.14	<p><b><u>School Budgets</u></b></p> <p>Director of Education requested to provide a list of all schools in deficit together with the dates by which any deficit would be brought back into balance.</p>	March 2015	NB
MN73(3i)	<p><b><u>Personal Performance &amp; Development Reviews</u></b></p> <p>The Committee be provided with a year end update of PPDRs completed, detailed by Directorate in June 2015. Figures are to include a comparison with the previous year.</p>	June 2015	PL
MN47 20.01.14 25.06.14	<p><b><u>Attendance and Wellbeing Policy</u></b></p> <p>Committee to receive an annual monitoring report on sickness absence after the year end, showing analysis by directorate and aggregate on long-term and short-term sickness.</p>	June 2015	PL
MN73(3) 25.06.14	<p><b><u>Sickness Absence</u></b></p> <p>Philip Lenz to give his views, in this report, on why the sickness absence rate is so high and why there is such variation between directorates. Also to provide comparative figures from other authorities, for high sickness areas e.g. Environment.</p>	June 2015	PL
<b>Work Programme Update</b>			

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## **CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD**

**AUDIT COMMITTEE: 19 January 2015**

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### **Risks & Challenges – Strategic Planning, Highways and Traffic & Transport**

#### **AGENDA ITEM: 5.1**

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#### **Reason for Report**

1. The Committee on 8 December 2014 determined that the Director of Strategic Planning, Highways and Traffic & Transport attend the Committee to address a number of matters. This report outlines the issues to be addressed by the Director at the January meeting of the Committee which have arisen from the Corporate Risk Register, an Internal Audit Report and an issue which has previously been captured in the Council's Annual Governance Statement. The Committee considered that a report from the Audit & Risk Manager would inform Members in advance of the Directors attendance.

#### **Background**

2. The Corporate Risk Register is a key item on the Audit Committee's Work Programme. Over recent months Members have taken the opportunity to invite Corporate Risk Owners to attend Committee to discuss their challenges and corporate risks; with the aim of providing assurance that the risks are being constantly monitored and action is being taken to mitigate the risks. The risks within a Directorate are synonymously linked to the challenges which will be evident from the Directors presentation.
3. The Internal Audit team has undertaken a follow up audit in to aspects of Highway Operations, which has been assessed as 'Limited Assurance', an Executive Summary Report is appended to the Audit & Risk Managers Quarter 3 Progress Report (Agenda item 8.1 of this meeting). Members of the Committee will have the opportunity to seek the Directors views on the audit recommendations and gain a level of assurance that they will be implemented in a timely fashion so to enhance the internal control environment.
4. On 8 December 2014, a report was presented to the Audit Committee which related to an item first brought to the Committee's attention through the Annual Governance Statement. The issue of 'Highway Bridges & Structures' had previously been raised as a significant governance issue within the Annual Governance Statement. The Committee in May 2013 received a detailed report which provided a level of assurance, and a further report in December 2014 (Appendix B), it was evident there is still challenges within this area. Given the attendance of the Director to this subsequent meeting it was considered appropriate to seek his views on this matter.

#### **Issues**

5. The Corporate Risk Register is presented to the Committee biannually prior to Cabinet. On this occasion Members will have the opportunity to explore two corporate risks in further detail; Hostile Vehicle Mitigation and the Local Development Plan (Appendix A).

6. Members of the Committee can inquire as to why the Directorate is having difficulty in implementing internal audit recommendations and what action can be taken to address them.
7. The issue regarding 'Highway Bridges & Structures' was once included in the Annual Governance Statement, this has subsequently closed as a significant issue, which continues to be managed within the Directorate.

### **Reasons for Recommendations**

8. To seek assurance on the three areas under discussion to inform the Audit Committee's Annual Report.

### **Legal Implications**

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

### **Financial Implications**

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

### **RECOMMENDATIONS**

11. Members note the content of this report to support discussion, enabling a view to be formed on the arrangements in place within the Strategic Planning, Highways and Traffic & Transport Directorate.

**DEREK KING**  
**Audit & Risk Manager**  
January 2015

The following appendices are attached:

Appendix A – Corporate Risk Summary - Strategic Planning Highways and Traffic & Transport  
Appendix B – Report to Audit Committee 8 December 2014 – Highway Bridges & Structures

Risk Description	Potential Consequence	L	C	Inherent Risk	Current/Existing Controls	L	C	Residual Risk	Proposed Improvement Action	Risk Owner & Cabinet Member
<b>EVENT DRIVEN RISKS</b>										
<p><b>Hostile Vehicle Mitigation in Cardiff</b></p> <p>Vehicle Borne Improvised Explosive Device (VBIED) detonating in an area identified as a high risk crowded place, as a result of the inappropriate boundary treatments and access control processes protecting and managing it.</p>	<p>Service Delivery / Reputation / Legal / Financial / Health &amp; Safety / Financial / Partnership / Community &amp; Environment / Stakeholders</p> <p>Potential for:-</p> <ul style="list-style-type: none"> <li>Large no's of fatalities, injuries to public in crowded place.</li> <li>Extensive structural damage and/or collapse of surrounding buildings.</li> <li>Major fire.</li> <li>Damage/disruption to utilities (gas, electricity, water etc.)</li> <li>Immediate impact to businesses in the Cardiff area.</li> <li>Media coverage affecting public perception, leading to a loss of public confidence directly resulting in reduced business, retail and tourism revenues generated in the city.</li> <li>Area to be viewed as a risk for potential future business investment.</li> <li>Inability to attract major future national and international events (political, sporting etc.)</li> <li>Increase in demand for council services/support for all affected.</li> <li>Current economic climate to reduce the effectiveness of any recovery/regeneration of the area</li> </ul>	B	1	High Priority	<ul style="list-style-type: none"> <li>All existing identified high risk; crowded places have been formally assessed.</li> <li>Most crowded places have an extremely limited an in some cases 'third party managed' access control process to operate them; providing little/no challenge.</li> <li>Most crowded places have varying standards of boundary treatments protecting them; providing a limited/cursory visual deterrent but little/no protection from a hostile vehicle.</li> <li>CONTEST Protect/Prepare Task &amp; Finish Group has developed a City Gateways Public Realm Enhancement Scheme, with agreed options for suitable PAS 68/69 mitigation for appropriate boundary locations; referred to as 'gateways'.</li> <li>20 (40%) of the identified 'gateways' into the crowded places already benefit from PAS 68/69 mitigation in place, implemented as a direct result of Home Office (Crowded Places) and Olympic Legacy funding.</li> <li>Wales Extremism and Counter Terrorism Unit (WECTU) Counter Terrorist Security Advisor's (CTSA's), the Emergency Services &amp; Cardiff Council provide Project Argus and EVAC/Griffin training across the city to raise awareness for likely impacts associated with major incidents and in particular, terrorist attacks. The sessions also cover the support likely to be immediately available from the emergency services and Cardiff Council, the practical and simple preparations people/organisations can make prior to incident occurring to help themselves manage and recover from its impacts.</li> </ul>	B	1	High Priority	<ul style="list-style-type: none"> <li>WECTU CTSA's, the Emergency Services &amp; Cardiff Council continue to promote and provide Project Argus and EVAC/Griffin training across the city. Revised products will be launched nationally on 24<sup>th</sup> November and rolled out in South Wales shortly afterwards.</li> <li>The CONTEST Protect/Prepare Group will continue to maintain the City Gateways Public Realm Enhancement Scheme to ensure that the proposed PAS 68/69 mitigation for the remaining gateways remains appropriate. This work also includes the estimated costs for the procurement and installation of the PAS 68/69 mitigation and ancillary services. The CONTEST Protect/Prepare Group will continue to monitor and review the scheme to ensure it is fit for purpose until it is fully installed.</li> <li>Additional funding must be secured to procure and install the PAS 68/69 mitigation at the remaining 30 gateways.</li> <li>The Cardiff City Centre Access Control Protocol which was developed by the CONTEST Protect/Prepare Group has now been introduced. It reflects the commitment from the South Wales Police and Cardiff Council to jointly managing the safe operation of the Access Control System permitting vehicles onto the pedestrianised areas within Cardiff City Centre, using strict parameters that link to the current threat levels.</li> <li>Two training events were held on 17<sup>th</sup> April and 1<sup>st</sup> May 2014 for UTC staff. Following the raising of the National Threat Level at the beginning of September; the protocol is now operating at the 'Heightened Level' as described, providing enhanced surveillance across the city centre.</li> <li>Strategic, Planning, Highways, Traffic &amp; Transportation (SPHTT) have also recently upgraded the access and egress detection equipment to improve reliability of the operation at key locations.</li> <li>The CONTEST Protect/Prepare Group will continue to support SPHTT in the delivery of UTC staff training associated with the implementation of the protocol.</li> </ul>	Andrew Gregory  Councillor Ramesh Patel – Transport, Planning & Sustainability
<p><b>Preparation of Local Development Plan</b></p> <p>Preparing a plan that is considered 'sound' by the Inspector, within the proposed timetable.</p>	<p>Service delivery / Reputation / Legal / Financial / Partnership / Community &amp; Environment &amp; Stakeholder</p> <p>Preparing a plan which the independent Inspector considers 'unsound' and therefore cannot be adopted.</p> <ul style="list-style-type: none"> <li>Reputational issues for the Council.</li> <li>No adopted plan in place would mean the Council would not be in a position to effectively manage and control development- its ability would be significantly reduced.</li> <li>Failure to achieve corporate priorities which the LDP would help deliver relating to economic, social and environmental objectives.</li> <li>Possible breakdown of key strategic partnerships and with stakeholder groups.</li> </ul> <p>Delays in preparation.</p> <ul style="list-style-type: none"> <li>Possibility of planning applications being submitted in advance of plan adoption.</li> <li>Possible negative publicity on delay.</li> <li>Stakeholder concern at delay to timetable.</li> <li>Potentially significant objections raised by objectors and / or legal challenge submitted against Council impacting on timetable and plan content.</li> <li>Infraction proceedings against the Council resulting in significant financial penalties.</li> </ul> <p>Insufficient resources.</p> <ul style="list-style-type: none"> <li>Staff resource and monies required to undertake technical studies and other specialist advice considered necessary.</li> </ul>	B	1	High Priority	<ul style="list-style-type: none"> <li>Use of project management techniques to effectively manage process and regular update meetings between Senior Officers and Members.</li> <li>Monitor emerging legislation/guidance/evidence and respond early to changes.</li> <li>Monitor budget spend and consider additional resources when required. A medium term financial bid has been agreed for 2013/14.</li> <li>Undertake Scrutiny process together with wider Member Briefing to raise awareness.</li> <li>Build in effective consultation and engagement into process to ensure stakeholders are informed at all stages.</li> <li>Close liaison with the Welsh Government Planning Division and Planning Inspectorate to:</li> <li>Ensure early warning of any problems (e.g. Consultation on LDP)</li> <li>Ensure LDP is sound, founded on a robust evidence base with sustainability appraisal and well audited community and stakeholder engagement. Undertake tests of soundness 'self assessment' at all stages of LDP preparation as recommended in national guidance</li> <li>Ensure procedures, Act, Regulations etc, are complied with and no undue risks taken</li> <li>LDP Corporate Officers Working Group</li> <li>A revised timetable for preparation of the LDP has been agreed by Executive and Council in November 2011. The revised timetable for the Delivery Agreement was agreed by WG in December 2011</li> <li>Initiated schedule of meetings with Authorities within South East Wales and other stakeholders to discuss cross border and consistency issues to meet the tests of soundness</li> <li>Meetings held with Authorities within South East Wales and other stakeholders to discuss cross border and consistency issues to meet the tests of soundness. Report of Findings agreed and forms a background paper to the Preferred Strategy.</li> <li>A Flood Study Report to investigate fluvial food risk from reens in the Wentloog Levels has been completed and evidence presented in the report has informed the assessed candidate sites and inclusion of an additional strategic site.</li> <li>The LDP Preferred Strategy was approved by Cabinet on 18<sup>th</sup> October 2012 and Council on 25<sup>th</sup> October 2012.</li> <li>A consultation on the Preferred Strategy was completed on 14th December and over 1000 responses have been received.</li> <li>Final report has been completed on population and household projections as part of the evidence base to support the Deposit Plan. Report recommends reducing the overall level of housing growth in the Plan by</li> </ul>	C	1	Medium Priority (Red/Amber)	<ul style="list-style-type: none"> <li>To ensure effective partnership with service areas across the Council and seek to agree statements of common ground with stakeholders on key issues to support the LDP at examination.</li> <li>Additional funding over the financial year 2015/16 will be needed to meet statutory requirements and support the examination of the LDP and commitments made in the LDP Delivery Agreement, which sets out a timetable agreed with Welsh Government for preparation of the LDP. Main expenditure headings over this year include examination / planning Inspectorate costs, legal / other independent advice costs and publicity / printing costs.</li> <li>Key dates are examination hearing sessions in January/February 2015, Inspectors Report in August 2015 and adoption in October 2015.</li> </ul>	Andrew Gregory  Councillor Ramesh Patel - Transport, Planning & Sustainability

				<p>approximately 4,000 dwellings.</p> <ul style="list-style-type: none"> <li>• Final draft Gypsy and Traveller study investigating potential new sites has been completed and circulated for Member agreement.</li> <li>• Report on Masterplanning general principles was approved by Cabinet on 16th May. These principles inform the preparation of the schematic Masterplans.</li> <li>• Workshops held with officers to help inform the development of the strategic sites specific frameworks.</li> <li>• A Masterplanning Framework Document has been prepared as a background paper to the Deposit Plan.</li> <li>• The Deposit Plan was approved by Cabinet on 12<sup>th</sup> September 2013 and Council on 26<sup>th</sup> September 2013 for consultation purposes.</li> <li>• Consultation on the Deposit Plan was completed on 26th November 2013 and over 400 responses have been received.</li> <li>• Consultation on the Alternative Sites was undertaken between 11<sup>th</sup> February and 4<sup>th</sup> April 2014.</li> <li>• Following approval by Council on 26<sup>th</sup> June, 2014 the Deposit Plan and supporting information was submitted to the Welsh Government and Planning Inspectorate for examination on 14<sup>th</sup> August 2014.</li> </ul>					
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## **BRIEFING REPORT FROM THE PRINCIPAL ENGINEER, BRIDGE MANAGEMENT**

**SUBJECT: HIGHWAY BRIDGES AND STRUCTURES**

**AUDIT COMMITTEE: 8<sup>TH</sup> DECEMBER 2014**

### **Reason for Report**

1. At its meeting on the 20<sup>th</sup> May 2013, the Committee received a briefing on the implementation of the Principal Bridge Inspection Programme for Highway Bridges and Structures, as it had been highlighted as a significant matter in the Annual Governance Statement for the previous financial year. Members received assurances that the risks were being managed but felt it appropriate to receive an update after 12 months.
2. This briefing aims to provide Members of the Audit Committee with an update of information regarding the implementation of the Principal Bridge Inspection Programme for Highway Bridges and Structures. The programme has this year commenced the third year of the six year programme.

### **Background**

3. The code of practice for the “Management of Highway Structures”, published in September 2005 provides guidance to highway authorities regarding how highway structures should be managed to ensure that they are “Safe for Use and Fit for Purpose”.
4. The CoP confirms a best practice inspection regime which includes General Inspections 2 yearly and Principal Inspections 6 yearly.
5. This regime follows the requirements of the Highways Agency & Welsh Government on the Motorway and Trunk Road Network.
6. General Inspections are by definition and overview inspection without gaining special access to areas of the structure inaccessible from either ground level or entering confined spaces.
7. Principal Inspections are a detailed inspection of all elements of the structure and may involve the use of access platforms, or the use of specialist divers to enter confined areas in low bridges and culverts.
8. The Highway Authority is responsible for 493 structures in Cardiff. This comprises 1 Tunnel, 5 Viaducts, 231 Bridges, 62 Subways, 108 Culverts and 86 Retaining Walls.
9. Prior to the implementation of this rolling programme, the last programme of detailed inspections was as part of the Bridge Assessment Programme circa 1998 to 2000, following the introduction of 44 tonne vehicles on the highway network. However it should be noted that that programme did not include bridges constructed post 1975, hence many of the newer PDR structures were not included.

### **Issues**

10. Prior to 2010 Principal Inspections were only undertaken on an ad hoc basis with no specific budget allocation to enable a programme to be put in place.
11. The non compliance with the Code of Practice was identified as a major risk to the Authority.

## **Item 5.1 – Appendix B**

12. The practice of not undertaking Principal Inspections led to a reactive maintenance regime and is not aligned to the principals of Asset Management.
13. The programme is such that structures on the main routes (A48 & A4232) into Cardiff have been prioritised. One major Viaduct has been included each year in order of age since construction; other structures are divided such that a proportion of each group is undertaken each year.
14. Work is currently ongoing to develop in co-ordination with ADEPT Wales a methodology of prioritising Principal Inspections and varying their regularity depending on their current condition and network criticality. Programming of the next cycle of PI's utilising this approach will commence 2018/19.
15. The first two years of the inspection programme has inspected approximately one third of the council's highway structures asset. These inspections have identified £1,065,000 of remedial works that need to be prioritised and undertaken to maintain the structures asset in a steady state condition.
16. The works identified in the inspections have been incorporated in the evaluation of the Capital Works bids for 2015/16.

**Tony Williams**  
**Principal Engineer, Bridge Management**

September 2014

**Senior Management Assurance Statement 2014/15**

**AGENDA ITEM: 5.2**

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**Reason for Report**

1. At the request of the Committee, to provide Members with an updated version of the Council's Senior Management Assurance Statement template for the financial period 2014/15.

**Background**

2. For several years senior management have been asked to complete an Assurance Statement which is produced and reviewed by the Audit & Risk Manager (see Appendix A). The statement feeds into the Annual Governance Statement (AGS) which forms a part of the Council's Statement of Accounts.
3. Completion of a Senior Management Assurance Statement requires the Director or Chief Officer to answer a number of questions with regards the functions for which they have been responsible during the financial period. In addition there is a requirement to declare if any significant governance issues have occurred during the period, which may merit inclusion in the Annual Governance Statement 2014/15.
4. At the end of the financial period 2013/14 the Audit & Risk Manager met with all Directors / Chief Officer to challenge their responses to the questions contained within the Senior Management Assurance Statement. The exercise proved beneficial and the same process will be followed at the end of the financial year.
5. The Annual Governance Statement 2013/14 included four significant governance issues which are detailed in Appendix A. These issues have been included on the Statement for each Director or Chief Officer to provide an update from a Directorate perspective, acknowledging that the four issues were collectively assigned to Senior Management Team; who will be presented with a combined update once an initial analysis has been undertaken by Internal Audit.

**Issues**

6. Prior to issue of the Senior Management Assurance Statement a review is undertaken. It was considered that the following points should be reflected in the updated statement.

- Amendments / Additions to existing questions:
  - Senior Management Team acknowledge their role in collectively agreeing the Corporate Risk Register in its entirety, as opposed to the risks that they are solely accountable for mitigating.
  - Managers are able to demonstrate that they are proactively managing any new Directorate Risks as and when they arise throughout the financial year.
  - Management understands the importance of compliance with Council rules.
  - Officers are held to account for any non-compliance with Council rules.
  - Consideration of reports received from Regulators and Inspectors in addition to Internal and External Auditors.

- Additional questions

- Budget Monitoring - The level of savings to be achieved is significantly higher than in previous years, consequently the Directorate has effective budget monitoring arrangements in place and all efforts have been made to balance spend against budget for the financial year.
- Directorate Structures - The impact of the severe budget pressures has had an impact on resources within Directorates. Do you consider your Directorate has the structure in place to maintain and deliver an appropriate standard of service for customers and stakeholders.

7. The assurance statement requires senior management to identify any significant governance issues which have occurred during the financial period. These will be reviewed at the year end position where a collective list of issues identified will be reported to the Senior Management Team; where they will consider the issues and determine which are significant for the Council and those which are considered to be a Directorate specific issue.
8. The purpose of the AGS, having regard to the Assurance Statements, is to provide a true reflection of the governance arrangements in place within the Council. Good governance ensures that as a Council we are open and transparent in our affairs and any areas which are of concern at a corporate level are highlighted in the statement with detail of how the issues will be managed.

