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## AGENDA

Pwyllgor	PWYLLGOR ARCHWILIO
Dyddiad ac amser y cyfarfod	DYDD MAWRTH, 22 IONAWR 2019, 2.00 PM
Lleoliad	YSTAFELL BWYLLGORA 4 - NEUADD Y SIR
Aelodaeth	Aelodau Annibynnol: Ian Arundale (Cadeirydd) Gavin McArthur, David Price a/ac David Hugh Thomas Cynghorywr Bale, Cowan, Cunnah, Howells, McGarry, Singh a/ac Walker

*Tua  
Amserx.*

### 1 Ymddiheuriadau am Absenoldeb

Derbyn ymddiheuriadau am absenoldebau.

### 2 Datganiadau o Fuddiant

I'w wneud ar ddechrau'r eitem agenda dan sylw, yn unol â'r Cod Ymddygiad Aelodau.

### 3 Cofnodion (*Tudalennau 3 - 12*)

Cymeradwyo cofnodion y cyfarfod a gynhaliwyd ar 13 Tachwedd 2018 yn gofnod cywir.

### 4 Materion Gweithredol

2.05 pm

4.1 Claire Marchant, Cyfarwyddwr Gwasanaethau Cymdeithasol  
Diweddariad am yr Amgylchedd Rheolaeth Fewnol (*Tudalennau 13 - 26*)

4.2 Andrew Gregory - Cyfarwyddwr Cynllunio, Trafnidiaeth a'r Amgylchedd  
- Rhaglen Rheoli Risg Arfordirol (*Tudalennau 27 - 52*)

### 5 Cyllid

2.45 pm

5.1 Newyddion Ariannol yn cynnwys Materion Gwydnwch (*Tudalennau 53 - 56*)

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<b>6</b>	<b>Llywodraethu a Rheoli Risg</b>	2.55 pm
<b>6.1</b>	Trafodaeth ar Adroddiad Blynyddol y Pwyllgor Archwilio 2018-19 ( <i>Tudalennau 57 - 60</i> )	
<b>6.2</b>	Datganiad Sicrwydd yr Uwch Reolwyr a Chynllun Gweithredu'r Datganiad Llywodraethu Blynyddol 2018-19 (Canol y Flwyddyn) ( <i>Tudalennau 61 - 78</i> )	
<b>7</b>	<b>Swyddfa Archwilio Cymru</b>	3.15 pm
<b>7.1</b>	Diweddariad ar Gynnydd Gweithgarwch/Adroddiad SAC ( <i>Tudalennau 79 - 84</i> )	
<b>8</b>	<b>System Dracio/Astudiaethau Eraill Swyddfa Archwilio Cymru</b>	3.20 pm
<b>9</b>	<b>Rheoli'r Trysorlys</b>	3.25 pm
<b>9.1</b>	Adroddiad Perfformiad ( <i>Tudalennau 85 - 90</i> )	
<b>9.2</b>	Strategaeth Ddrafft 2019-20 ( <i>Tudalennau 91 - 128</i> )	
<b>10</b>	<b>Archwiliad Mewnol</b>	3.45 pm
<b>10.1</b>	Diweddariad am Gynnydd y Tîm Archwilio 2018/19 ( <i>Tudalennau 129 - 182</i> )	
<b>10.2</b>	Diweddariad ar Gynnydd y Tîm Ymchwilio 2018-19 ( <i>Tudalennau 183 - 186</i> )	
<b>10.3</b>	Siartr Archwilio Mewnol Drafft a Chynllun Archwilio Drafft 2019-20 ( <i>Tudalennau 187 - 214</i> )	
<b>11</b>	<b>Gohebiaeth Craffu (Gweithgarwch y Pwyllgor Craffu)</b>	4.15 pm
<b>12</b>	<b>Camau Gweithredu Heb eu Cyflawni</b> ( <i>Tudalennau 215 - 216</i> )	
<b>13</b>	<b>Diweddariad ar y Rhaglen Waith</b> ( <i>Tudalennau 217 - 218</i> )	
<b>14</b>	<b>Materion Brys (os oes rhai)</b>	
<b>15</b>	<b>Dyddiad y cyfarfod nesaf.</b>	

**Davina Fiore**

**Cyfarwyddwr Llywodraethu a Gwasanaethau Cyfreithiol**

Dyddiad: Dydd Mercher, 16 Ionawr 2019

Cyswllt: Graham Porter, 02920 873401, g.porter@caerdydd.gov.uk



Mae'r dudalen hon yn wag yn fwriadol

## AUDIT COMMITTEE

13 NOVEMBER 2018

Present: Independent Members: Ian Arundale (Chair)  
Gavin McArthur, David Price and David Hugh Thomas  
Councillors Bale, Cowan, Cunnah, Howells, McGarry, Singh and Walker

## 44 : APOLOGIES FOR ABSENCE

Apologies were received from Councillor Lay.

## 45 : DECLARATIONS OF INTEREST

The following declarations of interest were received:

Cllr Bale	Item 4.3	Personal – Financial Interest in the Sector
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## 46 : MINUTES

The minutes of the meeting held on 18 September 2018 were approved by the Committee as a correct record and were signed by the Chairperson.

## Operational Matters

## 47 : SARAH MCGILL, DIRECTOR PEOPLE &amp; COMMUNITIES - UPDATE ON INTERNAL CONTROL ENVIRONMENT

The Chairperson welcomed Sarah McGill, Director of People and Communities, to the meeting to provide an overview of the internal control environment within the Housing and Communities area of the People and Communities Directorate.

Members were advised that the Directorate provides a wide range of services, often to the most vulnerable in the city, whose needs can only effectively be met through delivery of services in partnership with other Council departments and partner organisations. The Chairperson advised that a range of performance management supporting information provided to Audit Committee would not be focussed upon, with attention given to the papers relating to governance, risk management and internal control. The Chairperson requested the Audit Manager to manage the level of documents included in Committee papers.

Members were advised that corporate and operational risks are reviewed quarterly, supported by Directorate Risk Champions. The Directorate has one risk on the Corporate Risk Register (CRR), in respect of Welfare Reform, which continues to be mitigated through a range of proactive services and requires constant monitoring and review with the roll out of Universal Credit. The Director advised of one escalated risk in respect of Fire Safety, which sits within both the Housing and Communities for Council Housing and with Economic Development as Corporate Landlord. The Directorate Risk Register comprises the Operational Risk Registers within each Section.

Members were advised that the Senior Management Assurance Statement (SMAS) indicates generally strong application across governance areas, although partnership governance, risk management and control had mixed application. Wellbeing of Future Generations assurance was reported as having mixed application in recognition that there was still some work to do to embed practices throughout the Directorate. The most recent SMAS had recognised some improvements, including strong application of partnership assurance through quarterly partnership performance reporting and embedding monitoring of savings and income target delivery as a result of working closely with service accountants to maintain a clear picture of budgets and spend throughout the year.

In relation to the response to Internal Audit reports, Members were advised that only one recommendation was outstanding at the time of reporting, which was being monitored until completion. The Director was pleased that audits of governance and decision-making were reported as effective with no recommendations identified.

Members of the Committee were invited to comment, raise questions or seek clarification on the information received. Those discussions are summarised as follows:

- The Director was asked how she ensured that high quality Core Data is used for performance monitoring. It was recognised that quality assurance is vital, and Committee was advised that data is drawn from a number of sources and databases with a consistent approach to analysis. The Audit Manager advised that Performance Management features in the Audit Annual Plan and is scheduled for Q4.
- Members asked what the directorate was doing to mitigate against the risks associated with Welfare Reform. The Director advised that a multi-agency steering group is estimating the likely impact and the interventions that can make a difference. A range of agencies were facing problems and how best to mitigate against these are kept under review. There have been some successes, but some challenges remain.
- A Member asked for further detail regarding the roll-out of service hubs and whether each hub would focus and reflect on the dynamics of the communities in which they are located. The Director confirmed that the service delivery plan sets out the services that will be delivered in community hubs and that new hubs continue to reflect their respective communities.
- A Member considered that new homes will be located primarily within the Southern Arc of the City, an area where the Council's Well-Being Plan has identified a 20-year gap in life expectancy compared to the north of the City. It was asked if the authority is looking at a greater mix of housing development and whether there was an opportunity to look at other sites in the city. The Director stated that the sites are mixed and there was huge interest in the new housing.
- Members noted that performance targets were lower than in previous years and asked whether there were any risks associated with not delivering improvement. The comments were accepted and Members were advised

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that there are circumstances where maintaining performance is an achievement.

- Responding to a request for the highest risks facing the Director's responsibility, Members were advised that Welfare Reform and Fire Safety are the greatest, with other prominent risks relating to the delivery of a wide range of services at service hubs and the need to meet the increased demand for services from an increasing population with less resource.

RESOLVED – That:

- (1) The report be noted;
- (2) Audit Manager to manage the level of documentation in Committee papers.

48 : DAVINA FIORE, DIRECTOR LEGAL, GOVERNANCE AND MONITORING OFFICER - UPDATE ON INTERNAL CONTROL ENVIRONMENT

The Chairperson welcomed Davina Fiore, Director, Governance and Legal Services to provide an update on governance and control within the Directorate.

Members were advised of the directorate structure and the composition of teams in Legal and Democratic Services. Members were asked to note a recent Legal Services award of the Law Society Quality Accreditation (LEXCEL). The associated external review reported compliance, and provided no recommendations for improvement. A client satisfaction survey found that 89% of clients were satisfied or more than satisfied with the service.

The Directorate Risk monitoring process was outlined as a monthly Management Team activity, supported by the Risk Champion and Performance lead to consider current and emerging risks for reporting through the quarterly risk register update. Corporate Risks on 'Legal Compliance' and 'Safeguarding' supported by the Director were outlined, and Members were advised that the complexity of safeguarding cases is challenging in terms of the capacity and funding requirements.

Members were advised that in 2017/18 legal budgets related to social care were centralised to enable the Community Team in Legal Services to recruit additional solicitors to undertake work that was previously done externally for Social Services. A recruitment drive was undertaken at the end of 2017, but due to staff turnover an increase in workload and the lack of a full complement of staff in the Community Team, it has been necessary to outsource some work. This resulted in a potential overspend of £120,000 projected at Month 5, 2018/19. External spend will continue to be closely monitored throughout the year and a financial pressures bid has been submitted in relation to the 2019/20 budget for additional funding for further post creation in the Community Team.

The Senior Management Assurance Statement (SMAS) is considered twice a year in Directorate Management Team Meetings, attended by the Risk Champion, Performance Lead and the Budget Accountant. The Director recognised that the SMAS has been of increased value following the greater emphasis and requirement for supporting evidence.

Members were advised that there are quarterly meetings with the Relationship Manager from the Audit team to discuss progress against the agreed plan and any emerging risks. Internal Audit Reports are discussed and actions agreed with relevant managers.

It was reported that a key priority for Democratic Services has been to respond to the Wales Audit Office report 'Overview and Scrutiny – Fit for the Future' following which an action plan was developed to address each of the five proposals for improvement. Members were asked to note that WAO found Cardiff's scrutiny function is fit for the future.

The Chairperson opened the debate on this item. Members were invited to comment, seek clarification or raise questions on the information received. Those discussions are summarised as follows:

- The Committee considered that the Scrutiny function was proactive and produced many recommendations that are subsequently accepted by the Cabinet, but there could be an audit in relation to Scrutiny effectiveness. The Director accepted that more could be done to capture outcomes and she was happy to discuss this further with the Audit Manager.
- The Committee wished to record the important and valued support provided to Members by the Democratic Services Team. The Director welcomed those comments and agreed to pass the comments back to the team.
- Members were concerned that Safeguarding was highlighted as a risk. The Director stated that the safeguarding risk has developed over a period of time as a result of a broad range of issues which create more complex cases. There has also been an increase in international cases, which carry more complexity, and the Legal framework has been tightened with cases now dealt with within 6 months, which has increased pressure. More expert reports have been necessary due to the nature of cases.
- Members asked for the Director's views on the Wellbeing of Future Generations Act implications for the Directorate. The Director stated that the service is on a learning curve and is still familiarising itself with the legislation. There was more work to do to ensure that it gets appropriate attention.
- The Chairperson asked whether colleagues have considered an audit relating to the solicitor requirements and resourcing decisions for the Community Team. The Audit Manager stated that some analysis has been undertaken but will consider whether or not this will be developed further when considering the future audit plan.

RESOLVED – That the Director of Governance & Legal Services and the Audit manager to consider the options available to audit the scrutiny process.

49 : ISABELLE BIGNALL, CHIEF DIGITAL OFFICER - CYBER SECURITY



The Committee received a report on Cyber Security Governance, Risk Management and Control. The Chairperson welcomed Isabelle Bignall, Chief Digital Officer, to the meeting and invited her to present the report.

Members were advised that following a request from the Audit Committee, Cyber Security was escalated to the Corporate Risk Register (CRR) in Q4 2016/17 for ongoing monitoring, review and quarterly update to the Senior Management Team, Audit Committee and the Cabinet. When referring to 'Cyber Security' the authority is referring to a set of processes and controls created and put in place in order to safeguard the organisation's data, systems and networks from attack.

The Chief Digital Officer summarised the Digital Strategy released in 2018/19, which laid out the Council's vision for a more connected and modernised authority. The Digital First and Digital by Default approach outlined in the Strategy means the implementation of new technology, applications and ways of working for staff. The key principles of the strategy are underpinned by the Council's ICT Security Policy, which in conjunction with the IT Governance Framework, provides direction and guidance to ensure that ICT security is in line with the relevant laws, regulations and business requirements.

Members were advised that Cyber Security is regularly reviewed against 10 key risk factors following the National Cyber Security Centre (NCSC) approach. Following the latest assessments, three areas underpinning the corporate risk were identified as containing higher risks, resulting in regular monitoring to drive risk-based prioritisation and actions.

Members were advised that an Internal Audit on Cyber Security Governance was completed in March 2018. User awareness was identified as one of the key areas requiring attention and as a result, twelve cyber security awareness modules have been purchased and made available to all staff via the Council's training Academy portal.

Members were asked to comment or raise questions on the information received. Those discussions are summarised as follows:

- Members asked whether cyber security training was mandatory for staff. The Chief Digital Officer confirmed that it was and it would also form part of the induction training for new members of staff.
- Members asked for clarification of the process of evaluating and reporting attacks. The Chief Digital Officer advised that there are two main types of attacks – bots and spam. The Council's systems are constantly under attack and staff are often the 'last line of defence' so education and raising awareness is vital.
- Responding to a query relating to staff using unauthorised systems, the Chief Digital Officer advised this is not a major issue for the Council as this is prevented by robust processes being in place.
- Members asked whether public facing terminals, such as those provided in libraries, could pose a risk to Council networks. The Chief Digital Officer advised that such terminals are 'locked down' to provide appropriate

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protection. The increasing use of smartphone devices means that customers in libraries are able to use free wifi to access information on their own devices.

- Responding to a question from the Committee, Officers agreed to provide confirmation of the completion of the outstanding recommendation on ICT cloud compliance. The Audit Manager confirmed that this information is subject to a process of validation.

RESOLVED – That the Audit Manager confirm the level of completion of the outstanding recommendation on ICT Cloud compliance.

Finance

## 50 : FINANCIAL UPDATE INCLUDING RESILIENCE ISSUES

The Corporate Director Resources presented the financial update report. Members were advised that the Month 6 Monitoring report was due to be considered by the Cabinet and was circulated prior to the meeting and Member were invited to forward any questions on the report directly to the Director. The Corporate Director Resources provided an overview of the Month 6 position and preparations for the 2019/20 budget.

It was noted that there were savings proposals in respect of Internal Audit and Risk Management for 2019/20. The Chair invited Members to provide feedback on these proposals to the Audit Manager once they have had the opportunity to consider the content.

The Committee queried a budget overspend in Corporate Management of £277,000, particularly as there are vacancies in the management structure. The Corporate Director advised that the Corporate Management budget heading did not relate to senior management salaries, but to matters such as the council-wide digitalisation of services, and senior management recruitment processes. Budget savings in respect of digitalisation had a longer lead-time that was anticipated and the majority of the overspend related to that, to recruitment costs and the Regional Coroner's service.

The Corporate Director was asked to provide clarification of the treatment of unrealised savings. Members were advised that there was an expectation that savings would be realised, although sometimes delays occur, or circumstances change and savings are no longer achievable. The Cabinet will take a view on whether to write out or continue to carry forward savings as part of their determination of the 2019/20 budget.

RESOLVED – That:

- (1) The Audit Committee noted the financial information provided and the process being adopted in respect of budget preparation for 2019/20 and the medium term.
- (2) The Audit Committee receive further information on the impact of the Audit and Risk Management 2019/20 savings proposals.

- (3) The Audit Manager coordinate the Audit Committee response to the 2019/20 budget consultation.

#### Governance and Risk Management

##### 51 : CORPORATE RISK MANAGEMENT (MID-YEAR)

The Operational Manager (Governance and Risk) presented the risk management update for quarter 2 2018/19. Members were advised that this was the first application of the 4x5 Risk Matrix, which has resulted in some marginal changes in risk ratings.

The summary outlined the key changes to the Corporate Risk Register for the quarter 2 position, which comprised the removal of the asset management corporate risk, and the increase in three residual corporate risk ratings, for which the reasons were outlined in the covering report. Committee were asked to note the review as documented in the report, with 269 Directorate Risks, and 11 escalated directorate risks at the quarter end.

Members considered the position and requested a more detailed update on Flood Risk Management be reported to a future meeting.

RESOLVED – That:

- (1) The report be noted;
- (2) The Audit Committee receive a report on Flood Risk Management at a future meeting.

#### Wales Audit Office

##### 52 : WAO PERFORMANCE AUDIT WORK PROGRAMME UPDATE

The Chairperson welcomed Sam Clements of Wales Audit Office (WAO) and received an update on the performance audit work of WAO.

The Chairperson was pleased to note that everything was generally positive in terms of the work completed to date. There were some elements for improvement.

The Chairperson requested that the WAO National Study on Waste Management is issued to Members following publication.

RESOLVED – Audit Committee be provided with the Wales Audit Office National Study on Waste Management upon publication.

#### Treasury Management

##### 53 : HALF YEAR REPORT

Members received the Treasury Management Mid-Year Report providing a summary of the Council's Treasury Management activities to 30 September 2018, prior to its consideration by Cabinet on 15 November 2018 and by Council on 29 November 2018.

A Member noted that Kent Council was asked to repay LOBOS loans early and asked whether Cardiff was set to follow. Officers stated that there is no indication that Cardiff will be repaying early and there has been no request to do so. The Member stated that Kent Council was able to lower interest payable from 4% to 2% and asked whether there was an opportunity for Cardiff. The Corporate Director Resources stated that, in conjunction with the council's treasury advisors, officers were always looking for but were currently unaware of any opportunities.

RESOLVED – That the Treasury Management Mid-Year Report 2018/19 be noted.

#### 54 : PERFORMANCE REPORT

The Committee received the Treasury Performance Report providing position statements on investments and borrowing at 31 October 2018. Members were advised that additional borrowing of £5.4 million at 2.5% was taken in October 2018. A further £14.6 million borrowing was proposed before the end of the financial year.

RESOLVED – That the Treasury Management Performance Report be noted.

#### Internal Audit

#### 55 : AUDIT TEAM PROGRESS REPORT 2018/19

The Internal Audit Progress Report 2018/19 as at 19 October 2018 was presented to Audit Committee.

It was explained that the new Audit Manager, appointed on 1 October 2018, reports to the Head of Finance and will report to the Audit Committee on audit-related matters. Members were asked to approve interim changes to the Internal Audit Charter to recognise the authority and responsibility of the Audit Manager.

Members received an outline of performance in relation to the Audit Plan to 19 October 2018, a summary of the work performed, the priority recommendations issued, the critical findings and emerging trends across the authority. The Committee was also asked to approve changes to the Internal Audit Plan relating to value for money audit allocations, following a review by the Internal Audit Team.

Members were also asked to note that a 'School Assurance Mechanism' has been developed to support the Audit Committee to communicate and reinforce expectations to Schools where concerns have been identified. The mechanism is largely correspondence based recognising that the capacity of Audit Committee meetings is limited.

RESOLVED – That the Committee:

- (1) Noted the contents of the Progress Report;
- (2) Approved the proposed changes to the Audit Plan 2018/19;
- (3) Approved the proposed modifications to the Audit Charter;
- (4) Noted the proposed School Assurance Mechanism.

56 : INVESTIGATION TEAM PROGRESS REPORT 2018/19

The Investigation Team Progress Report 2018/19 as at 19 October 2018 was presented to Audit Committee and noted.

RESOLVED – That the Investigation Team Progress report be noted.

57 : SCRUTINY CORRESPONDENCE (SCRUTINY COMMITTEE ACTIVITY)

The Audit Manager advised Members that a recent letter from the Chairperson of the Policy Review and Audit Scrutiny Committee to the Cabinet Member for Finance, Modernisation and Performance reminds us of the ongoing opportunity to appropriately refer items and concerns for internal Scrutiny as appropriate. The Audit Manager advised that letter and response will be provided to Committee Members for awareness.

58 : OUTSTANDING ACTIONS

The Outstanding Actions were noted.

59 : WORK PROGRAMME UPDATE

The Audit Committee Work Programme was noted. There was a brief discussion about the role of the Audit Committee in respect of Brexit.

RESOLVED – That the Audit Committee Chair will be informed of the decisions of other Committees in considering the work programme in respect of Brexit.

60 : URGENT ITEMS (IF ANY)

No urgent items were presented.

61 : DATE OF NEXT MEETING

The next meeting of the Committee will be on 22 January 2019.

An Audit Committee Self-Assessment Workshop will take place prior to the meeting.

The meeting terminated at 4.05 pm

Mae'r dudalen hon yn wag yn fwriadol

**AUDIT COMMITTEE: 22<sup>nd</sup> January 2019**

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**SOCIAL SERVICES UPDATE ON INTERNAL CONTROL ENVIRONMENT  
REPORT OF DIRECTOR OF SOCIAL SERVICES      AGENDA ITEM: 4.1**

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**Reason for this Report**

1. This report has been produced in response to the Audit Committee's request for an update on governance and control within the Social Services Directorate. This update is also to provide assurance on the implementation of the recommendations made by Internal Audit.

**Background**

2. Cardiff Council's Social Services Directorate has responsibility for a wide and complex range of statutory duties, functions and services that affect the lives of virtually every citizen and community at some point, usually at a point of significant individual vulnerability. Social Services is pre-eminently concerned with managing risk at the level of strategy, operational delivery, and the quality of services and of individual professional practice.
3. To support this challenging agenda, the Directorate currently engages 977 FTE employees (525 in Adult Services, 309 in Children's Services and 141 in Strategy, Performance and Resources) and commissions a wide range of third party services with large employee cohorts. Whilst at any one time the Directorate supports over 10,000 individuals plus their wider families, an illustration of the reach and spread of activity entailed in delivering social services is included in the slides attached at Appendix A.
4. Cardiff Council's Social Services Directorate is also responsible for the largest single controllable spend (£153,486) across the council (after delegated schools budgets). It is significant that 72% of the budget is spent on commissioned services.

**Issues**

- (a) Management / mitigation of the directorate's risks on the Corporate Risk Register
5. A Situation, Background, Assessment, Recommendation (SBAR) process has recently been introduced in Social Services. Managers complete an SBAR to identify key risks and how they are to be mitigated / controlled. The SBAR is considered at the Directorate Management Team (DMT) and a decision is taken regarding whether the risk should be escalated to inclusion on the Directorate Risk Register. Risks are not only discussed at DMT but also at the Adult and Children's Services Management Meetings to ensure that the wider management group have oversight and an opportunity to contribute to the identification and management of risk. Risk Registers

are reviewed quarterly at DMT and the Risk Champion, in conjunction with the Policy Initiative Officer, liaises with Assistant Directors and Operational Managers to inform the process. Progress against actions in the Corporate Plan and Directorate Delivery Plan is monitored on a quarterly basis and updates inform the review of Risk Registers. Operational Managers also undertake self evaluations of their service areas and report into a monthly Quality and Performance review chaired by the Director of Social Services. The self evaluations identify strengths, areas of improvement and improvement actions. During quarterly review, consideration is given as to whether any of the risks on the Directorate Risk Register need to be escalated to inclusion on the Corporate Risk Register. Risk ratings for all risks are considered during quarterly review and amended as required.

6. The Corporate Risk Map for Quarter 2, 2018/19 (along with the summary CRR and detailed CRR) was presented to the meeting of the Audit Committee in November 2018. Two Social Services risks are captured on the Corporate Risk Register (CRR) and these are summarised below. Details are attached at Appendix B for information.
7. **Safeguarding** (Joint responsibility with Davina Fiore)  
Systemic failure in the effectiveness of the Council's safeguarding arrangements together with other statutory safeguarding partners, including failure to comply with Court Orders. This has an inherent risk of HIGH PRIORITY (B1), and is mitigated to MEDIUM PRIORITY (D1). Proposed management actions are set out in Appendix B. It is important to understand, safeguarding is a multi-agency responsibility by definition and in statute, and that the effectiveness of the Council and the Directorate in this respect is dependent on strong partnership around shared risk with the other Council directorates (education and housing) and statutory safeguarding partners (Police, Probation and Health). Cardiff is able to exercise leadership of this critical agenda via the Director of Social Services as the joint chair of both the Adults and Children's Safeguarding Boards; Cardiff also hosts the Regional Safeguarding Boards' Business Unit.
8. **Increase in Demand (Childrens' Services)**  
Failure to effectively manage demand resulting in increase in number of looked after children and the service and financial pressures this presents. This has an inherent risk of HIGH PRIORITY (B1), and is mitigated to HIGH PRIORITY (C1). Proposed management actions are set out in Appendix B.

(b) Senior Management Assurance Statement

9. A Senior Management Assurance Statement (SMAS) is completed independently by the Assistant Director, Children's Services and the Assistant Director, Adult Services. Their comments and judgements are collated into an overarching statement for Social Services that is considered and agreed at DMT to enable the Director of Social Services to provide a position statement that reflects the Directorate as a whole.
10. As a new Director reviewing the SMAS for the first time, I have been careful to understand the evidence that underpins the rating and the assurances. The reasons for this are explained below. Some issues considered in the SMAS are considered to be embedded and therefore found to have strong application; e.g. programme and project assurances, business planning and fraud and financial impropriety.



11. Mixed application ratings for risk management reflect the fact that the SBAR process is in its infancy and therefore needs further embedding before it can be reported as “strong”. Early indications are that there is evidence to suggest that it is an effective system that will become fully embedded in practice over time.
12. Compliance with policies and the internal control environment are rated as mixed application because a mechanism is currently in place to review Directorate policies and procedures to bring them in line with new legislative requirements.
13. Savings / income target delivery is rated as mixed application because, whilst savings have achieved by the Directorate, savings targets have not been fully met. Work in the Directorate to identify and achieve cost avoidance and savings is continuous and ongoing.
14. Future Generations considerations is rated as Mixed Application because, in common with other Council directorates, work to project and meet future demand has commenced, but is not embedded.
15. Performance measurement and management is rated as mixed application because, whilst good performance mechanisms are currently in place, these are being reviewed and new mechanisms are being introduced to strengthen arrangements for the future and embed a strong performance culture across Social Services.
16. The overview of assurances is included in the slides attached at Appendix A for information.

(c) Internal Audit Engagement and Response

17. During the year, there are regular quarterly meetings with the Relationship Manager to discuss progress against the agreed plan and to discuss any emerging risks that might need to be reviewed during the year. Any audits that cannot be undertaken at that time (such as due to on-going system changes) will also be discussed at these meetings.
18. Auditors meet with managers at each audit for initial scoping of the audits and at the end of the audit prior to the draft report being issued to discuss the main findings.
19. Internal audits enable the Directorate to make positive developments and continuously improve practice and processes. Internal Audit Reports are considered by Assistant Directors and Operational Managers in association with relevant staff in order to develop an action plan in response to the recommendations. Action plans are signed off at Directorate Quality & Performance Meetings. Outstanding recommendations from all internal audits are collated into an overarching recommendations tracker for consideration at Quality & Performance Meetings alongside recommendations from other reports such as complaints investigations, practice reviews and inspections. This enables me, as the Director of Social Services, to have oversight, assurance and ensure that recommendations are implemented.
20. At the time of writing, 2 audits are underway, and 10 have been completed. Of the 10 completed audits:
  - 1 was found to be effective and made no recommendations.
  - All actions have been implemented from 3 reports.
  - 3 reports have actions that are due for completion in 2019

- 3 reports have outstanding actions with revised implementation dates.

21. In relation to the audits with outstanding actions, whilst there has been a delay in implementing some recommendations and I can assure Audit Committee that work has been undertaken to tighten the monitoring of action plans to reduce slippage in future. These actions have all been reviewed by my management team and work towards implementation is ongoing. The establishment of a tracker (outlined above) has enabled closer monitoring and response to internal audit action plans, improving the timeliness of implementation of actions.

22. Audits completed during 2017/18 and to date in 2018/19 are summarised in the table below:

Audit	Report Status	Assurance Rating	Outstanding Actions	Completed Actions	Total Actions	Implementation Status
Commissioning & Procurement	Final report issued	Effective with opportunity for improvement	0	2	2	Completed
Payment Processes	Final report issued	Effective with opportunity for improvement	0	2	2	Completed
Payroll	Final report issued	Effective with opportunity for improvement	0	6	6	Completed
Regional Social Care Training Unit	Draft	Effective with opportunity for improvement	4	0	4	Not yet due
Partnerships & Collaborative Governance	Final report issued	Effective	5	0	5	Not yet due
Corporate Safeguarding Arrangements	Draft	Insufficient With Major Improvement Needed	3	0	3	Not yet due
Children with Disabilities	Final report issued	Effective with opportunity for improvement	2	1	3	Target date revised
Homecare (Mobile Scheduling)	Final report issued	Insufficient With Major Improvement Needed	2	13	15	Target date revised
Payments to Care Leavers - follow up audit	Final report issued	Limited	5	6	11	Target date revised
Asset Management	Not started	Pending	0	0	0	Audit ongoing
Budgeting and forecasting	Fieldwork	Pending	0	0	0	Audit ongoing
Effective decision making	Final report issued	Effective	0	0	0	No recommendations

23. Managers will also contact Internal Audit for advice and guidance on any matters of internal control and auditors have been involved with system and process development.

(d) Health Inspectorate Wales (HIW) and the Care Inspectorate Wales (CIW) joint inspection of adult community mental health services at The Links Community Mental Health Team (CMHT)

24. Citizens reported that they were pleased with the service they received. CMHT staff members were reported as being professional, committed and highly motivated in the care of their service user group and this was reflected in what citizens said during the inspection. Overall management and leadership were found to be effective and staff reported that they felt supported. Good opportunities for more specialist training were noted and staff had access to supervision and performance reviews. Improvement actions are being taken forward via an Improvement Plan; the only remaining action for Social Services is around responding to the care and treatment plan review done by Public Health and it is estimated that this will be completed before the end of May 2019.

(e) Wales Audit Office Review of Prevention

25. Welsh Audit Office as part of their fieldwork into the first point of contact assessments under the Social Service and Well-being (Wales) Act 2014 visited Cardiff in November 2018. Over the course of 3 days the auditors were shown the Cardiff approach of co-located services and met with teams and services users from the First Point of Contact (including Social Workers), Independent Living Officers, Community Alarm and Meals on Wheels, Grand Avenue Day Centre and the Smart House. The feedback was very positive and output of this review will lead to a national report, where hopefully Cardiff will be referenced as an area of good practice.

(f) CIW Inspection of Crosslands Children's Home

26. The report was completed in December 2018. The inspection did not find any areas where the service was in breach of its legal obligations. Overall, the report evidenced excellent practice. A small number of recommendations were made and these are being taken forward. The report found that "young people are well cared for by consistent staff and management team. Young people are supported by a well trained staff team who use the "Signs of Safety" as the underpinning model of care alongside restorative justice, individual plans and risk assessments. Care is taken to involve young people in education, health, social, and leisure activities and to maintain positive family links in line with individual care plans. We found that young people were making progress."

