

## AUDIT COMMITTEE

30 JANUARY 2018

Present: Ian Arundale(Chairperson)  
Gavin McArthur, David Price, D. Hugh Thomas

County Councillors Bale, Cowan, Cunnah, Howells, Lay,  
Dianne Rees and Singh

### 56 : APOLOGIES FOR ABSENCE

Apologies were received from Councillor McGarry.

### 57 : DECLARATIONS OF INTEREST

The following declarations of interest were made in accordance with the Members' Code of Conduct:

Councillor Howells	Item 6	School Governor
Councillor Cowan	Item 6.2	Chairman of Governing Body Greenhill School

### 58 : MINUTES

The minutes of the meeting held on 28 November 2017 were approved by the Committee as a correct record and were signed by the Chairperson.

### 59 : OPERATIONAL MATTERS

At its meeting on 28 November 2017 the Committee requested that it receive an update on governance and control in Social Services. The update was also to provide assurance on the implementation of the recommendations made by Internal Audit.

The Committee received a report summarising the service area's management and mitigation against both Directorate and Corporate risks; an overview of the assurances set out in the Senior Management Assurance Statement; and details of the monitoring and implementation of recommendations made in reports received from Internal Audit.

The Chairperson welcomed Tony Young, Director of Social Services, to the meeting. Members were invited to raise questions or comment on the information set out in the report. Those discussions are summarised as follows:

- Members asked whether the Directorate has key risk indicators and how they are used. The Director stated that the Directorate has a long list of key performance indicators, as required by legislation such as the Social Services and Wellbeing Act. Members were advised that most of the indicators are new as the previous regime has been replaced. Therefore, in the short-term, it is more difficult to benchmark but this will improve in future years. The performance indicators are

wide-ranging and sophisticated.

- A Member asked whether there were any linkages between the indicators and the Directorate and Corporate Risk Registers. The Director confirmed that the indicators apply to a wide-range of interrelated issues. For example, an indicator relating to child protection conferences is linked to the Safeguarding risk on the Corporate Risk Register.
- A Member asked whether a potential risk related to a recent Court ruling in which the Court ruled that carers should be paid minimum wage for 'sleepover' hours and for such payments to be backdated. The Director stated that this risk has been taken account of in terms of financial planning.
- Members asked the Director to comment on the quality and relevance of the recommendations in Internal Audit reports. The Director stated that the directorate works in tandem with colleagues in Internal Audit and that the quality of the reporting is good and is challenging. Discussions primarily centre upon timing or timescales, rather than concerns about whether recommendations are to be delivered. The Director advised that the directorate's management teams take ownership of, and are responsible for, delivering Internal Audit recommendations. The Director confirmed that he is personally aware of the content of reports which are also kept under regular review.
- Members were advised that there is one Risk Management Structure for the Social Services directorate and there are no 'sub-structures' within each team in the directorate.
- Members asked the Director to comment on the transition arrangements in terms of the senior management structure. Members were advised that the process of recruitment is ongoing. The Director will meet with the appointed individual at an early stage to discuss handover arrangements and ensure stability and continuity.
- A Member asked whether any additional support was in place throughout the transformation period. The Director indicated that the Institute of Public Care was providing assistance and advice in four areas: Community Rehabilitation – re-ablement; Accommodation Strategy for Older People; Adult Services – assessment; and the development of a regional strategy for children with learning difficulties.
- Responding to a question from a Member of the Committee concerning the process for testing and challenging his statutory Annual Report, the Director confirmed that the directorate recognises that challenge from third sector partners was not working well and this needs to be tackled differently.
- The Head of Finance agreed to review advice in respect of appendices exempt from publication.

RESOLVED – That the report be noted.

Finance

60 : FINANCE UPDATE INCLUDING RESILIENCE ISSUES

The Committee received an update on the Council's financial position. The Corporate Director Resources presented the report.

The report included a summary of the Month 6 monitoring position. A balanced position was reported at Month 6 and it was not anticipated that the position would change significantly. A further report, which will detail the Month 9 monitoring position will be received by the Committee on 27 March 2018.