### **Reason for Recommendation**

9. To inform the Audit Committee of the content of the Senior Management Assurance Statement, which Directors and Chief Officers are required to complete at year end to inform the Annual Governance Statement 2014/15.

### **Legal Implications**

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

### **Financial Implications**

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



## **Recommendation**

12. The Audit Committee have opportunity to comment on the revised Senior Management Assurance Statement 2014/15.
13. The Audit Committee reinforces the requirement for all Directors and Chief Officers to complete a Senior Management Assurance Statement at the year end position 2014/15 to inform the Annual Governance Statement.

**CHRISTINE SALTER**  
**CORPORATE DIRECTOR RESOURCES**  
January 2015

The following Appendix is attached:

**Appendix A** – Senior Management Assurance Statement 2014/15

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# Senior Management Assurance Statement 2014/15

This statement is given in respect of the Council's Statement of Accounts 2014/15. It is essential that there is an effective framework in place to give sufficient and reliable assurance on the Council's stewardship and the management of the major risks to deliver an improved, cost effective public service.

The information provided in this statement is given to the best of my knowledge in connection with the functions for which I have been responsible during the financial year 2014/15, acknowledging responsibility in maintaining and operating a service in accordance with the Council's procedures and practices that uphold the internal control and assurance framework.

		Yes	Partly	No
1.	<p><u>Corporate Risk Register</u> - The areas for which I am responsible make every effort to contribute to the mitigating actions contained within the Corporate Risk Register.</p> <p><i>- I review my Corporate Risks at least quarterly.</i></p> <p><i>- I have assigned mitigating actions to the corporate risks for which I am responsible.</i></p> <p><i>- Any new corporate risks are brought to the attention of the Audit &amp; Risk Manager in the first instance.</i></p> <p><i>- I understand my role as a member of Senior Management Team in challenging the make-up and content of the CRR as a whole.</i></p>			
<b>If Partly or No, please comment:</b>				
2.	<p><u>Directorate Risk Register</u> – I am satisfied with the risk management arrangements within my Directorate in that risks have been identified, assessed and the controls in place to manage the risks have been operating effectively throughout the period under review.</p> <p><i>- The directorate for which I am responsible has identified a Directorate Risk Register.</i></p> <p><i>- Identified risks have been assessed and a residual risk score determined.</i></p> <p><i>- I can evidence that the Directorate Risk Register is reviewed at least quarterly and mitigating actions are updated accordingly.</i></p> <p><i>- Managers within the Directorate are proactively managing their risks which can be demonstrated by any new additions to the Directorate Risk Register throughout the year.</i></p>			
<b>If Partly or No, please comment:</b>				
3.	<p><u>Partnerships / Collaboration Risk</u> - Appropriate consideration of the risks associated with any partnership or collaborative activity have been determined before any agreement has been entered into by the Council.</p> <p><i>- The partnership will have a senior management team made up of representatives from all organisations.</i></p> <p><i>- Thorough consideration will be given to the governance arrangements of the partnership or collaborative activity before any agreement has been finalised.</i></p>			
<b>If Partly or No, please comment:</b>				

		Yes	Partly	No
4.	<p><u>Compliance with Council Rules</u> - Staff within my Directorate involved with financial matters and contracts are familiar with and comply with Financial Procedure Rules and Contract Standing Orders &amp; Procurement Rules. Management are fully aware of their responsibilities when authorising transactions and will be held accountable for their actions.</p> <ul style="list-style-type: none"> <li>- <i>Managers within the Directorate understand the importance of compliance with Council Policies, Procedures and Rules.</i></li> <li>- <i>Staff within my Directorate have access to all necessary procedure rules.</i></li> <li>- <i>If required staff will be offered training.</i></li> <li>- <i>Any issues of non-compliance with the rules are reported to management and acted upon.</i></li> <li>- <i>Officers are held to account for any non-compliance.</i></li> </ul>			
<b>If Partly or No, please comment:</b>				
5.	<p><u>Project Quality Assurance (PQA)</u> - Proposed business change models impacting on service delivery take account of the associated risks and internal controls as a key element of the implementation of the change. Change models delivered through a project follow the Council's PQA process, reducing the Council's risk profile by having a clear scope, delivering within the constraints of time, cost and quality, enabling proactive assessment and management of risk.</p> <ul style="list-style-type: none"> <li>- <i>Internal Audit have been made aware of any new system developments which may impact on fundamental internal controls.</i></li> <li>- <i>The Directorate for which I am responsible has approved up to date Project Briefs, Plans and Business Cases.</i></li> <li>- <i>Project governance is in place for all projects.</i></li> <li>- <i>All projects proactively manage the achievement of key milestones and record and manage associated risks and issues.</i></li> <li>- <i>Project delivery staff have been trained in the Council's approved project management methodology (PQA).</i></li> </ul>			
<b>If Partly or No, please comment:</b>				
6.	<p><u>Budget Monitoring</u> – The level of savings to be achieved is significantly higher than in previous years, consequently the Directorate has effective budget monitoring arrangements in place and all efforts have been made to balance spend against budget for the financial year.</p> <ul style="list-style-type: none"> <li>- <i>Where necessary innovative measures have been implemented to reduce spending during the financial year.</i></li> <li>- <i>I have worked with Service Accountants to ensure financial monitoring represents a true picture through the financial year including achievement of budget savings.</i></li> <li>- <i>I have continued to liaise with the relevant Cabinet Members to ensure they are aware of the financial position.</i></li> </ul>			
<b>If Partly or No, please comment:</b>				

		Yes	Partly	No
7.	<p><u>Resource Savings</u> - Due consideration has been given to the risks and the need to protect basic financial controls when proposing savings e.g. any voluntary severance and any consequential restructuring.</p> <ul style="list-style-type: none"> <li>- <i>Voluntary severance or any Directorate restructures have been assessed via a business case outlining costs and associated risks.</i></li> <li>- <i>The impact of losing individual roles has been considered as part of the business case.</i></li> </ul>			
<b>If Partly or No, please comment:</b>				
8.	<p><u>Internal Control Environment</u> - The operation of the key controls within my Directorate are monitored on a regular basis to ensure risk is mitigated where possible and key controls within core business are maintained.</p> <ul style="list-style-type: none"> <li>- <i>Key controls within my Directorate promote ownership of the control environment by defining roles and responsibilities; managerial control systems, including defining policies, setting objectives and plans, monitoring financial and other performance and taking appropriate anticipatory and remedial action.</i></li> <li>- <i>Physical safeguards for assets, segregation of duties, authorisation and approval procedures and information systems are in place.</i></li> </ul>			
<b>If Partly or No, please comment:</b>				
9.	<p><u>Fraud &amp; Financial Impropriety</u> - All suspected cases of fraud or financial impropriety are referred promptly to Internal Audit. Investigations are undertaken in a robust manner, with sanctions consistently applied, that recognise the seriousness of the matter under investigation.</p> <ul style="list-style-type: none"> <li>- <i>Management are aware of the requirements of the Anti-Fraud, Anti-Corruption &amp; Bribery Policy and the Disciplinary Policy &amp; Procedures.</i></li> <li>- <i>All suspected cases of fraud are logged in DigiGov to ensure actions are monitored in a timely manner.</i></li> <li>- <i>Any lead investigator's I appoint are suitably qualified and skilled to undertake the role.</i></li> </ul>			
<b>If Partly or No, please comment:</b>				
10.	<p><u>Independent Assurance</u> - All reports received from Regulators, Inspectorates, External and Internal Audit are considered in a timely manner. Management actively monitor and ensure action is taken to implement agreed recommendations to enhance the internal control environment.</p> <ul style="list-style-type: none"> <li>- <i>All recommendations are actioned in a timely manner by staff within my Directorate.</i></li> <li>- <i>All recommendations are monitored until fully implemented.</i></li> <li>- <i>Internal Audit is updated on progress made against each internal audit report.</i></li> </ul>			
<b>If Partly or No, please comment:</b>				

		Yes	Partly	No
11.	<p><b>Service Delivery</b> – The impact of the severe budget pressures has had an impact on resources within Directorates. Do you consider your Directorate has the structure in place to maintain and deliver an appropriate standard of service for customers and stakeholders.</p> <p><i>- Are resources aligned to meet the outcomes of the Directorate.</i></p> <p><i>- Are Personal Performance and Development Objectives aligned to key outcomes of the Directorate.</i></p> <p><i>- A service review has been undertaken to inform future delivery options.</i></p>			
<p><b>If Partly or No, please comment:</b></p>				

### **SIGNIFICANT ISSUES**

The following are recognised as significant issues which have occurred during the financial period 2014/15 within the Directorate for which I am responsible, which may be considered appropriate for inclusion in the Council's Annual Governance Statement 2014/15.

The co-ordinated responses of the Assurance Statements will be reviewed by Internal Audit and presented to Senior Management Team for collective agreement of the issues to be included in the Annual Governance Statement 2014/15.

Significant issue	Action implemented / proposed

***Alternatively,***

No significant issues identified	<i>Please tick if appropriate</i>
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## Significant Governance Issues - Annual Governance Statement 2013/14

The below summarises the Significant Governance Issues identified in Annual Governance Statement 2013/14. All issues were assigned collectively to Senior Management Team, therefore an update from each Directorate would be beneficial in determining the year end position of each issue.

Significant issue	Position as at 31.03.2015
<p><u>Capacity &amp; Decision Making</u></p> <p>The Council is facing unprecedented financial pressures where significant savings have had to be realised, consequently Directorates have seen a reduction in staff resources which increases the pressure on staff to have the capacity to provide professional and sound advice.</p> <p><u>Action at year end position 2013/14</u></p> <p>Prioritisation of work to make best use of internal expertise.</p>	
<p><u>Organisational Development (OD) Programme</u></p> <p>The Cabinet acknowledges the range of critical challenges facing the Council, in order to respond to these challenges an ambitious programme of organisational change has been established to reflect the transformational ambition for the Council and for Cardiff. This includes a wide number of capital and other projects. We need to ensure that projects are commissioned through proper arrangements and that their subsequent sponsorship ensures that project objectives are met. The requirement to have sound processes and governance arrangements are critical to the success of the Programme.</p> <p><u>Action at year end position 2013/14</u></p> <p>The OD Programme identifies the key enablers through which the Council will reposition its approach to understanding and meeting citizen needs. This approach will be central in meeting the challenges facing the Council.</p>	
<p><u>Commissioning capability and capacity</u></p> <p>In the new Organisational Framework this will be a critical competency and capability. The success of a number of programmes depends on having this capability and capacity in place e.g. Health &amp; Social Care transformation.</p> <p><u>Action at year end position 2013/14</u></p> <p>A Commissioning Capability Framework needs to be developed using external best practice and internal experiences and skills. This framework will identify key competencies, capabilities and behaviours needed to successfully develop and get the best out of partnerships with service providers. It is now critical that this framework is translated into delivering a step change in commissioning capability.</p>	

Significant issue	Position as at 31.03.2015
<p><u>Transparency of internal market costing</u></p> <p>The Council's internal charging arrangements are not always sufficiently transparent in terms of rate setting, monitoring and charging. Some council wide arrangements, for instance the timescales operated by Service Desks are not always sufficiently aligned to the requirements of business critical services within directorates.</p> <p><u>Action at year end position 2013/14</u></p> <p>Reviews currently being carried out to improve costing arrangements in the most critical areas with ongoing investigations to shortly commence in less critical areas. Account manager arrangements to be considered to improve dialogue between customers and clients.</p>	

With the exception of the above I am satisfied that the systems of internal control in place within my Directorate are sufficient to manage the identified risks to an acceptable level.

<b>Signed by:</b>	
<b>Designation:</b>	
<b>Date:</b>	

**Derek King, Audit & Risk Manager will undertake a series of meetings arranged in March / April to meet with each Director to consider the responses to this certified statement. Each Director is expected to give some thought to their responses prior to the meeting.**



**Audit Committee Annual Report 2014/15**

**AGENDA ITEM: 5.3**

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**Reason for Report**

1. To seek the initial views of Members in order for the Committee's Annual Report 2014/15 to be drafted.

**Background**

2. The Local Government (Wales) Measure 2011 makes the provision for the Audit Committee to undertake the following functions:
  - Review, scrutinise and issue reports and recommendations in relation to the authority's financial affairs;
  - Review, scrutinise and issue reports and recommendations on the appropriateness of the authority's risk management, internal control and corporate governance arrangements;
  - Oversee the authority's audit arrangements and review its financial statements.
3. The Council's Constitution requires that all Committees report annually to Council on their activities over the past year.

**Issues**

4. The Committee's Annual Report 2013/14 can be found at Appendix A, which Members may wish to consider in context for the 2014/15 Annual Report. The Committee are requested to propose any additions or amendments.
5. Members may want to pay particular attention to the key observations of the Committee for the municipal year 2014/15, albeit there will be a further meeting in March 2015. The Committee are asked to consider and discuss matters which remain of concern to feed into the key observations of the Annual Report.
6. The Annual Report details attendance by members during the municipal year. This information will be completed following the meeting in March.
7. Internal Audit raise any areas of concern through their Quarterly Progress Update Reports which Members may wish to consider in context with their Annual Report. Attached at Appendix B is a list of Limited Assurance Audit Reports issued between April and December 2014 which Members may wish to consider in forming a view on the overall control environment.

### **Reason for Recommendation**

8. To aid the compilation of the Audit Committee's Annual Report 2014/15.

### **Legal Implications**

9. There are no legal implications arising directly from the contents of this report.

### **Financial Implications**

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

### **Recommendation**

11. Members of the Committee propose any additions or amendments to the Annual Report with particular attention to the key observations section of the report, in order for the draft report to be presented to the March meeting of the Committee.

**CHRISTINE SALTER**  
**CORPORATE DIRECTOR RESOURCES**  
January 2015

The following Appendix is attached:

**Appendix A** – Audit Committee Annual Report 2013/14

**Appendix B** – Internal Audit - Limited Assurance Audit Reports



# **Audit Committee Annual Report 2013/14 City and County of Cardiff**

## The Ten General Principles of Public Life

<p><b>Selflessness</b> Members should serve only the public interest and should never improperly confer an advantage or disadvantage on any person.</p>	<p><b>Personal Judgement</b> Members may take account of the views of others, including their political groups, but should reach their own conclusions on the issues before them and act in accordance with those conclusions.</p>
<p><b>Honesty and Integrity</b> Members should not place themselves in situations where their honesty and integrity may be questioned, should not behave improperly, and should on all occasions avoid the appearance of such behaviour.</p>	<p><b>Respect for Others</b> Members should promote equality by not discriminating unlawfully against any person, and by treating people with respect, regardless of their race, age, religion, gender, sexual orientation or disability. They should respect the impartiality and integrity of the authority's statutory officers and its other employees.</p>
<p><b>Objectivity</b> Members should make decisions on merit, including when making appointments, awarding contracts, or recommending individuals for rewards or benefit.</p>	<p><b>Duty to Uphold the Law</b> Members should uphold the law and, on all occasions, act in accordance with the trust that the public is entitled to place in them.</p>
<p><b>Accountability</b> Members should be accountable to the public for their actions and the manner in which they carry out their responsibilities, and should co-operate fully and honestly with any scrutiny appropriate to their particular office.</p>	<p><b>Stewardship</b> Members should do whatever they are able to do to ensure that their authorities use their resources prudently, and in accordance with the law.</p>
<p><b>Openness</b> Members should be as open as possible about their actions and those of their authority, and should be prepared to give reasons for those actions.</p>	<p><b>Leadership</b> Members should promote and support these principles by leadership, and by example, and should act in a way that secures or preserves public confidence.</p>
<p><i>'Nolan Committee on Standards in Public Life'</i></p>	

## Contents

	Page(s)
Foreword by Sir Jon Shortridge, Chairperson of the Committee	3
The Role of the Audit Committee	4
Our Work in 2013/14	5
Key Observations	5
Standard Items	7
Briefing Reports	10
Other Key Items Considered	14
Current Concerns & Future Priorities	15
Committee Membership 2013/14	18
Attendance during 2013/14	18
Audit Committee Contacts	19
Annex 1 - Internal Audit Fact Sheet – Summary Figures for 2013/14	20
Annex 2 - Audit Committee's Self Assessment	21
Annex 3 - Audit Committee Member Profiles	23

## Foreword by Sir Jon Shortridge, Chairperson of the Committee

I am pleased to present this report which provides an overview of the Audit Committee's activity during the municipal year 2013/14.

Under Section 85 the Local Government (Wales) Measure 2011 all Councils in Wales are required to establish Audit Committees that include Independent Members. Cardiff Council determined that the membership of its Audit Committee would be 12 Members – 4 Independent Members and 8 Elected Members.

As outlined in the body of this report, the Committee has been actively engaged with the Senior Officers of the Council; the Wales Audit Office; and Internal Audit, and I would like to thank all the Members who served on the Committee during 2013/14 and the Council officers who have supported the work of the Committee and more specifically me in my role as Chairperson.

Over the past year we have met on five occasions (8 July 2013, 16 September 2013, 2 December 2013, 20 January 2014 & 28 March 2014) with each meeting having an agenda containing both standard and specific items. Our Work Programme was drawn up to take full account of our terms of reference. This has been an extremely busy year with a wide range of issues brought before the Audit Committee, focusing on a number of key risks and challenges faced by the Authority over the past 12 months. We have received a number of reports and updates on key items (e.g. budget, internal audits) and invited a number of officers to attend to provide assurance in relation to mitigating key risks or to respond to concerns raised by Members or audit reports. At each meeting the work programme has been reviewed to include new matters identified by the Committee; and all Members have been encouraged to bring any concerns they have forward so that agendas could be set taking account of changing risks and priorities.

In looking forward to 2014/15 and beyond, and given the continued financial pressures facing the Council, the importance of an effective Audit Committee remains critical.

On 20 January 2014 Paul Orders, Chief Executive, attended the Committee. He informed the Committee that he is mindful of the significance of the issues dealt with and underlined the importance of the Committee. The Council is going through a period of organisational change and significant savings have to be made. In this, the Committee has an essential role to play in challenging assurance. Looking forward the Chief Executive intends to develop a strong relationship with the Audit Committee.

## The Role of the Audit Committee

- To consider matters of relevance to the efficient financial administration of the Council, particularly in relation to its systems of good corporate governance, probity and financial strength
- To receive relevant reports from the Council's Section 151 Officer with regard to the above and to consider internal audit matters brought to the Committee's attention by the Section 151 Officer or the Internal Audit & Risk Manager or requested by the Committee.
- To seek assurances that the Council has complied with the Treasury Management Strategy and Practices by demonstrating effective control of the associated risks and pursuing optimum performance consistent with those risks
- To receive reports of the Council's External Auditor, in particular concerning the Regulatory Plan, the Annual Audit Letter and any statutory reports issued by the Auditor
- To agree responses to external audit reports where appropriate and to refer these (along with the report) to the Cabinet or relevant Scrutiny Committee or Council as appropriate and to consider any responses where relevant
- To receive a quarterly report of all completed audit reports with a synopsis of the work undertaken together with a graded assurance opinion
- To receive a quarterly summary report of school audits together with a graded assurance opinion with individual reports considered by school governing bodies
- To review the implementation of internal audit report recommendations on a regular basis as part of the Audit & Risk Manager's progress reporting cycle
- To review value for money, efficiency and effectiveness through consideration of financial performance indicators and comparative studies where relevant
- To raise the profile of probity generally within the Council and to report on matters of concern to the Cabinet or to Council as necessary and appropriate
- To receive reports of any significant incidents of fraud or financial impropriety and actions taken to enhance controls where this is considered necessary.
- To receive reports on fraud prevention and detection initiatives and updates to any related policies and strategies.
- To examine the annual audit plan and propose for consideration any other audit investigations
- To regularly review the Corporate Risk Register.

## Our Work in 2013/14

The Audit Committee's activities have been designed to provide assurance to the Council and to make a positive contribution towards improving the governance arrangements across the Council.