### **Legal Implications**

27. The statutory functions of the Audit Committee include the duty to review, scrutinise and issue reports and recommendations on the appropriateness of the authority's risk management, internal control and corporate governance arrangements (pursuant to Part 6 Chapter 2 of the Local Government (Wales) Measure 2011). In discharging its functions, the Audit Committee must have regard to all relevant guidance, in particular the CIPFA guidance for Audit Committees.

### **Financial Implications**

28. The financial implications (if any) arising from this report have been contained within the body of the report.

### **RECOMMENDATIONS**

29. That the Committee considers and notes the content of the report.

**Claire Marchant**  
**Director of Social Services**  
22<sup>nd</sup> January 2019

The Following are attached:

**Appendix A:** Audit Committee Presentation  
**Appendix B:** Corporate Risk Register Q2 2018/19 Extract

Mae'r dudalen hon yn wag yn fwriadol



# Audit Committee Social Services Update 22<sup>nd</sup> January 2019



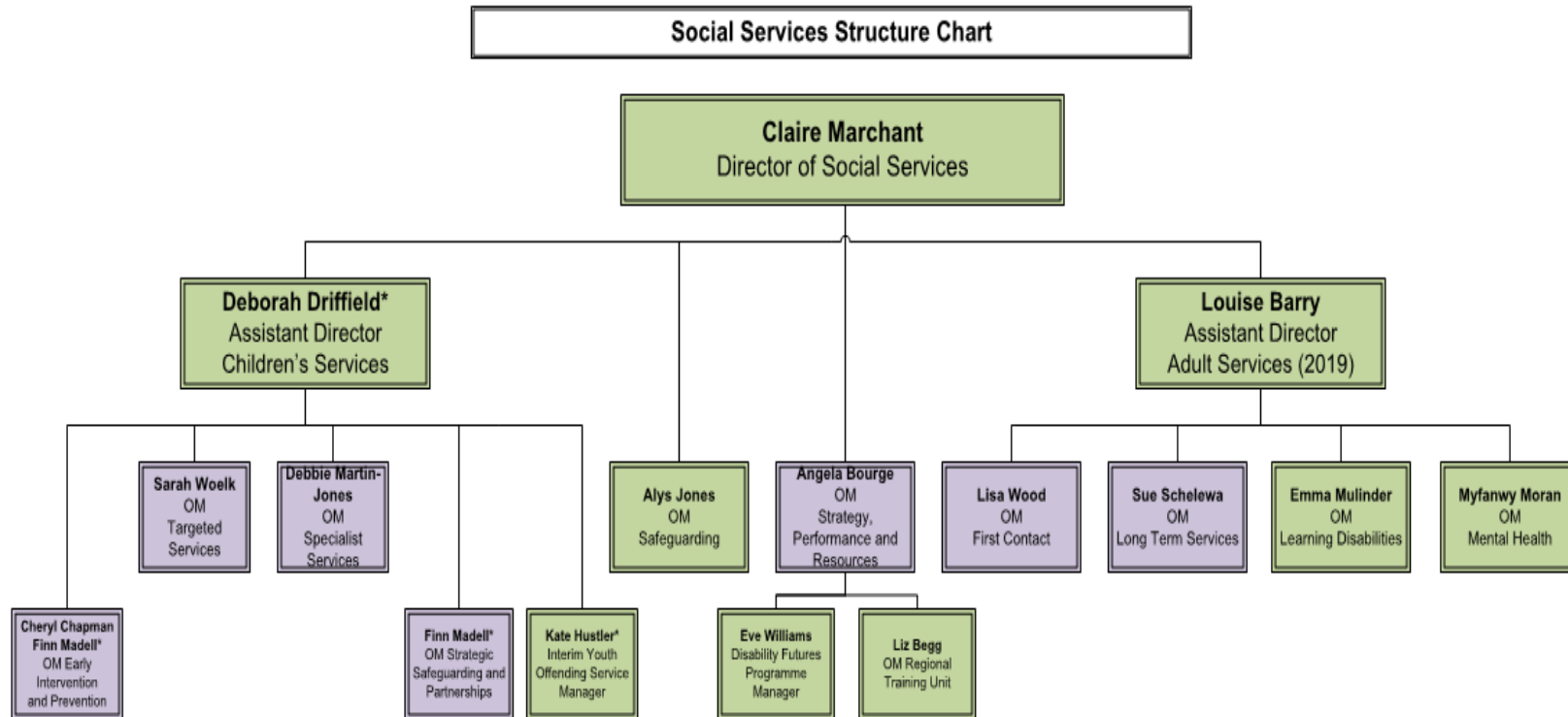
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# Social Services - Structure



Tudalen 22



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# Social Services - Demand



- 6,657 enquiries to Adult Services
- 1,113 Adult Safeguarding referrals
- 7,662 adults assessed or reviewed
- 7,047 adults in receipt of services at 31<sup>st</sup> March 2018, of which:
  - 1,004 were receiving residential and nursing care
  - 3,333 were living at home with social care packages
  - 2,710 were receiving other services
- 28,569 contacts / referrals to Children's Services
- 830 children being looked after at 31<sup>st</sup> March 2018 (885 at 31<sup>st</sup> December 2018)
- 230 children on Child Protection Register at 31<sup>st</sup> March 2018 (208 at 31<sup>st</sup> December 2018)

Tudalen 23



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# Social Services - Risks



## *Safeguarding*

Systemic failure in the effectiveness of the Council's safeguarding arrangements together with other statutory safeguarding partners. Failure to comply with Court Orders; joint responsibility with Davina Fiore.

- Inherent risk of HIGH PRIORITY (B1); mitigated to MEDIUM PRIORITY (D1).

## *Increase in Demand (Childrens' Services)*

Failure to effectively manage demand resulting in increase in number of looked after children and the service and financial pressures this presents.

- Inherent risk of HIGH PRIORITY (B1); mitigated to HIGH PRIORITY (C1).

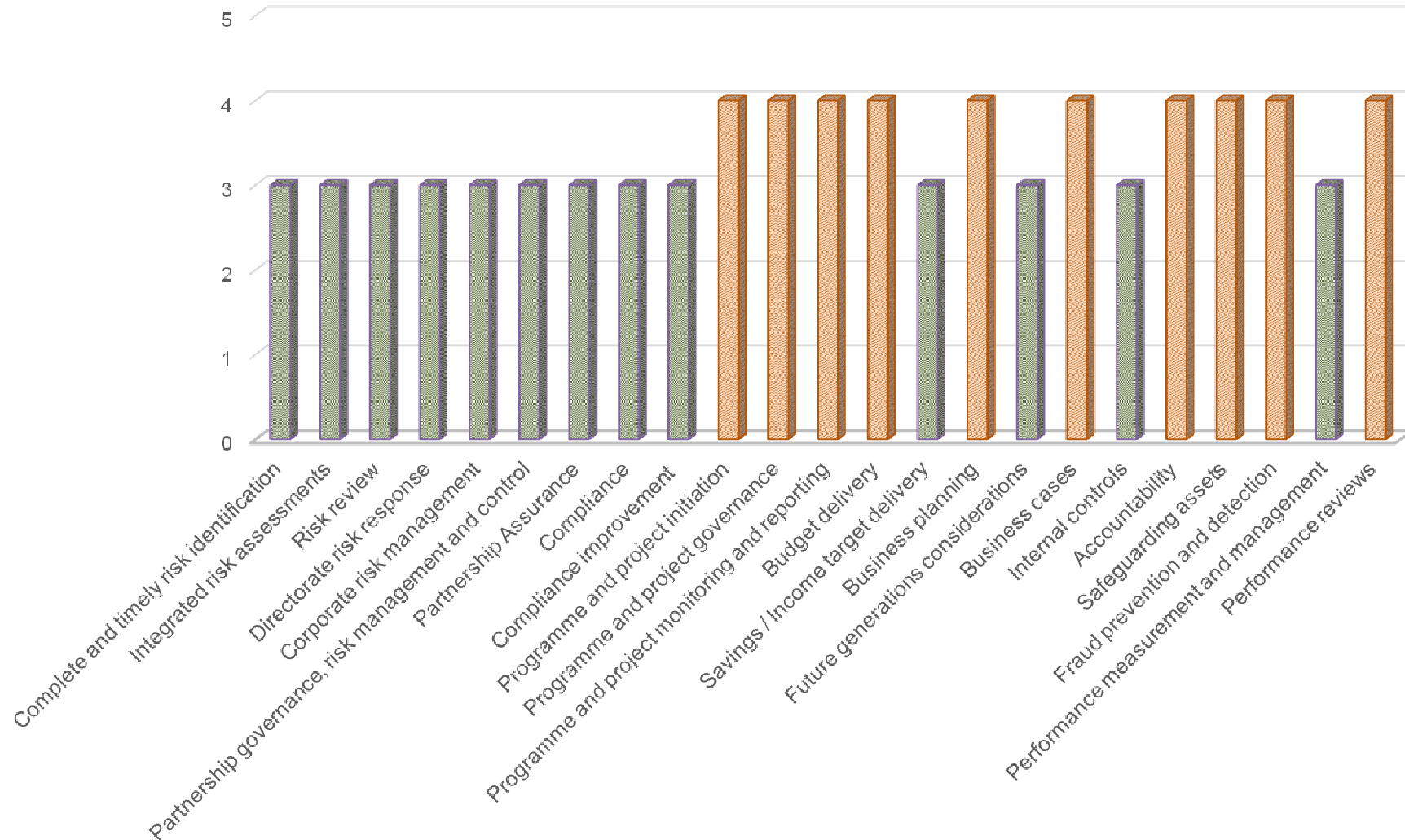




# Social Services SMAS 2018/19 (Mid Year)



■ 1. Not in Place  
 ■ 2. Limited Application  
 ■ 3. Mixed Application  
 ■ 4. Strong Application  
 ■ 5. Embedded



Tudalen 25

# Internal Audits



Tudalen 26

Audit	Outstanding Actions	Completed Actions	Total Actions	Status
Commissioning and Procurement - Social Services	0	2	2	Completed
Payment Processes	0	2	2	Completed
Payroll - Social Services	0	6	6	Completed
Regional Social Care Training Unit	4	0	4	Not yet due
Partnerships & Collaborative Governance	5	0	5	Not yet due
Corporate Safeguarding Arrangements	3	0	3	Not yet due
Children with Disabilities	2	1	3	Target date revised
Homecare (Mobile Scheduling)	2	13	15	Target date revised
Payments to Care Leavers - follow up audit	5	6	11	Target date revised
Asset Management	0	0	0	Audit ongoing
Budgeting and forecasting	0	0	0	Audit ongoing
Effective decision making	0	0	0	No recommendations
<b>Total</b>	<b>21</b>	<b>30</b>	<b>51</b>	



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**Corporate Risks – Quarter 2, 2018/19**

Risk Description	Potential Consequence	L	C	Inherent Risk	Current / Existing Controls	L	C	Residual Risk	Proposed Management Action	Risk Owner
<p><b>Safeguarding</b></p> <p>Systemic failure in the effectiveness of the Council's safeguarding arrangements together with other statutory safeguarding partners. Failure to comply with Court Orders.</p>	<p>Reputation / Financial / Stakeholders / Service delivery / Legal / Partnership / Community</p> <ul style="list-style-type: none"> <li>A child/ren or adult/s suffers avoidable significant harm or death.</li> <li>Reputation of Council and partners.</li> <li>Severe adverse publicity.</li> <li>Potential regulator intervention.</li> <li>Loss of confidence by the community in the safety of children and adults.</li> <li>Loss of confidence of staff in the overall "safety" of the service, impacting on morale, recruitment and retention.</li> <li>Potential litigation with associated financial penalties</li> </ul> <p>In addition to the above:</p> <ul style="list-style-type: none"> <li>Being held in contempt of court</li> <li>Imprisonment</li> <li>Unlawful detention of persons</li> <li>Payment of costs/damages</li> <li>Professional reputation of staff</li> <li>Recruitment problems</li> </ul>	B	1	High Priority	<ul style="list-style-type: none"> <li>Embedding the Social Services &amp; Wellbeing (Wales) Act 2014 in relation to the strengthening of adult safeguarding.</li> <li>Ongoing implementation of the Child Sexual Exploitation Strategy.</li> <li>Raising profile of Adult Sexual Exploitation (ASE) in Adult Services in line with the Child Sexual Exploitation (CSE) Strategy.</li> <li>Review of adult safeguarding undertaken and management strengthened.</li> <li>Systems in place to learn lessons from and address recommendations from child practice reviews, adult practice reviews and multi agency practitioner forums</li> <li>Monthly quality and performance review across all areas of social services</li> <li>Annual Plan for Regional Adults / Childrens Safeguarding Board.</li> <li>SBAR system implementation to understand and address significant risks, including safeguarding risks, in social services</li> <li>Recruitment and retention strategy in place to address children's workforce issues</li> <li>Action plan being delivered to address high caseloads in Children's Services.</li> <li>Refreshed signs of safety action plan in place.</li> </ul>	D	1	Medium Priority (Red/Amber)	<ul style="list-style-type: none"> <li>Cardiff local operational safeguarding group being developed to lead effective multi-agency safeguarding arrangements in Cardiff reporting to the Regional Safeguarding Board and Steering Group.</li> <li>Improving Outcomes for all our Children Steering Group chaired by Chief Executive to be established to oversee performance to improve outcomes for Cardiff's most vulnerable children.</li> <li>Implementation of revised Corporate Safeguarding Policy and action plan arising from internal audit of corporate safeguarding.</li> <li>Additional investment in corporate safeguarding to address recommendations from internal audit report.</li> <li>Cardiff Council hosting the All Wales Adult and Child Protection Procedure re-write.</li> <li>Regular performance monitoring meetings with Children's Social Services have been arranged. Process and escalation procedures agreed for children's work, to be agreed with adults.</li> </ul>	<p>Sarah McGill &amp; Claire Marchant &amp; Davina Fiore</p> <p>Councillor Huw Thomas Leader</p> <p>Councillor Susan Elsmore Social Care, Health &amp; Well-being</p> <p>Councillor Graham Hinchey Children &amp; Families</p> <p>Councillor Chris Weaver Finance Modernisation and Performance</p>
<p><b>Increase in Demand (Childrens' Services)</b></p> <p>Failure to effectively manage demand resulting in increase in number of looked after children and the service and financial pressures this presents.</p>	<p>Reputational / Community / Legal / Financial / Stakeholders / Service delivery</p> <ul style="list-style-type: none"> <li>Family breakdown leading to children becoming looked after</li> <li>Growth in the number of children entering the looked after system and associated costs for the Authority</li> <li>Insufficient placements to meet need</li> <li>Children are less likely to achieve their potential and to be fully participating citizens</li> <li>Life chances for children are reduced</li> <li>Delays in issuing care proceedings because of existing capacity in both Childrens' and Legal Services</li> <li>Challenges in 'improving outcomes for children 'Challenges in effectively managing Service and financial pressures</li> <li>Significant increase in demand for residential and foster care placements for LACr resulting in increase in numbers placed outside Cardiff</li> </ul>	B	1	High Priority	<ul style="list-style-type: none"> <li>Early Help Strategy</li> <li>Information, Advice and Assistance functions (including implementation of Dewis Cymru and Support 4 Families)</li> <li>Locality working</li> <li>Interface Protocol for Childrens' Services with Children's Team Around Family (TAF) AND Disability Team Around the Family (DTAF) agreed and implemented</li> <li>Families First / Team Around the Family</li> <li>Flying Start</li> <li>FISS Rapid Response Service</li> <li>Adolescent Resource Centre</li> <li>Legal tracker and Legal surgery</li> <li>Direct Payments</li> <li>Young Carers Action Plan</li> </ul>	C	1	High Priority	<ul style="list-style-type: none"> <li>Partnership arrangements for delivery of Child and Adolescent Mental Health Service (CAMHS) to be reviewed.</li> <li>Refresh of Early Help Strategy by 12 months+</li> <li>Mobilisation of New Families First Services by September 2018.</li> <li>Support for Families Project Board.</li> <li>Embedding Improving Outcomes for Children Programme Board and project groups beneath it.</li> <li>Recommissioning of Families First Services for disabled children and young people by 31<sup>st</sup> March 2019.</li> </ul> <p>From DDP 2018/19:</p> <ul style="list-style-type: none"> <li>Improve recruitment and retention of children's social workers, ensuring the Council achieves and maintains a vacancy rate below 18% by March 2019 to raise standards and drive the quality and competency levels of staff through effective workforce dev in order to enable those with care and support needs to achieve what matters to them (DP13-CS).</li> <li>Continue to implement a sustainable finance and service delivery strategy across Children's and Adult Services throughout 2018/19, where the commissioning and delivery of services is evidence based, outcome focussed and commercially sound (CP15 -SS).</li> </ul>	<p>Sarah McGill &amp; Claire Marchant</p> <p>Councillor Susan Elsmore Social Care, Health &amp; Well-being</p> <p>Councillor Graham Hinchey Children &amp; Families</p>

Tudalen 27

Mae'r dudalen hon yn wag yn fwiadol

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**COASTAL RISK MANAGEMENT PROGRAMME****REPORT OF DIRECTOR OF PLANNING, TRANSPORT AND ENVIRONMENT****AGENDA ITEM: 4.2**

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**Reason for this Report**

1. This report has been produced in response to the Audit Committee's request for assurance on the management and mitigation of the corporate Flood and Coastal Erosion Risk Management's Coastal Defence Scheme which incorporates the coastline along Rover Way, beginning at the eastern end of the privately owned Dwr Cymru Welsh Water (DCWW) defences, extending along the coast along Rover Way and up the west bank of the river as far as the railway line. This section includes the Rover Way Frag Tip. The extent continues down the east bank of the river and along the coast around Lamby Way Tip to the location of the recently constructed Natural Resources Wales (NRW) defences.
2. The Audit Committee's Terms of Reference sets out its responsibility to monitor:
  - a. The effective development and operation of risk management in the Council;
  - b. Progress in addressing risk-related issues reported to the committee.

**Risk Identification**

3. In Q3 2017/18 coastal erosion became a corporate risk. At this point it was separated from corporate Climate Change and Energy Security risk and included as an individual risk area on the Corporate Risk Register to reflect the immediate urgency of the coastal flood and erosion risk, which very different to the mid-long term climate change risk.
4. The study area is currently defended from coastal erosion and flood risk by a combination of defence types, including rock gabions, earth embankments and sheet pile walls.
5. Coastal Defence assessments undertaken by Mott MacDonald (2009) and Atkins (2013) identified the coastal assets in poor condition. Both reports identified the need for detailed assessment and design of defences to be undertaken.

- The completion of the Cardiff's Flood and Coastal Erosion Risk Management Outline Business Case (2016) undertook a formal assessment of the existing defences which concluded they are in a very poor condition having being severely eroded with many sections no longer in place. It was also concluded that at the time of the report, there was no monitoring or maintenance of the defences by Cardiff Council.

## Risk Assessment and Evaluation

- The OBC identified that if no works are undertaken to maintain or improve the existing coastal defences, there will be significant erosion and flood risk across the area concerned, which will increase over time as assets continue to degrade and sea levels rise with predicted sea level rise.
- The OBC clearly identifies the need to do improve the coastal defences within the project area.
- The Do-Nothing scenario for the 0.5% Annual Exceedance Potential (AEP) event, identifies 249 residential properties and 3 non-residential properties are at risk of flooding, increasing to 1212 residential and 209 non-residential properties by 2117 with sea level rise.
- The OBC identified Sections of the coast that have similar geomorphological characteristics, presented in Figure 1.

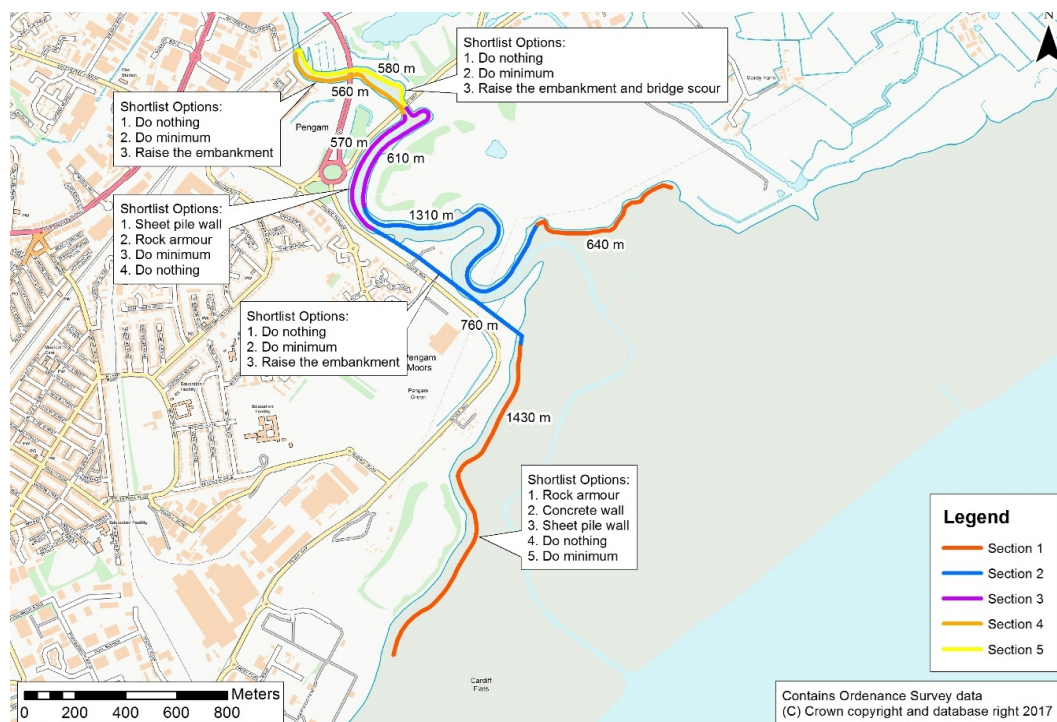


Figure 1: Plan detailing Geomorphological Sections and shortlisted options

## Risk Response

- The OBC undertook a cost benefit assessment of shortlist of flood and coastal erosion mitigation options for the Sections identified in paragraph 10. Each option contains a range of solutions due to the variable coast line

features and has been designed to the 0.5% AEP standard of protection in 100 years time with an allowance for climate change. Based on the appropriate options and level of risk, the preferred economic and environmental option consists of:

- Rock revetment along the coast to manage erosion and wave overtopping (Section 1)
  - Sheet piling along Lamby Way Roundabout (Section 3)
  - Maintain earth embankments elsewhere and raise low points in earth embankments where required to reduce flood risk (Sections 2, 4 and 5)
  - Rock scour protection added to Lamby Way Bridge.
12. The improve scenario has been designed to the 0.5% AEP standard of protection in 100 years time with an allowance for climate change. The proposed modelled defences prevent most flooding in the 0.5% AEP scenario and will reduce flood risk to 1,116 residential and 72 non-residential properties over 100 years, as well as preventing erosion of landfill material, key road infrastructure, and the Rover Way Travellers Site. There is some residual risk posed to the Rumney/Trowbridge area but it is anticipated that the development will have defences incorporated within them. Further assessment of this area will be considered during the detailed design phase.
13. The OBC was presented to cabinet in on the 15<sup>th</sup> March 2018 resolving that:
- The detailed design and construction of the coastal defences valued at £11M be procured. The funding to be provided on an apportionment of 75% funded by Welsh Government and 25% by Cardiff Council.
  - The 25% funding required to deliver the coastal defences be committed in line with the Welsh Government Coastal Risk Management Programme.
  - A reassessment of the scheme be undertaken following the completion of the detailed design to confirm financial implications of construction and viability.

A copy of the cabinet report is presented in Appendix A.

14. The Coastal Risk Management Programme was scrutinised on the 3<sup>th</sup> march 2018, giving members the opportunity to comment on the scheme and its proposals. The committee were in support of the improvement works.
15. Welsh Government have grant funded the development of an outline business case as indicated in this report. This has indicated indicative costs for design (£1 million) and construction (£10 million) totalling approximately £11 million (inclusive of VAT). The Coastal Risk

Management Programme assumes that the WG would support 75% of design and construction costs (£8.25 million) whilst the Council will have to find the balance of 25% of the estimated cost (£2.75 million). Whilst Council's highlighted the affordability issues of such an approach, WG are unlikely to change the initial approach.

16. These infrastructure schemes can be subject to significant variations in costs unless risks are properly identified and mitigated. The next phase will be detailed design and costing which the directorate will use to assess risks and costs in construction prior to any procurement exercise. Accordingly any commitment towards completing construction works will need to be subject to final affordability of the expected construction costs and impact on the Council.
17. Subject to the approval of WG funding, the Council's Capital Programme for 2018/19 to approved by Council in February 2018 includes a capital allocation of £2.220 million with an additional £0.5 million assumed in the Lamby Way landfill provision set up for the aftercare of the site.
18. The costs associated with the design, ECI and construction phases have been estimated and include contingency and inflation allowance.  
The total value for Coastal Risk Management Plan Approval is approximately **£11,000,000;**  
The total value of the Welsh Government cost apportionment would be approximately **£8,250,000;**  
The total value of the CCC cost apportionment would be approximately **£2,750,000.**
19. The tender process for the detailed design and production of the Full Business Case has gone out to tender via the NPS Framework. It is anticipated that a successful tenderer will be instructed in January 2019.

## **Issues**

20. If the Coastal Protection works are not implemented the coastline will continue to erode presenting significant risk to the area.
21. Delivery of the project will require subsequent procurement exercises being undertaken for both the Design and Construction Stages, with the latter being substantially larger. The consultancy services for the Outline Business Case were procured under the Construction Consultancy Framework (ref. NPS-PS-0027-15) managed by the National Project Service (NPS), using the relevant 'Water Management' Lot under the framework. It is envisaged that the detailed design stage of the project would be procured using a similar arrangement. The construction procurement exercise will be completed following detailed design.
22. The Wales Coast Path and cycleway will be included within any design and construction for the Coastal Defences and the Council will work with



Welsh Government to ensure there are no concerns for future phases of the Eastern Bay Link. Multiple benefits are a key consideration in the Welsh Government Coastal Risk Management Programme. Any additional requirements and costs associated with multiple benefits will be assessed following detailed design.

### **Legal Implications**

23. The statutory functions of the Audit Committee include the duty to review, scrutinise and issue reports and recommendations on the appropriateness of the authority's risk management, internal control and corporate governance arrangements (pursuant to Part 6 Chapter 2 of the Local Government (Wales) Measure 2011). In discharging its functions, the Audit Committee must have regard to all relevant guidance, in particular the CIPFA guidance for Audit Committees.

### **Financial Implications**

24. The financial implications (if any) arising from this report have been contained within the body of the report.

## **RECOMMENDATIONS**

25. The recommended decision is that the committee notes and considers the content of the report.

**Andrew Gregory**  
**Director City Operations**

**22 January 2019**

### **APPENDICES**

Appendix A Coastal Erosion Risk Management Cabinet Report  
Appendix B Audit Committee Presentation

Mae'r dudalen hon yn wag yn fwriadol

**CABINET MEETING: 15 MARCH 2018**

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**COASTAL RISK MANAGEMENT PROGRAMME**

**CLEAN STREETS, RECYCLING & ENVIRONMENT  
(COUNCILLOR MICHAEL MICHAEL)**

**AGENDA ITEM: 6**

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**REPORT OF DIRECTOR OF CITY OPERATIONS**

**Reasons for this Report**

1. To provide a briefing to cabinet on the current state of Cardiff's Coastal Defences and the Welsh Government Coastal Risk Management Programme.
2. To seek Cabinet approval for the commitment to procure the detailed design and construction of the coastal defences valued at £11M.

**Background**

3. A report undertaken by Mott MacDonald, *Rover Way Foreshore Coastal Defence Assessment, 2009*; completed an assessment of the conditions of the foreshore along Rover Way to the southeast of Cardiff City Centre. The report concluded that the ad hoc defences in position along Rover Way were in a very poor condition and under established guidelines would not have a residual life beyond the short to medium term. The report recommends a detailed condition survey and upgrading of the existing defences.
4. A report undertaken by Atkins, *Cardiff Council Coastal Erosion Risk Assessment, 2013*, identified that the coastal erosion rates at Rover Way are comparable to the highest coastal erosion rates in Europe. The report recommended that a more detailed engineering and design of rock armouring and revetment is undertaken. The report also recommends consideration of the coast in front of the Dwr Cymru Welsh Water sewage works.

Welsh Government's Coastal Risk Management Programme

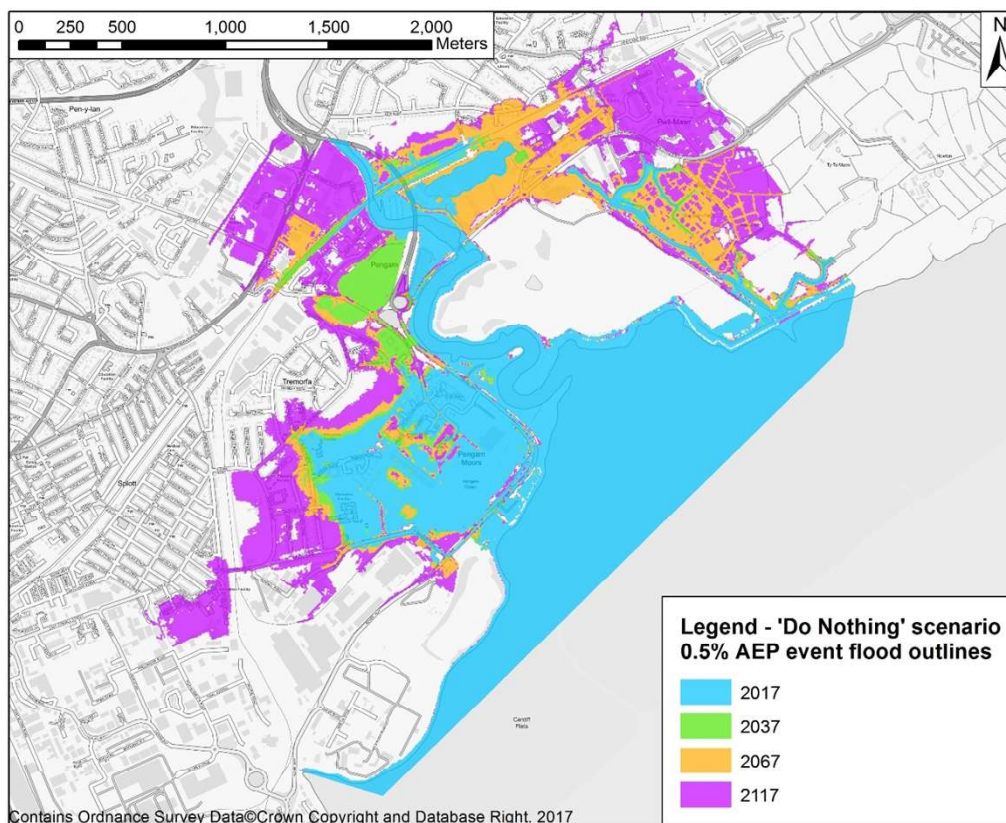
5. Welsh Government Coastal Risk Management Programme (CRMP) made a commitment by making £150 million available for borrowing to assist local authorities to meet financial pressures.

6. The CRMP provides a one-off opportunity for local authorities to implement transformational projects for coastal communities with Welsh Government contributing 75% of project costs.
7. Following the Programmes identification of candidate projects, Cardiff Council was successful in obtaining 100% funding from Welsh Government for the development of an Outline Business Case. The application needed to demonstrate how the Council would accelerate the delivery of Welsh Government's National Strategy for Flooding and Coastal Erosion Management in Wales, encourage innovative solutions that deliver multiple benefits and deliver social benefits by raising awareness and increasing community resilience.

#### Cardiff Council's Outline Business Case

8. The Outline Business Case (OBC) presents the business case and implementation plan for Cardiff Coastal Defences between Rover Way in the west and Lamby way in the east. The project aims to improve the existing coastal and fluvial defences to provide improved protection to people and property from coastal erosion and flood risk, and prevent the erosion of two decommissioned landfill sites; The Frag Tip and Lamby Way Tip
9. The project area includes the coastline along Rover Way, beginning at the eastern end of the privately owned Dwr Cymru Welsh Water (DCWW) defences, extending along the coast along Rover Way and up the west bank of the river as far as the railway line. The extent continues down the east bank of the river and along the coast around Lamby Way Tip to the location of the recently constructed Natural Resources Wales (NRW) defences
10. If no works are undertaken to maintain or improve the existing coastal defences, there will be significant erosion and flood risk across the study area and this will increase over time as asset condition deteriorates and sea levels rise with predicted climate change. Figure 1 shows the predicted flood extents for the Do Nothing scenario for present day and up to 100 years into the future.