The Month 6 revenue monitoring position showed a balanced position against the budget, and an improvement of £883,000 compared to the Month 4 position. The improvement reflected management actions introduced to control expenditure together with in-year targeted savings. There was also a further increase in NDR refunds on Council properties.

Directorate budgets were projected to be overspent by £4.956 million with overspends in Social Services, Economic Development and Education and Lifelong Learning. These were partly offset by underspends and by the £3.0 million general contingency budget provided as part of the 2017/18 budget.

Members were further advised that November's Budget Consultation Report identified a budget gap of £22.8 million for 2018/19. The report set out the 2018/19 budget proposals for consultation and included savings of £14.3 million. Consultation on the budget proposals ran from 2 November to 14 December 2017 and the results have been analysed for Cabinet to consider.

The Welsh Government's Final Local Government Settlement was announced on 20 December 2017. It set out a cash increase of 0.9% for Cardiff, equating to an additional £3.080 million cash improvement on the provisional settlement. Members were asked to note, however, that taking into account additional new responsibilities, the cash position is eroded to £2.426 million. Further clarity is still required in relation to specific grant information, notably the Education Improvement Grant.

Members were advised that the budget reduction requirement is undergoing further review. The final draft proposal will be presented at Cabinet on 15 February 2018, for subsequent consideration and approval by Council. The Corporate Director Resources agreed to circulate a link to the Cabinet report to all Members of the Committee as soon as it is available.

Members sought clarification of the additional new responsibilities referred to in the report. Officers indicated that the new responsibilities related to Homelessness Prevention and an increase in the cap at which citizens start to pay for residential care.

RESOLVED – that the financial information and the process being adopted in respect of budget preparation for 2018/19 and the medium term be noted.

61 : NEW FINANCIAL PROCEDURE RULES AND NEW CONTRACT  
STANDING ORDERS AND PROCUREMENT RULES

The Committee received for information a report on the update of the Council's Financial Procedure Rules and Contract Standing Orders and Procurement Rules that is currently underway.

Members were advised that the Financial Procedure Rules and Contract Standing Orders and Procurement Rules were last subject to a full review over five years ago. It is important that both documents are fit for purpose and reflect the current statutory and best practice requirements. Officers from Resources and Governance and Legal Services have reviewed and updated the provisions within each document.

The Committee received presentations on the review of the documents, highlighting the key changes.

The Chairperson advised that Members of the Committee are to be consulted and given an opportunity to comment on the proposed revisions to these documents.

RESOLVED – That the report be noted.

Internal Audit

62 : PUBLIC SECTOR INTERNAL AUDIT STANDARDS

The Head of Finance presented a report on the Public Sector Internal Audit Standards (PSIAS). Members were advised that PSIAS require that external assessments must be conducted at least once every five years by a qualified independent assessor. Cardiff's assessment was carried out by the Chief Audit Executive of RCT and the report provided Members of the Committee with an update on the assessment.

The Chief Audit Executive from RCT met with various officers from the Internal Audit Section and reviewed the supporting information provided to him. The assessment considered that the narrative produced as part of the self-assessment was comprehensive, with references to documentary evidence to support the assessment. The self-assessment had already identified areas where improvements could be made. The Chief Audit Executive of RCT agreed that these were not considered to be significant deviations from the PSIAS.

The assessment identified a small number of points to be considered further. The Chief Audit Executive will present the report to the Committee at the meeting in March 2018.

63 : INTERNAL AUDIT PROGRESS REPORT 2017/18

*This report contained exempt information of the description in paragraphs 14 and 21 of Schedule 12A of 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.*

*The following declarations of interest were declared in accordance with the Members' Code of Conduct:*

*Councillor Cowan  
Councillor Howells*

*Chair of Greenhill School Governors  
School Governor*

The Committee received the Internal Audit Progress Report 2018/19. The report was prepared to provide Members with an update on the work of the audit team as at 31 December 2017.

The Head of Finance presented the report and summarised some of the key points. Members were advised that to date 34% of the audit plan has been completed, and a further 53% would be completed by the end of the financial year. Progress to date shows that 44% of the recommendations agreed have been implemented. There were no unsatisfactory audits as yet.

A further report on completed audits would be presented at the March meeting of the Committee.