Effective Audit Committees can bring many benefits to Local Authorities including:

- increasing public confidence in the objectivity and fairness of financial and other reporting;
- providing additional assurance on the robustness of the Authority's arrangements through a process of independent and objective review;
- raising awareness of the need for internal control and the implementation of audit recommendations, thereby reinforcing the importance and independence of internal and external audit;
- be a platform for Elected Members to bring matters of financial, governance, risk and internal control for consideration and action as necessary.

## Key Observations

- With the support of the Wales Audit Office, Internal Audit and other Council officers, we developed a work programme setting out the priorities for the twelve months. This centred on the strategic risks and significant challenges facing the Council. The work of the Wales Audit Office and the Internal Audit Section has been helpful in providing assurance to the Committee on key areas.
- The Committee has concentrated on areas considered to be high profile and / or high risk within the Council, and have met officers responsible for various aspects of service delivery. This has enhanced the Committee's understanding of the services they provide and the challenges that they face. In addition, the Committee has had the opportunity to challenge and discuss actions taken in response to both external and internal audit reports and identified areas where improved controls are required; for example where 'Limited' or 'No' Assurance opinions have been provided by internal auditors in relation to a variety of Directorates.
- It is recognised that the Council has continued to face severe financial challenges but strives to look for efficiencies and service delivery initiatives and it is therefore vital that good governance is maintained. The Committee will continue to support the Council as it responds to these challenges.
- At the strategic level, based on the evidence presented to the Audit Committee during 2013/14, it is the considered view of the Committee that the Council does for the most part have sound financial controls and governance arrangements in place. Examples of where the Committee has continuing concerns include:
  1. Budget Pressures and Organisational Change  
 During the autumn of 2013 the Council set about developing a new Corporate Plan for 2014-2017 in the context of severe financial challenges facing Local Government. In February 2014 Council accepted total savings within the 2014/15 budget proposals amounting to a significant total of £48.645 million. Further extensive budget savings will be required between 2015/16 and 2017/18. This reduction in resources, together with a growing population and greater



demand for public services, means that the Council is facing unprecedented challenges in how it delivers services in the future. The Committee will continue to receive regular updates from the Corporate Director Resources and other senior managers to seek assurances around sound governance and fundamental financial control.

2. Contract and Procurement Matters

The Committee has been informed through the work of the Internal Audit team of the common issues identified in relation to contract and procurement matters. Whilst a framework of rules and best practice guidance is in place for Council Directorates, Internal Audit reports continue to highlight compliance issues in some areas. The Committee raised this as a concern in the Audit Committee's Annual Report 2012/13 and whilst some improvements have been noted it is still seen as an area of concern. On 20 January 2014 Steve Robinson, Operational Manager – Commissioning & Procurement, attended the Committee to inform the Members of how their concerns are being addressed corporately through the joint working practices of Internal Audit and the Procurement Team. The Committee were satisfied with the information presented and progress being made but will continue to keep a close watch on this issue through the Audit Manager's Progress Reports and may choose to call back the Operational Manager – Commissioning & Procurement to seek further assurance. The Committee does, however, recognise that the responsibility for complying with procurement rules lies with the respective Directors rather than the central team. At a time of unprecedented financial challenges and remodelling of service delivery, external spending must continue to be scrutinised and examples of non compliance highlighted and addressed.

3. Schools Compliance with Council Rules, Financial Controls & Budget Deficits

Financial Procedure Rules for Schools have recently been updated and circulated to schools, and a wide range of training has been provided to Governors, Head Teachers, Bursars and School Clerks. However, Internal Audit reports continue to highlight control weakness in a number of schools around basic governance and financial processes. The matter has been raised with a previous Director and more recently with Nick Batchelar, current Director of Education and Lifelong Learning, who is due to attend the Audit Committee on 25 June 2014 where Members can consider how the Directorate is addressing the current issues within Schools.

A further area of concern in Cardiff schools is in relation to contracting matters, where external legal advice has been provided which indicates that the Council is not able to set rules for schools to adhere to regarding contracting matters. All it can do is offer advice on good practice. The Audit Committee supports production of best practice guidance for contracting matters relating to schools and for these to be commended to schools once agreed by Legal Officers.

4. Internal Audit Resources

The financial challenges facing the Authority are having an impact across all services resulting in the reduction of resources. The Internal Audit section like others has seen a significant reduction in the number of staff in recent years, and more recently in 2013/14 the loss of an experienced Group Auditor, Senior Auditor and Investigator. Reliance is placed on the Internal Audit team to provide assurance to the Section 151 Officer and senior management on the key controls

in place across the Authority. As resources reduce it is becoming an increasing challenge to have appropriate coverage across directorates. Policy Review and Performance Scrutiny in reviewing the budget savings for 2014-15 highlighted reductions in Internal Audit resources. The Audit Committee will be kept informed of the issues facing the Internal Audit team and closely monitor resource implications and the associated risks, through the Audit Manager's quarterly progress reports.

The Committee will be monitoring all these areas carefully and some may be subject to further review by the Committee during 2014/15.

## **Standard Items**

### **Budget & Statement of Accounts**

The Corporate Director Resources (Section 151 Officer) has provided financial updates at every meeting outlining the budget strategy and the Council's overall financial position, to provide Committee Members with an overview of the financial standing of the Council. This allows for a regular opportunity to raise questions on budget and general finance matters.

At appropriate times of the year specific documents are considered in more detail e.g. the Unaudited Statement of Accounts and the Financial Statements (including Audit of the Cardiff and Vale of Glamorgan Pension Fund).

### **Governance, Risk Management & Internal Control**

The Audit Committee have formed a view on the Council's governance, risk management and internal control arrangements taking into account the information presented to them by the Corporate Director Resources (Section 151 Officer), the External Auditor – Wales Audit Office (WAO), the Audit & Risk Manager and other officers who have attended their meetings.

The Annual Governance Statement is a fundamental governance document which the Audit Committee plays a key role in contributing to and challenging the content. The Committee has taken an interest in a number of governance matters including information gathered for the Annual Governance Statement including the outcome of the Senior Management Assurance Statements.

During 2013/14 the Committee have appraised the Corporate Risk Register twice (mid year and year end position) and are aware of the robust review process in place to keep this updated. The Committee have considered several of the corporate risks throughout the year, where Officers have been asked to attend and provide a more detailed overview of how the risks are being managed, examples include; Children Services, Welfare Reform, Business Continuity, Business Change and Job Evaluation.

The Risk Management Policy, Strategy and Methodology was reviewed by Officers and presented to Audit Committee in December 2013 for comment prior to approval by Cabinet. Following presentation of the item to the Committee a letter was sent to the Member Risk Champion, Councillor Huw Thomas, Cabinet Member Adults Services, in which the Committee acknowledged their need to develop a clearer understanding of this area.

## Treasury Management

This is an area where Committee Members have a specific role to fulfil, as set out in the Treasury Management Strategy approved by the Council.

Over the past twelve months the Committee has received reports on the Treasury Management Strategy; Treasury Management mid year report 2013/14; Treasury Performance Annual Report and the Treasury Performance Report, which was presented at each meeting. This has allowed Members the opportunity to scrutinise and challenge the approach adopted and decisions taken. This is a complex area, and the Committee believes that it has added value by probing and scrutinising policies and the data provided in conjunction with officers. The Committee is satisfied with the way in which the Council is currently undertaking its Treasury Management responsibilities.

## External Audit (Wales Audit Office)

The Committee places reliance on the work of the Wales Audit Office (WAO) which provides a report at each of its meetings.

The Committee has also received improvement reports and had an opportunity to consider key documents such as the Regulatory Programme; Improvement Assessments; Audit of Financial Statements Report; Annual Audit Letter; Audit Plan and Annual Improvement Report.

The Committee would wish to receive and have an opportunity to comment upon reports received resulting from these reviews, and Members of the Council are encouraged to feed back any local issues for review.

## Internal Audit

The Committee places reliance on the work of the Internal Audit Section, and an update of ongoing work is received at each meeting. The Audit & Risk Manager prepares progress reports for the Corporate Director Resources (Section 151 Officer) which are shared with the Committee. This provides an overview of work undertaken, key performance management information, and key control issues. Annex 1 to this report summarises key facts and figures in relation to the work of the Internal Audit Team.

In addition to the Committee receiving a list of all audits undertaken and a summary of risks and recommendations for each, since July 2013 the Committee have received an Executive Summary Report for all audits where the audit opinions was assessed as 'Limited' or 'No' Assurance. This has helped members of the Committee to gain a greater understanding of the issues being highlighted by the audit team and how senior managers are reacting to these matters. There have been 12 such reports, of which one was 'No' assurance and for this audit a Head teacher attended Committee to provide assurances that the recommended actions were being actively progressed and implemented.

From the information provided by Internal Audit the main concerns relate to:

- Governance in Schools, of the 12 audit reports with a 'Limited' or 'No' assurance opinion 6 (50%) related to schools and the only 'No' Assurance opinion for 2013/14 was in a primary school. The Chair of the Audit Committee wrote to the Director of

Education regarding this school and the wider issues of governance in schools. A positive response was received from the Director who receives copies of all school audit reports and is aware of the matters arising and is keen to seek improvement in governance as part of his Education Development Plan.

It is noted that in many instances where audit assurance was limited there had been a change in management at the school, and assurances have been sought that incoming new Head teachers and Chairs of Governors understand the importance of sound financial management.

It was noted that Audit Officers are working with the Education directorate to drive improvement in this area, and now attend Governing Body meetings where 'Limited' and 'No' Assurance reports are presented and provide training to Governors, Head teachers and support staff.

- Compliance in contract management and procurement matters has been highlighted as an issue in some audit reports. The Operational Manager – Commissioning & Procurement attended Committee to provide an overview of the role of his team and to discuss assurance issues, Members welcomed this opportunity to consider a number of the ongoing initiatives that are being taken.
- Members have some concern at the number of follow up audits undertaken where for a second time an audit has highlighted continuing control or compliance issues. These are effectively monitored but there remains concern that actions originally agreed with auditors are not effectively implemented. It is acknowledged that, with the pace of business change, business risks and controls will be affected, so this is something that needs careful monitoring. It is considered a significant risk, shared with the Audit Manager, that with reducing resources and in particular staff numbers, there is an increasing pressure on maintaining fundamental controls across systems and again this needs careful monitoring.
- Members have some concern over the response to audits to ensure prompt implementation of audit recommendations. All action plans are recorded on the CIS database but there are too many delays in closing these as actioned. Criteria have been set for officers attending Audit Committee to be held accountable for their actions and this in itself acts as a deterrent. For some reports, e.g. Street Lighting and Domiciliary Care, separate Briefing Reports have been presented to the Committee to provide assurance on progress made on implementing some high risk improvement actions. A new initiative is currently being introduced by the Audit & Risk Manager which will provide each Director with an Audit Relationship Manager, and regular meetings will be held (quarterly) that will review all audit matters arising and any outstanding actions.
- Members receive a summary of investigation cases as part of the Audit Manager's report and some concern has been raised around the apparent inconsistent sanctioning of cases progressing as a disciplinary matter. The Audit Manager has been tasked with looking at how this can be addressed.

The Committee has considered a number of key documents prepared by the Audit & Risk Manager such as the Internal Audit Strategy and the Internal Audit Annual Report and their comments have been taken on board. A number of oral reports have also been given to the Committee by the Audit & Risk Manager e.g. Value for Money Studies undertaken.

The Committee has been advised of new and innovative working practices adopted within the Internal Audit teams around 'lean auditing', seeking continual improvement in service delivery and driving out efficiencies in the approach to the various challenges they face. This work has included a new way of assessing opinions following audits and a new role within audit around assurance within programme and projects. The Audit Committee welcome such initiatives and are keen to support the Audit & Risk Manager in seeking new and innovative working practices. Members have noticed increased demand on Internal Audit services with significant business change across the Council, a greater risk to fundamental control as a consequence of a significant reduction in resources in all Directorates and an increase in suspected internal fraud referrals. This is at a time when Internal Audit resources are being reduced, resulting in increased pressure on audit coverage. This merits careful monitoring.

## **Policy Review and Performance Scrutiny**

The Audit Committee receive copies of each set of Policy Review and Performance Scrutiny minutes at each of their meetings and are given the opportunity to raise any issues they consider appropriate.

The Committee has received matters referred from the Scrutiny Committees for them to consider and this has been incorporated into a standing agenda item for meetings.

## **Briefing Reports**

The Committee received a number of briefing reports on areas that had not been in its original work programme. These included:

### **Thornhill Road Children's Home**

The Audit Committee Chair 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; particularly 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 on 16 September 2013 received a report on Thornhill Road Children's Home from Tony Young, newly appointed Director of Children's Services and Angela Bourge, Operational Manager. The report provided the Committee with a critical analysis of the factors that led to the Local Authority taking the decision to withdraw the registration of the children's home at 150 Thornhill Road, eight months following its opening. The report also provided background information on the capital investment that funded the new building, and the Project Brief that set out the business case for its development and the rationale for the Directorate reaching the conclusion that the design and layout of the building was not suitable for its intended purpose.

The Monitoring Officer advised the Committee that, given the work of an existing Constitution Committee Task and Finish Group, the Committee refer this particular matter to them. The Committee agreed this action and have since received an oral update on the matter at each meeting. The Committee have received the written report from the task and finish group and had further opportunity to discuss the matter with the Director of Children's Services at the Committee's meeting in March. They are content that lessons have been learned for similar procurement projects in the future.

## **Welfare Reform**

The Committee on 16 September 2013 received a briefing report detailing the risks and impacts for the Council of Welfare Reform from Jane Thomas, Assistant Director – Housing & Communities (formerly Operational Manager - Communities and Housing). The welfare reforms currently being implemented by central government are the biggest change to the benefits system in over 60 years. It was recognised at an early stage that these changes would have a considerable impact on the citizens of Cardiff and would present significant issues and risks for both the Council and its partners.

The key issues impacting on the Council include:

- 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 welcomed the report and made a number of comments, but on the whole were content with how the risks and issues were being addressed by Officers and Members.

## **Business Change**

The Committee received an update on the Business Change Programme position at its meeting in December 2012, together with the 2012/13 outturn position from the change activity under the former Transformation Portfolio. The former Cardiff Independent Audit Panel had received and considered a number of updates and had sought assurances on the governance and realisation of benefits as part of the business change activities.

The Committee on 16 September 2013 received an update from Janine Nightingale and Natalina Cottrell, Programme Managers within Business Change which informed the Committee of the revised approach for 2013/14 change activity, which 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.

The Committee were informed of the cashable savings outturn position for 2012/13 for the programmes and projects under the then transformation portfolio. For 2013/14 an updated budget savings target was being monitored.

The Committee noted the position and asked that the Committee continue to receive regular updates.

## **Procurement and Contract Matters**

On 20 January 2014 Steve Robinson, Operational Manager – Commissioning & Procurement and John Paxton, Strategy & Development Manager (Commissioning and Procurement) gave the Committee a presentation on Buying Responsibly. The Committee was informed that there is a spend threshold of £10,000, above which the central Procurement team needs be involved in the procurement process, which adds significant control to the process.

One area of concern included the volume of confirmation orders, where purchase orders are approved after there is a commitment to expenditure. The Council is addressing the matter of purchase orders not being raised until after invoices have been received. The Committee was informed that the challenge is to fully centralise all payments of invoices as, at present, some invoices are going to directorates for processing.

A number of further issues were discussed with the Committee including: In relation to tender decisions, these are often taken under delegated powers and Councillors tend not to have sight of these unless for very large amounts; the Committee was informed that the suitability of consortia to bid would be assessed. The Council encourages consortia bids but requires each member of the consortia to demonstrate their input to deliver the contract. Safeguards against collusion are in place.

An on going theme is that there is a lack of awareness of Procurement and Financial Procedures and Rules by some Council officers. A significant training initiative was instigated following audit reports and procurement concerns. The aim is to continue to share procurement spend profiles with Directors and work with them to analyse potential non compliance issues. This was welcomed by the Committee members who felt relevant information should also be shared with Members.

## **Business Continuity**

The Committee on 20 May 2013 received a briefing note on the Council's business continuity capability with specific regard to managing the business continuity risk, as outlined in the Corporate Risk Register and the Council's operational resilience. The Committee requested a further update later in the year.

The Committee on the 20 January 2014 received an update from Philip Bear, ICT Service Manager. It was recognised that there had been under-investment in ICT. The Council moved to improve this position by including investment in the budget between 2011/12 to 2014/15. The replacement of the Corporate File Store has recently been completed and work to replace the server infrastructure and improve reporting capability has continued. A

Business Continuity Officer post has been created. Work to replace current operating systems and software with Windows 7 and Microsoft Office 2010 continues. Tape back-ups have been replaced with disk back-ups, and end-user devices are gradually being replaced.

The Committee noted that an audit recommendation required directorates to be informed when ICT devices are nearing the end of their life. The Committee was advised that the ICT service has found that it needs to publish a 'road map' for change. Directorates often do not see the need for change and are resistant to it mainly on a cost basis.

The Committee have asked Internal Audit to undertake a review as part of its Audit Plan for 2014/15 and reports back to the Committee.

### **Children's Services – Risks & Challenges**

The Committee on 28 March 2014 received a briefing report from Tony Young, Director Children Services, outlining the Directorate's risks and challenges. The item had been deferred from the 20 January 2014 meeting of the Committee. The Director joined the Council in the autumn of 2013 following the Senior Management Restructure. The report outlined an increase in demand for services, social worker caseloads being too high and poor retention of social workers leading to the excessive use of agency social workers.

The service is now on an improvement path; fourteen new social workers were recruited in March 2014, and at that time the number of agency social workers had dropped from forty six to thirty five and the number of agency interim managers had dropped from eleven to two. The Director advised the Committee that he is seeking to secure an agreement between a number of local authorities in the area to cap the rates paid to social work agencies. The Director is exploring a regional approach to commissioning and pay.

Where appropriate, the service is planning to use Social Impact Bonds to reduce the number of looked after children that currently have to be placed in expensive, out-of-county placements. A new Safeguarding Manager is to start in May. The Director informed the Committee that capacity and caseloads remain a significant challenge but there is optimism that Children's Services will improve.

The Committee acknowledged the risks and challenges facing the service and are mindful of the efforts of officers to improve the service. The Chair of the Committee wrote to Councillor Daniel De'Ath, Cabinet Member for Early Years and Families, the Chief Executive and all Political Group Leaders. The letter expressed the Committee's concerns around the extent of challenges and risk that the Directorate faces in coming months. The Committee welcomed the progress the Director outlined but intend to monitor mitigation in this area and how the risks and challenges are being targeted. The Corporate Risk Register (CRR) captures the key risks facing the Council and among those are risks associated with Children's Services. The register is regularly updated by officers and presented to members biannually. The Committee will continue to monitor the updated mitigating actions through the CRR updates.



## Other Key Items Considered

### Job Evaluation

The Committee on 2 December 2013 received a report on Job Evaluation and Single Status, the Committee has received periodic updates and the previous update was on 28 January 2013. The Committee felt that Job Evaluation had been largely a successful negotiation of a difficult and sensitive issue. The Committee particularly considered the impact of Job Evaluation on staff morale.

Previously the Committee had been informed that there had been no corresponding increase in sickness levels. The Committee noted that payment protection had ended in April 2013 for those members of staff who are in detriment.

The Committee was advised that an employee survey had been undertaken that included 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. The Committee agreed to receive further information from the employee survey once available.

### 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 was particularly concerned to see the low level of compliance in particular Directorates.

The Chair of the Committee wrote to Paul Orders, Chief Executive, to express the Committee's concerns over the number of PPDRs that have been completed to date. The Committee has requested that they be provided with a year end update of PPDRs completed, detailed by Directorate in June 2014. The Chief Executive echoed the concerns of the Audit Committee and welcomed their intervention.

### Attendance & Wellbeing Policy

The Committee on 20 January 2014 received an update from Philip Lenz, Chief Officer, HR People Services, regarding the Attendance & Wellbeing Policy. The Committee were informed that the new policy came into effect on July 2013.