**Figure 1: Predicted flood extents for a 0.5% AEP event in 2017, 2037, 2067 and 2117**



### Implications

11. To the west of the River Rhymney, the coast will continue to erode, with approximately 30m of retreat predicted by 2036, 50m by 2067 and 170m by 2117, based on predicted erosion rates and taking into account predicted sea level rise. This will lead to loss of the Rover Way Travellers site and the adjacent electrical substation within 5 years and further release of large volumes of unknown tip material from the Frag tip into the Severn Estuary. Under present day conditions this erosion is quickly establishing a breach of the coastal defences to the east of the Rover Way Travellers site, resulting in flood risk to significant areas of land behind, including Rover Way, a key arterial route that runs parallel to the defence, Tremorfa industrial estate, areas of residential properties, local amenities and a large supermarket.
12. Along the west bank of the river there are number of sections of embankment with lower crest heights than the surrounding defence. These lower sections will start to overtop as sea levels rise, leading to potential breaches in the unmaintained defences and flooding of the land behind.
13. Along the outside of the river meander close to Lamby Way roundabout, also along the west bank, the embankment is at greater risk of erosion than overtopping. It is estimated that should the bank continue to erode it would be likely to lead to undermining and loss of the Lamby Way Roundabout and sections of Rover Way.

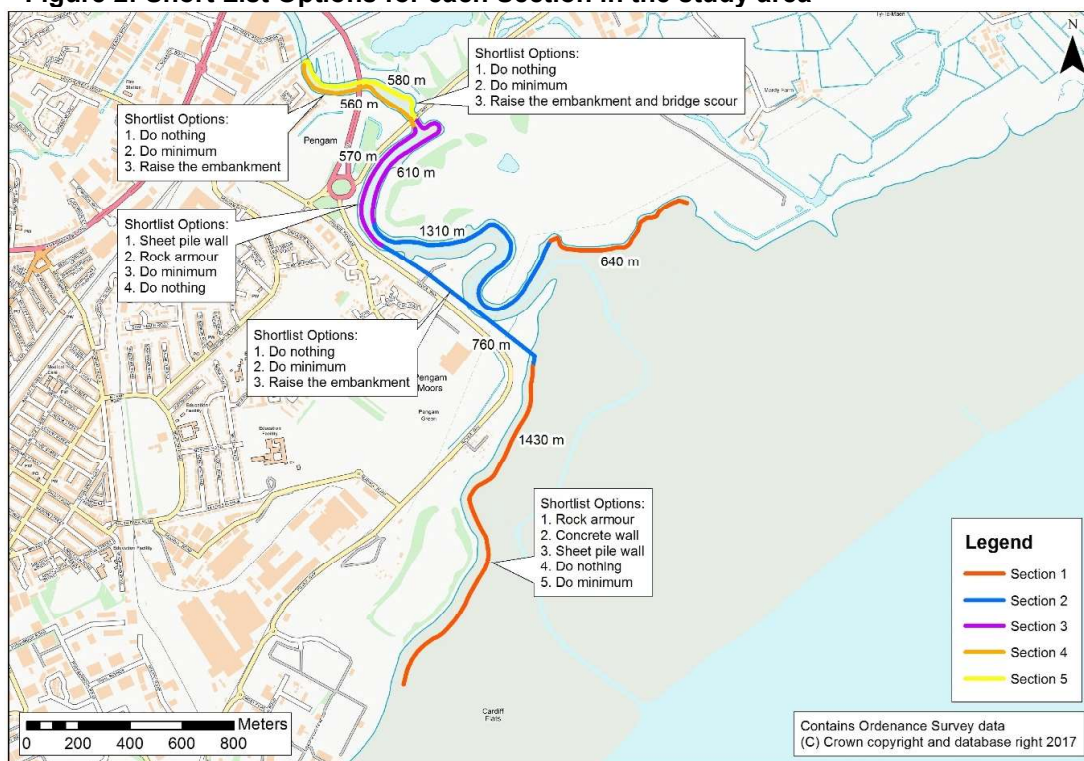
14. Under this Do Nothing Scenario 249 residential properties and 3 non-residential properties are currently at risk of flooding under a 0.5% AEP event, increasing to 1212 residential and 209 non-residential properties by 2117 with sea level rise.
15. At the Lamby Way road bridge, the bridge structure is constricting the river and high flow velocities are leading to exposure of the foundations. If no works are undertaken, this erosion will continue and the foundations could be undermined. In the longer term this would lead to the requirement of significant and costly improvement works to the bridge and potential failure of the bridge and loss of Lamby Way, which provides a key transport link.
16. Along the eastern river bank the soft banks are eroding and a large slip has recently occurred. Work has begun to try to stabilise the bank in this location. However, without significant further improvement works erosion is likely to continue. Although there is no flood risk should the defence fail due to the topography of Lamby Way Tip, there is significant risk from erosion of Lamby Way Tip material into the river and Severn Estuary should erosion continue.
17. The coastal frontage of Lamby Way tip, to the immediate east of the River Rhymney, is predicted to continue to erode. This will lead to erosion of the Lamby Way tip and release of contaminated tip material into the Severn Estuary within 20 years which would be likely to have significant environmental impacts on this designated estuary.
18. The project set out to achieve seven key project objectives:

**Table 1:** Project Objectives

No	Objective
1	Reduce and manage coastal flood risk to people and assets within part of south east Cardiff for the next 100 years, taking into account predicted future climate change.
2	Manage erosion along the coast to reduce the risk of failing coastal flood defences and the release of contaminated landfill material into the Severn Estuary from Lamby Way Tip and the Rover Way Frag Tip, in the immediate future and over the next 100 years.
3	To achieve wider benefits alongside coastal erosion and flood risk management, aligned with WG's 7 Wellbeing Goals and with WG and CCC's vision for development and economic growth of the area.
5	Implement a coastal flood and erosion risk management option which is affordable over the next 100 years.
6	Protect existing features of nature conservation value and seek opportunities to improve biodiversity through the enhancements of existing habitats.
7	Produce technically feasible and buildable engineering options

19. The coastal defences in the study area are owned and maintained by Cardiff Council but there is no current maintenance plan in place and no regular condition surveys or maintenance works are undertaken. As such there are no current investments or revenue costs to report.
20. The OBC assessed a range of options for the area but due to the variation in existing defences and geomorphological process through the study area mean that different options are appropriate for different sections of the defence in the study area.
21. Whilst assessing the options it was found that several of the asset sections could be merged into five sections to enable simpler assessment of the shortlisted options. Figure 2 presents the merged shortlist sections and lists the shortlisted options for each section.

**Figure 2: Short List Options for each Section in the study area**



22. To assess the most appropriate holistic option across the whole study frontage the options were combined to form eight scheme options, which are presented in Table 2. The economic analysis and preferred option assessment are based on these options.

**Table 2: Shortlist Options**

Option	Name	Description
1	Do Nothing	No works undertaken. Allow natural coastal and fluvial processes to continue.
2	Do Minimum	Maintenance works along existing earth embankments. Add small rock toe to the eroding coastal defences to slow erosion.
3	Improve 1	Rock revetment along the coast to manage erosion and wave overtopping (Section 1) Rock scour protection along Lamby Way Roundabout (Section 3) Maintain earth embankments elsewhere and raise low points in earth embankments where required to reduce flood risk. Scour protection added to Lamby Way Bridge.
4	Improve 2	Sheet piling along the coast to manage erosion and wave overtopping (Section 1) Rock scour protection along Lamby Way Roundabout (Section 3) Maintain earth embankments elsewhere and raise low points in earth embankments where required to reduce flood risk. Rock scour protection added to Lamby Way Bridge.
5	Improve 3	Concrete sea wall along the coast to manage erosion and wave overtopping (Section 1) Rock scour protection along Lamby Way Roundabout (Section 3) Maintain earth embankments elsewhere and raise low points in earth embankments where required to reduce flood risk. Rock scour protection added to Lamby Way Bridge.
6	Improve 4	Rock revetment along the coast to manage erosion and wave overtopping (Section 1) Sheet piling along Lamby Way Roundabout (Section 3) Maintain earth embankments elsewhere and raise low points in earth embankments where required to reduce flood risk. Rock scour protection added to Lamby Way Bridge.
7	Improve 5	Sheet piling along the coast to manage erosion and wave overtopping (Section 1) Sheet piling along Lamby Way Roundabout (Section 3) Maintain earth embankments elsewhere and raise low points in earth embankments where required to reduce flood risk. Rock scour protection added to Lamby Way Bridge.
8	Improve 6	Concrete wall along the coast to manage erosion and wave overtopping (Section 1) Sheet piling along Lamby Way Roundabout (Section 3) Maintain earth embankment elsewhere and raise low points in earth embankments where required to reduce flood risk. Rock scour protection added to Lamby Way Bridge.

23. Based on the assessments undertaken the overall preferred option is Option 6: Improve 4:

- Section 1: Rock revetment along the coast to manage erosion and wave overtopping
- Section 3: Sheet piling along Lamby Way Roundabout
- Section 2, 4 and 5: Maintain earth embankments elsewhere and raise low points in earth embankments where required to reduce flood risk.
- Rock scour protection added to Lamby Way Bridge.



24. The proposed scheme will manage flood risk to 1,116 residential and 72 non-residential properties over 100 years, as well as preventing erosion of landfill material, key road infrastructure and the Rover Way Travellers Site.

## **Issues**

25. If the Coastal Protection works are not implemented the coastline will continue to erode presenting significant risk to the area.
26. The Design Stages (including ECI) will be carried out under the terms and conditions of the ECC3 Professional Services Contract (June 2005) (with amendments 2006 & 2011), or similar. The Construction works will be carried out under terms and conditions of the Engineering and Construction Contract (June 2005) (with amendments 2006 & 2011) Option C Target Contract.
27. The NEC Suite of contracts is designed to promote a collaborative team working approach and is well suited to this kind of project. Several 'main options' are available within the NEC contract suite, with selection largely driven by the allocation of out-turn financial risk ownership between the project team. Option C is a target cost contract with an activity schedule. In this contract, the out-turn financial risks are shared between the client and the contractor in an agreed proportion, leading to its colloquial name of the 'pain-gain share' option. This approach has proven to be commercially attractive to Civil Engineering Contractors, as this it encourages proactive engagement with project risks by the whole project team. It sits well with general partnership approach of the NEC Suite, and the application of the NEC Suite to this project, where key project risk ownership would be anticipated to be shared.
28. Delivery of the project will require subsequent procurement exercises being undertaken for both the Design and Construction Stages, with the latter being substantially larger. The consultancy services for the Outline Business Case were procured under the Construction Consultancy Framework (ref. NPS-PS-0027-15) managed by the National Project Service (NPS), using the relevant 'Water Management' Lot under the framework. It is envisaged that the detailed design stage of the project would be procured using a similar arrangement. The construction procurement exercise will be completed following detailed design.
29. The Wales Coast Path and cycleway will be included within any design and construction for the Coastal Defences and the Council will work with Welsh Government to ensure there are no concerns for future phases of the Eastern Bay Link. Multiple benefits are a key consideration in the Welsh Government Coastal Risk Management Programme. Any additional requirements and costs associated with multiple benefits will be assessed following detailed design.
30. The liabilities in relation to contamination of the environmentally designated estuary from the erosion of the tip has not been determined. There will be a need to establish these contamination liabilities prior to

undertaking excavation within the foreshore. It is currently understood that Welsh Government provided a general indemnity to the Council in regard to any pollution incident arising on the land. However, if any such problem arises from activities carried out or permitted by the council after the date of the agreement, then the indemnity is reversed and the Council becomes liable to Welsh Government.

### **Local Member consultation**

31. The Flood and Coastal Risk Management team are in the process of consulting the relevant local members from Rumney, Splott, Trowbridge, Adamsdown and Penylan. These wards are impacted by the extent of flooding, if a scheme did not proceed.

### **Reason for Recommendations**

32. To commit to the funding and deliver the coastal defence scheme.

### **Financial Implications**

33. Welsh Government have grant funded the development of an outline business case as indicated in this report. This has indicated indicative costs for design (£1 million) and construction (£10 million) totalling approximately £11 million (inclusive of VAT). The Coastal Risk Management Programme assumes that the WG would support 75% of design and construction costs (£8 million) whilst the Council will have to find the balance of 25% of the estimated cost (£3 million). Whilst Council's highlighted the affordability issues of such an approach, WG are unlikely to change the initial approach.
34. These infrastructure schemes can be subject to significant variations in costs unless risks are properly identified and mitigated. The next phase will be detailed design and costing which the directorate will use to assess risks and costs in construction prior to any procurement exercise. Accordingly any commitment towards completing construction works will need to be subject to final affordability of the expected construction costs and impact on the Council.
35. Subject to the approval of WG funding, the Council's Capital Programme for 2018/19 to approved by Council in February 2018 includes a capital allocation of £2.220 million with an additional £0.5 million assumed in the Lamby Way landfill provision set up for the aftercare of the site.
36. The costs associated with the design, ECI and construction phases have been estimated and include contingency and inflation allowance. The total value for Coastal Risk Management Plan Approval is approximately **£11,000,000;** The total value of the Welsh Government cost apportionment would be approximately **£8,000,000;** The total value of the CCC cost apportionment would be approximately **£3,000,000.**

## **Legal Implications**

37. Cardiff Council has a discretionary power for managing coastal erosion under the Coast Protection Act (CPA) 1949. The CPA is intended to allow the Coast Protection Authority to carry out capital works. The powers given in respect of such works are generally permissive, thereby recognising the rights and obligations of riparian owners and other relevant parties, together with funding priorities
38. Cardiff Council are the landowners for the area subject to the OBC. The CPA sets out a procedure in regard to proposals for carrying out coastal protection works which includes consultation and possible consents from other affected bodies

## **RECOMMENDATIONS**

Cabinet is recommended to:

1. procure the detailed design and construction of the coastal defences valued at £11M. The funding to be provided on an apportionment of 75% funded by Welsh Government and 25% by Cardiff Council.
2. commit to the 25% funding required to deliver the coastal defences in line with the Welsh Government Coastal Risk Management Programme.
3. Agree that a reassessment of the scheme is undertaken following the completion of the detailed design to confirm financial implications of construction and viability.

**ANDREW GREGORY**  
**Director City Operations**  
9 March 2018

Mae'r dudalen hon yn wag yn fwriadol



## Coastal Risk Management Programme

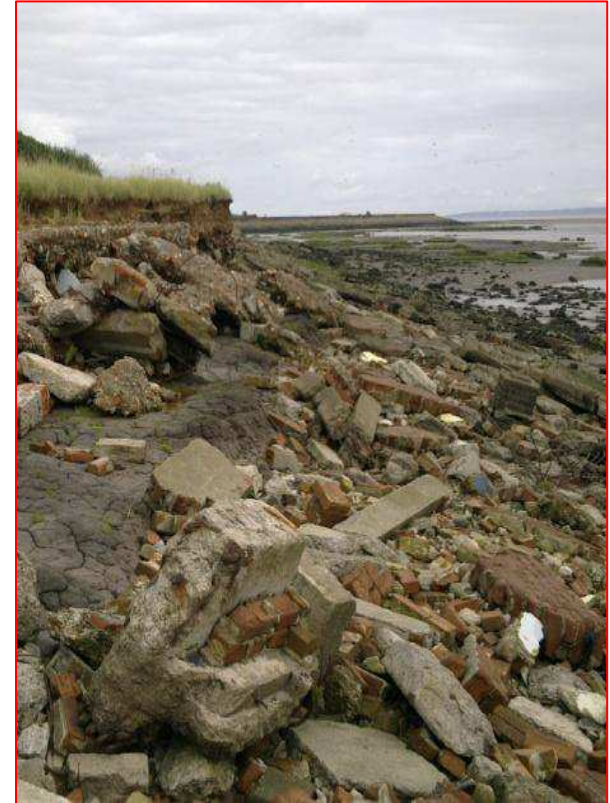
Coastal Defence Scheme – Rover Way to Lamby Way Tip

Audit Committee



# IDENTIFICATION

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# IDENTIFICATION AND ASSESSMENT

Welsh Government Coastal Risk Management Programme (CRMP) made a commitment by making £150 million available for borrowing to assist local authorities to meet financial pressures.

The CRMP provides a one-off opportunity for local authorities to implement transformational projects for coastal communities with Welsh Government contributing 75% of project costs.

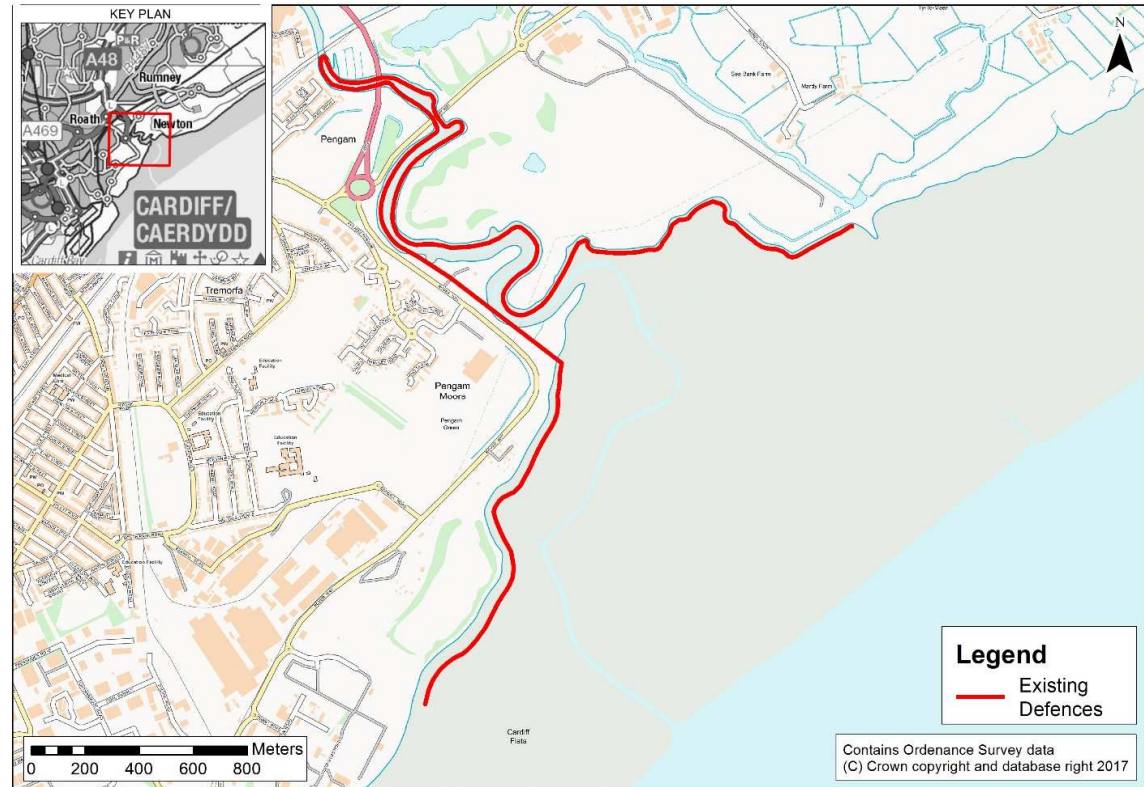
Cardiff Council have been successful in obtaining 100% funding for the production of an Outline Business Case.



# ASSESSMENT

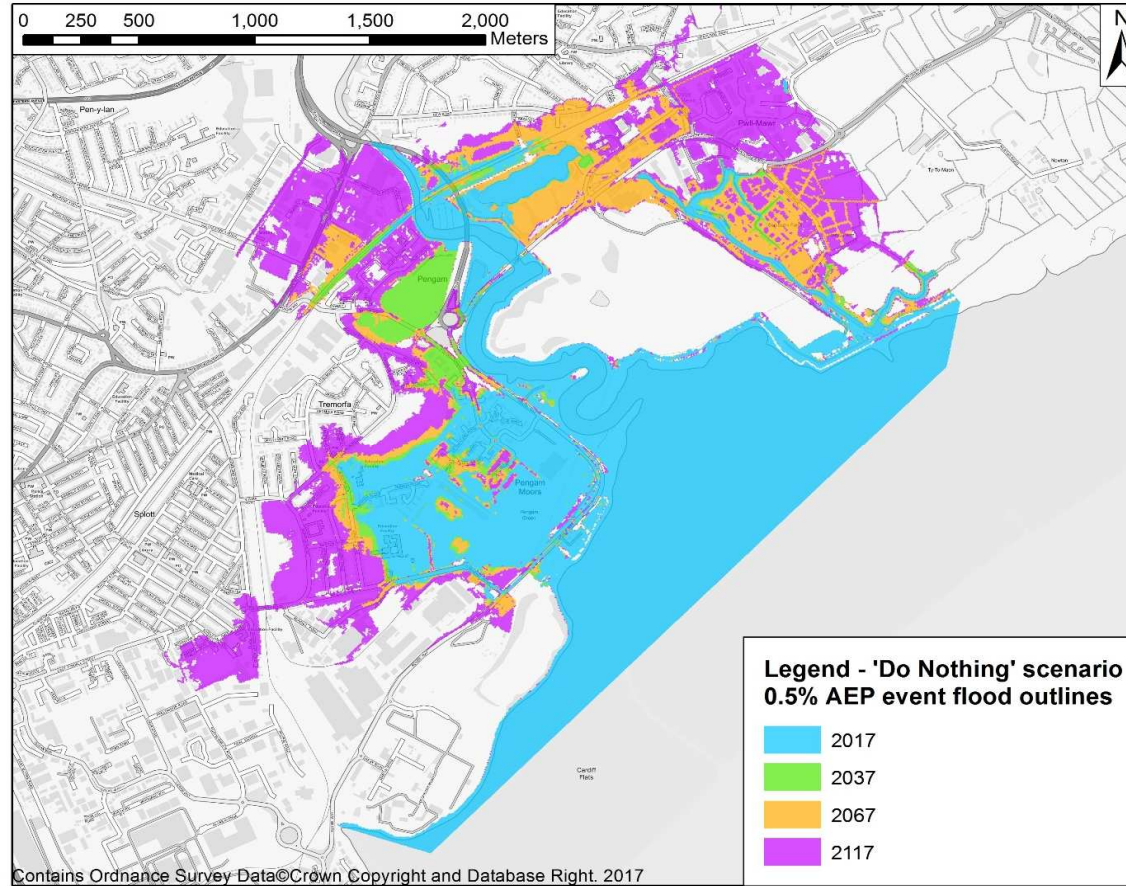
This Outline Business Case (OBC) presents the business case and implementation plan for Cardiff Coastal Defences between Rover Way in the west and Lamby way in the east.

The project aims to improve the existing coastal and fluvial defences to provide improved protection to people and property from coastal erosion and flood risk, and prevent the erosion of two decommissioned landfill sites; The Frag Tip and Lamby Way Tip.





# ASSESSMENT



Predicted flood extents for a 0.5% AEP event in 2017, 2037, 2067 and 2117



# LONG LIST OPTIONS

Due to the size of the study area the defences were divided into sections based upon the type and condition of the defence and the geomorphological processes. **Long list to short list development.**

These were evaluated against the Project Objectives and Critical Success Factors and reviewed at an options shortlisting workshop e.g. removal of concrete embankment due to environmental impact.

To assess the most appropriate holistic option across the whole study frontage the options were combined to form six scheme options. **The economic analysis and preferred option assessment are based on these six options.**



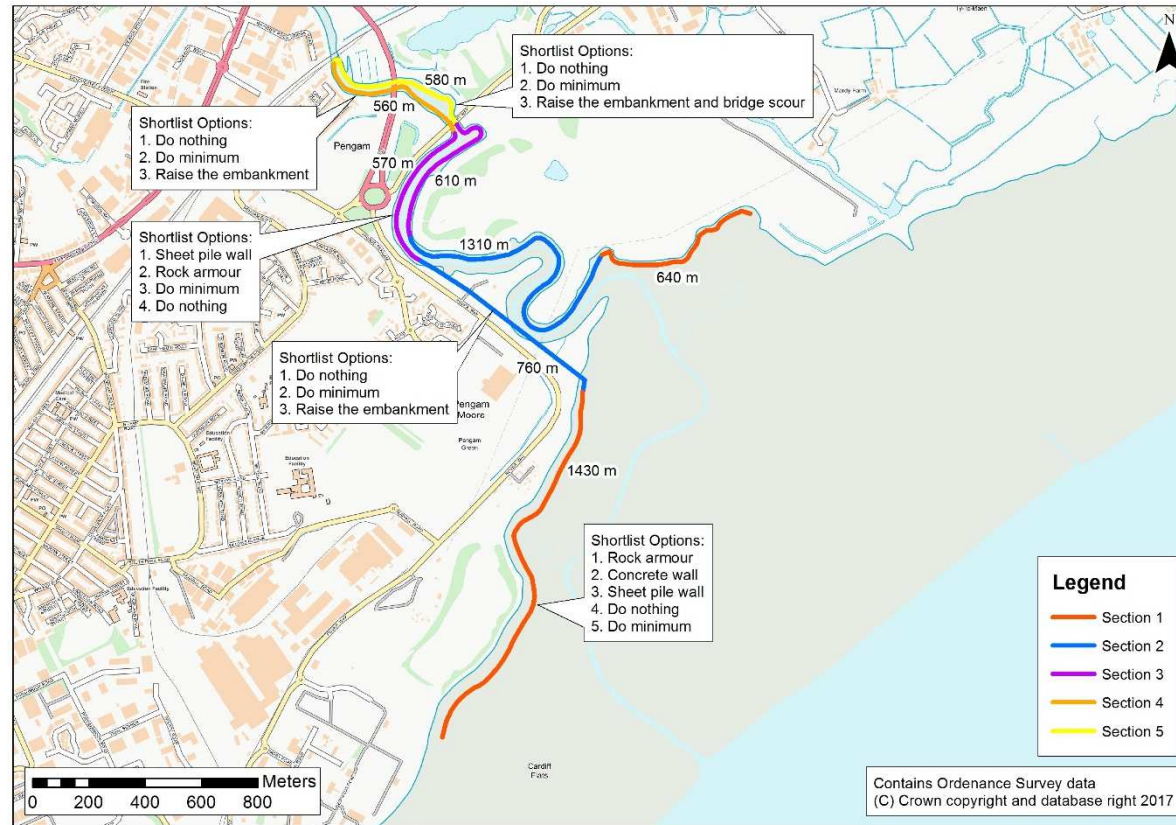
# PREFERRED OPTION

- The preferred option following economic and environmental assessment is a combination of:
- Rock revetment along the coast to manage erosion and wave overtopping (Section1);
- Sheet piling along Lamby Way Roundabout (Section 3);
- Maintain Earth Embankments elsewhere and raise low points in earth embankments where required to reduce flood risk;
- Rock scour protection added to Lamby Way.



# SHORT LIST OPTIONS

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# PREFERRED OPTIONS

## ROCK REVETMENT



## SHEET PILING



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# QUESTIONS?



**CITY OF CARDIFF COUNCIL  
CYNGOR DINAS CAERDYDD****AUDIT COMMITTEE: 22 January 2019**

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**FINANCIAL UPDATE 2018/19****REPORT OF THE CORPORATE DIRECTOR RESOURCES****AGENDA ITEM: 5.1**

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**Reason for this Report**

1. The Audit Committee terms of reference sets out their responsibility for governance, risk and control and also financial reporting. This report allows the Committee to be updated with reference to the above.

**Background**

2. To assist the Committee in understanding the current financial context within which the Council is operating, this report sets out an overview of the current monitoring position for 2018/19 and gives an update on the preparatory work for 2019/20 and the medium term.

**Issues****Financial Monitoring**

3. The Cabinet considered the Month Six Monitoring Report on 15 November 2018 and copies of this report were made available for consideration by Audit Committee at its meeting on 13 November 2018. The next full Council monitoring report will be based on the position at month nine and this is due to be presented to Cabinet on 21 February 2019. For information, a summary of the month six monitoring position is set out below. The month six monitoring reported a balanced position and the key issues identified at month six are not expected to change significantly. Work is currently progressing on the month nine monitoring position and this will be reported to the Committee at its meeting on 26 March 2019, albeit a link to the report will be sent to Audit Committee members once it is published.
4. Overall, the month six revenue monitoring for the Council continued to show a balanced position against budget with financial pressures and shortfalls against budget savings targets in directorate budgets offset by projected savings on capital financing, an anticipated surplus on Council Tax collection and NDR refunds on Council properties. In line with the position reported at month four, the overall position also took into account the release of the £1.1 million set aside for transitional grant relief via the Financial Resilience Mechanism as this budget is no longer required for its original purpose in the current financial year. Directorate budgets were projected to be overspent by £5.0 million which was broadly in line with the position reported at month four. This took into account the impact of any

management actions already taken with additional measures to be implemented during the remainder of the year where there is scope to reduce the projected overspend by the year end. The directorate positions included a number of overspends, the most significant being in respect of Social Services, Planning, Transport & Environment and Education & Lifelong Learning. These were partly offset by the £3.0 million general contingency budget which was provided as part of the 2018/19 budget in order to reflect the quantum, risk and planning status of the proposed savings for 2018/19.

## **Budget Preparation**

5. The November 2018 Budget Consultation Report identified a budget reduction requirement of £35.2 million for 2019/20 and set out the budget proposals for consultation, which included savings of £19.4 million. The consultation ran between 16 November 2018 and 2 January 2019. The consultation document was available online for download and completion with hard copies available in hubs, libraries and other key community buildings and there was also a co-ordinated social media campaign to promote engagement. The results of the consultation have been analysed for Cabinet to consider in preparing their draft budget proposal. A summary of the consultation results will be included in the 2019/20 Budget Report.
6. In December 2018, Cabinet approved the Council Tax base for 2019/20. It is estimated that the new tax base will raise an additional £2.4 million in Council Tax in 2019/20 before any increase in the rate of the tax. The higher tax base is a combination of estimated increases in the number of chargeable dwellings in the City, and the decision to remove the 50% discount for unoccupied and unfurnished dwellings. Tax base increases usually have the effect of reducing the Revenue Support Grant an Authority would otherwise have received in the forthcoming financial year. This is because the Local Government funding formula assumes that a Council is able to raise more of its Standard Spending Assessment through the Council Tax. Whilst this is true, and Cardiff can now reflect an additional £2.4 million Council Tax in its 2019/20 budget plans, clearly this also comes with a collection risk.
7. The Welsh Government's Final Local Government Settlement was announced on the 19 December 2018. It set out a cash increase in Aggregate External Finance of 0.9% for Cardiff, which was the highest published increase in Wales. This compared to a Welsh average increase of 0.2% and a maximum decrease of 0.3%. The five authorities that were in receipt of a 0.3% decrease received top-up funding totalling £3.5 million in order to limit their reduction to 0.3%.
8. Cardiff's 0.9% increase appears to be an improvement on the 0.4% increase identified as part of the Provisional Settlement and normally, an increase of 0.5% (i.e. from +0.4% to +0.9%) would provide Cardiff with £2.2 million additional grant funding. However this is not the case and Cardiff is actually slightly worse off at Final Settlement. There are two main reasons for this. Firstly, the Final Settlement includes £0.6 million in respect of a new responsibility, and therefore this sum is accompanied by an additional budgetary commitment. Secondly, the settlement includes a technical adjustment of £1.6 million in respect of Cardiff's 2019/20 Council Tax base. In summary, Provisional and Final Settlement are not reflected on a like for like basis, and so in reality, there is no improvement in grant funding for Cardiff at Final Settlement.



9. The 2019/20 budget reduction requirement is currently undergoing review to reflect updates that have occurred since November, including Final Settlement, and the approved 2019/20 Council Tax base. Cabinet are reviewing their budget proposal to take account of these updates as well as considering the results of the consultation. The final draft proposal will be presented at the Cabinet meeting on 21 February 2019, for subsequent consideration and approval by Council. A link to the Budget Report will be sent to Audit Committee members at the time it is published for Cabinet.

#### **Reason for Recommendations**

10. To inform Audit Committee of the current financial context for the Council.

#### **Legal Implications**

11. No direct legal implications arise from this report.

#### **Financial Implications**

12. There are no direct implications arising from this information report.

#### **Recommendations**

13. To note the financial information provided and the process being adopted in respect of budget preparation for 2019/20 and the medium term.