A Member asked whether an increase in thresholds, requiring a greater onus on assurance, was an issue for audit planning. The Head of Finance stated that there were links to the Audit Plan. The Member considered that if the Audit Committee was assured that the Internal Audit functions are operating properly then there is no reason why thresholds could not be set much higher. The Head of Finance noted that the consultation on Financial Procedure Rules and Contract Standing Orders gave the opportunity for that comment to be given and for it to be considered.

RESOLVED – That the report and the proposed changes to the Audit Plan for 2017/18 to address the shortfall in audit days be noted.

#### 64 : INVESTIGATION TEAM

The Committee received an update report from the Internal Audit Investigations Team.

Members were asked to note that the CIPFA Count-fraud Benchmarking Club compared data from a number of local authorities. The Cardiff Count-fraud function cost per £m gross turnover is £125 compared to the group average of £175. The number of investigations completed during 2017/18 exceeds the total for the same period last year.

There are currently 37 ongoing investigations, 54% of which related to Council Tax Liability. Other investigations are primarily related to employees and ongoing disciplinary matters and potential suspected fraud.

RESOLVED – That the report be noted.

#### 65 : DRAFT INTERNAL AUDIT CHARTER 2018/19 AND DRAFT AUDIT PLAN 2018/19

The Committee received the draft Internal Audit Charter for 2018/19 and the draft Audit Plan for 2018/19. Members were asked to consider the documents and provide comments.

The Head of Finance advised that the amendments to the Internal Audit Charter were set out in Annex 1 of the report. Comments on the report were invited from Members of the Committee.

Referring to paragraph 6 of the Internal Audit Charter, a Member suggested that the phrase 'All employees are requested' be amended to 'All employees are required'. This would strengthen the Charter and ensure staff are aware that they are required to assist internal audit. The Head of Finance agreed to amend the Charter accordingly.

The Committee noted that the Internal Audit Strategy included at Appendix D to the report included a list of objectives relating to the delivery of the Internal Audit function. It was suggested that consideration be given to how those objectives may be measured.

Members also requested stronger evidence that the identification of future Internal Audit Plan priorities are linked to risk management.

The Head of Finance welcomed the comments and feedback from the Committee.

RESOLVED – That the report be noted.

#### Governance and Risk Management

#### 66 : SENIOR MANAGEMENT ASSURANCE STATEMENT REVIEW

The Committee receive a report providing a summary of the completed Senior Management Assurance Statements (SMAS's) for the mid-year position in the financial year 2017/18.

Members were advised that each Director considered their position against 23 assurance statements. These final directorate positions were informed by engagement with and review by their respective members of their management teams. The results of the statements summarised within 9 categories were appended to the report at Appendix A. The results indicate an overall 'strong' application of good governance across assurance areas.

RESOLVED – That the report be noted.

#### 67 : AGS 2017/18 ACTION PLAN (MID YEAR)

The Head of Finance presented an update report on the Annual Governance Statement (AGS) 2017/18 Action Plan (Mid-Year). Members were reminded that in May 2017 the Senior Management Team agreed to carry forward three governance issues forward to the 2017/18 action plan. The three issues were:

- Capacity and Decision-making
- Commissioning Capability and Capacity
- Relevant Costs and Decision-Making

In addition, two further governance issues were identified during the self-assessment process, namely:

- Partnership Collaborative Governance
- Robust and Sustainable Saving

The report provided a description of each of the governance issues and their mid-year assessment.

RESOLVED – That the report be noted.

## 68 : DRAFT CODE OF CORPORATE GOVERNANCE

The Committee received a report on the draft Code of Corporate Governance. Members welcomed Davina Fiore, Director of Legal, Governance and Monitoring Officer to the meeting.

Members were advised that the authority is taking the opportunity to regularise its governance arrangements by putting in place a Code of Corporate Governance. This Code is a benchmark that can be used to promote undertaking and engagement as one of the key principles of local government. This Code has been developed in three parts: how we apply principles of good governance; how we assess governance in Cardiff Council; and how we use our governance assessment.