The Committee was advised that improved monitoring has enabled more in depth analysis in response to requests from Directorates. It was noted that there is significant variation between directorates and that for Environment, Children's Services and Health and Social Care, the figures on sickness absence are particularly poor.

The Committee noted that the Policy Review and Performance Scrutiny Committee has sickness absence topic in its Work Programme. The Committee will receive an annual monitoring report on sickness absence after the year end, showing analysis by directorate and including long-term and short-term sickness.

## **Audit Committee Self Assessment**

On 2 December 2013 a workshop was held prior to the December meeting of the Audit Committee to undertake a Self Assessment exercise. The Committee acknowledged the support from the Wales Audit Office appointed Auditor and the Council's Audit & Risk Manager who together facilitated a workshop. On 20 January 2014 the outcomes were summarised and reported back to the Committee for approval.

As a result of the Self Assessment exercise an Action Plan was developed which detailed eight Proposed Improvement Actions, covering things such as progress on the Committee's recommendations and training for the Committee. Future Considerations were also included in the Action Plan which included the profile of the Committee and potential for further engagement with Scrutiny Committees. Annex 2 of this report highlights the Proposed Improvement Actions and Future Considerations.

The Committee found the Self Assessment exercise very useful, and has decided that the exercise should be undertaken annually, prior to the completion of the Audit Committee's Annual report.

## **Cardiff & Vale of Glamorgan Pension Fund**

On 28 March 2014 the Committee received a report giving an overview of the actuarial valuation of the Cardiff & Vale of Glamorgan Pension Fund as at 31 March 2013. This actuarial review occurs every three years. The report contained information on membership, valuation and deficit results, and overall employer contribution rates, which were generally favourable when compared to the 31 March 2010 figures. The next valuation will be as at 31 March 2016, and reported in the final quarter of 2016/17.

The Committee was informed that the number of Pension Fund Members has fallen slightly. The membership profile is changing, with an older membership, and a shift in the ratio between active members and retired members, which can put additional pressure on the fund. This is not considered a unique position to Cardiff & the Vale of Glamorgan Fund, but is one to constantly monitor. The projected recovery period of the deficit has been reduced from twenty five years to twenty three years.

The Committee was advised that the asset mix of the Fund is prudent in nature. The Council has been fairly cautious within a risk management environment over many years and has maintained this strategy through different financial climates. The biggest pressure on the Fund is demographic rather than financial. The Committee noted the current position of the Fund.

## Current Concerns & Future Priorities

During the coming year the Committee will continue to be guided by External and Internal Audit teams and will seek to further develop the assurances it is able to provide, and its contribution to an effective control framework. We will continue to review the Committee's Work Programme to ensure we maximise our contribution to the governance and control framework, at the same time managing agendas to ensure that all meetings are equally productive and focus on the key issues. In addition to consideration of statutory and other key items the following areas have been identified as areas of risk:

- **Budget Pressures** – The Council faces significant budgetary challenges ahead with savings of £48.6 million to be delivered in 2014/15. Given the risks this will pose on the Authority, particularly in relation to reductions in head count, care will continue to be required to ensure that the significant changes to business processes or personnel do not impact on the financial control environment in a negative manner.
- **Organisation Development Programme** – The Audit Committee has continued to be informed of significant business change activity and potential impact on the control environment. The Committee will continue to monitor business change activity outlined in the Organisation Development Programme ensuring accountability is clear and governance structured and adhered to.
- **Corporate Risks** – The Committee is presented twice a year with the Council's Corporate Risk Register which coincides with the timescales of presenting the register to Cabinet. The Committee has taken an interest in exploring how the corporate risks have been mitigated and will continue to select key risks and invite risk owners to attend and provide assurance around actions being taken to mitigate the risks. The range of risks on the Corporate Risk Register is varied and Committee have received a number of updates covered earlier in this report.
- **Children's Services** – The Committee on 28 March 2014 received a briefing report from the Director of Children's Services which highlighted the risks and challenges facing the service. The Committee's concerns were relayed in a letter to the Cabinet Member for Early Years and Families, the Chief Executive and the Political Group Leaders. The committee welcomed the progress the Director outlined but intend to monitor mitigation in this area and how the risks and challenges are being targeted.
- **School Governance & Compliance** – The Committee have been made aware of some serious non-compliance with Council rules within Schools in Cardiff. The Committee have expressed concerns over the issues of governance and procurement. Given the size of school budgets and reputational risk to the Council the Committee will continue to monitor schools governance through the work of the Internal Audit team and discussions with the Director. .
- **Contract Management / Procurement** – The Committee have been made aware of some concerns over compliance with regard to contract administration and procurement rules. The Committee on 20 January 2014 were updated on current practices to improve the situation but will continue to monitor this matter.
- **Collaboration with other Councils** – Looking forward, Members of the Committee expressed an interest to consider the effectiveness of collaborative projects with other

local authorities, to seek assurance that these add value to the Council and the citizens of Cardiff.

- **Audit Committee Self Assessment** – The Committee for the first time in 2013/14 undertook a self assessment exercise. The Committee will monitor the actions arising from the assessment and review during 2014/15 and will undertake an annual self assessment exercise in future years.
- **Links with Policy Review and Performance Scrutiny** – There would be merit in Officers supporting the Audit Committee and the Policy Review and Performance Scrutiny Committee considering the similarities in the two Committees' Work Programmes so that resources can be focused and each Committee may place assurance on the work of the other.

## Audit Committee Membership 2013/14

The Committee consists of four independent members (sought by public advertisement) and eight Non Executive Councillors, elected by Council. Independent members are appointed for no more than two administrative terms with Council Members reappointed annually. In 2013/14 the Audit Committee's membership was:

Independent Members: - Sir Jon Shortridge (Chairperson), Sir Richard Lloyd Jones, Prof. Maurice Pendlebury & 1 vacancy.

Non Executive Council Members: Councillors Jayne Cowan, Paul Mitchell, David Walker, Jim Murphy, Nigel Howells, Gretta Marshall, Mary McGarry, and Christopher Weaver

WAO representation as appropriate.

Council Officers' attendance as required with the Corporate Director Resources (Section 151 Officer) as lead support.

## Attendance during 2013/14

The Audit Committee met on 5 occasions throughout the municipal period 2013/14 on the following dates: 8 July 2013, 16 September 2013, 2 December 2013, 20 January 2014 & 28 March 2014.

<b>Attendance</b>	<b>Possible</b>	<b>Actual</b>
Sir Jon Shortridge	5	4
Professor Maurice Pendlebury	5	5
Sir Richard Lloyd Jones	5	3
Independent Member: 1 Vacancy	0	0
Councillor Jayne Cowan	5	5
Councillor Paul Mitchell	5	5
Councillor David Walker	5	5
Councillor Jim Murphy	5	5
Councillor Nigel Howells	5	5
Councillor Gretta Marshall	5	5
Councillor Mary McGarry	5	5
Councillor Christopher Weaver	2	2

\* In the absence of Sir Jon Shortridge, Chairperson, Professor Maurice Pendlebury has been nominated acting Chairperson during 2013/14 by the Committee.

## Audit Committee Contacts

<b>Sir Jon Shortridge</b> Chairperson of Audit Committee	jon.shortridge@btinternet.com
<b>Christine Salter</b> Corporate Director Resources	029 2087 2301 C.Salter@cardiff.gov.uk
<b>Derek King</b> Audit & Risk Manager	029 2087 2248 Derek.King@cardiff.gov.uk
<b>Bob Jones</b> Audit & Pensions Manager	029 2087 2210 R.D.Jones@cardiff.gov.uk
<b>Janet McNicholas</b> Manager, Wales Audit Office	029 20 872259 info@wao.gov.uk
<b>Steve Barry</b> Improvement Assessment Lead, Wales Audit Office	029 2032 0500 info@wao.gov.uk
<b>Anthony Barrett</b> Appointed Auditor, Wales Audit Office	029 2032 0500 info@wao.gov.uk

## Internal Audit Fact Sheet - Summary Figures 2013/14

AUDITS UNDERTAKEN	No.	SUMMARY INTERNAL AUDIT OPINIONS
Fundamental	11	11 final reports issued - 4 Good, 6 Satisfactory, 1 Limited
High Risk	14	10 final reports issued - 1 Good, 3 Satisfactory, 6 Unsatisfactory / Limited 4 draft reports issued
Medium Risk	39	33 final reports issued - 2 Good, 26 Satisfactory, 4 Limited / Unsatisfactory, 1 Unsound 6 draft reports issued
Low Risk	0	
Grants / Accounts Audits:	10	9 final reports issued - 1 Good, 7 Satisfactory, 1 Limited 1 draft report issued
Follow Up Audits:	24	22 final and 2 draft reports issued

AUDIT QUESTIONNAIRES	Detail
No. of Questionnaires issued	66
No. of Questionnaires returned Return Rate (target 66%)	49 (74%)
Questionnaire Responses:	Excellent Good Satisfactory Unsatisfactory
Total response Satisfaction Rating (target 99%)	220 (44.9%) 202 (41.2%) 64 (13.1%) 4 (0.8%) 490 (99.2%)

AUDIT RECOMMENDATIONS	2013/14	RED RISK RECOMMENDATIONS	2013/14
Proposed recommendations by risk rating:	<b>918</b>	Fundamental Audits	7 (5%)
Red	143 (15.6%)	High Risk Audits	30 (21%)
Red/Amber	359 (39.1%)	Medium Risk Audits	106 (74%)
Amber/Green	335 (36.5%)	Total Red Risk Recommendations	<b>143</b>
Green	81 (8.8%)		
Agreed recommendations	<b>916</b>		

BENEFIT / INTERNAL REFERRALS / NFI FRAUD	No.
No. of Benefit Fraud Referrals Received:	1080
No. of Investigations Conducted:	493
Interviews Under Caution:	163
Sanctions: Caution	14
Administrative Penalty Prosecution	61
Administrative Penalties Income:	79
Administrative Penalties Income:	£34,395
No. of Directorate Referrals Received:	70
No. of NFI Referrals Raised:	82
- Cases Proven	5
- No. of Sanction Actions Progressed	2 (Pending)
Information Requests Received from South Wales Police	450

OPEN AUDITS ON CIS BY FINANCIAL YEAR			
2014/15	2013/14	2012/13	Total
5 (11%)	28 (64%)	9 (20%)	<b>44</b>
		2 (5%)	

### Audit Committee Self Assessment – Proposed Improvement Actions





No.	Proposed Improvement Actions	Self Assessment Reference
1	Audit Committee Terms of Reference Audit Committee to review their Terms of Reference at their meeting prior to Annual Council (i.e. usually March) when Committees and Terms of Reference are set.	3
2	<u>Detailed Information</u> Members noted that there are often large volumes of paper associated with each agenda item. Consideration of summary overviews or condensed information for each agenda item (these would need to be different to covering reports which should highlight key messages).	4
3	<u>Progress on Recommendations Implemented</u> The Committee would like further detail on recommendations implemented and assurance that the process of monitoring implemented recommendations is sound.	11
4	<u>Audit Committee - Self Assessment</u> Members thought the Self Assessment exercise should feed into the process of forming the Committee's Annual Report and should be mindful of this when timings are considered for the next self assessment exercise.	15
5	<u>Knowledge and Skills Audit - Training</u> The Audit Committee may benefit from undertaking a knowledge and skills audit which would identify potential gaps in knowledge and areas where training is needed (this could be anonymous).	39
6	<u>All Wales Local Authority Audit Committee Chairs</u> An all Wales group to be set up for Local Authority Audit Committee Chairs to meet once or twice a year to share and develop ideas.	39
7	<u>Specialist Areas</u> Elected Members considered it important that there are a small number of Members on the Committee with the knowledge to deal with specific agenda items, particularly the expertise of the independent Members i.e. Treasury Management Further training to be provided on Treasury Management – Officers to arrange.	43
8	<u>Financial Statements</u> The Committee stressed the importance of having sufficient opportunity to consider and challenge the Financial Statements of the Authority. Arrangements are in place to schedule meetings to facilitate the challenge of the Financial Statements 2013/14.	43








### Audit Committee Self Assessment - Future Considerations

No.	Future Considerations	Self Assessment Reference
1	<p><u>Audit Committee Terms of Reference</u> Does the Constitution Committee have a role in reviewing the Terms of Reference.</p>	3
2	<p><u>Scrutiny Chairs</u> Members had suggested that the Committee would benefit from having Scrutiny Chairs serving as Audit Committee Members; potentially avoiding overlap and duplication on matters being referred to more than one Committee.</p> <p>The outcomes of the Wales Audit Office review into Audit and Scrutiny Committees to be relayed to the Committee once finalised.</p>	13
3	<p><u>Audit Committee input to areas of Collaboration</u> Looking ahead Members thought they needed to consider and develop ideas around their input to areas of collaboration. Training regarding collaborative working and joint arrangements to be considered.</p>	23 42
4	<p><u>Wales Audit Office</u> Members asked WAO to consider how they could add more value to the Audit Committee in future.</p>	24
5	<p><u>Member Development</u> It was suggested that Members may benefit from observing other Local Authority Audit Committees.</p>	39
6	<p><u>Profile of the Audit Committee / Engagement with Scrutiny</u> The profile of the Committee with other Members could be strengthened. There is little engagement with Members regarding the work of the Audit Committee except for the Annual Report to Council once a year.</p> <p>Members did not think there were arrangements to hold the Audit Committee to account aside from the Annual Report to Council.</p> <p>Consideration to be given to Cabinet receiving a copy of the minutes of each Audit Committee meeting. Cabinet members now receive copies of Internal Audit Executive Summary Reports with opinions of Limited or No Assurance.</p>	6 13 16

## Audit Committee Member Profiles

	<p>Jon Shortridge has degrees in Philosophy, Politics and Economics from Oxford University, and in Urban Design and Regional Planning from Edinburgh University.</p> <p>He became Permanent Secretary of the Welsh Office in March 1999 and of the National Assembly on its creation in May 1999. In May 2007 he became Permanent Secretary of the Welsh Assembly Government. He retired in May 2008, but returned to Whitehall briefly as interim permanent secretary of DIUS (and subsequently BIS) in the summer of 2009.</p> <p>He is now Chair of Community Service Volunteers, Chancellor and Chair of Glyndwr University, a board member of the Parliamentary and Health Service Ombudsman and an advisory member of the Commission for Local Government in England. He chairs the audit committees of the Parliamentary and Health Service Ombudsman and of the Local Government Ombudsman, and is a member of the audit committees of Oxford University and the Royal Society.</p> <p>He is married to Diana, and has a daughter and a son. He was knighted in 2002.</p>
<p><b>Sir Jon Shortridge (Chair)</b></p>	<p>Maurice Pendlebury is a qualified Accountant and until his retirement in December 2007 he was a Professor of Accounting at Cardiff Business School.</p> <p>He has wide experience of many areas of management in both the public and private sector and he was a non-executive director of the Cardiff and Vale NHS Trust from April 2007 to September 2009.</p> <p>He is currently a Governor of a high school in Cardiff. He was appointed as an independent member of the Audit Panel in 2010 and remained a member when the Panel changed and became the current Audit Committee.</p>
	
<p><b>Professor Maurice Pendlebury</b></p>	<p>Richard Lloyd Jones was born 1933. Career civil servant who retired as Permanent Secretary and Accounting Officer of the Welsh Office in 1993.</p> <p>Chairman of the Local Government Staff Commission for Wales 1994-7 and Arts Council of Wales 1994-9.</p> <p>Chairman, Age Concern Cymru 1999-2005 and Vice Chairman of Age Concern England 2005-9.</p>
	
<p><b>Sir Richard Lloyd Jones</b></p>	<p>Jayne Cowan was first elected to serve the residents of Rhiwbina in 1999, was re-elected in 2004 and in 2012.</p> <p><b>Serving on the following committees:</b></p> <p>Constitution Committee Democratic Services Committee Audit Committee</p>
	
<p><b>Jayne Cowan</b></p>	

 <p><b>Nigel Howells</b></p>	<p>Serving the <b>Adamsdown</b> Electoral Division, elected on 03 May 2012 Nigel was first elected on 06 May 1999.</p> <p><b>Serving on the following committees:</b></p> <p>Policy Review &amp; Performance Economy and Culture Scrutiny Committee Public Protection Committee Audit Committee</p>
 <p><b>Gretta Marshall</b></p>	<p>Serving the <b>Splott</b> Electoral Division, Gretta was elected on 03 May 2012 for the first time.</p> <p>Was first elected in 1999. Served as Children &amp; Young People Scrutiny Chair and Cabinet Member for Youth and Communities. Current Chair of Licensing and Public Protection committees.</p> <p><b>Serving on the following committees:</b></p> <p>Licensing Committee Public Protection Committee Constitution Committee Policy Review &amp; Performance Audit Committee</p>
 <p><b>Mary JMcGarry</b></p>	<p>Serving the <b>Plasnewydd</b> Electoral Division, Mary was elected on 03 May 2012 for the first time.</p> <p><b>Serving on the following committees:</b></p> <p>Licensing Committee Public Protection Committee Community &amp; Adult Services Audit Committee Policy Review &amp; Performance Scrutiny Committee</p>
 <p><b>Paul Mitchell</b></p>	<p>Serving the <b>Fairwater</b> Electoral Division, Paul was elected on 03 May 2012 for the first time. Paul was also a Councillor for Riverside between 1999-2004 and Canton between 1991-1996.</p> <p><b>Serving on the following committees:</b></p> <p>Environmental Scrutiny Audit Committee</p>
 <p><b>Jim Murphy</b></p>	<p>Serving the <b>Ely</b> Electoral Division, Jim was elected on 03 May 2012 for the first time.</p> <p><b>Serving on the following committees:</b></p> <p>Licensing Committee Council Appeals Committee Children and Young People Policy Review &amp; Performance Public Protection Committee Democratic Services Committee Audit Committee Corporate Parenting Panel</p>

 <p><b>David Walker</b></p>	<p>Serving the <b>Lisvane</b> Electoral Division, elected on 03 May 2012 David was first elected on 06 May 1999.</p> <p><b>Serving on the following committees:</b></p> <p>Constitution Committee  Employment Conditions Committee  Council Appeals Committee  Policy Review &amp; Performance  Audit Committee</p>
 <p><b>Christopher Weaver</b></p>	<p>Serving the <b>Cathays</b> Electoral Division, Christopher was elected on 03 May 2012 for the first time</p> <p><b>Serving on the following committee(s):</b></p> <p>Democratic Services Committee  Economy and Culture Scrutiny Committee  Audit Committee</p>

**Internal Audit – Limited Assurance Audit Reports (April – December 2014)**

AUDIT AREA	QUARTER REPORTED	STATUS OF REPORT
Ysgol Pen y Pil	1	Final
Brindley Road Stores	1	Final
Hubs – income review	1	Final
Ysgol Bro Eirwg	1	Final
Supporting People	1	Final
Glyn Derw Michaelston	1	Final
Rumney High School	2	Final
Children with Disabilities	3	Final
Sponsorship Arrangements	3	Final
Safeguarding & Review – core group process	3	Final
Highways Street Operations - payroll	3	Final
Pool cars		Draft
Pen y Bryn Primary School		Draft
Brindley Road stores		Draft

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## CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD

**AUDIT COMMITTEE:**

**19 JANUARY 2015**

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### TREASURY PERFORMANCE REPORT AS AT 31 DECEMBER 2014

### REPORT OF CORPORATE DIRECTOR RESOURCES

**AGENDA ITEM: 7.1**

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

### PORTFOLIO: CORPORATE AFFAIRS

#### Reason for this Report

1. To provide Audit Committee Members with performance information and a position statement on Treasury Management as at 31 December 2014 and highlight key changes from the previous report received as at 31 October 2014.

#### Background

2. The report attached at Appendix 1 provides the Committee with a snapshot of treasury performance, position statements on investments and borrowing.