**CHRISTINE SALTER**  
**CORPORATE DIRECTOR RESOURCES**  
**January 2019**

Mae'r dudalen hon yn wag yn fwriadol

# CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD



**AUDIT COMMITTEE: 22 January 2019**

## AUDIT COMMITTEE ANNUAL REPORT DISCUSSION 2018/19

### REPORT OF THE AUDIT MANAGER

**AGENDA ITEM: 6.1**

1. In accordance with its terms of reference, the Audit Committee is required:
  - To report to Council on the Committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of the governance, risk management and internal control frameworks, financial reporting arrangements and internal and external audit functions.
  - To report to Council on an annual basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.

### Background

2. The Audit Committee prepares an Annual Report, in which it discloses the outcomes of a Self-Assessment of the effective delivery of its role, and it provides an account of its activities, findings and opinion in respect of its terms of reference. The Audit Committee Chairperson presents the Audit Committee Annual Report to Council in the autumn, following the end of the municipal year.
3. To support the Audit Committee to consider its indicative observations and findings from its programme of work in the municipal year 2018/19 to date, the following information follows a desktop review of the Audit Committee Agenda, Work Programme and Minutes for the year to date. Audit Committee consideration and discussion of this indicative analysis will support the development of its Draft Annual Report 2018/19, for consideration on 25 June 2019.

### Issues

4. The following paragraphs outline the standard and one-off Audit Committee items and reports received and planned for the municipal year 2018/19, together with the indicative key observations to date, and the primary initiatives taken forward to further progress the delivery and impact of its work. This information is considered to represent the key summary information for Audit Committee to consider, for development within its Annual Report 2018/19 as the year progresses.

#### a. Standard Items

5. The Corporate Director Resources (Section 151 Officer) has provided financial updates at each meeting outlining the budget strategy, financial resilience and the Council's overall financial position. The Audit Committee has continued to raise concerns from

prior years about significant overspends and unrealised savings targets, with emphasis given to the Social Services Directorate.

6. The Audit Committee has considered the contents of the Corporate Risk Register quarterly and the Senior Management Assurance Statements (SMAS) biannually. The Audit Committee has progressed its approach to inviting senior officers to account for how they have discharged effective governance, risk management and control. Assurance has been sought specifically in respect of cyber security and coastal erosion flood risk management, with the senior risk owners invited to Audit Committee to account for their management of these risks.
7. The Audit Committee has continued to receive the Treasury Management Annual Report, Mid-Year Report, Treasury Management Strategy and the Treasury Performance and Practices Reports. Audit Committee areas of challenge and requests for assurance have related to the levels and nature of investments and borrowing.
8. External Audit letters, financial audit reports and updates in national and regional studies have been reported to, and considered by, Audit Committee. This work has been relied upon by the Audit Committee, in seeking assurance in relation to its terms of reference.
9. Audit Committee has continued to place reliance on the work of the Council's Internal Audit Team. The Committee has approved the Audit Charter and Audit Plan for 2018/19, and has received and considered key progress reports which have included regular updates on conformance with the Public Sector Internal Audit Standards, and critical findings and emerging trends from the work undertaken and the audit tracker of recommendations issued and progress in delivery. Particular areas of assurance from this work have been sought in respect of school governance and the control environment in respect of the Waste Management function.

#### **b. One-off Items**

10. The Audit Committee has invited senior officers to provide first-hand assurance in relation to the internal control environment for their respective areas of responsibility. The Chief Executive and a number of Directors have attended Audit Committee to provide an overview of their governance, risk management and control assurance.
11. The Audit Committee has also invited senior officers to provide assurance in specific areas, following Audit Committee review of standard item information and outputs. In particular, senior responsible officers have attended, or are arranged to attend Audit Committee this year in respect of the following areas.
  - Cyber Security
  - Coastal Risk Management Programme
  - Waste Management Internal Control Environment and Investigation Assurance

#### **c. Key Observations**

12. The Key observations of the Audit Committee in the 2018/19 municipal year to date have been documented as follows:

- **Budget Prioritisation Control**

- Overspends in particular directorates
  - Achievement of budget savings proposals
  - Budget Proposals (2019/20) - assurance sought on proposed Risk Management and Internal Audit savings
- **Financial / Internal Control**
    - Continued invitations for Directors to attend and provide assurance on their internal control environments in Audit Committee Meetings
    - Specific areas of governance and risk management have been explored in Committee meetings - Cyber Security (November 2018), Coastal Risk Management Programme (January 2019) and Waste Management Assurance (programmed for March 2019).
    - Waste Management internal control matters – Briefings received as appropriate and active monitoring ongoing.
  - **Financial Resilience (including treasury management)**
    - Updates provided in each Committee meeting.
    - Focus on use of reserves, investments and borrowing
  - **Schools Governance and Compliance**
    - Report received on Governance in Schools and School Balances
    - School Governance Mechanism agreed in November 2018 for assurance to be received and coordinated via the Director of Education and Lifelong Learning.

#### **d. Initiatives**

13. Audit Committee has taken forward some key initiatives this year in order to strengthen its effectiveness, as follows.
14. The Chairperson and Vice Chairperson have engaged in reciprocal Audit Committee visits. This year Chairperson visits have been arranged with Swansea and Leeds Council Audit Committees, in order to share ideas, initiatives and best practices.
15. In support of wider awareness of the work, findings and outcomes of Audit Committee activities, an inaugural Audit Committee Newsletter was published in October 2018. The intention is to continue to publish a newsletter twice a year to continue to communicate the Committee's work, and support a culture of accountability and assurance.
16. To underpin Audit Committee effectiveness, and progress targeted development and training where required, the Audit Committee Annual Self-Assessment process has been strengthened to require all Members to complete an individual assessment against the core areas of the CIPFA knowledge and skills framework.

#### **Reason for recommendation**

17. To enable the Audit Committee to consider its indicative observations and findings for development within its draft Audit Committee Annual Report.

## **Legal Implications**

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

## **Financial Implications**

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

## **Recommendation**

20. Audit Committee to consider the contents of this report and to discuss the development of the Audit Committee Annual Report.

**CHRIS PYKE**  
**AUDIT MANAGER**  
22 January 2019

# CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD



**AUDIT COMMITTEE: 22<sup>nd</sup> January 2019**

## SENIOR MANAGEMENT ASSURANCE & ANNUAL GOVERNANCE STATEMENTS – MID-YEAR REVIEW 2018/19

### REPORT OF CORPORATE DIRECTOR RESOURCES

**AGENDA ITEM: 6.2**

#### Reason for Report

1. The Audit Committee's Terms of Reference requires Members to review the Annual Governance Statement (AGS) prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account the internal audit opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk and internal control.
2. Specific components of the AGS reported individually to the Audit Committee are the biannual Senior Management Assurance Statements (SMAS) and the AGS Action Plan of significant governance issues, following approval by the Senior Management Team (SMT). This report provides members of the Audit Committee with the mid-year review conducted by SMT.

#### Background

3. Senior Management Assurance Statements (SMAS) are used to assess governance maturity in application of the 'Delivering Good Governance in Local Government' framework, developed by CIPFA / SOLACE.
4. Through the SMAS, each Director responds to 23 good governance statements using a 5-point maturity scale for their areas of responsibility ranging from 'not in place', 'limited application', 'mixed application', 'strong application' to 'embedded'. Prior to submitting their returns, each Director is required to obtain underlying assurances from their management teams to support a directorate-wide response to each statement. Each of these 23 statements link to the 9 categories
  - Risk Management
  - Partnership/Collaborate Governance
  - Compliance
  - Programme and Project Assurance
  - Budget Monitoring
  - Planning and Decision Making
  - Internal Control Environment
  - Fraud & Financial Impropriety

- Performance Measurement & Management
5. All SMAS returns are subject to challenge, review and approval by SMT. The Mid-Year Review was undertaken at the SMT meeting of 31<sup>st</sup> October 2018 to reflect upon the content and key messages across the directorates and consequently the following was agreed as a true reflection of progress:
- The overall position as assessed at the mid-year (Appendix A)
  - Progress against the 'Action Plan' of Significant Governance Issues at the mid-year (Appendix B)

## **Issues**

### Senior Management Assurance Statements

6. The 23 assurance statements, summarized by 9 categories, showed an overall rate of strong or greater governance at 69%. This is a reduction of 15 percentage points from the assessment at the end of 2017/18. The reason for this can be attributed primarily to a more comprehensive evidence base for the assessment, and an increased level of self-awareness when undertaking the assessment. The impetus being that all assurance categories should move towards being at a level of 'strong' or 'embedded'.
7. At the end of 2017/18 the greatest maturity was reported in respect of risk and performance management with responses of strong or greater at rates of 97% and 93% respectively. The mid-year assessment 2018/19 highlights that the level of assurance has shifted to the following ranking.

<b>Rank</b>	<b>Assurance Category</b>	<b>Assurance level Strong +</b>
1	Fraud & Financial Impropriety	86%
2	Performance Measurement & Management	79%
3	Budget Monitoring	78%
4	Programme and Project Assurance	76%
5=	Risk Management	71%
5=	Internal Control Environment	71%
7=	Compliance	57%
7=	Planning and Decision Making	57%
9	Partnership/Collaborative Governance	50%

8. At the end of 2017/18 improvements in internal controls (81%), compliance (78%), the prevention and detection of fraud (86%), budget monitoring (78%), business planning and programme and project assurance were all assessed as strong or above. The mid-year position has seen a reduction in the assurance level for Internal Control Environment and Programme and Project Assurance, with a static position for Budget Monitoring, Compliance and Fraud & Financial Impropriety. In comparison with the rest of the Directorates, where the assessment level against the Future Generations aspect of Planning and Decision Making Category is 'mixed', Resources has provided an overall 'limited level' of assurance in relation to Future Generations due to the need to ensure all strategic decision making has the documented evidence to demonstrate that the obligations as specified in the Wellbeing of Future Generations Act 2015 have been met.



9. A detailed analysis is contained in Appendix A.
10. The assessment relating to the maturity of partnership governance, remains unchanged as 50% 'mixed' and 50% strong since the end of year assessment 2017/18. This is one of the significant governance issues and a progress update is included in Appendix B.

#### AGS Action Plan

11. Each member of the Senior Management Team contributed to an updated position against five existing significant governance issues.
12. An update on the issues in the AGS Action Plan is provided at Appendix B and these will continue to be managed and formally reviewed at the year-end in preparation of writing the AGS.

#### Reason for Recommendation

13. To enable the Audit Committee to review and comment upon the self-assessed elements of the AGS.

#### Legal Implications

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

#### Financial Implications

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

#### Recommendation

16. The Audit Committee to review and comment upon the self-assessed elements of the AGS, namely the Senior Management Assurance Statements', the resulting overall 'Senior Management Statement' and 'Action Plan of Significant Governance Issues'.

**CHRISTINE SALTER**  
**CORPORATE DIRECTOR RESOURCES**  
22nd January 2018

The following Appendices are attached:

**Appendix A** - SMAS Analysis 2018/19 (Mid-Year)

**Appendix B** – Progress against the 'Action Plan' of Significant Governance Issues at the mid-year 2018/19

Mae'r dudalen hon yn wag yn fwriadol



# SMAS Mid Year Analysis 2018/19

## Appendix A



Gweithio dros Gaerdydd, gweithio gyda'n gilydd  
Working for Cardiff, working together

# SMAS Category Analysis

## Mid Year 2018/19



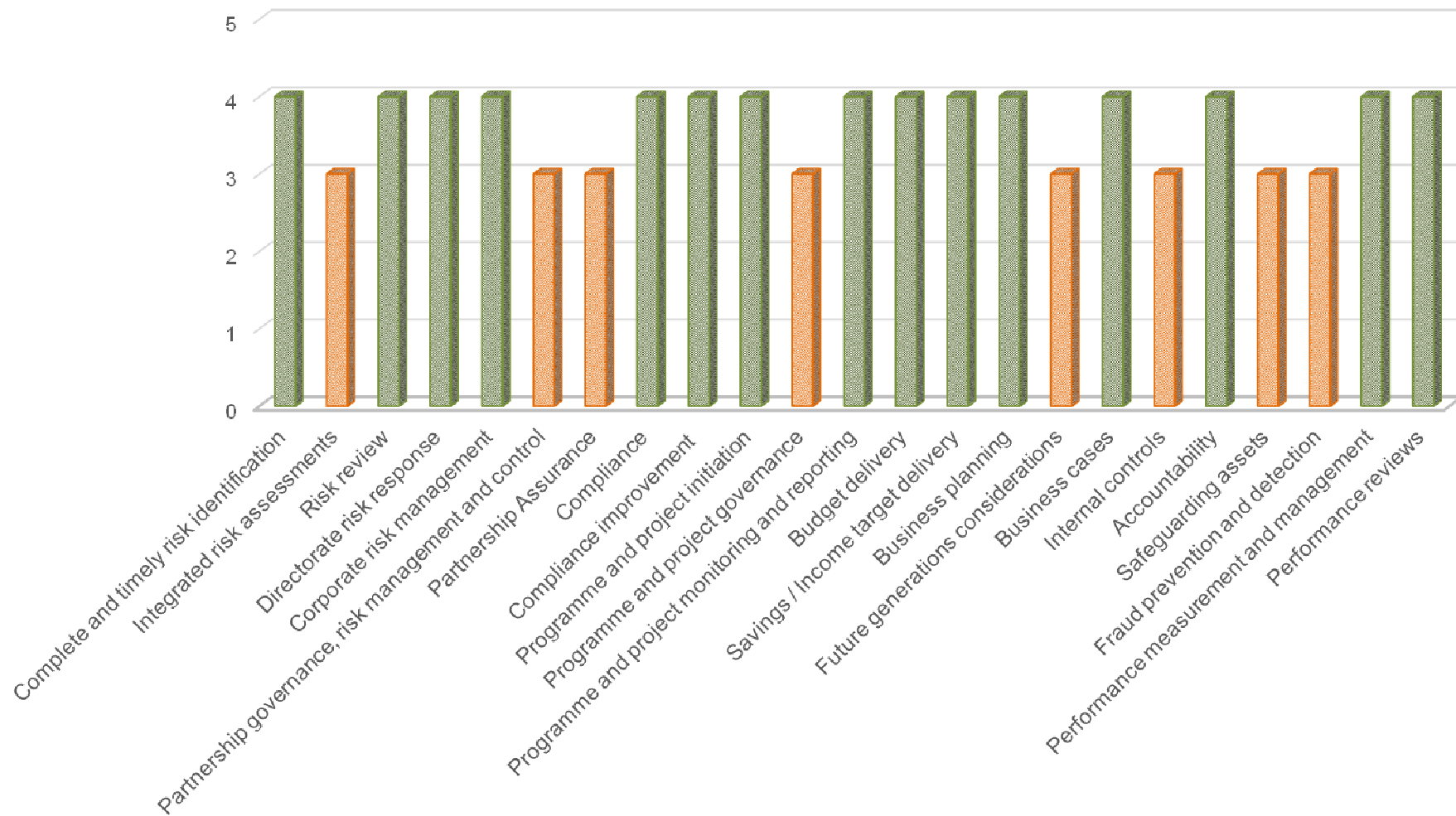
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Assurance Statement Category	Not in Place	Limited Application	Mixed Application	Strong Application	Embedded	Strong +
<b>1. Risk Management</b>	0%	0%	29% (10) (Yr. End 17/18 3%)	68% (24) (Yr. End 17/18 71%)	3% (1) (Yr. End 17/18 26%)	71% (Yr. End 17/18 97%)
<b>2. Partnership / Collaborative Governance</b>	0%	0%	50% (7) (Yr. End 17/18 50%)	50% (7) (Yr. End 17/18 50%)	0%	50% (Yr. End 17/18 50%)
<b>3. Compliance</b>	0%	0%	43% (6) (Yr. End 17/18 21%)	57% (8) (Yr. End 17/18 71%)	0%	57% (Yr. End 17/18 78%)
<b>4. Programme and Project Assurance</b>	0%	0%	24% (5) (Yr. End 17/18 9%)	76% (16) (Yr. End 17/18 86%)	0%	76% (Yr. End 17/18 91%)
<b>5. Budget Monitoring</b>	0%	0%	22% (3) (Yr. End 17/18 21%)	64% (9) (Yr. End 17/18 57%)	14% (2) (Yr. End 17/18 21%)	78% (Yr. End 17/18 78%)
<b>6. Planning and Decision Making</b>	0%	5% (1) (Yr. End 17/18 19%)	38% (8) (Yr. End 17/18 19%)	52% (11) (Yr. End 17/18 71%)	5% (1) (Yr. End 17/18 10%)	57% (Yr. End 17/18 81%)
<b>7. Internal Control Environment</b>	0%	0%	29% (6) (Yr. End 17/18 19%)	71% (15) (Yr. End 17/18 76%)	0%	71% (Yr. End 17/18 81%)
<b>8. Fraud &amp; Financial Impropriety</b>	0%	0%	14% (1) (Yr. End 17/18 14%)	86% (6) (Yr. End 17/18 86%)	0%	86% (Yr. End 17/18 86%)
<b>9. Performance Measurement &amp; Management</b>	0%	0%	21% (3) (Yr. End 17/18 7%)	72% (10) (Yr. End 17/18 79%)	7% (1) (Yr. End 17/18 14%)	79% (Yr. End 17/18 93%)
<b>Totals</b>	0%	1% (1) (Yr. End 17/18 0%)	30% (49) (Yr. End 17/18 16%)	66% (106) (Yr. End 17/18 72%)	3% (5) (Yr. End 17/18 12%)	69% (Yr. End 17/18 84%)

# Planning Transport & Environment SMAS - 2018/19 (Mid Year)



■ 1. Not in Place   
 ■ 2. Limited Application   
 ■ 3. Mixed Application   
 ■ 4. Strong Application   
 ■ 5. Embedded

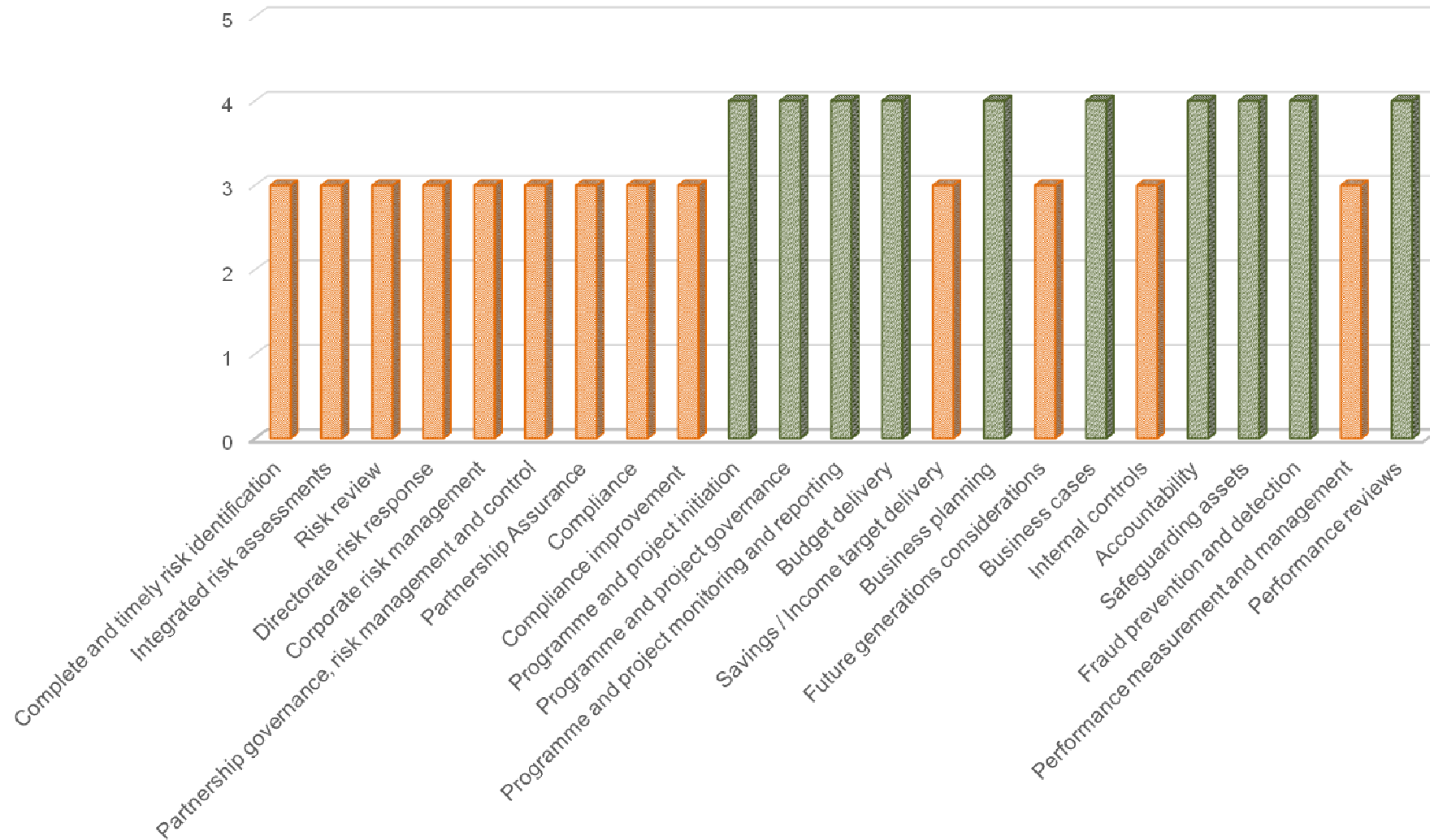


# Social Services SMAS 2018/19 (Mid Year)



■ 1. Not in Place   
 ■ 2. Limited Application   
 ■ 3. Mixed Application   
 ■ 4. Strong Application   
 ■ 5. Embedded

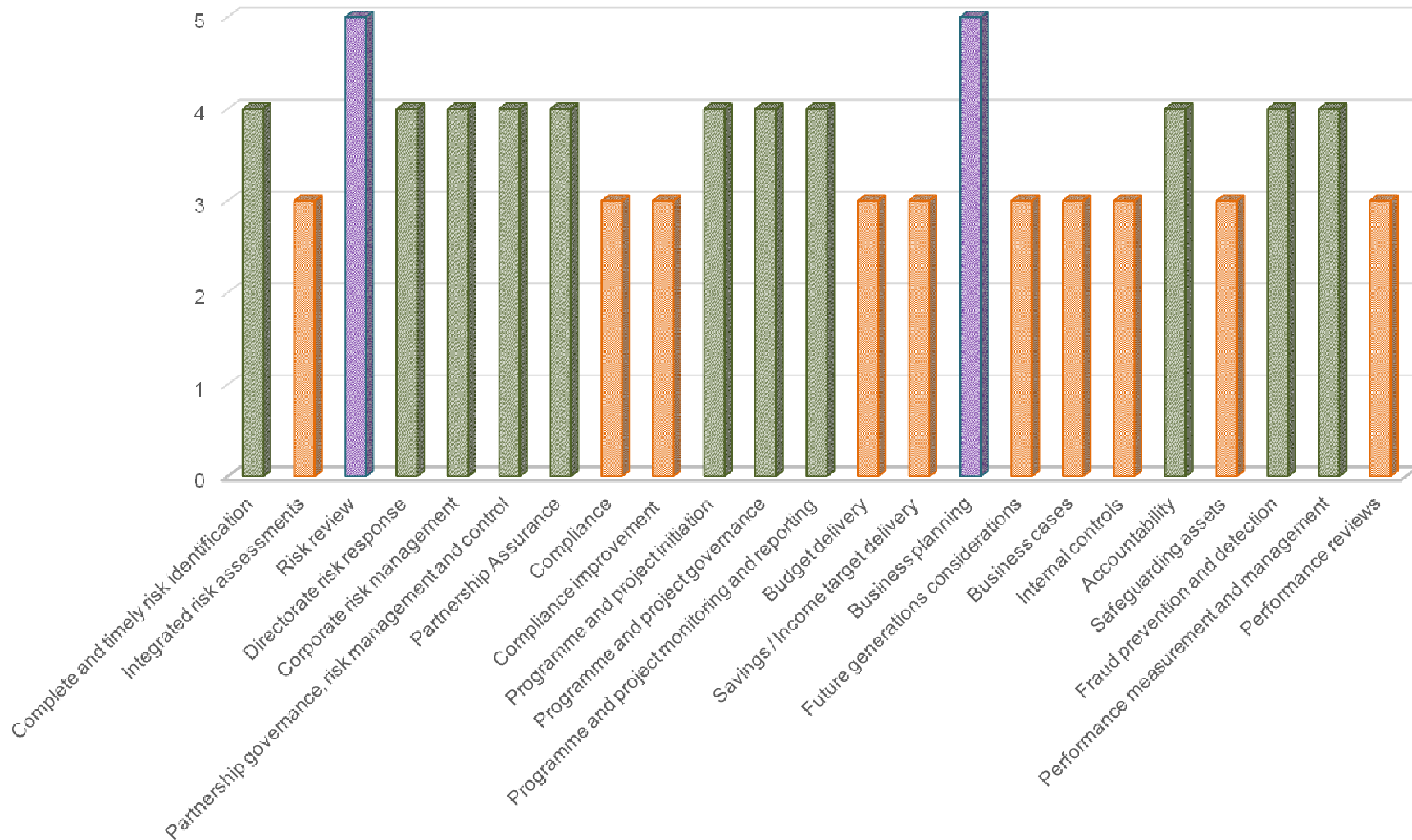
Tudalen 70



# Education & Lifelong Learning SMAS 2018/19 (Mid Year)



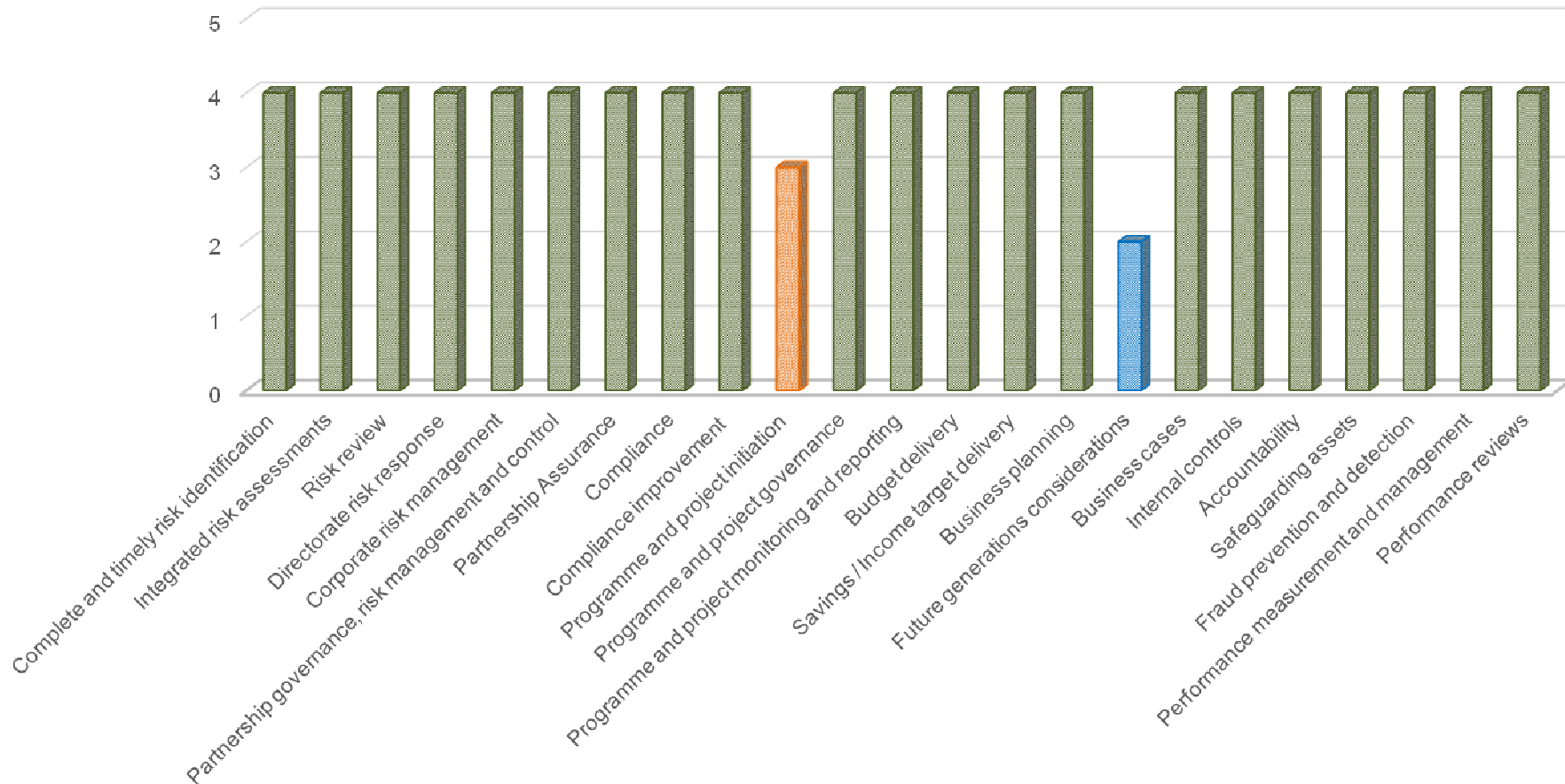
■ 1. Not in Place   
 ■ 2. Limited Application   
 ■ 3. Mixed Application   
 ■ 4. Strong Application   
 ■ 5. Embedded



# Resources SMAS 2018/19 (Mid Year)



■ 1. Not in Place 
 ■ 2. Limited Application 
 ■ 3. Mixed Application 
 ■ 4. Strong Application 
 ■ 5. Embedded

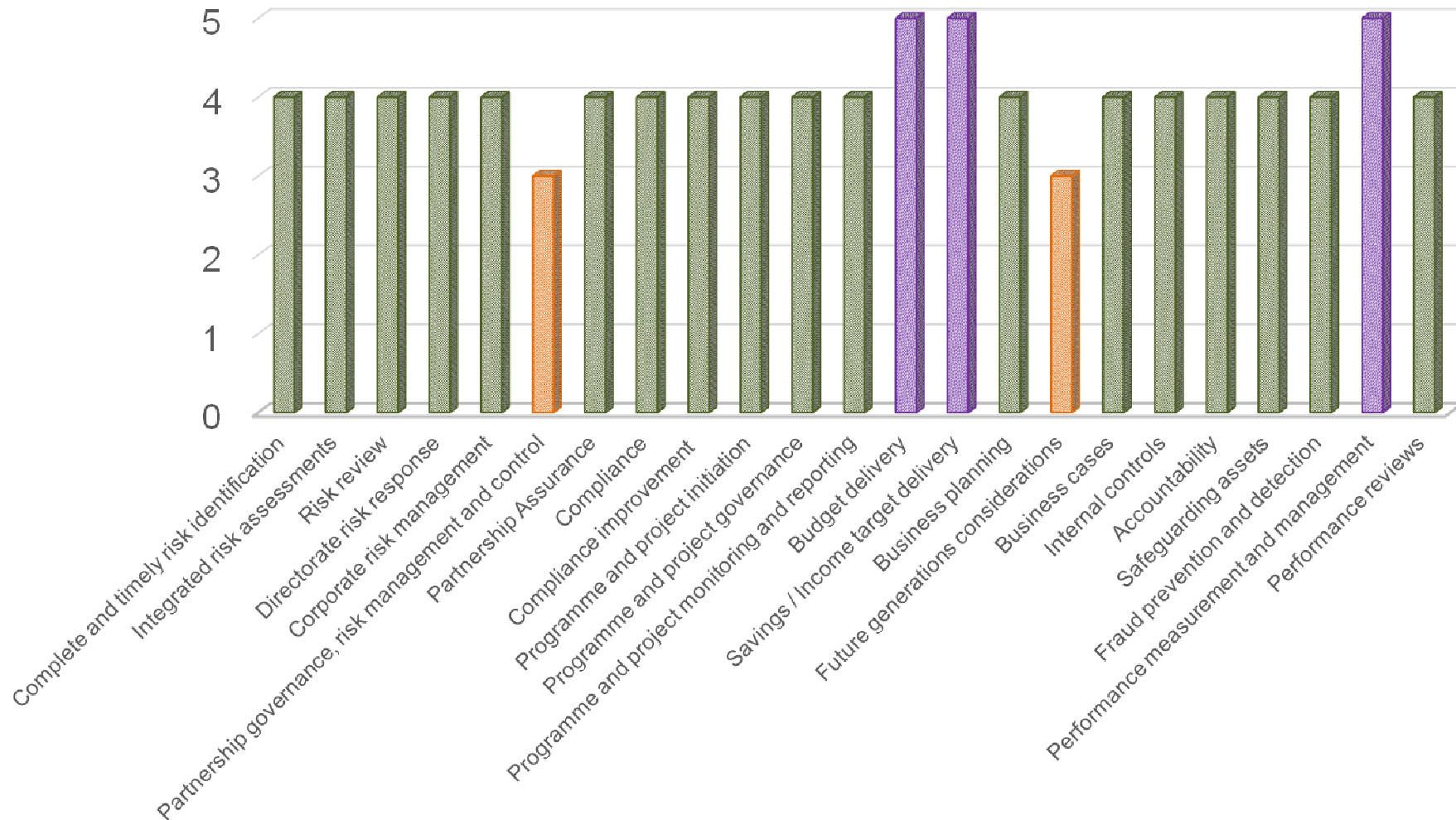




# People and Communities SMAS 2018/19 (Mid Year)



■ 1. Not in Place   
 ■ 2. Limited Application   
 ■ 3. Mixed Application   
 ■ 4. Strong Application   
 ■ 5. Embedded