Part 1 of the Code sets out seven good governance principles and includes a statement of intent and an explanation of how each principle is to be applied. Part 2 sets out the approach to gathering the relevant information upon which to reach a corporate position on the health of governance in the Council. Part 3 sets out how the Annual Governance Assessment is used to make any necessary improvements as a result of the assessment, to track these improvements, and ensure that functions of assurance have regard when undertaking assessments.

The Director invited comments on the draft Code of Corporate Governance. Those discussions are summarised as follows:

- Members welcomed the draft Code of Corporate Governance.
- A Member asked whether complaints could be referred to an independent Q.C. The Monitoring Officer advised that complaints against Members were likely to be referred to the Ombudsman. Complaints against officers are considered against the Officers Code of Conduct and the terms of their contract of employment.
- It was noted that the Whistleblowing Policy did not apply to elected Members. The Monitoring Officer accepted this point and stated that the Whistleblowing Policy was primarily used by junior members of staff.
- Members considered that in terms of openness and stakeholder engagement great value and importance is placed on the webcasting of meetings.
- Members considered that officer disclosure requirements in terms of hospitality and declarations of interest need to be aligned with the policies for Members and

that the registers should be made publicly available. The Committee was advised that the Standards and Ethics Committee has included this issue on its work plan.

RESOLVED – That:

- (1) The report and the Committee's comments thereon be noted;
- (2) the Constitution Committee and full Council to agree the Code of Governance and include it in the Constitution.

## 69 : DRAFT RISK MANAGEMENT STRATEGY

Following a review of the Council's approach to risk management during 2017, the Committee received a report on a revised Draft Risk Management Strategy and Policy and Members were asked to review their adequacy and effectiveness, prior to their implementation in April 2018.

The Chairperson welcomed Vivienne Pearson, Operational Manager, Governance and Risk, to the meeting. Vivienne Person was invited to present the report.

Risk Management is a key component of corporate governance and can help prioritise attention and ensure considered decision-making in times of continued resource restrains. The Council's renewed approach to risk management has been a collaborative process which has taken into account the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; the views of the Senior Management Team; and feedback from the authority's insurance brokers.

Members were advised that the revised approach to risk management seeks to set out a sustainable approach to risk management by moving towards an 'enterprise-wide risk appetite' designed to enable the delivery of innovation and change with effective governance and stewardship. The framework will support the delivery of organisational change over the medium and longer term, whilst embedding the risk aware philosophy into actions, activities and thinking.

The Draft Risk Management Strategy sets out the Council's aims relating to the management of risks. The Draft Risk Management Policy sets out the key principles; improved guidance; improved risk analysis; improved risk reporting; improved risk response; and improved monitoring and review.

The Chairperson invited comments from the Committee. Those discussions are summarised as follows:

- Members were broadly supportive of the revised Strategy and Policy.
- Officers were asked to explain the link between risk appetite and risk tolerance. Members were advised that this was a new concept which is seeking to push boundaries. In key areas it was noted that even with 'red' risk it is still okay to make decisions. This was felt to be an ambitious approach and as such h a Member recommended that it be piloted in some service areas first, before being



introduced authority-wide.

- Members noted that a lot of data supporting the risk management regime was processed through spreadsheets. Members requested that officers consider introducing a genuine risk management software system. The Operational Manager accepted the point and indicated that this would meet with the service area's own aspirations.
- Members were interested to see evidence of directorates using key risk indicators in the risk management assessments going forward.
- A Member suggested that the improved use of balanced scorecard methodology would improve the authority's ability to communicate.

RESOLVED – That:

- (1) The draft Risk Management Strategy and Policy be noted;
- (2) The Committee's comments be noted in advance of the final version being approved by Cabinet.

## 70 : WALES AUDIT OFFICE ACTIVITY/PROGRESS REPORT UPDATE

Sara-Jane Byrne presented an update re the Wales Audit Office performance audit work programme 2017/18.

Referring to item 3 and item 4 in the update report - the Service User Perspective Review and Welsh Housing Quality Standard Review – Members asked whether there have been any difficulties undertaking the surveys and whether the surveying with target vulnerable groups. Sara-Jane Byrne stated that she would address this point with officers. It was accepted that a telephone survey may not be the best method to employ when trying to reach vulnerable groups.