#### Performance

3. The report updates for the latest forecast for interest income on investments and external interest payable at Month 8 budget monitoring. Whilst uncertain, assumptions around external interest payable reflect an underspend due to deferral of the timing of borrowing in the current financial year. Based on the forecast level of external borrowing, without any further borrowing during the year, the level of internal borrowing at 31 March 2015 is projected to be £25 million. The previous internal audit of the treasury function took place in March 2013 and a review is currently in process.

#### Investments

4. Pages 2 and 3 of the Performance Report consider the position on investments. The charts on the Performance Report show the position at a point in time and investments continue to be closely monitored.

5. The current investments list details each investment, the interest rate, the start date and maturity date. It also links this back to the credit criteria by a colour coding which indicates the perceived strength of the organisation.
6. The balance of investments is at a point in time and will fluctuate depending on the timing of income and expenditure e.g. payments to suppliers, receipt of grants, capital receipts etc.
7. The charts that surround this table provide additional information and the key areas to highlight are shown below.
  - **Counterparty Exposure** displays actual investment against the maximum permitted directly with an organisation – This demonstrates that we are not exceeding any exposure limits.
  - **Remaining Maturity Profile of Investments.** Maturities of investments have been spread to achieve a balanced profile.
  - **Investments by Institution.** This expresses the investments held with different institutions as a percentage of the total. It can be seen that investments remain diversified over a number of organisations.
  - **Geographic Spread of Investments** as determined by the country of origin of relevant organisations. All countries are rated AA and above as per our approved criteria.
  - **Investments by Financial Sector.** The majority of investments are with banks.

### **Borrowing**

8. Borrowing of £5 million was taken during October at the rate and period set out in the report. Accordingly, at 31 December 2014, the total level of borrowing is £476m. With loans to the value of circa £6 million to be repaid in the last quarter of the year, without any further borrowing, the forecast level of external borrowing at 31 March 2015 is £470m. The timing and quantum of further borrowing will continue to be reviewed in conjunction with the Council's Treasury advisors.

### **Reason for Report**

9. To provide Audit Committee Members with an update on the treasury management position as at 31 December 2014.

### **Legal Implications**

10. No direct legal implications arise from this report.

The Committee is reminded of its statutory functions, which are to:

- (a) review and scrutinise the authority's financial affairs,
- (b) make reports and recommendations in relation to the authority's financial affairs,
- (c) review and assess the risk management, internal control and corporate governance arrangements of the authority,
- (d) make reports and recommendations to the authority on the adequacy and effectiveness of those arrangements,



- (e) oversee the authority's internal and external audit arrangements, and
- (f) review the financial statements prepared by the authority.
- (g) to seek assurances that the Council has complied with the Treasury Management Strategy and Practices by demonstrating effective control of the associated risks and pursuing optimum performance consistent with those risks.

### **Financial Implications**

11. Treasury management activities undertaken by the Council are governed by a range of policies, codes of practice and legislation. This report indicates the treasury management position at one point in time and makes a number of assumptions in forecasts which will be updated in future reports. The report provides a tool for indicating to Members the treasury position. Future reports will highlight main changes since this report.

### **RECOMMENDATIONS**

12. That the Treasury Performance Report for 31 December 2014 be noted.

**CHRISTINE SALTER**  
**CORPORATE DIRECTOR RESOURCES**  
**8 January 2015**

*The following appendix is attached*  
Appendix 1 – Cardiff Council Treasury Management Performance Report

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Agenda item 7.1 – Treasury  
Management Performance Report –  
Appendix 1

**CONFIDENTIAL DOCUMENT**

*Appendix 1 to the report contains  
exempt information as defined in  
Section 100(I) (1A) of, and  
paragraphs 14 & 21 of Part 4 of  
Schedule 12A to, the Local  
Government Act 1972*

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By virtue of paragraph(s) 14 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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**DRAFT TREASURY MANAGEMENT STRATEGY 2015/16**

**REPORT OF CORPORATE DIRECTOR RESOURCES**

**AGENDA ITEM: 7.2**

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**PORTFOLIO: CORPORATE AFFAIRS**

**Reason for this Report**

1. To provide Audit Committee Members with the draft Treasury Management Strategy for 2015/16.

**Background**

2. The proposed strategy for 2015/16 is required to be approved as part of the Budget Report to Council in February 2015. The strategy is attached for Committee to review at Appendix 1.

**The Strategy**

3. The strategy covers the following areas:-
  - The current treasury position.
  - Economic background and prospects for interest rates.
  - Borrowing, including:-
    - Policy
    - Annual Minimum Revenue Provision (MRP) Policy Statement
    - Housing Finance Reform Settlement Amount (Self Financing Buyout) and Treasury Management Implications
    - Council borrowing requirement and choice between internal and external borrowing and
    - Borrowing Strategy
  - Treasury management indicators and limits for 2015/16 to 2017/18
  - Investment policy and strategy, including security and investments approved for use.
  - Training.
4. It should be noted by the Committee that many of the indicators are dependant on the final Capital Programme which will only be determined at Council in February 2015. There are unlikely to be significant changes in the

proposed Capital Programme. However, whilst the principle of housing finance reform has been agreed, the actual settlement value is to be based on interest rates at 31 March 2015.

**5. The main points to note in the strategy are:-**

- In order to buy itself out of the Housing Subsidy system, Council has agreed to make an estimated payment of £222 million to HM Treasury. Whilst this estimate is based on current rates, the final payment is dependant on interest rates at 31 March 2015. The Council will borrow a basket of loans from the PWLB to make the payment on 2 April 2015. Audit Committee received a report on Housing Finance Reform in June 2014 and updates in subsequent Treasury reports.
- Subject to progress on the approved Capital Programme and coupled with scheduled borrowing repayments, there is likely to be an additional borrowing requirement of circa £112 million over the next three years, excluding the payment for exiting the Housing Subsidy System.
- The timing of borrowing decisions, associated risks and financial implications will be important in order to achieve a balance between using temporary cash balances held (internal borrowing) in the short term or external borrowing. The Strategy proposes that given the higher level of borrowing rates compared to investment rates, the Council continues to use an element of internal borrowing, whilst setting aside sufficient financial provision to ensure external borrowing can be accomodated if needed.
- The priority for investments is security, with the Strategy allowing the potential use of a range of investment options to increase diversification where possible.
- Interest rates on investments are likely to remain low and this is factored into future budgets.
- Strong credit critetria are set for investments undertaken by the Council based on Fitch Credit Criteria with other factors taken into account in determining with whom to invest.
- The Strategy is consistent with the Prudential code and Welsh Government guidance on investments.
- The Strategy applies from the date of approval by Council.

**Reason for Report**

6. To note the proposed Treasury Management Strategy for 2015/16 and provide any comments as necessary that can be factored into the final strategy.

**Legal Implications**



7. No direct legal implications arise from this report.

The Committee is reminded of its statutory functions, which are to:

- (a) review and scrutinise the authority's financial affairs,
- (b) make reports and recommendations in relation to the authority's financial affairs,
- (c) review and assess the risk management, internal control and corporate governance arrangements of the authority,
- (d) make reports and recommendations to the authority on the adequacy and effectiveness of those arrangements,
- (e) oversee the authority's internal and external audit arrangements, and
- (f) review the financial statements prepared by the authority.
- (g) to seek assurances that the Council has complied with the Treasury Management Strategy and Practices by demonstrating effective control of the associated risks and pursuing optimum performance consistent with those risks.

### **Financial Implications**

8. The Treasury Management Strategy does have financial implications which will need to be consistent with and form part of the budget proposals for 2015/16 and the Medium Term Financial Plan which will be considered by Council in February 2015.

### **RECOMMENDATIONS**

9. That Audit Committee note the proposed Treasury Management Strategy for 2015/16 and provide comments as necessary with any amendments being considered for inclusion in the final Strategy which will be considered by Cabinet prior to approval by Council as part of the 2015/16 Budget Proposals Report.
10. That the Committee receive a full performance report at the next Audit Committee, highlighting the actual treasury management implications following the Housing Subsidy buy out settlement payment to Welsh Government.

**CHRISTINE SALTER**  
**CORPORATE DIRECTOR RESOURCES**  
**8 January 2015**

*The following appendices are attached*  
Appendix 1 – Draft Treasury Management Strategy 2015/16

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# Treasury Management Strategy

The County Council of the City and County of Cardiff

2015/16



# CONTENTS

	Page No
Foreword	3
Treasury Management	4
Treasury Management Strategy:	4
The Treasury Position	5
Economic background and prospects for interest rates	6
Borrowing	7
- Policy	7
- Minimum Revenue Provision (MRP) Policy Statement	8
- Housing Finance Reform Settlement Amount (Self Financing Buyout)	9
- Council's Borrowing requirement	12
- External versus Internal borrowing	13
- Borrowing Strategy	13
Treasury Management Indicators and limits for 2015/16 – 2017/18:	14
- Authorised limit for external debt	14
- Operational boundary for external debt	15
- Limits for fixed and variable rate interest exposure	15
- Maturity structure of fixed rate borrowing	15
Investments	16
- Policy	16
- Specified investments	17
- Non-specified investments	17
- Security	18
- Liquidity	19
- Investment strategy	20
Treasury management training	20
Appendix 1 - Glossary of Terms	21
Appendix 2 – Prudential Code Indicator Glossary	28
Appendix 3 – Lending List at 31 December 2014	31

# FOREWORD

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

The Council carries out its treasury management activities in accordance with a code developed for public services in 2011 by the Chartered Institute of Public Finance and Accountancy (CIPFA). This publication provides information on the Council's proposed Treasury Management Strategy to be adopted during 2015/16. The strategy is to be included in the Budget Proposals Report 2015/16 to be recommended for approval by Council, then published in accordance with Welsh Government Guidance. A glossary of terms is included at Appendix 1.

Christine Salter  
Corporate Director Resources

Date: 8 January 2015

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## **Treasury Management**

1. Treasury management involves ensuring cash is available when needed; investing temporary cash balances and ensuring appropriate borrowing facilities to pay for the Council's capital expenditure plans and for the prudent management of its financial affairs.
2. The Council carries out its treasury management activities in accordance with the revised treasury management code of practice developed for public services in 2011 by the Chartered Institute of Public Finance and Accountancy (CIPFA). This requires the Council to set out the policies and objectives of its treasury management activities and adopt four Clauses of Treasury Management. These were formally adopted by the Council in February 2010.
3. The Council's Audit Committee undertakes scrutiny of the accounting, audit and commercial issues in relation to the Council's Treasury Management Strategy and practices.
4. During the course of each year, a number of reports are produced in relation to the Council's treasury management activities including a strategy at the start of the year, performance reports during the year, a mid year report and an outturn report.

## **Treasury Management Strategy**

5. It is accepted that no treasury management activity is without risk. In undertaking its treasury management activities, the overriding objective is to minimise the risk of adverse consequences or loss, whilst at the same time not unduly constraining investment returns or unnecessarily incurring interest costs.
6. The successful identification, monitoring and control of risk are integral elements of treasury management activities. Risks include credit and counterparty, liquidity, interest rate, refinancing, fraud and regulatory. The Council has Treasury Management Practices to address and mitigate these risks. The practices were last updated in April 2014 following a review by Internal Audit and Audit Committee
7. The Council recognises the value in the use of treasury advisors to support the management of risk and to access specialist skills and resources. Support provided includes advice on timing of decision making, training, credit updates, economic forecasts, research, articles and advice on capital finance, with the terms of appointment reviewed periodically. Responsibility for treasury decisions ultimately remains with the Council.
8. The following paragraphs set out the integrated strategy for borrowing and investments for 2015/16. The strategy covers:

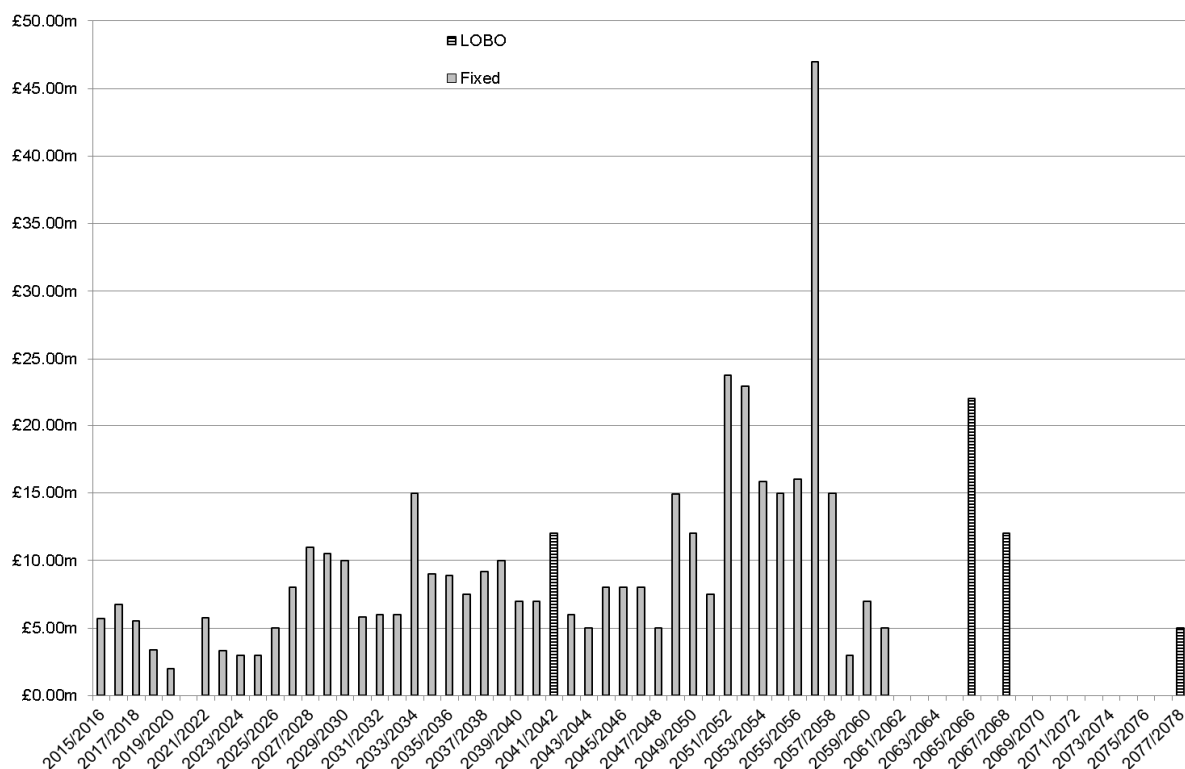
- The current treasury position.
  - Economic background and prospects for interest rates.
  - Borrowing, including:-
    - Policy
    - Annual Minimum Revenue Provision (MRP) Policy Statement
    - Housing Finance Reform Settlement Amount (Self Financing Buyout) and Treasury Management Implications
    - Council borrowing requirement and choice between internal and external borrowing and
    - Borrowing Strategy
  - Treasury management indicators and limits for 2015/16 to 2017/18
  - Investment policy and strategy, including security and investments approved for use.
  - Training.
9. The proposed strategy is based on information known at the time of writing this report. Significant changes are to occur in 2015/16 in relation to additional borrowing, circa £222 million, required to meet obligations of Housing Finance Reform. There are unlikely to be significant changes in the proposed Capital Programme. However, whilst the principle of Housing Finance Reform has been agreed, the settlement value is to be based on interest rates at 31 March 2015. Any changes will be reported in future scheduled reports to Council, Cabinet and Audit Committee on Treasury Management during the course of the year.

### The Treasury Position

10. The treasury position as at 31 December 2014 is shown in the following table. Borrowing is predominantly made up of fixed interest rate loans payable on maturity. Investments fluctuate daily and are represented by fixed term deposits, notice deposit accounts and money market funds. These balances arise due to the timing of cash flows and working capital as well as the existence of reserves, provisions and balances required for future use.

	<b>Principal £m</b>	<b>Average Rate %</b>
<b>External Borrowing</b>		
- Public Works Loan Board	423.7	5.35
- Market Loans	52.0	4.10
- Other	0.4	0.00
<b>Total Debt</b>	<b>476.1</b>	<b>5.21</b>
<b>Treasury Investments</b>	<b>70.9</b>	<b>0.66</b>

11. The Council's current debt maturity profile is shown in the following graph on the assumption that all loans run to their final maturity.



12. It should be noted that £24 million of the Lender Option Borrower Option loans (LOBOs) are currently subject to the lender potentially requesting a change in the rate of interest payable every six months, with a further £22 million having its five year call option which could trigger early repayment and possible need to borrow to refinance in 2015/16.

<b>Lender Option Borrower Option (LOBO) Loans</b>			
<b>Potential Next Repayment Date</b>	<b>Loan Value £m</b>	<b>Option Frequency Every</b>	<b>Full Term Maturity Date</b>
01/03/2015	6	6 months	23/05/2067
21/05/2015	6	6 months	21/11/2041
21/05/2015	6	6 months	21/11/2041
21/05/2015	6	6 months	23/05/2067
21/11/2015	22	5 years	23/11/2065
05/01/2018	5	5 years	17/01/2078

13. Risk of early repayment is deemed to be low, however in the longer-term, options will need to be considered to reduce any potential large repayments in a single year.

### **Economic background and prospects for Interest Rates**

14. The following table gives the Council’s treasury management advisors latest forecast of interest rates taking into account the 20 basis point certainty rate reduction available for PWLB loans to eligible local authorities. It is a central



forecast, acknowledging for example that the bank rate may rise sooner if there is sustained and robust UK growth, employment and inflation expectations.

	<b>January 2015</b>	<b>March 2015</b>	<b>March 2016</b>	<b>March 2017</b>	<b>March 2018</b>
Bank Rate	0.50%	0.50%	0.75%	1.25%	2.00%
5yr PWLB rate	2.00%	2.20%	2.60%	3.20%	3.60%
10yr PWLB rate	2.60%	2.80%	3.30%	3.80%	4.20%
25yr PWLB rate	3.30%	3.40%	4.00%	4.50%	4.80%
50yr PWLB rate	3.30%	3.40%	4.00%	4.50%	4.80%

Forecast at 5 January 2015

15. Whilst sentiment in financial markets has improved considerably during 2014, geopolitical events, political changes given the forthcoming UK general election and resurfacing of concerns of EU member states indebtedness are concerns. Growth in the UK economy has strengthened, inflation has fallen and credit conditions remain eased primarily due to the Funding for Lending Scheme. However there are concerns that any recovery based mainly on consumer spending and the housing market may not be sustainable.
16. The bank rate, which is unchanged since March 2009, is currently forecast to rise towards the end of 2015. Future borrowing costs are forecast to rise as a result of higher levels of UK Government borrowing and any reversal in quantitative easing undertaken by the Bank of England in the UK resulting in higher longer term revenue budget costs for the Council.

## **Borrowing**

### **Policy**

17. Borrowing has long-term financial consequences and risks, with decisions taken many years ago impacting currently and in the future. The costs of servicing borrowing is included in the Council's Capital Financing revenue budgets.
18. Borrowing is not undertaken for specific schemes or directorates. All loans are taken in the name of the Council and secured on all revenues of the Council. Loans and investments are pooled. The Council will aim to manage its debt portfolio on a long-term basis with a high regard to the effects on current and future Council Tax and Rent Payers.
19. The Council's borrowing strategy for 2015/16 and the capital financing revenue budgets included in the MTFP will consider all options to meet the long-term aims of:
  - Promoting revenue cost stability to aid financial planning and avoid a stop-start approach to service delivery, although it is recognised that this may have a financial impact.

- Pooling borrowing and investments to ensure the whole Council shares the risks and rewards of treasury activities.
  - Meeting the Council's commitment to Housing Finance Reform by paying a settlement amount to WG
  - Reduction over time in the average rate of interest on overall Council borrowing.
  - Ensuring any refinancing risk is manageable each financial year, using opportunities to re-profile borrowing where cost effective to do so both in the short and long term.
  - Ensuring borrowing plans are aligned to known capital expenditure spending plans, the useful life of assets created and consistent with the prudent provision for the repayment of any such expenditure paid for by borrowing.
20. The Council will not borrow in advance of need, purely to profit from any investment of the extra sums borrowed. However, if it is felt that by borrowing in advance of need up to a maximum of three years, opportunities exist to lock into favourable long-term rates and the credit risks associated with this can be managed, then this is an option that will be considered.