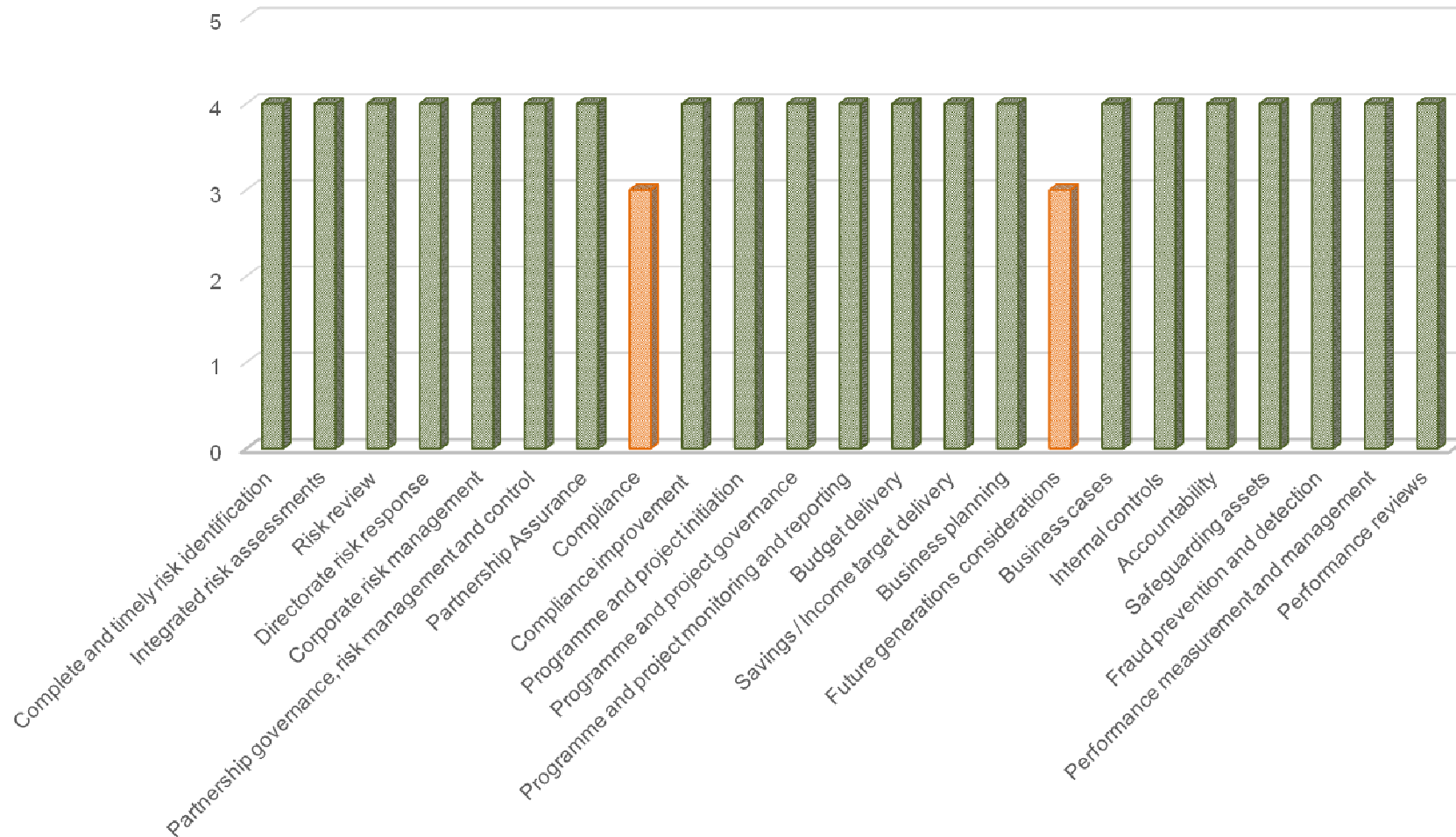


Tudalen 73

# Economic Development SMAS 2018/19 (Mid Year)



■ 1. Not in Place   
 ■ 2. Limited Application   
 ■ 3. Mixed Application   
 ■ 4. Strong Application   
 ■ 5. Embedded



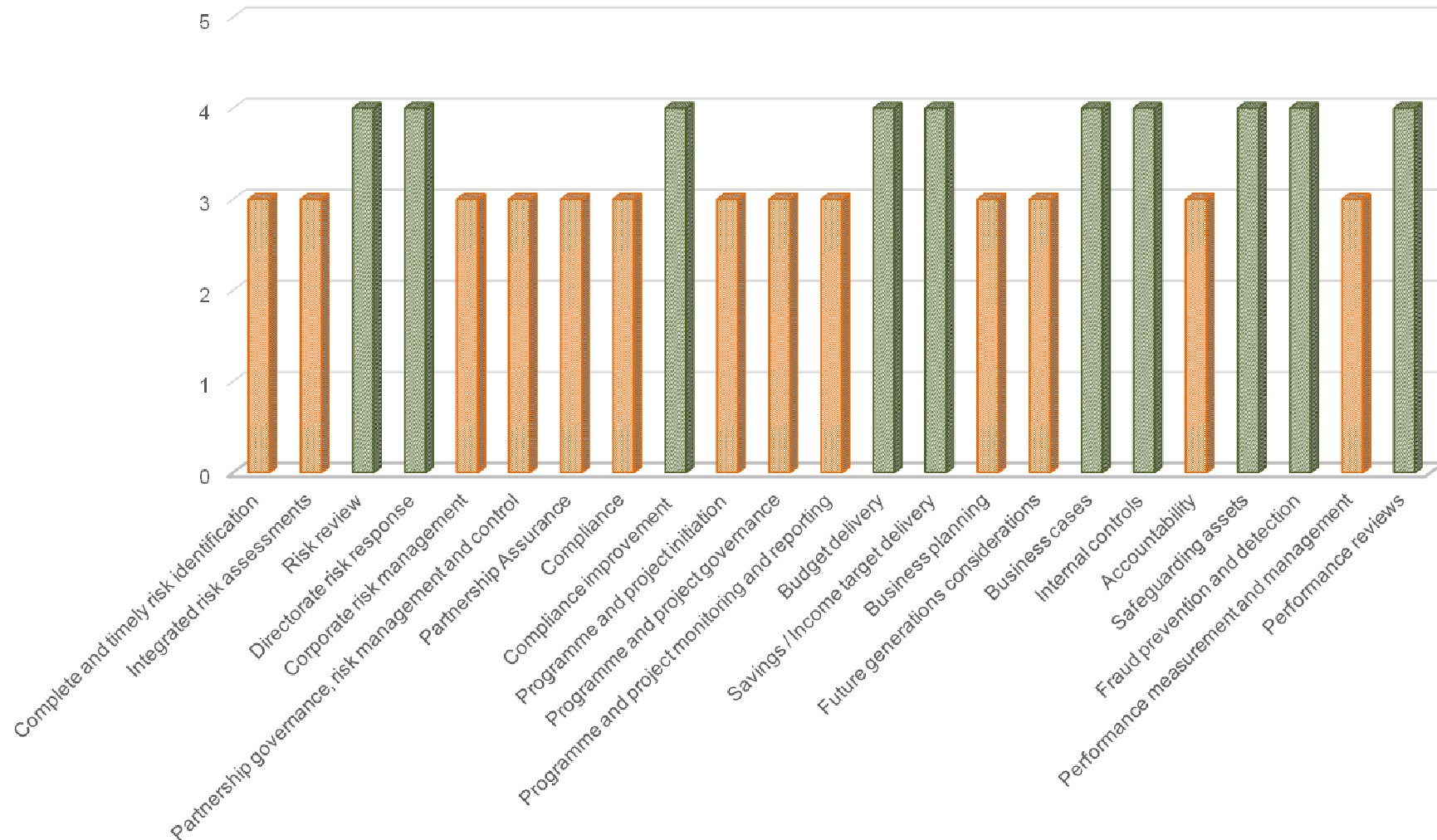
Tudalen 74



# Governance & Legal Services SMAS 2018/19 (Mid Year)



■ 1. Not in Place   
 ■ 2. Limited Application   
 ■ 3. Mixed Application   
 ■ 4. Strong Application   
 ■ 5. Embedded



Tudalen 75

Mae'r dudalen hon yn wag yn fwriadol



# Significant Governance Issues Mid Year Analysis 2018/19 Appendix B



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# Significant Governance Issues 2018/19

Brought Forward	Mid Year Position
<p><b><u>Capacity &amp; Decision Making</u></b></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>Year-End Assessment 2017/18</u> The capacity and decision making of the Council is being developed through both a review of management structures and workforce development.</p> <p>Restructures have been agreed and appointments have been made to the following posts:</p> <ul style="list-style-type: none"> <li>• Corporate Director People &amp; Communities</li> <li>• Chief Digital Officer</li> <li>• Director Social Services</li> <li>• Further appointments will be expected during Q1 2018/19</li> </ul> <p>Staff development is an important area of focus through Workforce Planning. To support and upskill existing officers:</p> <ul style="list-style-type: none"> <li>• Courses are being designed by the Academy.</li> <li>• Financial Procedure rules and Contract Standing Orders have been reviewed during 2017/18 and have been approved by Constitution Committee. Roll out of the changes will commence in Q1 2018/19</li> <li>• Themed Audits on decision Making and governance have taken place for each directorate during 2017/18 and common findings of those audits will be shared with SMT during Q1 2018/19</li> </ul>	<p><b>Restructure:</b> The Senior Management structure was completed during Q1 and all new posts occupied during Q2. All directorates are currently undertaking workforce planning review with the intention to complete workforce plans by 31 December 2018. These plans will set out actions for the last quarter of 2018/19 and set out the priority areas for 2019/20.</p> <p><b>Staff Development:</b> The catalogue of Academy courses has been updated and a suite of mandatory modules related to capacity building and decision making e.g. Attendance and Wellbeing, Safeguarding, released with completion dates of 31 March 2019</p> <p>Financial Procedure rules and Contract Standing orders have been amended and appropriate training sessions have been rolled out across the Council. In Addition, GDPR awareness sessions have been provided to staff nominated by each directorate. A suite of courses is run by the Academy with catalogue available online. A suite of mandatory training modules is required to be completed by 31 March 2019 (Attendance &amp; Well-Being. Violence At work, Safeguarding)</p> <p>Themed governance audits recognised some gaps in School policies and key governance documentation, which were reported to all Governors in a Strategic Briefing in June 2018. The effective decision making audits have provided general overall assurance to date, with opportunities for improvement reported to relevant Directors.</p>
<p><b><u>Commissioning Capability and Capacity</u></b></p> <p>In the new Organisational Framework it is critical that we challenge current service provision and priorities. 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>Year-End Assessment 2017/18</u> The importance of Commissioning remains key not only in everything the Council does, but also in the success of delivering Capital Ambition. The Council needs to improve its understanding of Commissioning as a whole in terms of undertaking meaningful analysis to understand need and inform outcomes, redesigning service delivery around those outcomes, reviewing the performance of current services, consideration of alternative delivery models or ensuring our third party spend and related markets is appropriately managed.</p> <p>Although commissioning capability and capacity will not specifically feature in the new change programme, some elements will:</p> <ul style="list-style-type: none"> <li>• Data analysis to understand needs will feature as part of the Digital programme</li> <li>• A programme of service reviews will be performed across all Directorates building on work previously undertaken which will also consider third party spend arrangements and consideration of alternative delivery models.</li> </ul>	<p>The importance of Commissioning remains key not only in everything the Council does, but also in the success of delivering Capital Ambition.</p> <p>The Council needs to improve its understanding of Commissioning as a whole in terms of undertaking meaningful analysis to understand need and inform outcomes, redesigning service delivery around those outcomes, reviewing the performance of current services, consideration of alternative delivery models or ensuring our third party spend and related markets is appropriately managed.</p> <p>Although commissioning capability and capacity will not specifically feature in the new change programme, some elements will:</p> <ul style="list-style-type: none"> <li>• Data analysis to understand needs will feature as part of the Digital programme</li> <li>• A programme of service reviews will be performed across all Directorates building on work previously undertaken which will also consider third party spend arrangements and consideration of alternative delivery models.</li> </ul>

# Significant Governance Issues 2018/19

Brought Forward	Mid Year Position
<p><b><u>Relevant Costs and Decision Making</u></b></p> <p>Internal function activities and performance needs to be accounted for more transparently within the corporate whole. This includes ensuring greater cost awareness in business decisions, such as projects with greater accountability and transparency of charges and costs.</p> <p><u>Year-End Assessment 2017/18</u>                      Work is progressing to improve cost awareness in projects, with the support of finance staff. Investment Review Board has met regularly during the year receiving Business Cases and progress reports in respect of individual projects. The financial focus is on value for money, financial return on investment, funding identification and the capturing of financial savings.                      Knowledge transfer - There is a need to ensure that there is strong knowledge transfer from both internal managers involved in project support from the external organisations that we work with. Knowledge Transfer has progressed during 2017/18 in respect in project work undertaken within the Corporate Landlord Function area. Other informal knowledge transfer work has been undertaken in other areas.</p>	<p>Prioritisation of cost awareness in projects, supported by finance staff.</p> <p>Investment Review Board continues to meet receiving Business Cases and progress reports in respect of individual projects. The financial focus is on value for money, financial return on investment, funding identification and the capturing of financial savings.</p>
<p><b><u>Partnership / Collaborative Governance</u></b></p> <p>The level of governance, assurance and reporting required for the Council’s partnership and collaborative activities needs to be more fully determined and defined to ensure a consistent and proportionate approach is applied.</p> <p><u>Year-End Assessment 2017/18</u>                      The required governance arrangements across key partnership and organisational development activity are being developed and considered by the corporate Senior Management Team (SMT) / Public Service Board (PSB).</p> <p><b>Corporate Partnership Working</b>                      The Public Services Board is now fully established with a two-tier model (the overall Public Services Board – chaired by the Leader of the Council – underpinned by the Public Services Delivery Board – chaired by the Council’s Chief Executive) in place. Subsequent to this, two related pieces of work are happening. Firstly, the governance structures and arrangements underneath the Public Services Delivery Board have been reviewed, with changes made where necessary. The most significant example of this is the imminent recalibration of the community safety partnership arrangements for the city. This – and other changes – will ensure the PSB has the governance necessary to deliver the challenging ambitions set out in the city’s Wellbeing Plan.</p> <p>The second piece of work nearing completion is the review of the Council’s governance structures to enable the successful delivery of Capital Ambition. This has included the development of new groups (such as the Digital Cardiff Board, chaired by the Council’s Chief Executive), the continued development of other groups (e.g. the Council’s Performance Support Group) and the integration of existing partnership structures into the core business of the Council’s Senior Management Team. These arrangements will give the Council’s Senior Management Team the tools and assurance necessary to deliver the stretching objectives set out in the Corporate Plan and, ultimately, Capital Ambition, working in partnership with those agencies and organisations that are pivotal to the overall success of Cardiff.</p> <p><b>Directorate Partnership Working</b>                      At a directorate level, there are a vast number of partnerships and collaborative working arrangements across a range of functions. Many of these partnership and collaborative working arrangements are our mechanism to mitigate significant risk, for example, the Welfare Reform Partnership group, is a means of coordinating activity to reduce the impact of those changes across the City. Due to the vast number and the organic way in which some arrangements have been formed there may be some where appropriate governance such as documented Terms of Reference have not been established.</p> <p>As a guiding principle, the scope and level of decision making capabilities is used to determine the level and extent of partnership / collaborative governance. Senior officers have recognised that further work is required to define and communicate the required levels of governance based on the nature and scope of different forms of collaboration to support consistency</p>	<p><b>Public Services Board:</b> There is a recognised governance arrangement in place and partnership structures underneath the Public Services board have continued to be developed</p> <p><b>Regional Partnerships:</b> There are a significant number of Regional Partnerships developed, or being developed and each has their own approach to governance e.g. SRS, National Adoption, VVC Adoption Service, RSW, Social services and Well-being, Regional Planning. It is important that learning takes place in order to streamline arrangements, and understand the wider interactions as they grow in number.</p> <p>Internal Audit work into the Council’s partnership and collaboration arrangements resulted in the recommendation that “Management must consider the development of a corporate framework on partnership and collaborative governance, to include a clear definition of a ‘partnership’. The framework should set out the key governance principles for successful partnership and collaborative working and standardise the Council’s approach in order to strengthen accountability, manage risks and rationalise working arrangements.” This work will be taken forward over the remainder of the financial year to ensure the development of guidance to help Council officers understand the levels of governance appropriate to, and required by, the variety of arrangements they are engaged in. This is especially important given the likely proliferation of partnership working arrangements necessary to meet the challenges the Council and city faces.</p>

# Significant Governance Issues 2018/19

Brought Forward	Mid Year Position
<p><b><u>Robust and Sustainable Savings</u></b></p> <p>There is a need to ensure robust business cases consistently underpin achievable savings proposals. In ensuring decisions encompass future generation needs there is also a need to ensure there is documented consideration of the sustainability of services and the mitigation of risks (e.g. assets, technology, HR and service delivery).</p> <p><u>Year-End Assessment 2017/18</u></p> <p>Business Cases - Work is ongoing to ensure that detailed business cases, which include strong supportive financial and non-financial information, consistently underpin all savings proposals.</p> <ul style="list-style-type: none"> <li>• Service and Digital solution reviews will begin in early Q1 in order to provide further evidence and detail to new and existing savings proposals put forward for 2018/19 and to be considered for 2019/20.</li> <li>• As reported in the 2018/19 Budget Report 90% of proposals were either realised or with a detailed plan in place. Further work continued in March to further reduce the value of savings proposals that did not have a plan.</li> <li>• 52% of 2017/18 Budget proposals have an achievability risk rating of Amber / Green or below. Work will continue in order to increase this figure during the year for 2018/19 proposals and provide further mitigations into 2019/20 saving proposals.</li> </ul> <p><b>Enhanced Risk Review</b> - An enhanced risk review was completed for capital funding requests for 2018/19 onwards to improve the supporting information provided as part of the decision making process.</p> <ul style="list-style-type: none"> <li>• Further work is underway to consider and refine the appropriate level and breadth of risk information and analysis required to support decision makers.</li> <li>• Building on 2018/19 budget process, the risk assessment methodology for capital funding requests of ongoing and new schemes will be further improved and embedded into the budget strategy for 2019/20.</li> </ul>	<p><b>Business Cases</b> - Work is ongoing to ensure that detailed business cases, which include strong supportive financial and non-financial information, consistently underpin all savings proposals.</p> <p>Service and Digital solution reviews have commenced in the first half of the year. Service Review completed for Civil Parking Enforcement, which will now look to enter the delivery of savings phase. The Cardiff App has been launched during Q2 with a roadmap set for adding functions on over the next six months. This is underpinned by strong governance through the Investment Review Board and the Digital Board respectively.</p> <p>As reported in the 2018/19 Budget Report 90% of proposals were either realised or with a detailed plan in place. Further work has been undertaken in the first six months to provide further detail and evidence to accepted savings proposals.</p> <p><b>Enhanced Risk Review</b> - An enhanced risk review was completed for capital funding requests for 2018/19 onwards to improve the supporting information provided as part of the decision making process.</p> <p>In order to refine the appropriate level and breadth of risk information and analysis required to support decision makers.</p> <p>Building on 2018/19 budget process, the risk assessment methodology for capital funding requests of ongoing and new schemes has been further improved and embedded into the budget strategy for 2019/20.</p>



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## Cardiff Council

### Audit Committee Update – January 2019

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#### Performance Audit work

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2017-18 performance audit work	Scope	Status
<b>Housing/WHQS Local Project</b>	To determine whether the Council has effective arrangements in place to enable it to engage with residents in meeting the WHQS by 2022.	Complete. Reported to Community & Adult Services Scrutiny Committee on the 9th January 2019.
<b>Digital Risk</b>	An overview of the level of digital risk the Council faces. The diagnostic will be used by the Wales Audit Office to identify 'potential' digital risks and issues at the Council. Potential risks identified will be used to focus auditors on areas where further, more specific Information management and technology related performance work might be needed.	Complete. This is an internal WAO review, which will feed into our knowledge of the Council and understanding of risks. We will share key findings at our next liaison meeting.
2018-19 performance audit work	Scope	Status
<b>Improvement Plan audit</b>	Checks Council compliance with Local Government Measure (Wales) 2009 requirement to publish a self-assessment of performance in the previous year by 31 October.	Certificate issued to Council May 2018

<b>Performance Plan audit</b>	Checks Council compliance with Local Government Measure (Wales) 2009 requirement to set improvement objectives.	Certificate issued to Council 29 <sup>th</sup> November 2018
<b>Annual Improvement Report (AIR)</b>	Annual report summarising the audit work undertaken in the last year which also includes a summary of the key findings from reports issued by ‘relevant regulators’	Not started. Likely timescales June/July 2019
<b>Delivering Capital Ambition</b>	Ongoing review and monitoring of the Council’s change programme.	Underway
<b>Assurance and risk assessment</b>	Project to identify the level of audit assurance and/or where further audit work may be required in future years in relation to risks to the Council putting in place proper arrangements to secure value for money in the use of resources.	Underway
<b>Well-being of Future Generations Act (Wales) 2015 (WFG Act) examinations</b>	Examination of the extent to which the Council has acted in accordance with the sustainable development principles when taking steps to meet the following wellbeing objective: Cardiff has a high quality city environment where population growth and transport needs are managed sustainably. The step selected for examination as follows: “Develop and launch a new Transport & Clean Air Vision for the city”	Underway
<b>Environmental health</b>	Review of the arrangements the Council has put in place to deliver environmental health services building on the study previously undertaken by the Auditor General as part of the ‘delivering with less’ themed studies.	Planning
<b>Leisure services</b>	Review of the arrangements the Council has put in place to deliver leisure services building on the ‘study previously undertaken by the Auditor General as part of the ‘delivering with less’ themed studies.	Planning
<b>Corporate safeguarding arrangements</b>	Review of the effectiveness of corporate safeguarding arrangements building on the study previously undertaken by the Auditor General in this area.	Planning

2017-18 Local Government Studies	Scope	Status
<p><b>Services to rural communities</b></p>	<p>The study will focus on whether local government uses its resources to deliver services that meet the needs of rural communities today and in the longer term. Cardiff has not been selected to take part in the detailed fieldwork of this study.</p>	<p>Complete</p> <p><a href="#">Link</a> to Local Government Services to Local Communities</p> <p><a href="#">Link</a> Provision of Local Government Services to Rural Communities: Community Asset Transfer</p>
<p><b>Using data effectively</b></p>	<p>This study will seek to identify whether councils' corporate management arrangements for managing and using data are leading to better decision making in the use of resources.</p>	<p>Complete</p> <p><a href="#">Link</a> The maturity of local government in use of data</p>
2018-19 Local Government Studies	Scope	Status
<p>First point of contact assessments under the Social Services and Well-being (Wales) Act 2014</p>	<p>The Welsh Government introduced the Social Services and Well-being (Wales) Act 2014 (the 2014 Act), which focuses on reforming and simplifying the law relating to social services. The 2014 Act introduced new duties for local authorities, local health boards and other public bodies and covers adults, children and their carers, and came into force on 6 April 2016. The study will review first point of contact and assessments for adult social care.</p> <p>Detailed fieldwork in five local authorities. We are planning to undertake fieldwork in Cardiff City Council, Denbighshire County Council, Merthyr Tydfil County Borough Council, Pembrokeshire County Council and Carmarthenshire County Council</p>	<p>Underway.</p>

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<p>Tackling violence against women, domestic abuse and sexual violence</p>	<p>In 2015 the Welsh Government passed the Violence against Women, Domestic Abuse and Sexual Violence (Wales) Act (the 2015 Act). The overarching objective of the 2015 Act is to improve the Public Sector response to violence against women, domestic abuse and sexual violence; provide a strategic focus on these issues; and ensure consistent consideration of preventative, protective and supportive mechanisms in the delivery of services. The review will focus on determining whether local authorities and their partners are effectively working together to prevent gender-based violence and domestic abuse, and protecting all of the people involved.</p> <p>Our fieldwork sites are Swansea City and County Council, Conwy County Borough Council, Flintshire County Council, Rhondda Cynon Taff County Borough Council, South Wales Police and South Wales Fire and Rescue Authority</p>	<p>Underway</p>
<p>Planning Services: Improving the wellbeing of Wales</p>	<p>Planning services are an important part of the democratic jigsaw that allows the detailed consideration of proposals to improve the economic prospects of the nation. Good planning decisions can have a positive impact on the wellbeing of people and places. Poor planning decisions can have a detrimental impact on people's wellbeing and can stifle economic development. This study will provide independent assurance that planning authorities are supporting sustainable development and delivering for the future long-term wellbeing of their communities and for Wales</p> <p>We are planning to undertake fieldwork in Bridgend County Borough Council, Gwynedd County Council, Newport City Council, Torfaen County Borough Council and Ceredigion County Council.</p>	<p>Underway</p>

National Studies

Update and link to report

Waste management	Recycling module (published <a href="#">Link</a> ); waste prevention (clearance) and waste treatment infrastructure modules (published <a href="#">Link</a> )
NHS Wales informatics services	Published 10 January 2018. <a href="#">Link</a> to published report
Access to public services with the support of specialist interpretation and translation	Published 25 April 2018. <a href="#">Link</a> to published report
Early intervention and public behaviour change	Drafting
Welsh Government business finance	Publish 29 <sup>th</sup> November 2018
Primary care	Published April 2018. <a href="#">Link</a> to published report
Youth services	Drafting
Managing the Impact of Brexit on the Rural Development Programme	Published November 28 <sup>th</sup> November 2018 <a href="#">Link</a>
European Structural Funds Programme 2014-2020	Published August 2018 <a href="#">Link</a>
Integrated Care Fund	Drafting

Tudalen 85

Mae'r dudalen hon yn wag yn fwriadol

**CARDIFF COUNCIL  
CYNGOR CAERDYDD****AUDIT COMMITTEE:****22 JANUARY 2019**

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**TREASURY PERFORMANCE REPORT – POSITION AT 31  
DECEMBER 2018****REPORT OF CORPORATE DIRECTOR RESOURCES****AGENDA ITEM: 9.1**

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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.**

**Reason for this Report**

1. The Audit Committee Terms of Reference sets out their responsibility for undertaking scrutiny of the accounting, audit and commercial issues in relation to the Council's Treasury Management Strategy and practices.
2. This report has been prepared to provide Audit Committee Members with performance information and a position statement on Treasury Management as at 31 December 2018.

**Background**

3. Appendix 1 provides the Committee with position statements on investments and borrowing at 31 December 2018.

**Performance**

4. At 31 December 2018, investments total £72 million. The estimated level of interest receivable from treasury investments is £530,000 including interest earned on behalf of other entities. This is compared to a budget of £275,000. The forecast is based on current levels of investments and cash flow forecasts.
5. Borrowing is £705 million, with the average rate being 4.58%. The total interest forecast to be payable is £32.2 million compared to a budget of £32.4 million. This includes interest payable by the Housing Revenue Account. The variance is due to deferral of the timing of additional external borrowing in 2018/19.
6. Based on the above forecasts, the projected level of internal borrowing at 31 March 2019 as at Month 9 is £70 million.

## Investments

7. Pages 2 and 3 of the Performance Report considers 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.
8. The current investments list details each investment, the interest rate, the start date and maturity date. They also link this back to the credit criteria approved by Council in February 2018 by a colour coding which indicates the perceived strength of the organisation.
9. 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.
10. 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

11. Since the last report for October 2018, Long term borrowing of £10.2 million was taken in line with our strategy to take up to £20m of borrowing by 31 March 2019.
12. As set out in the Council's Treasury Management Strategy for 2018/19, considered by audit committee and approved by Council in February 2018, further external borrowing is required in 2018/19 and future years. There is currently a significant amount of economic uncertainty in the financial markets primarily as a result of economic concerns, international trade issues and in the UK uncertainty in relation to Brexit. Whilst market movements cannot be predicted, further borrowing may be undertaken, following approval by the Corporate Director Resources, to meet future requirements if opportunities arise to do so at favourable rates.
13. The timing and quantum of any new external borrowing will be considered in conjunction with the Council's treasury advisors, having regard to forecasts for interest rates and performance in delivering the capital programme. Updates would be provided in future reports to Committee.



## **Lender Option borrower Option Loans (LOBO's)**

14. At a previous Audit Committee meeting it was noted that a number of local authorities had been made offers by the providers of their LOBO loans for the repayment and cancelation of loans. It should be noted that apart from the option to increase rates the Council's loans are comparable to PWLB loans and have no other complications such as variation in interest or complex terms.
15. Whilst we have not had any such approaches the Council itself has made enquiries as to whether our loan providers would consider early repayment. This is not something that they are willing to consider without payment of a significant premium totalling £37.7 million. This is not deemed financially beneficial to the Council given the current levels of interest rates but will be reviewed in future.

### **Reason for Report**

16. To provide Audit Committee Members with a performance position statement at 31 December 2018.

### **Legal Implications**

17. No direct legal implications arise from this report.

### **Financial Implications**

18. Treasury management activities undertaken by the Council are governed by a range of policies, codes of practice and legislation. This report and appendices 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**

19. That the Treasury Performance Report for 31 December 2018 be noted.

**CHRISTINE SALTER**  
**CORPORATE DIRECTOR RESOURCES**  
**10 January 2019**

*The following appendix is attached*

Appendix 1 – Cardiff Council Treasury Management Performance Report – 31 December 2018

Mae'r dudalen hon yn wag yn fwriadol

Yn rhinwedd paragraff (au) 14, 21 Rhan (nau) 4 a 5 o Atodlen 12A  
o Ddeddf Llywodraeth Leol 1972.

Mynediad Cyfyngedig i'r Ddogfen

Mae'r dudalen hon yn wag yn fwriadol

**AUDIT COMMITTEE:**

**22 January 2019**

**DRAFT TREASURY MANAGEMENT STRATEGY 2019/20**

**REPORT OF CORPORATE DIRECTOR RESOURCES**

**AGENDA ITEM: 9.2**

**Reason for this Report**

1. The Audit Committee Terms of Reference sets out their responsibility for undertaking scrutiny of the accounting, audit and commercial issues in relation to the Council's Treasury Management Strategy and practices.
2. This report has been prepared to provide Audit Committee Members with the draft Treasury Management Strategy for 2019/20.

**Background**

3. The proposed strategy for 2019/20 is required to be approved as part of the Budget Report to Council in February 2019. The strategy is attached for Committee to review at Appendix 1.