In terms of update, Members were advised that WAO are seeking a small sample and the commissioned organisation will calculate what that sample will be. WAO advised that they will try to supplement the telephone survey with some focus groups.

WAO advised that they are undertaking a high level digital risk diagnostic to help identify potential digital risks and whether any further related audit work would be needed. A Member asked if this was directly related to GDPR but WAO advised that it was not, but may cover this at a high level.

A Member asked what WAO was planning to do to address issues around private sector housing stock that fails to meet the Wales Housing Quality Standard. The Committee was advised that there are arrangements and controls in place to scrutinise such issues through the Planning regulatory framework.

A Member raised concerns regarding the failure to invest in building assets across the authority's estate and the associated safety risks. The Member questioned how best to ensure that the authority was proactive in addressing this issue. As part of

2018-19, members were advised that WAO were seeking to follow up on previous Local Government Studies relating to leisure, environmental health and corporate safeguarding. WAO will be consulting councils on the topics for future Local Government Studies.

RESOLVED – That the report be noted.

Treasury Management

71 : PERFORMANCE REPORT

*This report contained exempt information of the description in paragraphs 14 and 21 of Schedule 12A of 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.*

The Committee received a report setting out the Treasury Management performance and position statement at 31 December 2107.

RESOLVED – That the report be noted.

72 : DRAFT STRATEGY 2018/19

The Committee received a report on the draft Treasury Management Strategy for 2018/19. The proposed Strategy was required to be approved as part of the 2018/19 Budget Report to Council in February 2018. The draft Strategy was appended to the report.

Anil Hirani, Operational Manager, Capital and Treasury was invited to present the report. Members were advised that strategy takes account of the 2017 update to the CIPFA Treasury Management Code and the existing Welsh Government guidance on investments. Additional borrowing has been assumed to invest in the condition of assets, the Council's contribution to City Deal and the 21<sup>st</sup> Century Schools Band B programme of improvement across the school estate.

Members were asked to note that whilst many of the indicators in the Strategy are dependent on the final Capital Programme which will be determined by the Council in February 2018, there are unlikely to be significant changes in the proposed Capital Programme.

The report summarised of the main points of note in the Strategy.

The Chairperson invited comments on the draft Strategy.

- Members questioned how much the authority was seeking to borrow to finance the 21<sup>st</sup> Century Schools Band B proposals and the payback period. Officers advised that the total cost of the proposals was £244 million. The Council is borrowing £122 million and the financial model assumed a 25-year payback period. These calculations assumed at interest rate of 3%.

- A Member referred to paragraph 46 of the strategy. In 2016/17 the internal borrowing requirement for Welsh Unitary Authorities averaged 11.3% of their Capital Financing Requirement, whilst for English Unitary Authorities it was 20.9% and 13.5% for all authority clients. Members were asked to note that the context in England is very different as local authorities have the ability to raise more funds locally and therefore their ability to service debt is very different. The Member considered that this needed to be reflected in the Strategy.
- Members were advised that Cardiff is near its cap in terms of Housing Revenue Account borrow. Officers stated that the cap is set across all Welsh Authorities and negotiations were ongoing with the Welsh Government with a view to reallocating the cap.

RESOLVED – That:

- (1) The Committee notes the report;
- (2) Subject to comments and amendment, the Strategy be considered by the Cabinet, prior to approval by the Council as part of the 2018/19 Budget Proposals Report.

#### 73 : SCRUTINY CORRESPONDENCE

The Committee received a letter from Councillor Chris Weaver, Cabinet Member for Finance, Modernisation and Performance in response to the Committee's letter setting out the Committee's concerns to the draft savings proposals and their impact on the Internal Audit function. It was agreed to make the letter publicly available.

#### 74 : OUTSTANDING ACTIONS

RESOLVED – That the Committee's Outstanding Actions be noted.

#### 75 : WORK PROGRAMME UPDATE

RESOLVED – That the Committee Work Programme be noted.

#### 76 : URGENT BUSINESS

No urgent items were presented.

#### 77 : DATE OF NEXT MEETING

The next meeting of the Committee is scheduled to take place on 27 March 2018.

The meeting terminated at 4.30 pm

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Chairperson

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