#### **Prudent Repayment of Capital Expenditure – Annual Minimum Revenue Provision (MRP) Policy Statement**

21. Capital expenditure is budgeted expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery. Such expenditure is spread over several years so as to try to match the benefits such assets provide over their useful life. The manner of spreading these costs over years is through an annual charge to the Council's revenue account known as MRP. The level of the MRP is determined using WG guidance and the judgement of the Section 151 Officer.
22. The WG requires that: - "A local authority must calculate for the current financial year an amount of MRP which it considers to be prudent." A statement on the Council's policy for its annual MRP is required to be submitted to full Council for approval before the start of the financial year to which the provision will relate.
23. It is proposed that the Council MRP Policy will be as follows with any change in the level, timing and method of provision in year delegated to the Section 151 Officer :
- General Fund historic expenditure prior to 1 April 2004 as well as subsequent supported borrowing approved by the WG is to be provided for at 4.5% on a reducing balance basis. This is in excess of the WG minimum of 4%, but will continue to be reviewed for ongoing affordability.
  - HRA supported borrowing prior to self financing on 1 April 2015 is to be provided for at 2% on a reducing balance basis. MRP on the housing settlement payment to be made in 2015/16 is to be at 2% straight line basis as a minimum.

- Additional borrowing for a general increase in investment to balance the Capital Programme in a year is to be provided for on a straight line basis over the estimated average life of the assets created.
- Any additional expenditure linked to specific schemes e.g. Invest to Save, SOP etc. is to be provided for on a straight line basis, or over the estimated useful life of assets being created or a shorter period as determined by the Section 151 Officer or suggested periods determined by WG as is the case with Local Government Borrowing Initiative (LGBI).
- Revenue Provision in excess of minimum requirements can be made subject to affordability and following advice of the S151 officer. Where any additional voluntary revenue provision has been made from 2015/16 onwards, the Council may make an appropriate reduction in later years' levels of MRP after consideration of prudence and affordability.
- The MRP charged against liabilities under finance leases, or contracts that have the characteristics of finance leases, shall be equal to the principal element of the lease repayment, calculated on an annual basis.

### **Housing Finance Reform Settlement Amount (Self Financing Buyout)**

#### Agreed Position

24. Currently, all eleven Welsh landlord authorities operate within a centralised HRA Subsidy system which is complex, out dated and where a "negative subsidy" is paid to the UK Treasury each year, circa £73.1 million. Cardiff's share of this is £14.9 million (20.4%) based on 2013/14 audited figures.
25. The UK and Welsh Government have reached an agreement that will allow Wales and the 11 Councils to leave the Subsidy system through a one off loan settlement payment to HM Treasury. This is to be based on an agreed interest figure of £40 million using PWLB rates applicable on 31 March 2015.
26. The overriding principle of subsidy reform is that no Welsh Authority will be worse off under the new Self Financing arrangements. The new arrangements will mean that from April 2015, the City of Cardiff Council will no longer have to pay a negative subsidy. Instead it will make a single one off settlement payment as a "buy out" to the UK Treasury on 2 April 2015.
27. Based on current interest rates, the all Wales settlement payment could be £1.090 billion with Cardiff's share of this total settlement figure at 20.4% being £222 million and circa £8.15 million in interest.
28. The agreement imposes a limit of indebtedness for each authority on HRA borrowing in accordance with the requirements of HM Treasury. This has been accepted by the Council in accordance with a Voluntary Agreement signed in January 2015.
29. The move to self financing offers the opportunity for authorities to use their role as a landlord to help achieve their wider priorities and ambitions within the context of the ring-fenced HRA. These could include economic regeneration, improving health and well being, improving community safety

and helping vulnerable people to live independently in the community. It will mean councils will retain all revenue and capital income and become responsible for financing their landlord services and housing investment from their income. English Authorities moved to self financing in April 2012.

30. Previous reports to Cabinet and Council during 2014/15 have provided members with information on housing reform including the treasury management implications. Council approved a delegation to officers in consultation with the Cabinet Members for Health, Housing and Wellbeing and for Corporate Services and Performance to conclude the appropriate detail within the voluntary agreement and sign on behalf of the Council.

#### Treasury Management Implications - Borrowing

31. Using the PWLB 30 year Maturity Rate loan interest rate (over 30 not over 30 ½ years) on the 31 March 2015, the WG will determine the value of loans (settlement amount) which notionally equates to an interest payment of £8.155 million The interest payment share remains constant irrespective of interest rates. A basket of PWLB loans will then be undertaken by the Council at various maturities to pay the settlement amount over to WG on 2 April 2015. It is proposed that these loans would be a spread of loan maturities, having consideration of existing Council loan maturities, as shown in the previous borrowing maturity chart, to ensure re-financing risk is not increased. This would also allow benefit from reduced interest costs as loans mature.
32. As the settlement amount will depend on interest rates on 31 March 2015, there is risk of fluctuation in interest rates which are outside of the Council's control.
33. Based on an interest rate of 3.67%, the settlement payment would be £222 million and this is what has been assumed in the Treasury Strategy and the indicators included in the strategy that follows. If the interest rate fell by half percent, the settlement payment would be higher at £257 million and if rates rose by half percent the settlement will be lower at £195 million. The risk to the Council is if interest rates fall significantly as if this were to be the case, a higher settlement amount would impact on the level of debt repayment (Prudent Minimum Revenue Provision (MRP)) on loans undertaken.

#### Treasury Management Implications – Impact on HRA Revenue Budget

34. WG and Treasury are discussing opportunities for taking loans at concessionary rates which could result in greater financial benefit to the Council, however the Council has included prudent assumptions for capital financing, to ensure any such changes in settlement amount and costs for HRA recharges of Capital Financing costs can be accommodated and are affordable.
35. The estimated financial impact in the initial year of self financing for the Housing Revenue Account is shown in the table below and is deemed affordable. With interest costs reducing over time, the financial benefit will increase.

	£m
Subsidy no longer paid over to WG (13/14 data)	(14.9)
Maximum interest cost on loans	8.2
Assumed Provision for debt repayment	5.0
Net benefit to Housing Revenue Account	1.7

Treasury Management Implications – Impact on HRA Limit to Indebtedness

36. As mentioned earlier in the report, HM Treasury has insisted that the local authorities adhere to a limit to indebtedness i.e. a debt ceiling. This is measured using the Housing Capital Financing Requirement (CFR). The Council will use existing prudential indicators to monitor the limit closely to ensure there is no breach and risk of any penalties from WG of any breach. Based on the estimated settlement amount, the HRA limit to indebtedness is £351 million as shown in the table below:-

HRA Capital Financing Requirement	£m
Estimated 31.03.2015	96
Add estimated settlement amount	222
Add headroom for new build	33
<b>Estimated limit to indebtedness (subject to final settlement amount)</b>	<b>351</b>

Treasury Management Implications – Pooling of debt

37. In determining the approach to managing the Council's debt, consideration has to be given as to whether HRA debt is notionally split from the rest of the Council debt, which would necessitate two different strategies being prepared, or whether the Council continues with the current integrated single strategy and loans pool. In determining the approach to managing the Council's debt, the Council has also sought advice from its treasury management advisors and considered guidance from CIPFA.
38. Local authorities are required to deliver a solution that is broadly equitable between the HRA and the Council Fund; and future charges to the HRA in relation to borrowing are not influenced by Council Fund decisions, giving a greater degree of independence, certainty and control. However it is a local authority's choice as to how it treats both HRA and General Fund debt.
39. Whilst there are advantages and disadvantages of various options, the view of the Section 151 Officer and Officers is to maintain a single pool for all Council debt. The reasoning for this includes consideration of the following:-
- One pool is consistent with pooling of treasury management activities for effective management of risk and control

- The Council is ultimately responsible for all debt, including debt undertaken by the HRA. HRA is a Service in the same way as education. Interest costs are recharged to HRA, in the same way as to directorates who take invest to save schemes.
- All loans are charged indifferently on all the revenues of the authority in accordance with the Local Government Act 2003.
- Specific loans are not taken out for specific purposes in accordance with good treasury management practice.
- The Section 151 Officer is ultimately responsible for all Council debt, including that funding HRA capital expenditure.
- There is no mechanism to charge HRA for risks of default on Investments. This is all borne by the General Fund so it is deemed inconsistent to treat debt and investments separately
- This avoids the requirement for two separate Treasury Strategies and documents at all current reporting meetings. The extent of additional work in administration, management and reporting of maintaining two pools should not be underestimated.
- Planned loan maturities for HRAS exit are taken with regard to existing debt maturity profile to smooth the historic debt maturity profile to minimise overall re-financing risk to Council.
- Potentially a short term revenue budget benefit to the General Fund, whilst the Council's capital programme in respect of 21<sup>st</sup> Century schools is implemented, at which point increased benefit to HRA.
- The Prudential Code still requires indicators to be aggregated and Treasury risk is managed as a whole / corporately.
- De-pooling is a one off exercise which ignores the historic benefit which may have accrued to HRA / cost to GF.
- One pool avoids risk of over borrowing. If HRA pays off debt quicker than anticipated, allows flexibility to transfer loans at nil cost to GF. HRA can secure a long term stable / flexible portfolio.

### **Council's borrowing requirement**

40. The following table compares the projected level of external borrowing currently held by the Council, taking into account any scheduled loan repayments and committed new borrowing arising from Housing reform. It compares this to the projected CFR\*\* based on current, known estimates of the Council's capital expenditure plans, subject to approval of the Council's budget in February 2015. The difference between the projected CFR in 2017/18 (£786 million) and the level of external borrowing after any planned repayments and borrowing required to be undertaken for self financing (£674 million) is £112 million, i.e. there will be a requirement for additional borrowing over the medium term.
41. Some of this requirement may be covered by internal borrowing in the short term, dependent on the sustainability and risks of any internal borrowing position. The table demonstrates that over the medium term, borrowing is undertaken only for a capital purpose and it is not borrowing in advance of need.

<b>Gross Debt compared to Capital Financing Requirement</b>					
	<b>2013/14 Actual £m</b>	<b>2014/15 Estimate £m</b>	<b>2015/16 Estimate £m</b>	<b>2016/17 Estimate £m</b>	<b>2017/18 Estimate £m</b>
External Borrowing at 1 April	455	473	470	687	680
New borrowing undertaken	20	5			
Housing Settlement commitment			222		
Scheduled repayments	(2)	(8)	(5)	(7)	(6)
<b>External Borrowing at 31 March</b>	<b>473</b>	<b>470</b>	<b>687</b>	<b>680</b>	<b>674</b>
Capital Financing Requirement **	485	495	743	779	786
<b>Under / (Over) borrowing</b>	<b>12</b>	<b>25</b>	<b>56</b>	<b>99</b>	<b>112</b>

\*\* The definition of the CFR in accordance with the current Prudential Code for Capital Finance in local authorities is an authority's underlying need to borrow for a capital purpose. It measures capital expenditure incurred but not yet financed by the receipt of grants, contributions or charges to the revenue account. To be meaningful for treasury management purposes, the CFR figures in this strategy exclude the accounting provisions for the management and aftercare of landfill sites which may not be incurred for many years to come. Accordingly, when setting the treasury indicators, landfill provision is excluded from the calculations, except for the setting of the Authorised Limit for external debt, which is required to be set under statute.

### **External versus Internal borrowing**

42. Whilst interest rates for borrowing are greater than interest rates the Council receives for investments (the 'cost of carry'), it makes financial sense to use any internal cash balances in the short-term to pay for capital expenditure and minimise costs (Internal Borrowing), rather than undertake external borrowing. However, there is a risk that the Council may have to borrow at higher rates when it does actually need to borrow in future.
43. A high level balance sheet review undertaken at a point in time suggests that a maximum level of internal borrowing is circa £70 million. However this is dependent on cash flows, the use the Council makes of General and Earmarked Reserves and longer term pressures in the Medium Term Financial Plan.

### **Borrowing Strategy**

44. Based on the analysis above the Council's borrowing strategy for 2015/16 is as follows.
45. Borrowing for the payment of the settlement amount for Housing finance reform buy out will be undertaken on 2 April 2015 in accordance with the agreement with HM Treasury and WG. This will be a basket of loans, with a spread of maturities over time having regard to existing Council debt maturities and resulting in reducing interest cost to the Council over time.
46. Whilst investment rates remain lower than long term borrowing rates internal borrowing will be used to minimise short-term costs where possible. The forecast level of internal borrowing at 31 March 2015 as a percentage of the CFR is deemed manageable. However, based on the current forecasts of future capital expenditure plans and high level analysis of the sustainability of

internal borrowing from the Council's balance sheet position for future years, external borrowing will be required to be undertaken in the medium term.

47. Any borrowing is to be a balance between temporary borrowing on a short term basis to minimise revenue costs (the cost of carry) where possible, with options considered to take an element of the Council's borrowing requirement with loans of longer periods. This strategy should help to mitigate against the risk of borrowing rates rising faster than currently anticipated.
48. If it were felt that there was a significant risk of a sharp rise in long and medium-term rates, then fixed rate borrowing may be undertaken whilst rates were still relatively cheap. If there was a significant risk of a sharp fall in rates, then long-medium term borrowing would be deferred, following consideration of internal borrowing capacity.
49. Current interest rates on the Council's existing debt portfolio compared to new borrowing rates and the high penalty rates charged by the PWLB for early debt repayment, results in limited options for restructuring of debt. Options have been considered but these have resulted in very short term financial gains outweighed by the risk of higher longer term costs. Opportunities will continue to be reviewed to determine whether options exist to generate long term interest savings at minimum risk and minimise refinancing risk.

#### **Treasury Management Indicators and limits for 2015/16 – 2017/18**

50. The Council is required to set its treasury management indicators for the years 2015/16 - 2017/18. Appendix 2 gives further background in respect of the Prudential Indicators. Any indicators relevant to treasury are included in this report with additional indicators to be included in the Budget Proposals 2015/16 Report that considers the Capital Programme.
51. The Council must determine and keep under review how much it can afford to borrow from debt or other long-term liabilities for the forthcoming year and the following two financial years (the Affordable Borrowing Limit). It must have regard to the Prudential Code and locally determined indicators when setting this limit and be content that capital investment plans are within sustainable limits and that the impact upon future Council Tax/Rent levels is acceptable.
52. It is recommended that the Council approve the following authorised limits (Statutory limit under Section 3(1) of the Local Government Act 2003) and operational boundaries for the next three years (figures for 2014/15 are for comparison only). The undertaking of other long-term liabilities, within the overall limit, is delegated to the Section 151 Officer based on the outcome of financial option appraisals and best value considerations.

#### **Authorised limit for external debt**

	<b>2014/15 £m</b>	<b>2015/16 £m</b>	<b>2016/17 £m</b>	<b>2017/18 £m</b>
Limit for external borrowing and other long-term liabilities	593	812	812	812



53. These limits are consistent with known commitments, existing plans and proposals contained within the budget for capital expenditure, financing and revised accounting requirements. They include landfill provision and are based on the estimated and prudent, but not worst case scenario and in addition with sufficient headroom over and above this to allow for operational management and unforeseen cash movements. The limit has been set at a constant level of £812 million for 2015/16 to 2017/18, with the main reason for the increase from 2014/15 being the housing settlement payment required to be paid to WG.

#### Operational boundary for external debt

54. The proposed operational boundary for external debt (excluding landfill) is based on the same estimates as the authorised limit, but without the additional headroom for unusual and unexpected cash movements. It is set at the projected level of external debt at the end of the year this being the level of anticipated capital financing requirement. This is clearly subject to the timing of borrowing decisions.

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Boundary for external borrowing and other long-term liabilities	470	743	779	786

55. The Council's actual external debt represented by borrowing at 31 March 2014 was £473 million, with no significant other long-term liabilities.

#### Limits for fixed and variable interest rate exposure

56. Various upper limits are required to be set in order to manage risk and reduce the financial impact on the Council of any adverse movement in interest rates. The limits below reflect that whilst the majority of Council borrowing is currently at long term fixed rates, there could be exposure to variable rates. This is in the form of interest on LOBO loans being changed early, the strategy to utilise internal borrowing where possible and short term external borrowing when required to manage cash flow.

	2014/15 %	2015/16 %	2016/17 %	2017/18 %
Upper limit for fixed interest rate exposure:-	100	100	100	100
Upper limit for variable rate exposure:-	25	25	25	25

#### Maturity structure of fixed rate borrowing

57. Limits are set to guard against a large element of the Council's debt maturing and having to be refinanced in a very short space of time, when it may not be economically favourable to do so. The limits have been set to reflect the current debt portfolio, and to allow enough flexibility to enable new borrowing

to be undertaken for the optimum period. The actual maturity profile of existing borrowing is included on the assumption that loans run to their final maturity and a separate column is also included to show the maturity profile should the Council be required to repay its LOBOs early.

<b>Maturity structure of borrowing in 2015/16</b>	<b>Upper limit %</b>	<b>Lower limit %</b>	<b>Actual to Maturity %</b>	<b>Actual if LOBOs Repaid Early %</b>
Under 12 months	10	0	0.83	7.47
12 months and within 24 months	10	0	0.97	0.97
24 months and within 5 years	15	0	4.18	4.90
5 years and within 10 years	15	0	7.24	7.24
10 years and within 20 years	30	0	20.41	20.41
20 years and within 30 years	35	0	20.30	18.57
30 years and within 40 years	35	0	23.54	23.54
40 years and within 50 years	35	0	16.90	16.90
50 years and within 60 years	15	0	4.91	0
60 years and within 70 years	5	0	0.72	0

## **Investments**

### **Policy**

58. The Council has regard to the WG Guidance on Investments issued in 2004 and its subsequent amendments, as well as the 2011 revised CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (the CIPFA Treasury Management Code).
59. The Council recognises that given the nature of investments, a trade-off between security, liquidity and yield cannot be avoided i.e. there is risk of default. The Council will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity, however the level of risk will be contained by ensuring:-
  - All investments and repayments are in sterling.
  - Investment instruments identified for use in the financial year are listed under 'Specified' investments and 'Non-Specified' investment categories, dependant on their complexity and risk.
  - A list of highly credit worthy counterparties with whom to invest is created and monitored.
  - Diversification of approach, investment product and counterparties are sought where possible to avoid concentration of risk.
  - Any set limits are implemented with immediate effect following approval of this Treasury Management Strategy by Council.

- Continual monitoring of treasury activities with the categories of investments that may be used, the credit criteria and associated limits in determining with whom to invest and timing of decisions being delegated to the Section 151 Officer.

### Specified Investments

60. A specified investment is defined as one :

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

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

<b>Instruments approved for use</b>	<b>Minimum Credit Criteria</b>
Debt Management Agency Deposit Facility	Assumed Government Guarantee
Term deposits – UK government and other Local Authorities	Assumed Government Guarantee
Deposits with the Council's banking services provider	Long-term A /Short-term F1
Term deposits – banks and building societies	Long-term A /Short-term F1
Term deposits with variable rate and variable maturities up to one year e.g. structured investment products	Long-term A /Short-term F1
Deposits with banks wholly or partly nationalised or where guaranteed by high credit rated (sovereign rating) countries	Long-term A /Short-term F1 Assumed Government Guarantee

### Non-Specified Investments

61. These are all other investments not meeting the definition of a specified investment which could be used in order to achieve diversification and manage liquidity needs. A maximum upper level of £60 million is to be set for non-specified investments including investments for greater than one year.