**The Strategy**

4. The strategy covers the following areas:-
  - The current treasury position
  - Economic background and prospects for interest rates
  - Capital Programme Plan and Capital Financing Requirement (CFR)
  - Borrowing, including:-
    - Policy
    - Annual Minimum Revenue Provision (MRP) Policy Statement
    - Council borrowing requirement
    - Borrowing Strategy and choice between internal and external borrowing
  - Treasury management indicators and limits for 2019/20 to 2023/24
  - Treasury investment policy and strategy, including security and investments approved for use
  - Highlighting changes in the Treasury Management Code in respect of Non Treasury investments
  - Training.
5. It should be noted by the Committee that many of the indicators are dependent on the final Capital Programme which will only be determined at

Council in February 2019. However, there are unlikely to be significant changes in the proposed Capital Programme.

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

- It is a single integrated strategy for the Council as a whole rather than separate strategies for the Housing Revenue Account and the Council's General Fund. The Council maintains a single pool of debt
- The Strategy takes into account the 2017 update to the CIPFA Treasury Management Code and existing Welsh Government guidance on investments
- The medium term shows an increase in the Council's underlying need to borrow to meet additional capital expenditure commitments towards delivery of the capital strategy and proposed to be approved as part of the Capital Programme. Investment in the condition of assets, the Council's contribution to the Cardiff City Region City Deal (CCRCD) and also 21<sup>st</sup> Century Schools Band B. The majority of the increase proposed in future periods relates to the Housing revenue account, with increases in expenditure proposed for new affordable housing following the removal of the debt cap imposed by HM Treasury previously set at £316 million. The cap was a limiting factor in allowing the Council to take steps to meet affordable housing need in the City as well as to contribute to national targets
- Retention during 2019/20 of the approach to provision for debt repayment as previously considered by Audit Committee in November 2016
- 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 internal borrowing in the short term, limited to an assumed level of up to £80 million, or 10% of the capital financing requirement for 2019/20
- The priority for Treasury investments is security, liquidity then yield, with the Strategy retaining the potential use of a range of investment options to increase diversification where possible. Joint committee temporary cash will be managed within criteria and parameters set out in the strategy
- Interest rates on investments are likely to remain low. Whilst forecast to rise in the long term, borrowing rates are subject to significant variation due to economic and political uncertainty.
- Strong credit criteria are set for investments undertaken by the Council based on Fitch Credit Criteria
- The Strategy applies from the date of approval by Council
- The Council is progressing significant capital projects which could have significant Treasury Management Implications The impact on the Council as a result of these schemes and governance arrangements in

place to deliver them will need to be closely monitored to ensure no adverse financial implications for the Council.

### **Reason for Report**

7. To note the proposed Treasury Management Strategy for 2019/20 and provide any comments as necessary that can be factored into the final document.

### **Legal Implications**

8. No direct legal implications arise from this report.

### **Financial Implications**

9. The Treasury Management Strategy does have financial implications which will need to be consistent with and form part of the budget proposals for 2019/20, Medium Term Financial Plan and Capital Strategy to be considered by Council in February 2019.

### **RECOMMENDATION**

10. That Audit Committee note the proposed Treasury Management Strategy for 2019/20 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 2019/20 Budget Proposals Report.

**CHRISTINE SALTER**  
**CORPORATE DIRECTOR RESOURCES**  
**15 January 2019**

*The following appendices are attached*  
Appendix 1 – Draft Treasury Management Strategy 2019/20

Mae'r dudalen hon yn wag yn fwriadol



# Treasury Management Strategy

Draft 2019/20

Cardiff Council



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## **Treasury Management**

1. The Council carries out its treasury management activities in accordance with a Treasury Management Code of Practice for public services, updated by CIPFA in 2017. 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. Appendix 1 includes a glossary of terms used in this document.

2. CIPFA has adopted the following as its definition of treasury management activities:

*The management of the organisation's borrowing, 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.*

3. The definition of 'Investments' above includes:-

- Treasury Management investments (held for the prudent management of financial affairs), as well as
- Non Treasury Investments, undertaken as part of a Capital Strategy either in the course of provision of services; or made for commercial reasons purely to make a financial gain. These are managed outside of normal treasury management activity.

4. 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 and various reports are produced highlighting treasury management activities in accordance with council policy.

## **Treasury Management Strategy**

5. The strategy covers the following areas:-

- Borrowing to finance the cash requirements arising from the Council's Capital Programme and Strategy. Costs of servicing that financing is linked to the Council's Medium Term Financial Plan
- Treasury investments determining how short term cash flows will be safely managed to meet the Council's financial commitments and objectives
- Highlighting the approach to Non Treasury Management Investments where these are to be undertaken. Whilst these impact on the treasury function, they arise from capital expenditure plans which are reported separately from day to day treasury management activities. Accordingly this strategy focuses on Treasury investments.

6. The Council accepts that no treasury management activity is without risk. However 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.

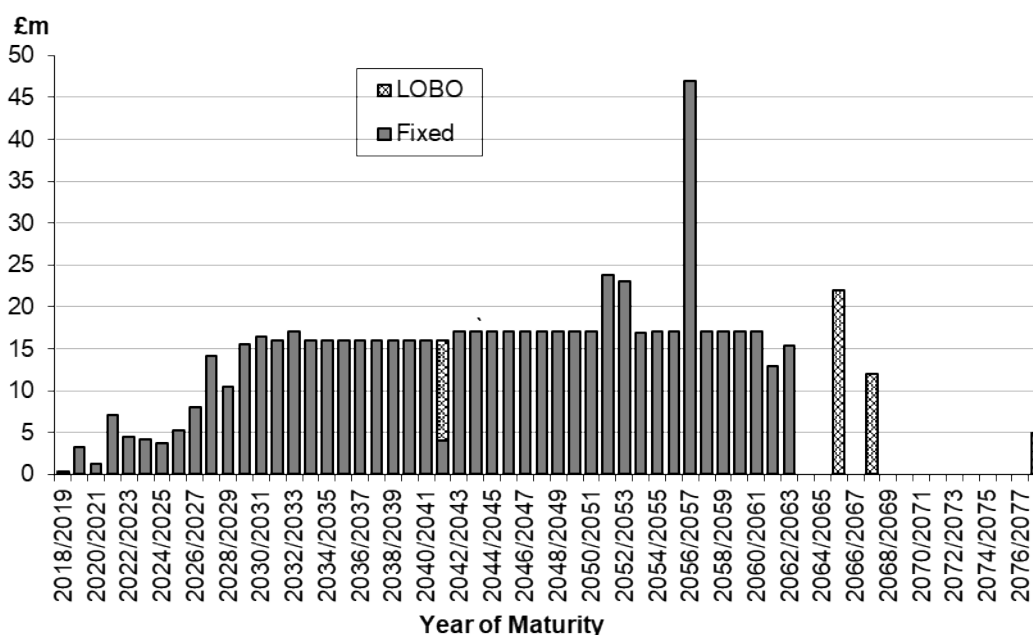
7. The identification, monitoring and control of risk are integral elements of treasury management activities with risks including credit and counterparty, liquidity, interest rate, refinancing, fraud and regulatory. The Council has Treasury Management Practices to address and mitigate these risks which were updated in March 2018 following a review by Internal Audit and Audit Committee.
8. Responsibility for treasury decisions ultimately remains with the Council however, 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 by Link Asset Services, Treasury Solutions includes advice on timing of decision making, training, credit updates, economic forecasts, research, articles and advice on capital finance.
9. The proposed strategy is an integrated strategy for the Council including the Housing Revenue Account (HRA). The strategy includes: -
  - the current treasury position
  - economic background and prospects for interest rates
  - borrowing, including: -
    - Policy
    - Annual Minimum Revenue Provision (MRP) Policy Statement
    - Council borrowing requirement based on its capital expenditure plans and choice between internal and external borrowing and
    - Borrowing Strategy
  - treasury management indicators and limits for 2019/20 to 2023/24
  - investment policy and strategy, including security and investments approved for use
  - non treasury investments
  - training.

### **The Treasury Position**

10. Borrowing and investments as at 31 December 2018 are 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.

	31 December 2017		31 December 2018	
	Principal	Average	Principal	Average
	£m	Rate %	£m	Rate %
<b>External Borrowing</b>				
- Public Works Loan Board (PWLB)	613.8	4.8	643.9	4.7
- Market Loans	51.0	4.0	51.0	4.0
- Welsh government	4.5	-	4.5	-
- Other	5.1	-	5.3	-
<b>Total Debt</b>	<b>674.4</b>	<b>4.71</b>	<b>704.7</b>	<b>4.58</b>
<b>Treasury Investments (net)</b>	<b>46.0</b>	<b>0.53</b>	<b>72.0</b>	<b>0.84</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. Unless the Council's Lender Option Borrower Option (LOBO) loans are required to be repaid early, very little debt matures within the next ten years. LOBO products are loans to the Council where the lender can request a change in the rate of interest payable by the Council on pre-determined dates. The Council at this point has the option to repay the loan without penalty. The Council has six such loans totalling £51 million.
13. Apart from the option to increase rates these loans are comparable to PWLB loans and have no other complications such as variation in interest rates or complex terms. Interest rates on these loans range between 3.81% and 4.35% and are below the Council's average rate of interest payable. Details of the loans are shown in the next table.

<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>
01/03/2019	6	6 months	23/05/2067
21/05/2019	6	6 months	21/11/2041
21/05/2019	6	6 months	21/11/2041
21/05/2019	6	6 months	23/05/2067
21/11/2020	22	5 years	23/11/2065
15/01/2023	5	5 years	17/01/2078

14. It should be noted that £24 million of the LOBO loans are currently subject to the lender potentially requesting a change in the rate of interest payable every six months. A further £22 million and £5 million have call options in November 2020 and January 2023 respectively and every five years thereafter. The likelihood of a request for an increase in rate is negligible.

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

15. The following table gives the Council's treasury management advisor's latest forecast of interest rates taking into account the twenty basis point certainty rate reduction available for PWLB loans. It is a central forecast, acknowledging for example that there are upside and downside risks.

	Actual 31/12/2018	March 2019	March 2020	March 2021	March 2022
Bank Rate	0.75%	0.75%	1.25%	1.50%	2.00%
5yr PWLB rate	1.70%	2.10%	2.30%	2.60%	2.80%
10yr PWLB rate	2.08%	2.50%	2.80%	3.00%	3.20%
25yr PWLB rate	2.65%	2.90%	3.20%	3.40%	3.60%
50yr PWLB rate	2.50%	2.70%	3.00%	3.20%	3.40%

Forecast at November 2018

16. Economic and interest rate forecasting remains difficult with so many external influences on the UK economy. Growth and consumer confidence for the UK economy was strong over the first three quarters, but is likely to weaken significantly in the last quarter. The bank of England expects inflation to be marginally above its 2% inflation target for at least two years ahead.
17. International events also impact significantly on the UK economy. In the United States, the Federal Reserve continues to increase its interest rates which are now between 2.25% and 2.5% due to strong growth and a target to unwind a policy of historic lows. Trade tensions and

implementation of tariffs, particularly between the United States and China, has also created uncertainty in financial markets in relation to impact on growth and risk of escalation.

18. In the UK, uncertainty over Brexit has been weighing on both growth and financial markets, with key deadlines over the next few months in relation to the future relationship with the European Union. The rates above are based on the assumption of agreed terms of Brexit.
19. The above issues including growth, price and wage inflation are key factors used by the Bank of England in determining when to change interest rates. The bank rate increased by 0.25% to 0.75% on 2 August 2018. The Monetary Policy Committee, reiterated their intention to increase rates gradually to a level deemed neither contractionary nor expansionary. Whilst this level is not defined, it is assumed to be 2.5%. The next change in bank rate is expected to be in May 2019, however this is clearly dependent upon the Brexit deal agreed between the UK and European Union.
20. Another risk is that the Bank of England needs to consider is the timing and strength of reversing the quantitative easing undertaken to inject liquidity into economies after 2008. The US is active in reversing this approach due to concerns that economic growth has been too reliant on this stimulus resulting in a search for returns on riskier financial assets.
21. Investment returns for the Council have increased during 2018/19, and are expected to gently rise over the next few years. PWLB rates are based on Government borrowing rates (Gilts) and can be the subject of exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments over the forecast period. There will continue to be a 'cost of carry', i.e. where borrowing rates are greater than investment rates. Accordingly, an approach of deferring external borrowing by using temporary cash balances can result in short term savings. However, caution should be adopted to avoid incurring higher borrowing costs in the future when new borrowing is unavoidable.
22. Downside risks to PWLB rates are:
  - Bank of England raises Bank Rate faster than anticipated causing UK economic growth and increases in inflation, to be weaker than anticipated.
  - An approach to Brexit deemed to have a disruptive effect on the UK economy and growth.
  - Geopolitical risks in Asia, Europe and the Middle East, which could lead to increasing safe haven flows to the UK.
  - Re-emergence of the Eurozone sovereign debt crisis due to its high level of government debt, low rate of economic growth, vulnerable banking system and impact of European Parliament elections in June 2019.
  - A sharp downturn in the global economy caused by factors such as rising protectionism.

23. The potential for upside risks especially for longer term PWLB rates include:
- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy.
  - Agreement of a compromise on Brexit, that avoids political and economic uncertainty
  - UK inflation returning to sustained significantly higher levels.
  - Increases in the pace and strength of reversal of quantitative easing.

### **Capital Programme Plan and Capital Financing Requirement (CFR)**

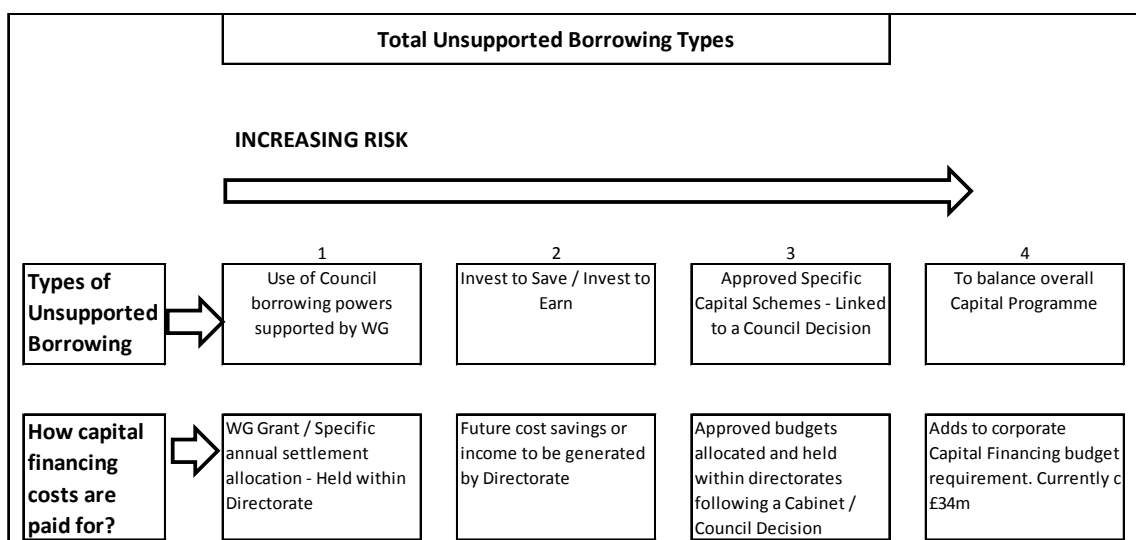
24. The detailed capital programme will be approved as part of the Budget Proposals in February 2019. Capital Expenditure commitments and pressures include:

- Ensuring a sustainable property asset base which is fit to deliver service improvements.
- Meeting the aspirations of directorates to invest in existing assets or to create new capital assets in order to improve service delivery and meet pressures of increasing demand.
- The need to maintain the highway and associated infrastructure such as roads, traffic signals, bridges, street lighting and address the backlog of repairs to avoid higher costs in future.
- To continue supporting annual commitments and meet mandatory investment in services such as disabled adaptations.
- Meeting the economic development, regeneration, employment and capital city aspirations of Cardiff and the region.
- Projects undertaken on the basis that they will pay for themselves
- Implementing the Council's 21<sup>st</sup> century schools investment programme.
- Meeting expenditure commitments pending the generation of capital receipts.
- Sustaining Welsh Housing Quality Standards for existing Council housing.
- Development of new affordable Council Housing.

25. There are two main types of borrowing to pay for capital expenditure: -

- 'Supported Borrowing' - costs of servicing are included within the annual Revenue Support Grant (RSG) the Council receives from Welsh Government.
- 'Unsupported Borrowing' – costs of servicing to be met by the Council from Council tax, savings, additional income or sale of assets. The types of unsupported borrowing typically undertaken by the Council and how capital financing costs are paid for are shown in the next diagram.





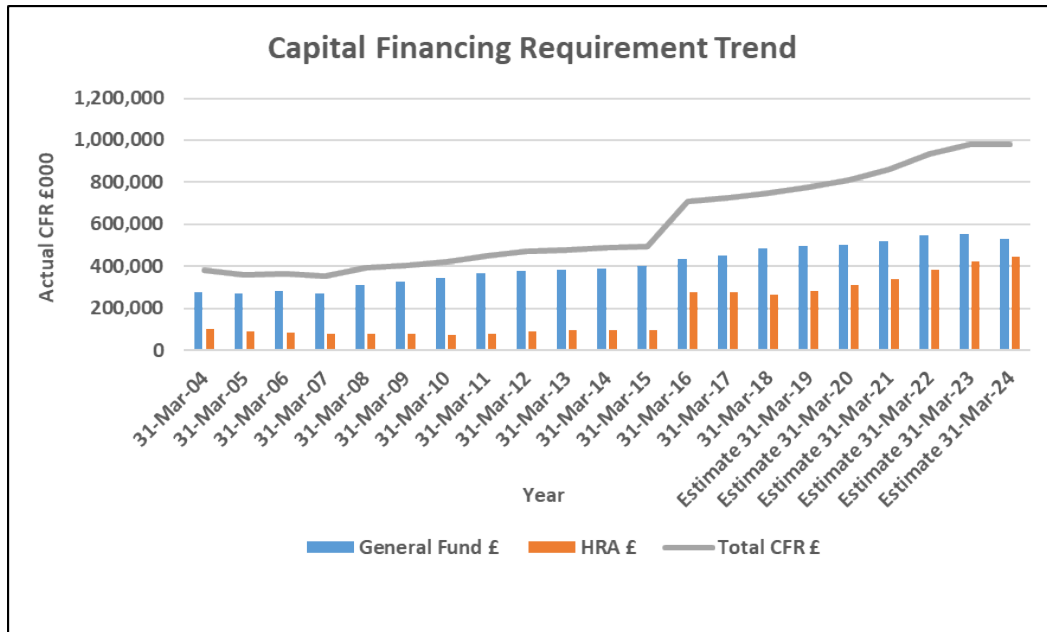
26. Where capital expenditure has been incurred without a resource to pay for it immediately e.g. via capital receipts, grants or other contributions, this will increase what is termed the Council's Capital Financing Requirement (CFR). The Council is required to make annually, a prudent provision for the repayment of historic capital expenditure from its revenue budget. This reduces the CFR. Calculation of the CFR is summarised in the table below.

	Opening Capital Financing Requirement (CFR)
+	Capital Expenditure incurred in Year
-	Grants, Contributions, reserves and receipts received to pay for capital expenditure
-	Prudent Minimum Revenue Provision & Voluntary Repayment
=	Closing Capital Financing Requirement (CFR)

27. It is the Capital Financing Requirement that results in the need to borrow money. The actual CFR as at 31 March 2018 and estimates for current and future years are shown below:

Capital Financing Requirement as at 31 March							
	2018 Actual £m	2019 Estimate £m	2020 Estimate £m	2021 Estimate £m	2022 Estimate £m	2023 Estimate £m	2024 Estimate £m
General Fund	484	495	503	520	548	552	533
Housing Revenue Account	267	283	308	341	384	426	447
<b>Total</b>	<b>751</b>	<b>778</b>	<b>811</b>	<b>861</b>	<b>932</b>	<b>978</b>	<b>980</b>

28. The CFR forecast is subject to the timing of capital expenditure, capital receipts and new schemes that may be considered for approval in future years. This continues an increasing trend starting in 2004 when this measure was first introduced and is shown in the chart below including forecasts based on the programme proposed.



29. It should be noted that the CFR includes capital expenditure commitments for the Housing Revenue Account. This increased significantly in 2015/16 as a result of the one off payment made to HM Treasury to exit the Housing Revenue Account Subsidy System. The majority of the increase proposed in future periods also relates to the Housing revenue account, with increases in expenditure proposed for new affordable housing following the removal of the debt cap imposed by HM Treasury previously set at £316 million. The cap was a limiting factor in allowing the Council to take steps to meet affordable housing need in the City as well as to contribute to national targets. The increase in new Council housing units is from a number of measures including, acquisitions from the open market, completion of the Cardiff Living Programme as well as major regeneration schemes proposed at Dumballs Road and Channel View. The Housing Business Plan will be considered by Cabinet in March 2019 and the future rent policy of Welsh Government from 2020/21 will be a key consideration. The plan will include risks, sensitivity analysis, the governance approach to business cases and viability of schemes proposed as part of the programme.
30. Borrowing and any interest payable must be repaid from future revenue budgets, either from savings, revenue income or Council Tax and Housing Rents. The Council's Medium Term Financial Plan which is consistent with the HRA business plan, reflects the costs of additional borrowing requirements.
31. As the Council realigns itself strategically to lower funding levels it needs to consider the level of debt, potential financial resilience and Wellbeing and Future Generations (Wales) Act 2015 issues that may be a consequence of increasing borrowing. General Fund Capital financing costs as a percentage of the controllable budget, which are committed in the long term, are increasing. This will be a factor considered by

Members when determining the current and future capital programme along with: -

- The Prudential Indicators highlighting longer term impact of capital decisions on the revenue budget and affordability, prudence and sustainability
- The timing and certainty of any receipts assumed from asset sales
- Determining core areas of long term investment as part of the Capital Strategy and
- Whether the inherent risks in a project are better managed via commercial options rather than direct Council investment.

## **Borrowing**

### **Borrowing Policy**

32. Borrowing to pay for capital investment has long-term financial consequences and risks, with decisions taken many years ago impacting currently and in the future in the form of interest and provision for repayment of capital expenditure. Expenditure decisions are assumed in the Capital Strategy and detailed programme approved by Council with the recurring cost implications factored into the Council's Medium Term Financial Plan. All borrowing is undertaken in the name of the Council and secured on all revenues of the Council.
33. The Council can consider various debt instruments. Best Treasury management practice is that loans are not taken on a project by project basis, however alternative options could be considered for specific council investments where relevant such as leasing and bonds where these allow financing requirements to be met in an efficient manner. Advantages and disadvantages of such products would need to be considered including risks, track record and cost of issuance and is supported by external advice in respect of different options.
34. 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 held 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 and so this position is kept under continuous review.
35. The Council's Borrowing Strategy considers 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
  - ensuring borrowing plans are aligned to known capital expenditure spending plans and financial reserve levels and are also consistent

- with the prudent provision for the repayment of any capital expenditure paid for by borrowing
- achieving a balanced maturity profile
- having regard to the effects on current and future Council Tax and Rent Payers.

36. The Council does not intend to borrow in advance of need and will not do so just to gain financially. However, this option may be considered if it is felt that borrowing in advance allows opportunities to lock into favourable long-term rates. This will be limited to no more than the expected increase in the Council's borrowing requirement over a three year period.

### **Prudent Repayment of Capital Expenditure – Annual Minimum Revenue Provision (MRP) Policy Statement for 2019/20**

37. The Council has a statutory duty to calculate and set aside each year from its revenue budget an amount 'which it considers to be prudent'. This results in a reduction in the Council's underlying need to borrow known as the Capital Financing Requirement (CFR).

38. Legislation does not define what constitutes a 'prudent provision'. Instead Welsh Government has provided guidance and examples in order to interpret that term. Decisions in respect of the allocation of MRP have short, medium and very long term impacts.

39. Every authority's circumstances may differ and will result in different approaches. However, it is important that the range of factors, specific to Cardiff Council's circumstances are considered in determining a long term prudent approach and the following are factors in the decision:-

- What we spend our money on in terms of asset life and the period over which the benefits from that expenditure will be felt
- The efficacy of our approach and availability of revenue resources to maintain our assets
- Consistency with the future direction of the Council's level of capital expenditure
- Impact on financial resilience
- The Wellbeing of Future Generations (Wales) Act 2015
- Welsh Government Guidance, last revised in November 2018.

40. A statement on the Council's policy for its annual MRP is required to be submitted to Council for approval before the start of the financial year to which the provision will relate. The proposed policy is included in Appendix 2. For 2019/20 it remains as considered by Audit Committee in November 2016, but it is intended that the approach will be tested and reviewed during 2019/20 in advance of the decision making process for subsequent years.

### **Council's Borrowing Requirement**

41. The following table shows the actual level of external borrowing currently held by the Council including planned external borrowing in 2018/19 and

scheduled loan repayments in future years. It compares this to the projected CFR i.e the need to borrow based on current, known estimates and timing of the Council's capital expenditure and funding plans. The difference between the projected CFR in 2023/24 (£980 million) and the actual level of external borrowing after any planned repayments (£690 million) is £290 million, i.e. there is insufficient cash held by the Council to support this projected level of under borrowing and this means there is a requirement for the Council to undertake further external borrowing over the medium term.

<b>Gross Debt compared to Capital Financing Requirement</b>							
	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
External borrowing at 1 April	674	693	709	706	705	698	694
Known / New borrowing	25	20	tbc	tbc	tbc	tbc	tbc
Scheduled repayments	(6)	(4)	(3)	(1)	(7)	(4)	(4)
<b>External Borrowing at 31 March</b>	<b>693</b>	<b>709</b>	<b>706</b>	<b>705</b>	<b>698</b>	<b>694</b>	<b>690</b>
Capital Financing Requirement	751	778	811	861	932	978	980
<b>Shortfall / (Surplus) borrowing requirement</b>	<b>58</b>	<b>69</b>	<b>105</b>	<b>156</b>	<b>234</b>	<b>284</b>	<b>290</b>
<b>Requirement as % of CFR</b>	<b>7.7%</b>	<b>8.8%</b>	<b>12.9%</b>	<b>18.1%</b>	<b>25.1%</b>	<b>29.0%</b>	<b>29.6%</b>

42. The section below sets out the approach to meeting that requirement including use of temporary cash balances, external borrowing, sources of borrowing and timing

### **Borrowing Strategy**

43. In the short term, continuing with an approach of internal borrowing, using temporary cash balances available will continue to be a cost effective way of meeting part of the borrowing requirement. A high level balance sheet review undertaken suggests that a maximum level of internal borrowing should be circa £80 million (c10% of the 2019/20 CFR).
44. Whilst having regard to the risks of comparison, data was compiled by the Council's Treasury Advisors from their Local Authority clients in 2017/18 showing internal borrowing as a percentage of their CFR. This showed that Welsh Councils averaged 13.1%; English Unitary 15.6% and 13.9% for all Authority clients. The Council will continue to undertake various benchmarking activities to support the understanding of treasury performance, position and risk.
45. However, the Council will need to seek external borrowing for the balance of the borrowing requirement in 2019/20 (£25 million at least) and further amounts in the following years. As mentioned previously, the

Council will consider various debt instruments to meet the borrowing requirement, including those specific to particular projects. However, similar to other Councils, the Public Works Loan Board (PWLB) continues to be the Council's preferred source of long term borrowing given the transparency and control that its facilities continue to provide. The Council qualifies for borrowing at the 'Certainty Rate' (0.20% below the PWLB Standard Rate).

46. Given the risks within the economic forecasts setting a fixed target for the quantum and timing of borrowing is not deemed appropriate. A pragmatic approach will be adopted by Council's Section 151 Officer due to changing circumstances with the following strategy proposed to manage the Council's Capital Financing Requirement:-
- Whilst investment rates remain lower than long term borrowing rates internal borrowing will be used to minimise short-term costs
  - External borrowing (short, medium and long term) will be taken for the balance of the Council's borrowing requirement, with timing delegated to the Council's Section 151 Officer. This will aim to keep internal borrowing to approximately £80 million, subject to balance sheet capacity and future interest rate forecasts.
  - Any external borrowing is likely to be at fixed rates to meet the long term borrowing policy aims and given the forecasts in rates highlighted above.
47. If there was a significant risk of a sharp rise in long and medium-term rates than that currently forecast, then fixed rate external borrowing may be undertaken sooner to reduce the level of internal borrowing. 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.
48. Current interest rates on the Council's existing debt portfolio compared to new borrowing rates and penalty rates charged for early debt repayment, results in limited options for restructuring of debt. Options have been considered during 2018/19 for early repayment of LOBO loans, however the penalties, based on the current level of interest rates, outweighed the benefits.

### **Treasury Management Indicators and Limits for 2019/20 – 2023/24**

49. The Council is required to set treasury management indicators and Appendix 3 gives further background in respect of these as part of a suite of Prudential Indicators.

#### **Authorised Limit**

50. The Council must set 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 the impact upon future Council Tax payers and Council tenants is acceptable.

51. 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 (figures for 2018/19 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.

<b>Authorised limit for external debt</b>	<b>2018/19 £m</b>	<b>2019/20 £m</b>	<b>2020/21 £m</b>	<b>2021/22 £m</b>	<b>2022/23 £m</b>	<b>2023/24 £m</b>
Limit for external borrowing and other long-term liabilities	863	995	995	995	995	995

52. This limit is consistent with proposals contained within the budget for capital expenditure with the addition of financing and accounting requirements in relation to landfill obligations. The overall limit for the Council has been set at a constant level of £995 million for 2019/20 to 2023/24. It has increased from 2018/19 primarily as a result of increases in capital programme commitments in respect of new affordable housing.

53. Following the announcement by the Chancellor of the Exchequer on 29 October that the borrowing cap for the Housing Revenue Account will be removed, there is currently no self-imposed or nationally imposed overall cap on the level of borrowing.

### **Operational boundary**

54. The proposed operational boundary or projected level of external debt (excluding landfill) is set at the anticipated level of the CFR at the end of each year. This will be subject to the level and timing of borrowing decisions.

<b>Operational boundary</b>	<b>2018/19 £m</b>	<b>2019/20 £m</b>	<b>2020/21 £m</b>	<b>2021/22 £m</b>	<b>2022/23 £m</b>	<b>2023/24 £m</b>
Boundary for external borrowing and other long-term liabilities	778	811	861	932	978	980

### **Maturity structure of borrowing**

55. 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 table assumes that loans run to their final maturity, however a separate column is also included to show the maturity profile should the Council repay its LOBO loans early.

<b>Maturity structure of borrowing in 2019/20</b>	<b>Upper limit</b>	<b>Lower limit</b>	<b>Actual to Maturity</b>	<b>Actual if LOBOs Repaid Early</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Under 12 months	10	0	0.47	3.88
12 months and within 24 months	10	0	0.19	0.19
24 months and within 5 years	15	0	2.25	6.09
5 years and within 10 years	20	0	5.94	5.94
10 years and within 20 years	30	0	22.86	22.86
20 years and within 30 years	35	0	23.71	22.00
30 years and within 40 years	35	0	30.19	30.19
40 years and within 50 years	35	0	13.68	8.85
50 years and within 60 years	15	0	0.71	0.00
60 years and within 70 years	5	0	0.00	0.00

## **Treasury Management Investments**

### **Policy**

56. The Council has regard to the CIPFA Treasury Management Code and also complies with Welsh Government guidance on investments. The latter has recently been amended in England and an update for Wales is expected. The Council's investments include those arising from its own temporary cash balances as well as balances held from the activities of Joint Committees for which it is the Accountable body.
57. 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's risk appetite for treasury investments is low. It aims to achieve the optimum return on investments commensurate with proper levels of security and liquidity. 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 the 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 S151 Officer.
58. The Markets in Financial Instruments Directive (MiFID II) was implemented from 3 January 2018. Where requested by counterparties to do so, the Council has opted up to be classed as a 'professional' client following the submission of qualitative and quantitative information on its treasury activities.

### **Treasury Investment Strategy**

59. The Council will retain access to range of products to be available to manage short term investment balances and to achieve diversification. Products available for use are defined as specified or non specified and credit criteria are used to mitigate credit risk. These are defined in the sections below. Any funds held by the Council on behalf of joint committees will be managed in accordance with this strategy.
60. The ability to change credit criteria and the approach to investments is delegated to the S151 Officer. This allows a prompt response to uncertainties in financial markets, with the Council being kept informed of significant changes through the various reports it receives on treasury activities during the course of the year.
61. The Council aims to have sufficient liquid 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. Short term cash flow forecasts and a longer term balance sheet review is undertaken as part of the calculation of Prudential Code indicators to determine maximum periods for investments.