<b>Instruments approved for use</b>	<b>Min Credit Criteria</b>	<b>Max % of total investments</b>	<b>Max. maturity period</b>
Term deposits with Local Authorities (with maturities in excess of 1 year)	Assumed Government Guarantee	15	2 Years
Term deposits – banks and building societies (with maturities in excess of 1 year)	Long-term AA- /Short-term F1+	15	2 Years

Deposits over one year with banks wholly or partly nationalised institutions where guaranteed by high credit rated (sovereign rating) countries	Long-term A /Short-term F1 Government Guarantee	20	2 Years
Term deposits with variable rate and variable maturities in excess of 1 year e.g. structured investment products	Long-term AA- /Short-term F1+	10	2 Years
Term deposit with Financial institutions in accordance with the Council's Local Authority Mortgage Scheme	Long Term A / Short Term F1	Budget approved limit for scheme	5 years
Certificates of Deposit (In-house)	Long-term AA- /Short-term F1+	10	Maximum 2 year duration
UK Government Gilts and Gilt funds (In-house)	Assumed Government Guarantee	40	Maximum 3 year duration
Treasury Bills (In-house)	Assumed Government Guarantee	40	6 Months
Collective Investment Scheme structures - Money Market Funds	AAA Constant Net Asset Value	60	Weighted Average Maturity 60 days
Other Collective Investment Schemes structures - e.g. enhanced cash funds, Government and Corporate Bond, Gilt or Liquidity Funds and floating rate notes	AAA Variable Net Asset Value	20	Weighted Average Maturity 3 years

62. The Council uses money market funds and other collective investment funds which pool together investments in a diversified portfolio of products and sectors mainly high quality, short-term money market instruments such as bank deposits, certificates of deposit, government guaranteed bonds, corporate bonds and commercial paper.

### Security

63. Credit and fraud risk are managed through procedural requirements and controls. The Council uses Fitch Credit ratings as a basis for assessment of credit worthiness of institutions it will invest with. Changes in the criteria and decisions with whom to invest are delegated to the Section 151 Officer. Commercial organisations on its approved list (See Appendix 3) will have at least the short-term credit rating of F1 and be authorised institutions within the meaning of the Financial Services and Markets Act 2000. The rating F1 infers "Highest Credit Quality" and indicates the strongest capacity for timely payment of financial commitments.

64. For internally managed investments provided by the private sector, the lending list for any new direct investment in an organisation is based on the following credit criteria:

<b>Fitch Ratings (minimum)</b>	<b>Long-term</b>	<b>Short-term</b>	<b>Limit £m</b>
Overnight to one year	A	F1	10
Overnight to two years	AA-	F1+	12
UK Part Nationalised Banks overnight to two years	A	F1	15

65. For internally managed funds the maximum limit for direct investment in any one group of related companies is £15 million.
66. Credit ratings are monitored regularly through use of the treasury management advisor's credit service. If a downgrade results in the counterparty/investment scheme no longer meeting the Council's criteria, its further use for new investment will be withdrawn immediately.
67. Where investments are held with a counterparty which falls below the Council's approved criteria for new investment, the investments will be reviewed and options to call back funds before the maturity date would be investigated. It should be noted that any early repayment is only at the discretion of the borrower and often at a penalty.
68. Whilst Fitch ratings form the basis of the Council's threshold criteria, the Council will also have regard to the following when determining with whom to invest:
- Rating updates provided by treasury advisors in respect of all three credit rating agencies, as well as credit default swaps, support ratings and other market data.
  - Media reports as well as sovereign credit ratings with the minimum requirement being a Fitch sovereign rating of AA for non UK based institutions.
  - The informed judgement of treasury staff and treasury management advisors after consideration of wider economic factors.
  - Financial sector and country exposure.
  - The extent to which organisations who do not meet the above criteria, are nationalised.

## **Liquidity**

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

## **Investment Strategy**

70. Given uncertainty of financial markets, the Specified and Non Specified investments above allow for a range of products to be available to manage short term investment balances and diversification.
71. Given the likelihood of internal borrowing and the interest rate forecasts identified above, longer term investments above one year will be unlikely. The Debt Management Agency Deposit Facility will be used only as a last resort.
72. The investment strategy for 2015/16 will continue to adapt to changing circumstances and market sentiment, with a pragmatic approach taken. Credit criteria changes delegated to the Section 151 Officer, which allows a prompt response to uncertainties with the Council being kept informed of significant changes through the various reports it receives on treasury activities during the course of the year.

## **Treasury Management Training**

73. Treasury staff directly and regularly involved in borrowing and lending activities are provided access to a wide range of training. This includes seminars and workshops organised by treasury advisors bringing together practitioners from different authorities; seminars organised by CIPFA and other national bodies, regular contact with a client relationship manager as well as their briefing notes and articles. Staff responsible for treasury activity on a day to day basis have a recognised accountancy qualification and are encouraged to undertake relevant treasury management training.
74. The Council's Audit Committee Members who are responsible for scrutiny of treasury management activities have also been provided with training in order to support their role.

## **APPENDIX 1 - Glossary of Terms**

### **Bank Rate**

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

### **Bonds**

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

### **Borrowing**

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

### **Capital Expenditure**

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

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

### **Capital Financing Requirement (CFR) (Real and Notional)**

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

Revised accounting guidance from Wales Audit Office on accounting for Landfill Obligations requires a provision to be created and charged to capital. As this is for future spend, this is not incurred expenditure, hence caution needs to be adopted when comparing the latter figure compared to external borrowing to ensure borrowing in advance of need does not take place.

### **Capital Market**

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

### **Capital Programme**

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

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

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

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

CIPFA is the professional body for people in public finance. As a specialised public services body, they provide information, guidance, and determine accounting standards and reporting standards to be followed by Local Government.

### **Collective Investment Scheme Structures**

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

### **Commercial Paper**

A relatively low risk, short-term and unsecured promissory note traded on money markets issued by companies or other entities to finance their short-term cash requirements.

### **Corporate Bonds**

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

### **Counterparty**

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

### **Counterparty / Credit Risk**

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

### **Credit Criteria**

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

### **Credit Default Swaps**

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



**Credit Rating**

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

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

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

**Debt Restructuring**

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

**Diversification of Investments**

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

**Duration (Maturity)**

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

**External Borrowing**

Money borrowed from outside of the Council.

**Financial Instrument**

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

**Fitch Credit Ratings**

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

**Fixed Rate**

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

**Floating Rate Notes**

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

## **Four Clauses of Treasury Management**

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

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

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

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

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

### **Fraud / Error Risk**

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

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

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

### **Interest Rate Risk**

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

### **Internal Borrowing**

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

**Investments**

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

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

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

**Liquidity**

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

**Market Loans**

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

**Minimum Revenue Provision (MRP)**

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

**Money Market**

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

**Money Market Funds**

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

**Net Asset Value (NAV)**

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

**Pooling**

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

**Prudential Code for Capital Finance**

The system introduced on 1 April 2004 by Part 1 of the Local Government Act 2003 which allows local authorities to borrow without Government consent, provided that they can afford to service the debt from their own resources and that

any such borrowing is prudent and sustainable. This requires the preparation and approval of various indicators.

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

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

### **Refinancing Risk**

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

### **Regulatory Risk**

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

### **Security**

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

### **Sovereign Credit Ratings**

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

### **Sterling**

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

### **Term Deposits**

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

### **Treasury Management**

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

### **Treasury Bills**

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

### **UK Government Gilts**

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

### **Variable Rate**

An interest rate that changes in line with market rates.

**Yield**

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

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## **APPENDIX 2 - Prudential Indicators**

### **The Prudential Code**

**The current system of capital finance is CIPFA's Prudential Code.**

It is a professional Code of practice to support the decisions local authorities have to make to plan for capital investment at a local level. Authorities are required by regulation to have regard to the Prudential Code when carrying out their duties under Part I of the Local Government Act 2003 i.e. compliance with the Code is a statutory requirement.

### **Objectives of the Code**

The key objectives of the Code are:-

- To ensure within a clear framework that capital expenditure plans are affordable, prudent and sustainable
- That Treasury Management decisions are taken in accordance with good professional practice
- That local strategic planning, asset management planning and proper option appraisal are supported
- To provide a clear and transparent framework to ensure accountability

### **Prudential Indicators**

The indicators required are shown below, with further explanation as to their meaning:

#### **1(a). External Debt - Operational Boundary**

The most likely, prudent view of the level of gross external indebtedness. External debt includes both borrowing and long term liabilities (e.g. finance leases). It encompasses all borrowing, whether for capital or revenue purposes.

#### **1(b). External Debt - The Authorised Limit**

The upper limit on the level of gross external indebtedness, which must not be breached without Council approval. It is the worst-case scenario. It reflects the level of borrowing which, while not desired, could be afforded but may not be sustainable. Any breach must be reported to the executive decision making body, indicating the reason for the breach and the corrective action undertaken or required to be taken.

#### **1(c). External Debt - Actual External Debt**

The indicator for actual external debt will not be directly comparable to the operational boundary and authorised limit, since the actual external debt will

reflect the actual position at one point in time.

## **2. Financing cost to Net Revenue Stream**

The percentage of revenue budget set aside each year to service debt financing costs

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

The Capital Financing requirement (CFR) replaced the 'Credit Ceiling' measure of the 1989, Local Government and Housing Act. It measures an authority's underlying need to borrow or use other long-term liabilities, to pay for capital expenditure.

## **4. Capital Expenditure**

The level of capital expenditure incurred and likely to be incurred in future years. This is to be based on an accruals basis and on the definition of capital expenditure.

## **5. Incremental impact of Capital Investment decisions on Council Tax / Average weekly Housing Rents**

This shows the impact of new capital investment decisions included in the budget on the Council Tax and average weekly rent for HRA.

## **6. Gross External Borrowing and the Capital Financing Requirement**

The level of external borrowing is required to be compared to the Capital Financing Requirement which represents the underlying need to borrow. Requires that borrowing in the medium term can only be for capital purposes.

## **7. Adoption of CIPFA's Treasury Management Code of Practice**

CIPFA's Code of Practice for Treasury Management in the Public Services (the CIPFA Code) primary aim is to ensure that public services manage and control the risks attached to its treasury functions in an efficient effective and economic manner.

Accordingly the adoption of the Code has been encapsulated in Local Authorities (Capital Finance and Accounting) Regulations that call for explicit compliance with the CIPFA Code.

## **8. Interest Rate Exposures**

Recognition of the impact on revenue budgets of changes in interest rates as well as the need to ensure that local authorities maintain flexibility in their treasury strategy has resulted in the adoption of an interest rate exposure indicator.

This indicator sets out for the following three years an upper limit for both fixed rate and variable rate exposure.

## **9. Maturity Structure of Borrowing**

Local Authority debt portfolios consist of a number of loans with differing maturities. Setting limits assists in ensuring any new borrowing in particular when combined with existing borrowing does not result in large concentrations of borrowing maturing in a short period of time.

## **10. Principal sums invested for greater than 364 days**

This indicator measures the exposure of a local authority to investing for periods of greater than one year.

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### **APPENDIX 3 – Approved list of Counterparties (@ 31/12/14)**

	£	Duration
<b>Australia</b>		
Australia and New Zealand Banking Group	12m	2 years
Commonwealth Bank of Australia	12m	2 years
National Australia Bank	12m	2 years
<b>Canada</b>		
Canadian Imperial Bank of Commerce	12m	2 years
Toronto Dominion Bank	12m	2 years
<b>France</b>		
Credit Industriel et Commercial	10m	1 Year
Societe Generale	10m	1 Year
<b>Germany</b>		
Deutsche Bank	10m	1 Year
DZ Bank (Deutsche Zentral-Genossenschaftsbank)	10m	1 Year
Landesbank Baden Wuerttemberg	10m	1 Year
<b>Netherlands</b>		
Cooperatieve Centrale Raiffeisen Boerenleenbank (Rabobank Nederland)	12m	2 years
<b>Singapore</b>		
DBS Bank	12m	2 years
Oversea Chinese Banking Corporation	12m	2 years
United Overseas Bank	12m	2 years
<b>Sweden</b>		
Skandinaviska Enskilda Banken	10m	1 Year
Svenska Handelsbanken		
<b>Switzerland</b>		
UBS AG	10m	1 Year
<b>U.K</b>		
Barclays Bank	10m	1 Year
Close Brothers	10m	1 Year
Goldman Sachs International Bank	10m	1 Year
HSBC Bank plc	12m	2 years
Santander UK plc	10m	1 Year
Standard Chartered Bank	12m	2 years
Bank of Scotland	15m	2 Years
Lloyds Bank	15m	2 Years
Royal Bank of Scotland	15m	2 Years
Coventry BS	10m	1 Year
Nationwide BS	10m	1 Year
Local Authorities	15m	2 Years
Debt Management Agency Deposit Facility	n/a	6 Months

#### **Money Market Funds**

BlackRock ICS Sterling Fund	12m	Instant Access
Deutsche Managed Sterling Fund	12m	Instant Access
Fidelity GBP ICF	12m	Instant Access
Goldman Sachs Sterling Reserves Fund	12m	Instant Access
Ignis Sterling Liquidity	12m	Instant Access
Insight Sterling Liquidity Fund	12m	Instant Access
LGIM Sterling Liquidity Fund	12m	Instant Access
Northern trust sterling Government Liquidity Fund	12m	Instant Access
Royal Bank of Scotland Global Treasury Fund	12m	Instant Access

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## **CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD**

**AUDIT COMMITTEE: 19 January 2015**

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**INTERNAL AUDIT PROGRESS REPORT, Quarter 3, 2014-15  
REPORT OF THE AUDIT & RISK MANAGER**

**AGENDA ITEM: 8.1**

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**Appendices C and E of Annex 1 to the report contain exempt information as defined in Section 100(l) (1A) of, and paragraphs 14 & 21 of Part 4 of Schedule 12A to, the Local Government Act 1972 and are not for publication**

### **Reason for this Report**

1. To provide the Audit Committee Members with a quarterly briefing on the work of Internal Audit until the 31<sup>st</sup> December 2014. As agreed with Committee previously, a full update will be provided at 6 monthly intervals.

### **Background**

2. An Annual Audit Strategy/Plan is prepared each year which acts as a yardstick by which the work of Internal Audit can be measured. It is important that this allows for flexibility so that professional judgement can be applied to enable work to be prioritised over the life of the Plan in order to maximise the use of audit resources and add most value to the organisation in targeting changing risks.
3. The Audit & Risk Manager prepares quarterly briefings outlining the work undertaken by the audit teams and key performance information.
4. Progress reports are discussed with the Corporate Director Resources to provide her with a meaningful update of the work of the team and an opportunity to discuss changing priorities, this is then presented to the Audit Committee.

### **Issues**

5. The quarterly summary progress report is attached at Annex 1 for information.

### **Legal Implications**

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

### **Financial Implications**

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

### **RECOMMENDATIONS**

8. That the Committee note the report.

**DEREK KING**  
**AUDIT & RISK MANAGER**

Annex 1: Internal Audit Progress Report, Quarter 3, 2014-15



**RESOURCES DIRECTORATE  
INTERNAL AUDIT SECTION**

**Internal Audit Progress Report  
as at 31 December 2014**

**Content:**

Overview	Page 2
Appendix A - Reports Issued	Page 4
Appendix B - Follow up Actions - Limited Assurance Reports	Page 6
Appendix C - Executive Summary Reports	Page 8
Appendix D - Key Facts	Page 16
Appendix E - Internal (non-Benefit) Fraud Cases	Page 17



Prepared by: Derek J King, Audit & Risk Manager

## OVERVIEW

1. The Audit Strategy sets the scene for audit coverage for the year and the planned assignments have been set up in our audit planning, monitoring and control database. A report was produced at the end of September showing Plan v Actual comparisons and some slippage was reported. Audit priorities have continually been assessed and fundamental / high risk audits targeted. The Audit Plan was reviewed (Oct) and new priorities identified to maximise resources over the remainder of the year.
2. Members will be aware that there has been a reduction in Audit resources and reduced audit coverage, with increasing pressure to target an ever changing risk profile, in order to maximise the use of audit resources. A Senior Investigator retired in October as part of budget savings and the Senior Auditor (Computer Audit) left in November and this post is to be advertised.
3. Every effort has been made to target fundamental and high risk audits within the Audit Plan; however it is clear that not all will be started before the financial year end. This is partly due to less resources, some overruns on audits where we have identified issues that merit more sampling, some unplanned work and some system changes or pressures which suggest timing of the audit requires review. The table below shows the fundamental and high risk audits unlikely to be started before and comments as to why these have been delayed. Where appropriate, these will be prioritised as part of the Plan for 2015 -16.

<b>Audit</b>	<b>Comments</b>
Computer audits	The Council's Computer Audit specialist left the authority in November 2014 and has not yet been replaced. Every effort will be made to complete the audits that had been started, but some will carry forward to 2015/16. Work is ongoing to seek assurances from other sources.
Contract audits	A number of contract audits are underway. Priority has been given to follow up audits but some planned audits have been replaced by those requested by senior officers or where issues have been identified which merit attention.
Children's Services grants and SLAs	This has been amalgamated with another audit.

## AUDIT

4. Audit Reports issued over the past 3 months are shown at **Appendix A** and four Executive Summary Reports for those audit opinions where Limited Assurance was assessed is shown at **Appendix B**.
5. **Appendix C** shows an updated record of all follow up audits and **Appendix D** some key facts around client feedback and fraud statistics.
6. **Appendix E** provides an overview of new internal fraud referral cases.

## GOVERNANCE & RISK

7. The Corporate Risk Register (CRR) 2014/15 mid year position was reported to Senior Management Team, thereafter December Audit Committee and Cabinet.
8. The Audit & Risk Manager provided Risk Management training to Cabinet in November, further training sessions have been planned for Scrutiny members in January.
9. A meeting of the Risk Management Steering Group was held in December, the group consider the strategic direction of the management of risk within the Council. The December meeting focused on the Council's Risk Appetite and Partnership Governance.

## PROGRAMME & PROJECTS AUDITING

10. Good progress has been made in Quarter 3 in relation to Programme & Projects Auditing. The new Senior Programme & Projects Auditor commenced in September, and is finalising a review of the Independent Living processes. Further PQA Project Management training has been provided through the Cardiff Academy, and the team is taking forward the Corporate pilot of SharePoint as the Council's Electronic Document & Record Management System whilst carrying out a pre-go-live Audit of the SharePoint/EDRMS Project.

### Reports Issued in Quarter since last reported (as at December 2014)

Audit Area	Audit Opinion	High Risk Recommendations		Comments
		Proposed	Agreed	
<b>Fundamental / High</b>				
Children with Disabilities	Limited assurance	7	7	21 recommendations
Sponsorship Arrangements	Limited assurance	3	3	12 recommendations
Duplicate Payments	Satisfactory	0	0	
Rent setting	High assurance	0	0	
Invest to Save	Satisfactory	0		Draft report issued
Casual staff	Satisfactory	1		Draft report issued
Pool cars	Limited assurance	1		Draft report issued
<b>Medium</b>				
Student Awards	Satisfactory	0	0	
Caretaking and Cleaning	Satisfactory	3	3	
Leisure Centre – income	Satisfactory	0	0	
Marlborough Primary School	Satisfactory	0	0	
City Centre TIC	Satisfactory	0	0	
Llysfaen Primary School	Satisfactory	1	1	
Independent Living Project	Satisfactory	0		Draft report issued
Pen y Bryn Primary School – theft	Limited Assurance	8		Draft report issued
<b>Grants / Accounts / External Bodies</b>				
Homelessness grant	Satisfactory	0	0	
Neighbourhood Fund	Satisfactory	0	0	
School uniform grant	Satisfactory	0	0	
Cardiff Further Education Trust Fund	Satisfactory	0	0	
<b>Follow-ups</b>				
Safeguarding & Review – Core Group process (2 <sup>nd</sup> follow up)	Limited assurance	4	4	10 recommendations



Audit Area	Audit Opinion	High Risk Recommendations		Comments
		Proposed	Agreed	
Direct Payments (CH&CS)	Satisfactory progress	0	0	
Highways Street Operations payroll	Limited assurance	0	0	17 recommendations
St. Alban's RC Primary School	Satisfactory progress	1	1	
Commercial Catering	Satisfactory progress	0	0	
HB / self employed assessments	Satisfactory progress	1	1	
ICT Business Continuity Planning	<i>Satisfactory progress</i>	0		<i>Draft report issued</i>
Receipt, custody and opening of tenders	<i>Satisfactory progress</i>	0		<i>Draft report issued</i>
Brindley Road stores	<i>Limited assurance</i>	2		<i>Draft report issued</i>

## Follow up Actions - Audits with Limited Assurance Audit Opinions

All audits where Limited opinions are assessed are monitored closely and follow up prioritised. Every effort is made to revisit these after 6 months but it is important to recognise some recommendations may take time to implement so the review needs some flexibility. We have identified the following audits with unsatisfactory scores and all are at different stages of follow up. Those satisfactorily actioned are removed from the list. Some of the high risk and high profile audits are detailed below.

Audit	Audit Plan Risk Rating	Reported as Final	Comments
<b>Not Yet Due</b>			
Sponsorship Arrangements	High	11.11.14	Executive summary to January 2015 Audit Committee.
Children with Disabilities	High	09.10.14	Executive summary to January 2015 Audit Committee.
Highways Street Operations Payroll	High	26.10.11	Unsatisfactory audit opinion reported.
P a r t o f a n n u a l r e v i e w & Review - Core Group process		08.10.14	Follow up undertaken but only limited assurance can be given. Executive summary to January 2015 Audit Committee.
		15.11.10	Unsatisfactory audit opinion reported.
		21.10.13	Follow up undertaken but only limited assurance can be given.
Rumney High School	High	29.09.14	Follow up undertaken but only limited assurance can still be given. Executive summary to January 2015 Audit Committee.
	Medium	15.01.13	Discussions held with incoming (from September 2014) Finance Manager. RR and SAP to meet with him 10.06.14 and visit to school booked for 25.06.14.
	Medium	26.08.14	The follow up audit showed that only 2 of the original 21 recommendations had been implemented. Limited assurance given and the Group Auditor attended a meeting of the temporary governing body on 24.09.14. A further follow up audit will be undertaken in Q4.
Glyn Derw Michaelston Federation	Medium	19.06.14	Executive summary presented to Audit Committee (September 2014). <b>Audit management attended GB meeting on 17<sup>th</sup> December 2014.</b>
Supporting People	High	11.06.14	Executive summary presented to Audit Committee (September 2014). <b>Follow up assigned for Q4.</b>
Ysgol Bro Einwg	Medium	06.05.14	Executive summary presented to Audit Committee (June 2014). <b>Fieldwork on-going, December 2014.</b>
Brindley Road Stores	High	14.04.14	Executive summary presented to Audit Committee (June 2014). <b>Draft report to follow up audit issued (Q3). Only limited assurance can still be given.</b>
Ysgol Pen y Pili	Medium	08.04.14	Executive summary presented to Audit Committee (June 2014). <b>Fieldwork on-going, December 2014.</b>
St. Joseph's Primary School	Medium	11.05.12	Group Auditor met Chair of Governors and Acting Headteacher on 17.10.12. Visit to school postponed due to illness of Acting Headteacher and rearranged for May 2013. Meeting held with the Executive Headteacher and audit undertaken in October 2013.

Audit	Audit Plan Risk Rating	Reported as Final	Comments
			Draft report issued December 2013. Some improvements noted but further follow up required.
		06.02.14	Some improvements noted, but further follow up is required and has been scheduled for Q2, 2014/15. See Executive Report (March 2014). <b>Fieldwork on-going, December 2014.</b>
Direct Payments	High	20.12.12 16.12.13	The original report was satisfactory. However, the final report for follow up issued in Q3 which indicated that improvement is needed on new issues. Follow up undertaken but only limited assurance can be given. Executive summary presented to Audit Committee (January 2014). <b>Follow up assigned for Q4.</b>
<b>On-going</b>			
Payroll Overpayments	High	20.12.12 02.01.14	A further follow-up has been undertaken and there are still improvements needed. See Executive Report (March 2014). <b>Fieldwork on-going Q3.</b>
Investigation into procurement and contract administration practices	High	20.05.13	Assigned for Q1, 2014/15. Meeting held with the Operational Manager for Facilities Management and all recommendations relating to that area have been either implemented or superseded by the introduction of the Category Management arrangements. <b>Ongoing work to seek assurances regarding Education.</b>
Receipt, custody and opening of tenders	High	02.09.13	Discussions ongoing. Potential review of Rules. <b>Draft report issued Q3 and satisfactory progress noted.</b>
Variation Orders	High	31.03.12	Discussions ongoing. Potential review of Rules. Follow up assigned for Q1, 2014/15. <b>Follow up on-going.</b>
Framework Agreements	High	19.03.12	Discussions ongoing. Potential review of Rules. <b>Follow up on-going.</b>
Community Maintenance Services	High	18.11.11	Further testing was postponed due to service delivery changes. <b>An audit is on-going in Q3, 2014/15.</b>
IT Business Continuity Planning	High	18.06.12	Discussions ongoing with ICT. Head of ICT attended Audit Committee in January 2014 and provided assurances, and the audit is on-going in Q3, 2014/15. Initial indications are that the majority of the recommendations have been implemented and ICT are actively progressing the remaining recommendations. <b>Draft report issued Q3.</b>

**Closed (satisfactory progress)**

Adult Services Direct Payments  
Commercial Catering

St. Alban's Primary School  
Housing Benefit – Self employed persons



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## KEY FACTS – up to end of December 2014

AUDIT RECOMMENDATIONS		Proposed	Agreed
<b>No. of Recommendations *</b>		<b>596</b>	<b>586</b>
<b>No. of Risks:</b>	<b>Red</b>	95	92
	<b>Red/Amber</b>	279	276
	<b>Amber/Green</b>	211	207
	<b>Green</b>	11	11
<b>% Agreed</b>			<b>98%</b>
AUDIT QUESTIONNAIRES		Detail	
<b>No. of Questionnaires Sent:</b>		46	
<b>No. of Questionnaires Received:</b>		40	
		<b>Excellent</b>	66%
		<b>Good</b>	32%
		<b>Satisfactory</b>	2%
		<b>Unsatisfactory</b>	0%
<b>Return Rate:</b>		<b>87%</b>	
<b>Business Plan Target Return Rate:</b>		<b>66%</b>	
<b>Satisfaction Rating:</b>		<b>100%</b>	
FRAUD		Comments	
<b>No. of Referrals Received:</b>		4 interviews under caution	
- Blue badge	7		
- Council tax liability	78		
- Council tax reduction	61		
- Employees	40		
- Housing	4		
- NNDR	1		
- Non receipt of cheques	3		
REPORTING UPDATES		No. of 'Open' Audits on CIS	Comments
<b>2014-15</b>		18	Regularly monitored. Note that some recommendations take time to implement e.g. IT investment or new delivery model.
<b>2013-14</b>		13	
<b>2012-13</b>		5	
<b>2011-12</b>		0	
<b>2009-2011</b>		1	

\*\* including follow up work but excluding grants

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# CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD

**AUDIT COMMITTEE:**

**19 January 2015**

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## REPORT OF AUDIT & RISK MANAGER

**AGENDA ITEM: 8.2**

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### VALUE FOR MONEY AUDITS

#### Reason for this Report

1. To provide Members with an update on three value for money studies reported previously to Audit Committee, namely, agency spend, standby payments and home to office vehicle usage.

#### Background

2. In 2013 / 14 the Audit & Risk Manager reported to Senior Management on the work Internal Audit had undertaken on three value for Money exercises. Follow up work has been undertaken in these areas to assess progress.

#### Issues

3. Appendix A attached provides an updated position regards the three value for money exercises.
4. The Agency Managed Framework (Comensura) audit review identified weaknesses in internal controls which resulted in an overall assessment of "*limited assurance*". The Audit & Risk Manager emailed all Directors at the time of the initial review regarding the high spend on agency staff and the figures shown in the attached tables shows a significant reduction, although use of agency staff is still high in some directorates. The current position is outlined in the attached together with next steps. With regard to controls, enhancements were made to systems following the audit and improvement noted, although as the attached note suggests, there is still an issue with approving auto approved timesheets and Directors have been contacted regards the need to address this.
5. The Standby Payments review showed little change to reported figures for the previous year, in fact a slight increase was noted from 2012-13. Assurance will continue to be sought, through the Audit Relationship meetings with each Director,

4.CTC.CS.018	Issue 1	Date: Jan 13	Process Owner: Committee & Member Services Manager	Authorised: Deputy Committee & Member Services Manager	Page 1 of 2
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that these levels of spend are appropriate, sustainable and are being reviewed and effectively challenged.

6. It is acknowledged with a wide and diverse range of services that officers are required to be “on standby” outside normal office hours but 338 officers receiving payments is high and it is felt that there does seem to be potential for savings, if a more “joined up” corporate approach was adopted and this option should be explored by Directorates.
7. There has been slow progress regards Home to Office vehicle usage given the need to develop a corporate solution, but it is expected that a new process will be signed off soon and introduced to ensure a business case exists for vehicles driven back and for from home. It is positive that a Transport Working Group has been formed with all Directorates being represented and this matter along with many others around fleet management and driving standards is being progressed.

### **Reasons for Recommendations**

8. To provide Members with an update on ongoing work on value for money work..

### **Legal Implications**

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

### **Financial Implications**

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

### **Recommendations**

11. Members note the report.

**Derek King**

**Audit & Risk Manager**

**Date 19 January 2015.**

Appendix A – Briefing update

4.CTC.CS.018	Issue 1	Date: Jan 13	Process Owner: Committee & Member Services Manager	Authorised: Deputy Committee & Member Services Manager	Page 2 of 2
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## **Agency Managed Service (Comensura) Update January 2015**

### **Initial Audit Review (July 2013)**

Internal Audit carried out a high level review of the Council's agency managed service during spring 2013 and submitted an Audit Report and Action Plan, with several recommendations for improvement, to the Corporate Chief Officer (HR People Services) in July 2013. This review highlighted several weaknesses to internal controls including a lack of documented procedures, poor segregation of duties and limited controls on the extension of agency placements. It also identified that a significant number of agency worker timesheets were not being 'user-approved' by managers to confirm their accuracy and authenticity, which left a significant amount of expenditure un-approved on a weekly basis.

In addition, Audit raised concerns to management over whether value for money was being achieved, with particular attention focussed on the high number of agency workers engaged, individual agency placement pay rates and the overall expenditure on agency workers.

### **Response to Initial Audit Review (Post July 2013)**

Both during and since this review, Internal Audit has worked closely with HR People Services to improve controls, and it is noted that significant improvements have been made in several areas. Management have instigated actions to address audit concerns around high rates of pay and lengthy assignments and these are both now subject to a degree of scrutiny. A new Agency Workers Policy was published in October 2014 and issues regarding segregation of duties are being gradually improved by the Agency Managed Service Manager.

Internal Audit wrote to all Directors individually in July 2013 to seek assurances that both the number of agency workers engaged within their Directorates and the rates being paid were offering the Council value for money. Audit sent similar follow-up emails in September 2013 to newly appointed Directors and non-respondents from the initial email.

### **Follow Up Exercises (May and November 2014)**

Audit undertook follow up exercises in both May and November 2014. The snapshot analysis carried out in November compared the most recent data from October 2014 to figures from the original review (June 2013 figures).

Overall, this showed a 26% (£347,000) reduction in expenditure on agency workers since June 2013 (see table 1) with most Directorates achieving significant reductions in expenditure. No increases in expenditure were noted for any directorate, although Education figures did remain static at £27,000.

In terms of auto-approvals, 12.4% of all timesheets were auto-approved in September 2014, equating to a value of £142,000 for the month (see tables 2 & 3). In comparison, the initial review highlighted that 8.4% of timesheets were auto-approved totalling £239,000 for the month. This indicates that although the overall number and value of timesheets being auto-approved is reducing, this is primarily due to the reduced number of overall timesheets being processed, rather than an improvement in the number of manager reviews of timesheets. The

percentage of timesheets being auto-approved has actually increased in comparison with June 2013.

Audit raised its concerns at the continuing high levels of auto-approvals in targeted emails to three Directors in November 2014. Directors were provided with a list of ordering managers within their area who failed to approve timesheets for agency workers in September 2014 and were urged to ensure managers approve / reject agency workers timesheets on a regular basis, therefore ensuring that all agency worker timesheets are accurate and expenditure is valid. Response has been positive.

These emails also sought further assurances from Directors that the current levels of agency workers and expenditure within their Directorates remained both necessary and sustainable, and therefore provided the Council with value for money.

**Table 1**

<b>Expenditure on Agency Workers by Directorate</b>	<b>2014 October (£000)</b>	<b>2013 June (£000)</b>	<b>Total Variance (£000)</b>	<b>Increase / Decrease (%)</b>
Children's Services	228	251	-23	-9%
Communities, Housing & Customer Services	17	70	-53	-76%
Education	27	27	0	0
Environment	357	449	-92	-20%
Health & Social Care	111	159	-48	-30%
Sports, Leisure & Culture	239	249	-10	-4%
Strat Planning, Highways & Transport	1	36	-35	-97%
Resources	29	111	-82	-74%
Economic Development	0	4	-4	-100%
<b>Grand Total</b>	<b>1,009</b>	<b>1,356</b>	<b>-347</b>	<b>-26%</b>

**Table 2**

<b>No. of Timesheets Auto Approved</b>	<b>2014 Sept</b>	<b>2013 June</b>
Auto Approved	463	490
User Approved	3,272	5,086
<b>Grand Total</b>	<b>3,735</b>	<b>5,576</b>

<b>Auto Approval %</b>	12.4%	8.8%
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**Table 3**

<b>Value of Timesheets Auto Approved by Directorate</b>	<b>2014 Sept (£000)</b>	<b>2013 June (£000)</b>	<b>Variance (£000)</b>	<b>Increase/ Decrease (%)</b>
Children's Services	35	149	-114	-77%
Communities, Housing and Customer Services	5	12	-7	-58%
Education	5	0	+5	+100%
Environment	10	10	0	0%
Health and Social Care	44	5	+39	+780%
Resources	9	21	-12	-57%
Sport, Leisure and Culture	34	42	-8	-19%
Other	0	0	0	0
<b>Grand Total</b>	<b>142</b>	<b>239</b>	<b>-97</b>	<b>-41%</b>

## **Next steps**

Audit will continue to monitor this spend and challenge Directors on any trends to seek assurance on value for money.

There has been a positive response to emails sent out to Directors regards the non approval of auto approved time sheets but Audit will continue to analyse these, in value and number, and continue to challenge Directors accordingly.

## **Standby Payments – Update January 2015**

### **Background & Context**

Standby arrangements enable a pool of employees within Directorates to be available to respond to a variety of service requirements outside their normal working hours at relatively short notice. The standby payment rate is standardised at £27.78 per session for all staff subject to the single status collective agreement.

### **Initial Audit review (August 2013)**

The review recommendations, reported in August 2013, focussed on the need for policy changes and the opportunity to reduce the cost of standby arrangements to the Council. Directorates have provided Internal Audit with details of their individual reviews of standby arrangements but a corporate review has not been undertaken.

For the financial year 2013-14 stand by payments were made to 295 officers totalling a value of £588,842. The numbers per directorate varied between 1 to 73, with Strategic Planning Highways and T & T (73) Communities, Housing and Customer Services (73) and Heath & Social Care (69) amongst the highest in number of officers paid.

### **Current Position**

It is noted that many of the audit recommended improvements were introduced as part of a revised Standby and Recall to Work Policy and Procedure being introduced.

Standby costs for the financial year 2014/15 of circa £595k are projected, based on the costs incurred in the year to date. This is comparable with the standby costs for the prior financial year of £589k, in fact showing a slight increase.

There have been 338 standby payment recipients in the current financial year to date, an increase on the 295 recipients of standby payment in the financial year 2013/14.

Internal Audit continues to provide Directors with the latest stats and recommend they be constantly reviewed in light of changing service delivery arrangements.

## **Next steps**

Clearly with a wide range of services requiring a response 24 hours a day there is a need for having stand by arrangements in place, but as new models of working are developed it is important this role is carefully considered.

Audit will therefore continue to monitor the overall level of spend and numbers and update Directors with their statistics and challenge the value for money aspect of the level of payments being made.

Although many Directorates have reported completing their own standby reviews, there is scope for Directorate collaboration, to identify areas of responsibility and standby arrangements which could be shared. This could provide an opportunity to further reduce standby costs. This will be recommended to Senior Management team to consider again.

## **Home to Office – Update January 2015**

### **Background & Context**

Following an audit in Communities and Housing in 2013, it was highlighted that some Council vehicles were being provided for home to office travel where the business case for this was questionable. There were obvious savings to be made by reviewing business cases for some home to office travel.

The matter was raised with the Director at the time, as part of a wider audit report, who agreed that this was an area that required further consideration and that there were potential savings to be made. She felt however that it would be inappropriate for her to act in isolation and that a corporate policy and approach was required.

The directorate did some work of their own on this and identified a significant cost of fuel being used for home to office travel (54%) and agreed vehicles were not being effectively managed.

A policy was drafted and presented to Senior Management team earlier this year and whilst there was acceptance of the issues it was felt other options e.g. Charging for home to office mileage should be explored. The Council is introducing and expanding mobile working and it was thought to be important that any home to office travel was considered in context.

The Transport Manager research has identified no “one fits all” solution for charging and the matter is still under consideration but it has been agreed in order to address the potential inefficient use of Council assets e.g. council vehicles provided for home to office, that the policy is being reviewed and updated with the first step for Directors to undertake a review and prepare a business case for each vehicle provided for home to office use. It should be noted a number of these are travelling significant distance beyond the city boundary and so there are savings to be made once business cases have been considered. .

A Transport Group has now been established, with representatives attending from all directorates, which provides a useful forum for discussing a wide range of transport fleet and driver related matters and a new transport policy is being drafted. Home to Office is regularly discussed within this group and there is a commitment to drive out efficiencies in this area along with savings, from reducing the number of vehicles and associated fuel costs etc.

### **Next steps**

From April 2015 business cases will be required to be considered for all vehicles used for home to office travel. A standard form has been prepared for this.

Once this has been completed a sample will be reviewed and further consideration will then be given to examining further opportunities for charging for the use of vehicles for home to office travel. This will need to be captured in work the Transport Group are undertaking to refresh the Council's Transport policy, which will require wider consultation.



Topic	Monday 08.12.14 at 2.00pm (CR4)	Monday 19.01.15 At 2.00pm (CR4)	Monday 23.03.15 at 2.00pm (CR4)	Monday 22.06.15 at 2.00pm (CR4)
Wales Audit Office		Self Assessment Exercise & Finance Service Review discussion	Annual Financial Audit Outline	Annual Improvement Report
	Corporate Assessment Update	Corporate Assessment Update	Corporate Assessment Update	Corporate Assessment Update
			Code of Audit Practice & Statement of Practice	Regulatory Prog. Update & Fee information 2015/16
Treasury Management	Performance Report	Performance Report	Performance Report	Performance Report
	Half Year Report	Strategy 2015/16	Treasury Management Practices 2015/16	
Finance	Budget Update	Budget Update	Budget Update	Budget Update
				Draft Statement of Accounts for 2014/15
Internal Audit	Half Yearly Progress Report	Qtr. 3 Progress Update	Qtr. 4 Progress Update	Qtr. 1 Progress Update
		VFM Audits	Audit Strategy	Internal Audit Annual Report 2014-15
				Benchmarking & Comparative Data Matching
Governance and Risk Management	Organisational Development Plan (Cllr Bale/Chief Executive/M Hamilton)		Draft Annual Governance Statement	Annual Governance Statement
		Audit Committee Annual Report Discussion	Audit Committee Draft Annual Report	Audit Committee Annual Report
	Audit Committee Annual Self Assessment Review 2013-14	Audit Committee Self Assessment Exercise	Audit Committee Self Assessment Feedback/Action Plan	
	Corporate Risk Register			Corporate Risk Register
	Information Governance Audit Report	Senior Management Assurance Statement Review		
	Reflecting on Good Governance			
Operational matters / Key risks	Bridges & Structures	Risk & Challenges (Director Strategic Planning, Highways and Traffic & Transport)	Property and Procurement Delegations - effectiveness of new arrangements	Education - Annual Report on Governance in Schools (Director)
			Invest to Save - Value for Money	Attendance and Wellbeing Policy - Annual Sickness Absence Update
				PPDR Annual Update

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