### **Specified Investments**

62. 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.
63. Specified investments may comprise up to 100% of the Council's total investments.

<b>Instruments approved for use</b>	<b>Minimum Credit Criteria</b>
Term deposits – UK government and other Local Authorities	Assumed Government Guarantee
Term deposits – banks and building societies	Long-term A /Short-term F1 or Government Equity Support
Term deposits with variable rate and variable maturities up to one year e.g. structured investment products	Long-term A /Short-term F1

### **Non-Specified Investments**

64. 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 £90 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	30	2 Years
Term deposits – banks and building societies (with maturities in excess of 1 year)	Long-term AA- /Short-term F1+	30	2 Years
Deposits over one year with banks wholly or partly nationalised by a high credit rated (sovereign rating) country	Government equity support	30	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
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	100	Liquid
Other Collective Investment Scheme Structures – Ultra Short Dated Bond Funds	AAA	20	Liquid
Government Bond Funds, Corporate Bond Funds, Gilt Funds and Floating Rate Notes	AA-	20	Weighted Average Maturity 3 years

65. The Council uses money market funds and other collective investment funds which pool together investments in a diversified portfolio of products and sectors. These may include short-term money market instruments such as bank deposits, certificates of deposit, government guaranteed bonds, corporate bonds and commercial papers. It should be noted that any such funds are triple A rated and allow instant access.

## Security / Creditworthiness Policy

66. 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 S151 Officer. Commercial organisations (counterparties) on its approved list 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” - the strongest capacity for timely payment of financial commitments.
67. 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 other market data
  - media reports as well as sovereign credit ratings. No minimum sovereign rating is applied to the UK, however for non UK based institutions the minimum Fitch sovereign rating is AA-
  - 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.
68. The Council’s lending list for direct investment in an organisation is based on the following credit criteria, with the maximum limit for direct investment in any one group of related companies being £12 million:

<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	n/a	n/a	12

69. The Council’s current list of approved counterparties is shown in Appendix 4. Credit ratings are monitored regularly through use of the treasury management advisor’s credit service. If a downgrade results in the counterparty or investment scheme no longer meeting the Council’s criteria, its further use for new investment will be withdrawn immediately. Investments already held with that counterparty will be reviewed and options to call back funds before maturity would be investigated. It should be noted that any early repayment is only at the discretion of the borrower and often at a penalty.

## **Non Treasury Investments - Approach to Commercial Investments**

70. In addition to treasury management investment activity, some local authorities have been utilising their powers to borrow in order to invest in other financial assets primarily for financial return. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios. Whilst these impact on Treasury Management activity, they are managed outside of this Treasury Management Strategy and approved separately as part of the Council's Capital expenditure plans arising from its Capital Strategy. Regulator concerns in relation to the extent of this activity have resulted in updates to CIPFA professional Codes of Practice including the Treasury Management Code. Whilst no national monetary, financial or other controls or limits are in place currently, regulations have been updated to ensure the risks and implications of such activities are clearly governed and understood over a long term period.
71. The most significant investments currently held by the Council and managed outside of normal treasury management activity are the Council's 100% shareholding in Cardiff Bus and the Council's Investment Properties, which include various historic freeholds within the City held for income generation or capital appreciation.
72. Whilst the Council has no current approved plans for additional investment to be paid for by additional borrowing, it recognises that any future investment for non-treasury management purposes would require careful investment management.
73. Any proposals for such investments would form part of the approved Capital Strategy and Capital Programme, setting out where relevant, the risk appetite and specific policies and arrangements for non-treasury investments. This will include an appropriate investment management and risk management framework, making it explicit in any decision making:-
- the powers under which investment is made
  - the governance process including arrangements in place to ensure appropriate due diligence to support decision making
  - the extent to which capital invested is placed at risk
  - proportionality of any income to resources available to the Council
  - the impact of potential losses on financial sustainability
  - the methodology and criteria for assessing performance and monitoring process
  - how knowledge and skills in managing such investments is arranged and that these are monitored, reported and highlighted explicitly in the decision making process and due diligence.
  - creation of Treasury Management practices which specifically deal with how non treasury investments would be carried out and managed

74. Guidance has indicated the importance of the Council's S151 (Responsible Finance) Officer role has been in reviewing and informing decisions being made in relation to Non Treasury Investments.

### **Treasury Management Training**

75. 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.
76. Audit Committee Members who are responsible for reviewing and seeking assurance on treasury management activities have also been provided with training. The development of further training will be informed by individual and collective Audit Committee self-assessments, which are currently being undertaken.

## **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 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)**

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.

### **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 accountants in public finance. As a specialised public services body, it provides information, guidance, and determines 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.

### **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.

### **Medium Term Financial Plan**

Plan outlining the financial strategies and actions that are envisaged by the Council in the medium term regarding the budget.

### **Markets in Financial Instruments Directive (MiFID)**

EU legislation that regulates firms who provide financial instrument services. MiFID was applied in the UK from November 2007, but was revised with changes taking effect from **3 January 2018** (MiFID II).

The aim is to ensure financial institutions undertake more extensive checks on their client's suitability for investment products. Organisations undertaking investments will be either classified as 'retail' or 'professional'.

MiFID II requires all Local Authorities to be initially treated as "retail clients" unless they "opt up" to a "professional client". The assumption being that retail clients require a greater level of due diligence and support for investment decision making. Financial institutions will owe a greater duty of care to retail clients, however, they will have no greater financial protection than professional clients.

### **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 having regard to 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 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**

The management of the organisation's borrowing, 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.

## **APPENDIX 2 – Proposed Annual Minimum Revenue Provision (MRP) Policy Statement for 2019/20**

It is proposed that the Council's MRP Policy is as follows, with any change in the level, timing and method of provision in year delegated to the Section 151 Officer.

The broad aim of the 'prudent provision' is to ensure that debt arising from Capital expenditure is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits to service delivery (useful life) or in the case of borrowing supported by the WG, reasonably in line with the period implicit in the determination of any grant.

- Council Fund historic expenditure prior to 1 April 2004 as well as subsequent supported borrowing approved by the WG is to be provided for at 4.0% on a reducing balance basis in 2019/20. This is consistent with the support provided by WG as part of the Revenue Support Grant for Supported borrowing. This approach will continue unless WG change the approach to providing support as part of the RSG formula or any revision to MRP Guidance either in Wales or in England, albeit regular reviews of the position will continue.
- HRA supported borrowing, which was part of the previous housing subsidy system is to be provided for at 2% on a straight line basis. MRP on the significant £187 million settlement buyout payment is to be on 2% straight line basis as a minimum but with voluntary repayments to create headroom for future development,
- Additional borrowing for a general increase in investment either in the Council Fund or HRA 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, 21st Century Schools 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.
- Revenue Provision in excess of the above requirements can be made subject to affordability and following advice of the Section 151 officer.
- Subject to agreement of the S151 Officer, MRP may be waived on expenditure recoverable within a prudent period of time through capital receipts (e.g. land purchases, loan repayments) or deferred to when the benefits from investment are scheduled to begin or when confirmed external grant payments towards that expenditure are expected.
- 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.

## **APPENDIX 3 - Prudential Indicators**

### **CIPFA Codes of Practice**

The current system of capital finance for Council's is supported by the CIPFA's Prudential Code and CIPFA's Treasury Management Code.

They are professional codes of practice aimed to support the decisions local authorities have to make to plan for capital investment and in undertaking treasury management activities. Originally introduced in 2004, they were recently updated in December 2017. Authorities are required to have regard to the Codes when carrying out their duties under Part I of the Local Government Act 2003 i.e. compliance with the Code is a statutory requirement.

The key objectives of the Codes are:-

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

### **Prudential Capital and Treasury Indicators**

The codes require various indicators to be prepared. Some are required indicators, whilst the creation and publication of local indicators to support decision making is encouraged. Given the significance to the Council of the Housing Revenue Account, its statutory ring fence and specific income stream from rent, spate indicators are prepared where relevant. Additional indicators may also be prepared in future if assessment of risk and proportionality is aided as a result of activities such as commercial investment or other capital investment supported by external funding. The indicators currently prepared 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. 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.

## **3. 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.

## **4. 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.

## **5. 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.

## **6. Principal sums invested for greater than one year**

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

## **7. Ratio of Financing Costs to Net Revenue Budget Stream**

This indicator is a measure of affordability of historic and future capital investment plans. It identifies the trend in the cost of capital financing which include:

- interest payable on borrowing and receivable on investments
- penalties or any benefits receivable on early repayment of debt
- prudent revenue budget provision for repayment of capital expenditure paid for by borrowing
- reimbursement of borrowing costs from directorates in respect of Invest to Save schemes.

For the General Fund, the net revenue stream is the amount to be met from non-specific WG grants and Council Tax, whilst for the HRA it is the amount to be met from rent payers.

## **8. Capital financing costs expressed as a ratio Controllable Budget**

Addresses limitations in the ratio above which:

- does not take into account the fact that some of the Council's revenue budget is non-controllable, delegated or protected
- is impacted by transfers in and out of the settlement
- includes investment income which is highly unpredictable, particularly in future years
- does not reflect gross capital financing costs for schemes where additional borrowing is undertaken to be repaid from within Directorate budgets e.g. invest to save or invest to earn schemes.

Accordingly an additional indicator is developed for the General Fund showing the ratio of capital financing costs of the Council expressed as a percentage of its controllable budget, excluding investment income:

**APPENDIX 4 – Approved list of Counterparties proposed as part of TM Strategy who are authorised to accept sterling deposits in the UK**

	£	Duration
<b>Australia AAA</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 AAA</b>		
Canadian Imperial Bank of Commerce	12m	2 years
Toronto Dominion Bank	12m	2 years
<b>France AA</b>		
Credit Industriel et Commercial	10m	1 year
Societe Generale	10m	1 year
<b>Germany AAA</b>		
DZ Bank (Deutsche Zentral-Genossenschaftsbank)	12m	2 years
<b>Netherlands AAA</b>		
Cooperatieve Rabobank U.A.	12m	2 years
<b>Singapore AAA</b>		
DBS Bank	12m	2 years
Oversea Chinese Banking Corporation	12m	2 years
United Overseas Bank	12m	2 years
<b>Sweden AAA</b>		
Skandinaviska Enskilda Banken	12m	2 years
Svenska Handelsbanken	12m	2 years
<b>Switzerland AAA</b>		
UBS AG	12m	2 years
<b>U.K AA</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	10m	1 Year
Bank of Scotland	10m	1 Year
Lloyds Bank	10m	1 Year
Royal Bank of Scotland	12m	2 Years
Coventry BS	10m	1 Year
Nationwide BS	10m	1 Year
UK Local Authority	12m	2 Years



Debt Management Agency Deposit Facility	n/a	6 Months
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**Money Market Funds**

Aberdeen Liquidity Fund	12m	Liquid
BlackRock ICS Sterling Fund	12m	Liquid
Deutsche Managed Sterling Fund	12m	Liquid
Fidelity GBP ICF	12m	Liquid
Goldman Sachs Sterling Reserves Fund	12m	Liquid
Insight Sterling Liquidity Fund	12m	Liquid
LGIM Sterling Liquidity Fund	12m	Liquid

Mae'r dudalen hon yn wag yn fwriadol

**AUDIT COMMITTEE: 22 January 2019**

**INTERNAL AUDIT PROGRESS REPORT, 2018-19**

**REPORT OF THE AUDIT MANAGER**

**AGENDA ITEM: 10.1**

**Appendices E, F and G of the report are not for publication as they contain exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972**

**Reason for this Report**

1. Audit Committee's Terms of Reference requires that Members consider reports from the Audit Manager on Internal Audit's performance during the year.
2. This report has been prepared to provide Audit Committee Members with an update on the work of Internal Audit as at 31 December 2018 for the current financial year.

**Background**

3. An Audit Plan is prepared each year in order to provide a measure of the work performed by the Internal Audit function. It is important that the plan allows for flexibility and the application of professional judgement to enable work to be prioritised, in order to maximise the use of audit resources and add most value to the organisation in targeting changing risks.
4. In line with the provisions of the Public Sector Internal Audit Standards (1100), organisational independence is maintained as the Audit Manager is not responsible for managing any functions beyond the Investigations and Internal Audit teams. The Audit Manager reports administratively to the Head of Finance and functionally to the Audit Committee for audit-related matters. This involves Audit Committee approving key documents, such as the Audit Charter and Plan, and receiving and considering information on audit performance, findings and issues. These reporting lines were formalised through the approval of interim changes to the Audit Charter at the Audit Committee meeting on 13 November 2018.
5. The Audit Manager prepares quarterly progress reports, to provide a meaningful update on the work of Internal Audit. It provides an opportunity to consider emerging risks, issues and sources of assurance, and potentially refocus priorities. Prior to presentation to Audit Committee, the progress report is discussed with the Corporate Director Resources.

**Issues**

6. Over the last two years, the Internal Audit section has reported directly to the Head of Finance, who has provided managerial and strategic leadership as Acting Audit Manager. Following a successful recruitment process, from 1<sup>st</sup> October 2018 a full-time

Audit Manager has been in place who is not responsible for managing any functions beyond the Investigations and Internal Audit teams. The Audit Manager reports administratively to the Head of Finance and functionally to the Audit Committee for audit-related matters.

7. The accompanying Internal Audit Progress Update (Annex 1) sets out performance in relation to the Internal Audit Plan, for the period to 31 December 2018. It summarises the work performed, the priority recommendations raised, the critical findings and emerging trends across the Council, for the assurance of the Audit Committee.

#### Audit Delivery

8. Following a dip in performance in quarter two, there has been an improvement against all performance measures in quarter three, as compared to the previous quarter. Whilst an improvement is recognised, momentum for delivery needs to continue throughout quarter four to deliver the performance targets set. The Audit Manager has communicated the expectation for each auditor to take responsibility for delivering their portfolio of audits, and to follow up on the delivery of client recommendations as priority areas.
9. There were 77 reports issued to at least draft report stage at the end of quarter three. Although this is below the proportionate target for this point in the year, it is a marginal improvement on the quarter three position in 2017/18. In quarter three, there has been a 50% increase in the number of draft reports issued compared to quarter two, and this momentum needs to increase further to deliver 80% of the audit plan as targeted.
10. All audits have been assigned for quarter four and the team is on track to deliver all fundamental audits in the plan. There are 48 priority audits targeted for delivery in quarter four in order to achieve the 80% delivery of the Audit Plan targeted, of which 28 (58%) had commenced at the end of quarter three. These priority audits have been allocated to auditors for delivery by the year-end.
11. To provide development for a member of the audit team through shadowing arrangements, and to supplement the delivery of the audit plan 2018/19, a procurement exercise has been undertaken for the delivery of two ICT-related audits. These audits of IT Governance and Cloud Computing are scheduled for delivery within the final quarter of 2018/19.
12. **Appendix A** shows the list of audit reports issued from April to 31 December 2018, and the following paragraphs outline the key messages from the progress update. Seventy-seven reports have been issued for the period covered, seventeen of which have been for consultation, financial accounts or grant audit engagements. Internal audit has issued an opinion of effective or effective with opportunity for improvement in 68% of the audit opinions provided.
13. **Appendix B** shows the audit plan as at 31 December 2018. This follows a review at the mid-year position of the most appropriate use of unallocated audit days for general assurance and value for money audit purposes. Proposed changes were reported to the last meeting of the Audit Committee on 13 November 2018, and are reflected in the current audit plan.

#### Audit Findings and Recommendations

14. Section 3.2 of Annex 1 provides details of the critical findings and emerging trends from audit work in quarter three, with focus given to the unsatisfactory audit reports and those requiring major improvement. A draft report has been issued for Pontprennau Primary School with an assurance opinion of unsatisfactory. The audit recognised gaps in transactional records and controls, and a need to improve operational control and Governing Body oversight and challenge in respect of the delegated budget and private fund. The Headteacher and Governing Body are considering the audit findings, and an executive summary will be presented to Audit Committee following the issue of the final report.
15. Following the introduction of the school governance mechanism, as considered by Audit Committee on 13 November 2018, it is proposed that the Director of Education and Lifelong Learning attends the meeting of the Audit Committee in June 2019 to report on the assurances in place and the actions taken for school audits where particular concerns have been identified.
16. **Appendix C** provides an Executive Summary of the findings of an audit of Income in School Kitchens, following Audit Committee notification of the draft findings of the audit, within the Audit Progress Report on 13 November 2018. The audit has been finalised with an assurance opinion of unsatisfactory, in view of a need to improve controls for budget and income monitoring, to mitigate delays in identifying and recovering debt and the accumulation of arrears. The audit recommendations have been agreed with management in the Education and Lifelong Learning Directorate and implementation is being proactively monitored.
17. **Appendix D** provides a Briefing Paper on Waste Management assurance and consultancy Internal Audit work recently carried out, for which five draft reports have been issued. One report, of Lamby Way Stores, has provided a draft unsatisfactory audit assurance opinion in view of ongoing stock discrepancies across stock categories, which it is considered to indicate an inconsistent application of core processes to ensure all stock movement transactions are accurately recorded. Audit Committee will receive an Executive Summary on this audit following the issue of the final report. Meetings have commenced with management to discuss the Lamby Way Stores audit and, to provide further assurance, Internal Audit will be present to observe the year-end stock check process.
18. At the reporting date, there have been 724 recommendations made to audit clients this year.
  - **Appendix E** - This shows the red and red / amber recommendations that are not yet complete.
  - **Appendix F** - This shows the red and red / amber recommendations completed since the last Audit Committee in November 2018.
  - **Appendix G** - This shows the red and red / amber recommendations with revised action dates of which 36 Red or Red / Amber recommendations are not yet completed.
19. Work has begun on the proposed audit plan for 2019/20, and a draft plan has been reported to this meeting as agenda item 10.3.

### **Legal Implications**

20. There are no legal implications arising from this report.

### **Financial Implications**

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

## **RECOMMENDATIONS**

22. That the Audit Committee note and consider the contents of the Progress Report and appended documents.

**CHRIS PYKE**  
**AUDIT MANAGER**

22 January 2019

The following are attached:

**Annex 1:** Internal Audit Progress Report, 2018-19

**Appendix A:** Reports Issued

**Appendix B:** Audit Plan as at 31<sup>st</sup> December 2018

**Appendix C:** Executive Summary - Income in School Kitchens

**Appendix D:** Waste Management Briefing Paper

**Appendix E:** Red & red / amber open recommendations

**Appendix F:** Red & red / amber recommendations completed since the last Audit Committee

**Appendix G:** Red & red / amber open recommendations with revised action dates



## RESOURCES DIRECTORATE INTERNAL AUDIT SECTION

### Internal Audit Progress Report 2018/19 (as at 31<sup>st</sup> December 2018)

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<b>Appendix G</b>	Red & red / amber open recommendations with revised action dates

Prepared by: **Chris Pyke, Audit Manager**

# INTERNAL AUDIT PROGRESS REPORT

## 1. INTRODUCTION

### 1.1 Background

The Internal Audit plan for 2018/19 was approved by the Audit Committee at its meeting in March 2018. The plan provides the framework for audit work in the forthcoming year and is aligned to the Council's corporate governance arrangements, whilst also being responsive to any changes to the risks faced by the Council during the year.

The Internal Audit plan for 2018/19 is made up of a total of 2,706 days, with a total of 2,100 chargeable days for the audit team being agreed.

This report serves to provide an update on progress against the plan to 31<sup>st</sup> December 2018.

### 1.2 Independence and objectivity

Until 30<sup>th</sup> September 2018, the Internal Audit section reported directly to the Head of Finance as Acting Audit Manager. In line with the provisions of the Public Sector Internal Audit Standards (1100), organisational independence was maintained as the Head of Finance has reported functionally to the Audit Committee for audit-related matters. For all other matters, the Head of Finance has reported to the Corporate Director, Resources. There were no impairments of independence or objectivity.

From 1<sup>st</sup> October 2018, an Audit Manager has been in post to manage the Internal Audit section. The Audit Manager is not responsible for managing any functions beyond the Investigations and Internal Audit teams. The Audit Manager reports administratively to the Head of Finance and functionally to the Audit Committee for audit-related matters. These reporting lines were formalised through the approval of interim changes to the Audit Charter at the Audit Committee meeting on 13 November 2018.

### 1.3 Continuing Professional Development

Personal review objectives for 2018/19 were discussed and agreed with the members of the team by the end of June 2018, with training and development objectives identified and taken into account in the allocation of training courses this year.



The six month personal reviews for 2018/19 were held with the team to discuss progress against agreed objectives, determine whether any revisions to these objectives are required, and to identify relevant training needs. These reviews were completed within the Council deadline of 30<sup>th</sup> November 2018 and reinforced expectations and focus on internal audit quality and output. The draft Audit Charter 2019/20 includes an ‘output focussed and quality controlled’ performance management approach as a core component of the Quality Assurance and Improvement Programme (QAIP). The Draft Charter 2019/20 is included in agenda item 10.3, with the QAIP which has been operational from October 2018 included in Appendix E of that item.

Members will be aware that four auditors are being supported to become certified members of the Institute of Internal Auditors (IIA). One auditor sat the Part 2 exam in December 2018 and was successful, which means that two of the team are now working towards the Part 3 (final) exam and two are working toward Part 1.

## 2. **SUMMARY OF WORK PERFORMED**

### 2.1 Current Activities

The report to Audit Committee in March 2018 set the scene for audit coverage for the year and planned assignments have been set up in the audit planning, monitoring and control database. Priority was given to any audits planned for 2017/18 but not completed during that year.

All auditors continue to be allocated three months’ work at the end of the previous quarter with an expectation their assignments will be effectively managed and delivered within that time scale. This approach focuses on outcomes, and improving the timeliness of audit reporting.

**Appendix A** shows the list of audit reports issued from April to 31<sup>st</sup> December 2018. This includes assignments carried forward from 2017/18, which were prioritised accordingly in this year’s plan.

The opinions given in reports issued to 31<sup>st</sup> December 2018 are shown below.

	Number of reports	Opinion				Other work undertaken
		Effective	Effective with opportunity for improvement	Insufficient with major improvement needed	Unsatisfactory	
Draft reports issued	20	1	10	5	2	2
Final reports issued	57	10	20	10	2	15
<b>TOTAL</b>	<b>77</b>	<b>11</b>	<b>30</b>	<b>15</b>	<b>4</b>	<b>17</b>

Further to the table above, the 'other work undertaken' comprised the following:

	<b>Audit</b>	<b>Comments</b>
1.	Rent Smart Wales	Provision of training
2.	Asset Management	Briefing paper
3.	Commercial Waste Recycling Centre	Briefing paper
4.	Whitchurch High School	Briefing paper
5.	Social Services – care packages	Consultation assignment
6.	Gatehouse	Briefing paper
7.	Review of banking arrangements - Shirenewton	Briefing paper
8.	Stock control at Lamby Way	Consultation assignment
9.	Income at Lamby Way	Consultation assignment
10.	Ysgol Coed y Gof	Advice and guidance
11.	Training on revised Contract Standing Orders and Procurement Rules	Training provided to Council officers
12.	Discretionary grants	Briefing paper
13.	NFI 2016	Review of data matches from NFI exercise 2016
14.	Insurance	CRSA
15.	Council Tax	CRSA
16.	Creditor payments and processing	CRSA
17.	Use of legal advisers	Consultation assignment

## 2.2 Annual plan

The annual audit plan was agreed by Audit Committee at its meeting in March 2018 and was based upon the assurance mapping exercise, which is carried out at periodic intervals during the preceding year. The PSIAS (2010) requires the risk-based plan to take into account the organisation's assurance framework with the work of internal audit addressing both local and national issues.

In developing the annual plan, sources of assurance from within and outside the Council are considered, to enable informed decisions to be taken on the audits required. The process of 'assurance mapping' (using the 'three lines of defence' model) also captures emerging risks and issues as they arise during the year, so that the plan can be adapted where appropriate during the year. These changes are brought to the Audit Committee as they arise.

At the mid-year position, the annual plan was reviewed to determine the most appropriate use of unallocated audit days for general assurance and value for money audit purposes. These proposed changes were reported to the last meeting of the Audit Committee on 13 November 2018, and **Appendix B** shows the audit plan as at 31<sup>st</sup> December 2018. Further information on the delivery of the audit plan is included within *Section 3.2 - Performance and Benchmarking*.

### 2.3 Critical findings or emerging trends

In accordance with the PSIAS, Internal Audit is required to report to Audit Committee on critical findings or emerging trends and, based on the work undertaken since the last audit progress report, these details are provided below.

Following Audit Committee notification in the progress report on 13 November 2018 of the draft findings of an audit of catering income in school kitchens, the audit has now been finalised with an assurance opinion of *unsatisfactory* and, accordingly, an executive summary has been prepared and is attached in **Appendix C**. The report considered there were unsatisfactory controls for budget and income monitoring, resulting in delays in identifying and recovering debt and leading to an accumulation of arrears. The audit recommendations have been agreed with management in the Education and Lifelong Learning Directorate.

Some draft reports have raised compliance and control issues this quarter, with two draft unsatisfactory assurance ratings allocated. A draft report has been issued in respect of Pontprennau Primary School, also with an assurance opinion of *unsatisfactory*. It is considered that strengthening of governance is needed, with it being recommended that the Governing Body improves its oversight and challenge of both delegated budget and private fund activities. Improvements are also required in the financial controls at an operational level. The findings are currently being considered by the Headteacher and Governing Body. An executive summary will be presented to Audit Committee following the issue of the final report.

Following the introduction of the school governance mechanism, as considered by Audit Committee on 13 November 2018, it is proposed that the Director of Education and Lifelong Learning attends the meeting of the Audit Committee in June 2019 to report on the assurances in place and the actions taken for school audits where particular concerns have been identified.

Audit Committee will be mindful of the work that is being carried out in Waste Management within the Planning, Transportation and Environment directorate and **Appendix D** to this report includes a briefing paper on the assurance and consultancy work recently carried out by internal auditors, along with information on the work to be undertaken in quarter four. The briefing paper reports that five draft Waste Management audit reports have been issued in quarter three with one audit in respect of Lamby Way Stores providing a draft unsatisfactory audit opinion. Two of the Waste Management assurance reports recognised the presence of fundamental controls, but identified areas of major improvement, in the areas of income and banking control procedures and acting up and overtime payments at Lamby Way. These reports are being discussed and considered with management.

The audit of Lamby Way Stores considered that ongoing stock discrepancies identified across stock categories are indicative of an inconsistent application of core processes to ensure all transactions in and out of the stores are accurately recorded. Audit Committee will receive an Executive Summary on this audit following the issue of the final report. Meetings have commenced with management to discuss the Lamby Way Stores audit and, to provide further assurance, it has been agreed that Internal Audit will be present to observe the year-end stock check process.

Three further draft reports have recognised a need for major improvement this quarter, comprising Safeguarding, Purchasing Cards and County Hall Canteen. In respect of Safeguarding at a corporate level, a significant level of policy development and Council engagement has been recognised, for which a prudent audit opinion has been allocated in recognition of the importance of effectively embedding these arrangements. The audit of Purchasing Cards has recommended the development of a corporate policy for all p-card users to underpin the Council's user guide and support consistent practices, and has recognised a need to improve the timeliness of receipting and approving transactions and some aspects of monitoring. The Audit of County Hall Canteen has been undertaken to provide early assurance and advice on the systems operated in respect of the Youth Foods initiative. The audit has been welcomed by management, which has made recommendations to strengthen income, stock management and procurement processes, at a time when operations are in relative infancy.

## 2.4 Resources and training received

Audit Committee has had the opportunity to consider the budget proposals for 2019/20, and has received the opinion of the Audit Manager on the delivery of the audit function with the savings proposed, upon which the Draft Audit Plan has been prepared in agenda item 10.3. The saving proposal of £62,000 for the 'reduction of audit resource' for 2019/20 has two components and represents a continuation of the level of resources currently in place for future years at the operational level.

The first component of the saving relates to the formalisation of reduced hours for a member of the Internal Audit Team, and the second element relates to the deletion of a Principal Auditor post, which has been vacant this year whilst the post holder has been on a period of Secondment.

The comments received from Audit Committee Members to the Audit Manager on the proposals and explanations given have been of suitable assurance that there are sufficient resources for the delivery of a comprehensive audit service. Comfort is also taken from the appointment of a full-time audit manager from October 2018. This follows a period of oversight by the Head of Finance as a part of a wider portfolio of responsibilities over the last two years and represents an increase in support for delivering the Internal Audit role.

To provide development for a member of the audit team through shadowing arrangements, and to supplement the delivery of the audit plan 2018/19, a procurement exercise has been undertaken for the delivery of two ICT-related audits. These audits of IT Governance and Cloud Computing are scheduled for delivery within the final quarter of 2018/19.

There were 1,940 days coded on auditor timesheets as at 31<sup>st</sup> December 2018, against a pro-rata plan of 2,030 days. Of this, 1,255 days have been chargeable to audits (65%) and 37 related to non-audit duties (including Trades Union duties).

The Audit team supports the Welsh Chief Auditor Group training programme co-ordinated by colleagues in Newport Council but, so far in 2018/19, the programme has not yet been fully developed. No formal training has been undertaken in Q3 since the last report to Audit

Committee, but the Audit team has undertaken the mandatory Corporate training modules, including those on cyber security.

### 3. AUDIT PERFORMANCE AND ADDED VALUE

#### 3.1 Added value

Relationship Manager meetings have been arranged with every Director and diarised for quarterly meetings throughout 2018/19. These are useful in progressing matters relating to audits completed and planned, and for discussing corporate and directorate risks, issues and areas for potential audit input. Senior members of the team also meet regularly with officers in directorates to discuss recommendations made and other issues for audit input.

Audit has issued 41 client questionnaires to 31<sup>st</sup> December 2018 and has received 27 responses (a response rate of 65.85%). One question asked of clients is whether they considered that the audit work added value to their service, and 77% of the respondents thought that the audits added value. The response of 'no' received since the last progress report related to a report where the client was aware of gaps in governance processes, and was in the process of improving procedures with the partner organisation.

In the reports issued to date, there have been a total of 724 recommendations made to audit clients. **Appendix E** shows the red and red / amber recommendations that are not yet complete (including those that have not yet reached their proposed action date), and the RAG ratings for these are summarised in the table below.

Directorate	Actions still open	Red	Red / amber	Amber / green or green
Planning Transport and Environment	15	2	2	11
Housing and Communities	3		2	1
Corporate Governance	3		1	2
Economic Development	8	1	2	5
Education and Lifelong Learning	32	4	12	16
External and grants	3		1	2
Fundamental				
Governance & Legal Services	4			4
Other assurance	5		2	3
Resources	11		1	10
Social Services	14	1	8	5
	98	8	31	59
Schools	28		9	19
<b>TOTAL</b>	<b>126</b>	<b>8</b>	<b>40</b>	<b>78</b>

**Appendix F** shows the red and red / amber recommendations that have been completed since the last Audit Committee in November 2018.

### 3.2 Performance and Benchmarking

The Audit team is a member of the Welsh Chief Auditors and Core Cities benchmarking groups for 2018/19. The outputs of the Welsh Chief Auditors Group were reported to the Audit Committee in June 2018 and the Audit Team is awaiting the output from the Core Cities benchmarking group. Discussions have been held with the other Core Cities regarding amending the format of the performance measures collated, but no further information has been received from the Council co-ordinating the indicators.

The Internal Audit team also has internal key performance measures, which are reported on a quarterly basis to Resources management team. The Council's performance targets for 2018/19 audit work and the actual outcome at the end of Q1, Q2 and Q3 are as in the table below:

Performance Indicator	2017/18 Outcome	2018/19 Target	Actual as at end of Q1	Actual as at end of Q2	Actual as at end of Q3
The percentage of audit reports delivered within six weeks	74.6%	78.0%	80%	63%	69%
The average number of audit productive days per employee	143.43	170.00	37.90	68.91	104.59
The average number of finalised audits per FTE (excluding schools' thematic reviews)	6.52	10.00	3.19	5.10	8.18
The percentage of audit recommendations implemented within the agreed timescale	86%	90%	76.92%	55.53%	73.47%
The percentage of the audit plan completed (current plan)	75%	80%	25.32%	35.71%	50.00%
<i>The percentage of the audit plan completed (original plan)</i>	75%	80%	25%	35.26%	49.36%

Following on from the dip in performance in Q2, there has been an improvement against all performance measures in quarter 3, as compared to the previous quarter. Whilst an improvement

is recognised, momentum for delivery needs to continue throughout Q4 to deliver the performance targets set.

The Audit Manager has communicated the expectation for each auditor to take responsibility for delivering their portfolio of audits, and to follow up on the delivery of client recommendations as priority areas.

#### Audit Plan Delivery

There were 77 reports issued to at least draft report stage at the end of Q3. Although this is below the proportionate target for this point in the year, it is a marginal improvement on the Q3 position in 2017/18. In Q3 there has been a 50% increase in the number of draft reports issued compared to Q2, and this momentum needs to increase further to deliver 80% of the audit plan as targeted.

All audits have been assigned for Q4 and the team is on track to deliver all fundamental audits in the plan. The fundamental audits to be completed in Q4 are Local Housing Allowances, Housing Rents, Creditors 2018/19 in-year testing and Payroll 2018/19 in-year testing.

There are 48 priority audits targeted for delivery in Q4 in order to achieve the 80% delivery of the Audit Plan targeted, of which 28 (58%) had commenced at the end of Q3. These priority audits have been allocated to auditors for delivery by the year end.

#### Recommendation Progress

The team has given significant attention to following up on the implementation of recommendations due, with priority given to those of a red and red/amber priority rating. The focus has been for management to provide evidence that all red and red / amber recommendations due have either been implemented by the target date, or that they are appropriately communicated through the respective directorate management team, and revised target dates and renewed attention is given to their implementation.

Audit Committee will note the improved position in the appended recommendation reports, as a greater number of recommendations have been implemented than the prior quarter and only a small number of recommendations due require an update. It should be noted that the recommendations in respect of IT have not been closed, as the validation will be achieved through



audit engagements planned for Q4. Audit Committee will note the improved performance measure in respect of ‘the percentage of audit recommendations implemented within the agreed timescale’ at a rate of 73%.

### 3.3 Processes

The management information available from both SharePoint and DigiGOV has been used to provide performance management information for each auditor, the section as a whole, and the information provided in this report. Each of the performance indicators shown in the table above (for the team as a whole) are given to individual auditors at the end of the quarter, along with the auditor’s individual outcomes. These form part of the discussion with the auditors at the monthly meetings to discuss progress on assignments, with an emphasis on the completion of audit engagements to support the completion of the audit plan.

The table below shows the instances where implementation dates have been revised by audit clients on SharePoint (as at 31.12.18). This reporting mechanism is used to monitor progress and target discussions on the effective management of risk management in relationship management meetings each quarter.

Directorate / Audit Category	Number of recommendations with revised dates	Actions now implemented	Actions still open
Education and Lifelong Learning	51	22	29
Social Services	22	13	9
Resources	8	2	6
Housing and Communities	3		3
Planning Transport and Environment	6	3	3
Economic Development	2	1	1
External and grants	2		2
Fundamental	1	1	
Corporate Governance	2		2
Governance and Legal Services	3		3
Other assurance	8	5	3
	108	47	61
Schools	101	85	16
<b>TOTAL</b>	<b>209</b>	<b>132</b>	<b>77</b>

**Appendix G** provides more detail on the red and red / amber recommendations with revised action dates, and detail of the amber / green and green recommendations is provided to Audit Committee via a separate route.

#### **4. CONCLUSION**

- 4.1 Whilst there has been steady progress through the audit plan, as outlined in section 3.2, and an increase in performance across all indicators this quarter, the momentum for delivery needs to continue throughout the final financial quarter to deliver the performance targets set. Expectations have been reiterated to the Audit team to continue the improvements seen in application of the 'output focussed, quality controlled' ethos to audit delivery, with this being the ongoing attention and focus of monthly monitoring meetings and wider performance management.

Reports Issued as at 31<sup>st</sup> December 2018

Audit Area	Audit Opinion	High Risk Recommendations		Comments
		Proposed	Agreed	
<b><i>Fundamental / High</i></b>				
Social Services – governance	Effective			
Social Services – effective decision making	Effective			
Resources – governance	Effective			
Governance & Legal Services – governance	Effective			
Audit of Risk Management	Effective			
Planning Transport and Environment – effective decision making	Effective			
Communities – effective decision making	Effective			
Education – school governance	Criegiau	Effective		
	St. Illtyd's	Effective		
	Coed Glas	Effective		
	Hywel Dda	Effective		
	Ysgol Coed y Gof	Effective		
	Birchgrove	Effective with opportunity for improvement		
	Cardiff	Effective with opportunity for improvement		
	Radyr	Effective with opportunity for improvement		
	Danescourt	Effective with opportunity for improvement		
	Holy Family	Effective with opportunity for improvement		
	Peter Lea	Effective with opportunity for improvement		
	St. Fagan's	Effective with opportunity for improvement		
Council Tax (in year testing)	Effective			

Audit Area	Audit Opinion	High Risk Recommendations		Comments
		Proposed	Agreed	
Audit of Corporate Governance	Effective			
Education – partnerships and collaborative governance	Effective			
Economic Development – partnerships and collaborative governance	Effective			Draft report issued
Economic Development – governance	Effective with opportunity for improvement			
Economic Development – commissioning and procurement	Effective with opportunity for improvement			
Resources – commissioning and procurement	Effective with opportunity for improvement			
Resources – effective decision making	Effective with opportunity for improvement			
Social Services – commissioning and procurement	Effective with opportunity for improvement			
G&LS – partnerships and collaborative governance	Effective with opportunity for improvement			
Planning, Transport and Environment – commissioning and procurement	Effective with opportunity for improvement			
Economic Development – effective decision making	Effective with opportunity for improvement			
Communities – commissioning and procurement	Effective with opportunity for improvement			
Business Continuity	Effective with opportunity for improvement			
Social Services – partnerships and collaborative governance	Effective with opportunity for improvement			
Planning, Transportation and Environment – partnerships and collaborative governance	Effective with opportunity for improvement			Draft report issued
Income and Debtors	Effective with opportunity for improvement			Draft report issued
Education – budgeting and forecasting	Effective with opportunity for improvement			Draft report issued

Audit Area	Audit Opinion	High Risk Recommendations		Comments
		Proposed	Agreed	
Creditors – payment processing 2017/18	Effective with opportunity for improvement			Draft report issued
Fleet Management Information Technology (FMIT)	Insufficient with major improvement needed	2	2	
School Organisation Access and Planning	Insufficient with major improvement needed	3	3	
Sports Joint Venture (GLL)	Insufficient with major improvement needed	1		
Commercial Services – BM charging mechanism	Insufficient with major improvement needed	1		
Acting up payments and overtime at Lamby Way	Insufficient with major improvement needed	1		
Purchasing cards	Insufficient with major improvement needed	1		Draft report issued
Payroll review in Planning, Transport and Environment	Insufficient with major improvement needed	1		Draft report issued
Lamby Way stores	Unsatisfactory	2		Draft report issued
<b>Medium</b>				
Education - commissioning and procurement	Cantonian	Effective		
	Tongwynlais Primary	Effective with opportunity for improvement		
Cradle to Grave – Gulliver’s	Effective with opportunity for improvement			
Communities First	Effective with opportunity for improvement			
Front of House – Cardiff Castle	Effective with opportunity for improvement			

Audit Area	Audit Opinion	High Risk Recommendations		Comments
		Proposed	Agreed	
Programmes and projects in CADT	Effective with opportunity for improvement			Draft report issued
Flood risk management	Effective with opportunity for improvement			Draft report issued
Llandaff CiW Primary School	Effective with opportunity for improvement			Draft report issued
Regional Social Care Training Unit	Effective with opportunity for improvement			Draft report issued
Baden Powell	Insufficient with major improvement needed			
Mileage and subsistence	Insufficient with major improvement needed			
St. David's	Insufficient with major improvement needed	2	2	
Safeguarding Arrangements	Insufficient with major improvement needed			Draft report issued
Income and banking control procedures at Lamby Way	Insufficient with major improvement needed			Draft report issued
Youth Foods – County Hall restaurant	Insufficient with major improvement needed			Draft report issued
Music Service	Unsatisfactory	5	5	
Income in school kitchens	Unsatisfactory	2	2	
Pontprenau	Unsatisfactory	6		Draft report issued
<b>Grants / Accounts / External Bodies</b>				
Joint Committees	Glamorgan Archives	Audits undertaken to support the Council's Statement of Accounts		
	Prosiect Gwyrdd			
	Port Health			
Cardiff Further Education Trust	Audit of Statement of Accounts			

Audit Area	Audit Opinion	High Risk Recommendations		Comments
		Proposed	Agreed	
Norwegian Church Preservation Trust 2015 - 2017	No assurance opinion given	4	4	
Welsh Local Government Association	Final report issued			
Flying Start	Final report issued			
City Deal	Final report issued			
Education – summary of thematic audits				Draft report issued
Corporate – partnerships and collaborative governance	Effective with opportunity for improvement			Draft report issued
<b>Other assignments</b>				
Rent Smart Wales	Consultation assignment – provision of training			
Asset management	No assurance opinion given			Briefing paper
Commercial Waste Recycling Centre	No assurance opinion given			Briefing report
Whitchurch High School	No assurance opinion given			Briefing paper
Social Services – care packages	Consultation assignment			
Gatehouse	No assurance opinion given			Briefing report
Review of banking arrangements – Shirenewton	No assurance opinion given			Briefing paper
Stock control at Lamby Way	Consultation assignment			
Income at Lamby Way	Consultation assignment			
Ysgol Coed y Gof	Provision of advice and guidance			
Training on revised Contract Standing Orders and Procurement Rules	Provision of training to Council officers			
Discretionary grants	No assurance opinion given			Briefing paper
NFI 2016	Review of data matches from NFI exercise 2016			
Insurance	CRSA			
Council Tax	CRSA			
Creditor payments and processing	CRSA			
Use of legal advisers	Consultation assignment			

Mae'r dudalen hon yn wag yn fwriadol



## EXECUTIVE SUMMARY

### INCOME PROCEDURES IN SCHOOL KITCHENS

#### BACKGROUND

- 1 **The Education Catering Service is a non-profit making, traded service.** The aim of the service is to provide a viable, legally compliant, cost effective, customer focused food service. Education Catering Service operates this service to one hundred and twenty seven schools (Secondary, Primary and Special), producing four million meals per annum, providing breakfast, lunch and therapeutic diets for pupils, vending services, and occasional catering for business meetings. The service is supported by a shared administrative provision within Education and Lifelong Learning.
- 2 Free and paid school meals are the main source of income received by the Education Catering Service. Admin staff in primary schools are responsible for the recording of free and paid school meals, collecting and banking of paid school meals income. Income generated from revaluation machines located in secondary schools is emptied, collected and banked by the catering team in each school. Total amount of income collected (excluding the milk subsidy (£521,865)) by **the Education Catering Service** in 2017/18 was £10,799,586.
- 3 Discussions with key officers highlighted that the appetite to have the cashless catering system in primary schools is high. The cashless catering system is currently being rolled out across all primary schools on a piece meal basis.

#### MAIN CONCLUSIONS

- 4 An audit was undertaken of the income processes and procedures in place relating to school kitchens in November 2018, in accordance with the agreed terms of reference. Based on discussions with key officers and work undertaken, it is considered that the assurance rating that can be given is **unsatisfactory** in relation to the objectives agreed at the outset of the audit. In the absence of key preventative and detective internal controls, such as up to date cash handling and banking guidance notes, regular robust budget monitoring, independent monitoring of catering income records and a clear documented process for schools to support the consistent approach in the debt recovery process of dinner money arrears (including schools using cashless systems), the internal control environment is exposed, which leaves the service vulnerable to the high risk of errors and significant losses / fraud.
- 5 Collection of School Dinner Money guidance notes (5.SC.CA.324) are out of date and have not been reviewed by the Education Catering team since the senior management structure change which took place four years ago. Without up to date cash handling and banking procedures for school kitchens in place, there is a risk of weaknesses in the control framework, which may lead to financial impropriety / loss, inconsistent and poor quality of recording school meals and non-compliance with Financial Procedure Rules.

- 6 It was apparent no regular budget monitoring was undertaken for the Education Catering Service in its entirety to avoid revenue budget overspend or/and by individual schools to ensure that all income due has been received and banked. Absence of regular independent income monitoring controls exposes the service to a high risk of errors, mis-appropriation of monies and loss of income.
- 7 At the time of the audit, outstanding debt of school dinner monies totalled approx. £220,046. In addition, debt management information held separately on the NRS system for cashless schools showed a total debt of £12,695. A clear documented process for schools to support the consistent approach in the debt recovery process of dinner money arrears does not exist. The delay in starting the debt recovery process reduces the likelihood of recovering the debt and exposes the council to reputational risk which could result in parents deliberately not paying their arrears for current pupils.
- 8 Discussions with key officers highlighted that the appetite to have the cashless catering system in primary schools is high. Due to the lack of independent monitoring of catering income records at schools, it was suggested that the cashless catering system be rolled out across all primary schools at the same time, rather than piece meal, reducing the risks surrounding cash handling and to free up school office staff for other school duties.

#### **RECOMMENDATIONS FOR ACTION**

- 9 The audit report includes twelve recommendations for improvement going forward, all of which were agreed by Senior Management.

#### **LATEST POSITION**

- 10 Internal Audit will continue to monitor the internal control environment through discussions with management and the Recommendation Tracker, which allows managers to directly provide updates on the progress made towards implementing the audit recommendations, in accordance with agreed audit protocols. Internal Audit will monitor the delivery and progress made of audit recommendations and roll out of the cashless system, with the suggested follow-up audit undertaken at the appropriate time.

**Briefing Paper - Waste Management Assurance and Consultation Engagements**

## **BACKGROUND**

- 1 The Chief Executive has requested an increase in the Internal Audit activities and presence in relation to Waste Management, and assurance and advice has also been sought from the Audit Committee and senior management within the Planning, Transport and Environment Directorate in relation to the internal control environment. This follows allegations of financial impropriety and fraud, which have resulted in ongoing internal and police investigations, and a separate HMRC investigation into the calculation and application of landfill tax charges which is also ongoing.
- 2 The Director of Planning, Transport and Environment is scheduled to attend Audit Committee on 2 April 2019, which is considered to be the earliest opportunity to report an update on the activities and outcomes of the respective investigations. The Internal Audit team has been delivering a programme of audit engagements to provide management advice, guidance and assurance in core areas of internal control, determined through ongoing discussion and relationship management meetings.
- 3 The Internal Audit service develops and delivers a risk-based internal audit plan, which is responsive to changes to the Council's risk profile and needs for assurance, advice and guidance. The following work has been delivered through assurance engagements, which result in a formal audit opinion and may result in audit recommendations, and consultation engagements, which are of an independent advisory nature, typically at a point of service transition or development.

## **INTERNAL AUDIT ENGAGEMENTS**

- 4 A number of audit engagements have been delivered in Waste Management and additional areas are still to be concluded in order to deliver a comprehensive review for 2018/19.

### **Audits Delivered**

- 5 The Internal Audit team has issued draft reports / management briefings for five audit engagements in Waste Management in quarter three 2018/19 as included in the following table.

#### Draft Reports / Briefings Issued

<b>Consultation Engagements</b>	<b>Assurance Engagements</b>
Commercial Waste Recycling Centre	Lamby Way Stores

Weighbridge system	Income and banking control procedures (Lamby Way)
	Acting up payments and overtime in Lamby Way

- 6 A summary of the audit work completed, the primary findings and outcomes are provided in the following paragraphs.

**Consultation Engagements - Summary**

- 7 As allegations of financial impropriety and fraud were investigated, a number of staff, supervisors and managers were removed from the Waste Management teams and a replacement weighbridge team was brought in for continuity of service. Staff were also redeployed to enable continued facilitation of the Commercial Waste Recycling Centre (CWRC) provision. Internal Audit was requested to have a physical presence at the site in Bessemer Close in an advisory capacity, during initial weeks, to make observations and provide guidance on the operation of fundamental controls.
- 8 The Auditor prepared a draft Action Plan, which highlighted the control deficiencies at the site. Principally, it recognised the need for improvements to site security (to ensure that vehicles should only flow through the site in accordance with the business process), and processes to ensure that all waste movements were recorded on the weighbridge system, with physical checks put in place to verify this. Additionally, it was recommended that monitoring of data and reconciliations should be put in place and that action should be taken to ensure that all income due, was received.
- 9 This Action Plan has been adopted by the Directorate and added to as appropriate. Steps to address physical controls and operational division of duties challenges, were put in place, in the short term, but some slippage was seen in the back office checks, which would support these, largely as a result of resource constraints. Recently progress has been made and work has been completed on the weighbridge system. It is anticipated that these improvements and the required level of checks on waste movements and data, will enable assurance to be given that the CWRC operates within a reasonably robust control environment.
- 10 In addition to the action plan, a secondary piece of work has been completed on the proprietary weighbridge software system (Gatehouse). Analysis of transactions was undertaken and assisted the Directorate in identifying issues and areas for improvement within that system, with additional areas of concern incorporated into the Action Plan. There remains a need to ensure that the management actions framed within the Action Plan are brought to a timely conclusion, for which an ongoing audit monitoring arrangement is in place. An assurance audit assignment is planned in respect of Gatehouse in quarter four 2018/19, following this initial advice and guidance.

## Assurance Engagements - Summary

- 11 At the end of quarter three 2018/19, three draft audit reports were issued to senior management within Waste Management for consideration and formal response. A summary of the audit findings and the respective assurance rating is as follows.

### Lamby Way Stores

- 12 An audit of the effectiveness of the stock management system in place within Lamby Way Stores has been welcomed by management, following ongoing stock discrepancies identified through systematic stock checks. The stores hold standard equipment, materials and products for use by operatives within the Waste Management teams and household products such as recycling / wheelie waste bins and wormeries. The stock held at the last stock check had a value of circa £413k.
- 13 The audit work has concluded and a draft report has been issued with an assurance rating of **Unsatisfactory**, as the level of stock discrepancies across stock categories indicates an inconsistent application of core processes to ensure all transactions in and out of the stores are consistently and accurately recorded.
- 14 Through the auditor's observation of the stores in operation, and a sample of transactions and associated documentation, the systems in place are considered to be reasonably effective, for which a limited number of recommendations have been raised. It is important for management to prioritise their attention to communicating, monitoring and managing a culture of strict adherence to these processes to achieve the level of accountability and control required.
- 15 Whilst there were no inherent concerns raised regarding the integrity of the SAP stock system, a recommendation has been raised to review the re-order levels established in order to reduce the level of manual intervention required to maintain effective stock levels. The audit reported delays in stock management processes, and a need to promptly raise stock orders to the levels necessary when required and to receipt items promptly once they have been verified as satisfactorily received. Recommendations have also been raised to ensure that in instances when stock needs to be manually issued, processes are properly adhered to, and to address some stock security weaknesses.
- 16 As the audit report has provided an opinion of unsatisfactory, Audit Committee will receive a briefing paper on the audit to include the management response, once the final report has been issued. All recommendations raised and progress in their implementation will be reported to Audit Committee through the recommendations tracker. Officers from Internal Audit will be present during the year-end stock count 2018/19, to provide assurance on the processes and controls in place in quantifying the stock held.

### Income and banking control procedures (Lamby Way)

- 17 A review has been completed on the Income and Banking Control Procedures within Lamby Way upon request for assurance from management. The level of annual cash income received at Lamby Way is relatively low, with circa £2k received in Reception and circa £17k received by the Business Support Teams (as per 2017-18 data). The income received in reception related to the sale of wormeries, water butts, compost bins, re-useable garden sacks and new bins. Income received by Business Support consisted of Enforcement income (Fixed Penalty Notices and Bag Clearances) and Commercial Waste income (Sale of Orange bags - on an exception basis).
- 18 The audit work has concluded and a draft report has been issued with an assurance rating of **Insufficient with Major Improvement Needed**. The collection of income and banking records could be independently followed, to provide assurance that for the receipts checked as part of the audit, the respective income had been appropriately accounted for and banked. However, there was no inventory (stock) received in and issued / sold record for the Lamby Way Reception and Business Support office. Without this record, and with gaps in the Lamby Way stores issue records, it is not possible to provide the necessary assurance that all items issued from Lamby Way Reception and Business Support Offices have been appropriately charged for, with all income duly receipted and banked.
- 19 Installing the above stock control mechanism will enable stock to be periodically verified and checked and to enhance the completeness of income reconciliations in order to provide effective assurance over income and stock management. In addition to this core area, management have also been advised of a need to review stock security measures at Lamby Way Reception.

### Acting up payments and overtime in Lamby Way

- 20 A review has been completed on the processes and procedures in place relating to acting up and overtime payments at Lamby Way. The audit scope was developed with directorate management, who recognised the need for control improvements in some areas, and have sought Internal Audit assurance and advice.
- 21 The audit work has concluded and a draft report has been issued with an assurance rating of **Insufficient with Major Improvement Needed**, as attention is required in order to improve areas of compliance, coordination and control. The sample of overtime payments made within the teams at Lamby Way had been duly authorised by an approved individual and paid at the correct rates. However, there is a need to ensure overtime is consistently allocated and managed within the Working Time Regulations, as some officers have worked excessive hours.
- 22 This audit follows a recent review of acting up processes, which concluded in August 2018, reporting on the Materials Recycling Facility (MRF) and the Household Waste Recycling Centre (HWRC) in Lamby Way. The original audit identified improvements needed in the records for, and payments of, acting up allowances. Management

requested this audit to review both overtime and acting up arrangements, within the Cleansing and Collections teams at Lamby Way in addition to the MRF and HWRC.

- 23 The audit has recognised the difficulties in processing ad hoc acting up payments in the teams reviewed. The standard process of completing an acting up form for a set period is not viable where acting up arrangements are allocated on a shift basis. However, the practice adopted of using overtime wage codes in the absence of an acting up wage code for processing claims provides a greater risk of error and poor management information. Following the audit work in August, there has been a reduction in the proportion of acting up claimed for overtime hours.
- 24 The Acting up Scheme specifies that acting up arrangements should be the exception and should only apply where the services provided cannot function for operational or health and safety reasons without the higher graded post being filled immediately. The audit also showed that there were 305 acting up (shift) claims at Lamby Way for April to May 2018, and 149 for November 2018 (MRF, HWRC, Collections and Cleansing Teams). The scale of ongoing acting up arrangements indicates a need management to review their workforce needs, ensure appropriate arrangements are in place for general officer cover, and reserve acting up provisions for matters of urgent service requirements and not business as usual activity.

### Audits Ongoing / Planned

- 25 A number of internal audit engagements are either underway, or are planned for completion within the financial year 2018/19. Audit Committee will receive an update on these audits as part of their progress report and all recommendations and management delivery, via the recommendations tracker.

#### Reports Pending for 2018/19

Audits Underway	Audits Planned
Waste Management Contracts	Gatehouse Assurance Review
Waste Management Income Contracts	Stock Checks – Lamby Way

### Management Response

#### General comments on internal audit engagements

- 26 Whilst these reports have been recently received there is a commitment to proactively work on the audit findings and recommendations, and we will be responding in full to the recommendations shortly. Planning, Transport and Environment Management find the use of internal audits instrumental to supporting improvements relating to poor working practices and lack of processes in service delivery. The management team have worked with the internal audit team to identify priorities and scope for internal audits.

### Lamby Way Stores

- 27 Waste Services utilise SAP to manage stock and therefore have good software to support officers to manage stock levels and reconcile costs associated to changes in the associated levels. The assurance engagement identifies shortfalls in processes relating to managing and reconciling stock. The senior management team accept and will implement the recommendations from the assurance audit.

### Income and banking control procedures

- 28 Waste Services manage low levels of cash income at Lamby Way but recognise the importance of having processes in place to provide assurance. The reconciliation of stock relating to cash income is important to reduce the risk of fraud or maladministration. The senior management team accept and will implement the recommendations from the assurance audit.

### Acting up payments and overtime payments

- 29 Waste Services operations has significant acting up and overtime payments. Ad-hoc acting up relates to roles where officers cover driving or use of machinery when people are on leave, sick or on break and therefore work at a payment grade different to their employed role. The senior management team accept and will implement the recommendations of the assurance audit and will work with Corporate Resources to agree processes relating to operational requirements.



Yn rhinwedd paragraff (au) 14, 21 Rhan (nau) 4 a 5 o Atodlen 12A  
o Ddeddf Llywodraeth Leol 1972.

Mynediad Cyfyngedig i'r Ddogfen

Mae'r dudalen hon yn wag yn fwriadol

Yn rhinwedd paragraff (au) 14, 21 Rhan (nau) 4 a 5 o Atodlen 12A  
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Mynediad Cyfyngedig i'r Ddogfen

Mae'r dudalen hon yn wag yn fwriadol

**AUDIT COMMITTEE: 22 January 2019**

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**INTERNAL AUDIT PROGRESS REPORT 2018/19 – INVESTIGATION TEAM  
REPORT OF THE AUDIT MANAGER** **AGENDA ITEM: 10.2**

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**Reason for this Report**

1. The Audit Committee's Terms of Reference requires Members to:
  - Review the assessment of fraud risks and potential harm to the council from fraud and corruption.
  - Monitor the Counter-fraud strategy, actions and resources.
2. This report has been prepared to provide Audit Committee with an update on the work of the Audit Section's Investigation Team, as at the 31 December 2018.

**Background**

3. The Audit Manager prepares quarterly progress reports, outlining the work undertaken by the Investigation's Team, its key outputs and outcomes.
4. Progress reports focus on the proactive and reactive investigation activities underway, including participation in initiatives, such as National Fraud Initiative (NFI) data matching exercises. Information is also provided on the officer training delivered by the team.

**Issues**

5. The progress report can be found at Appendix A, and highlights the resource demands a large-scale police investigation is having on the team's ability to conduct other investigations.
6. The completed investigations have continued to reduce compared to last year, while there are 50 current investigations ongoing compared to 37 for the same period last year. It is anticipated that the internal investigations in respect of the allegations of potential fraud will be concluded in quarter four 2018/19, enabling normal activities to resume.
7. Referrals received are comparable to the same period last year, which the team continue to risk assess and prioritise to ensure that investigations are undertaken as necessary.
8. The value of concluded investigations exceeds £63,000 for the period April - December 2018. A difference in the value of concluded investigations compared to same period last year can be attributed in particular to one large value fraud in 2017.

9. Despite resource pressures, Investigating Officer training has continued to be delivered and well received. Since its commencement in 2016, 365 officers have attended the mandatory training, for which satisfaction has been reported at a rate of 100%. In order to improve efficiencies, the number of attendees allowed for each session has increased during quarter 3 2018.

### **Legal Implications**

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

### **Financial Implications**

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

### **RECOMMENDATIONS**

12. That the Committee notes the content of the report.

**CHRIS PYKE**  
**AUDIT MANAGER**  
22 January 2019

The following is attached:

**Appendix A:** Investigation Team - Progress Report December 2018



# Investigation Team – Progress Report

## Resources



The Investigation Team comprises of 1.5 FTE. An Investigation Assistant (0.5 fte) undertakes civil investigations, risk assesses fraud referrals, obtains intelligence and evidence and identifies suitable fraud cases to be investigated. The team also identify and resolve Council Tax liability irregularities, interviewing liability parties as appropriate and arranging for revised bills to be issued. The Group Auditor (Investigations) undertakes fraud cases / disciplinary investigations (1 fte).

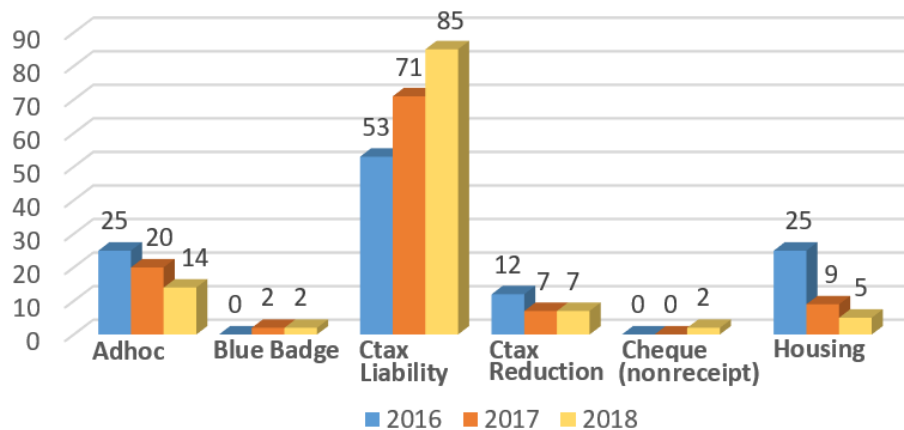
## Training

This year, the Investigation Team has delivered 6 Disciplinary Policy, Investigating Officer training sessions, with 51 attendees and has continued to receive positive feedback. 100% of attendees have completed a survey form and all reported they were satisfied with the training received. 17 people attended the Investigatory Interview note taker training, 100% were totally satisfied with the training.

## Reactive - Referrals

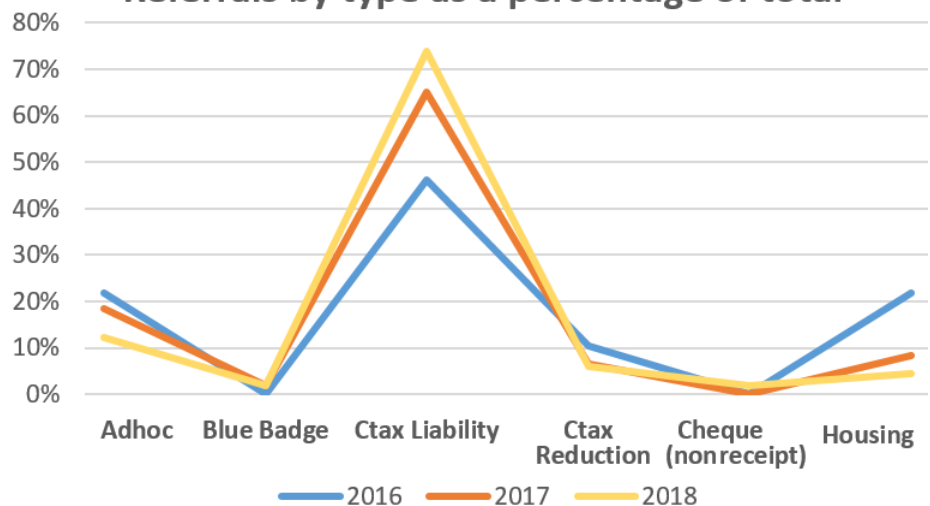
115 referrals were received compared to 109 for the same period last year and 115 in 2016:

**Referrals received (Apr - Dec)**



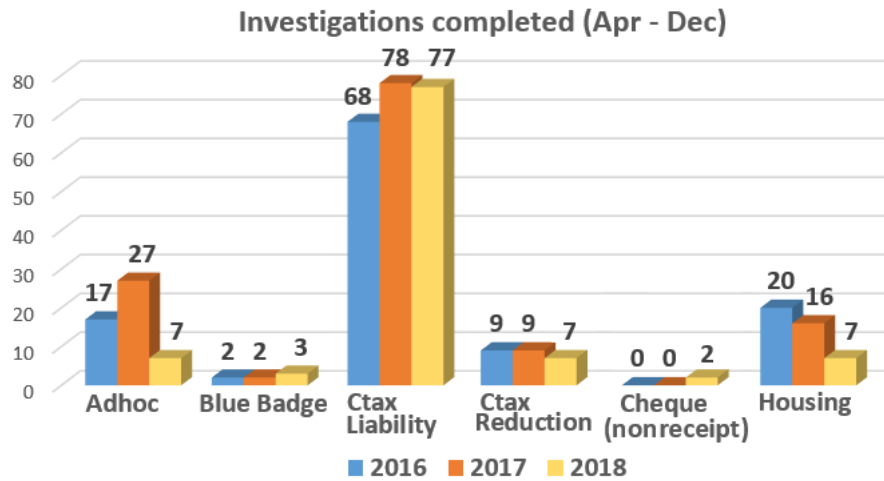
Council Tax Liability referrals have consistently increased during the past 3 years.

**Referrals by type as a percentage of total**

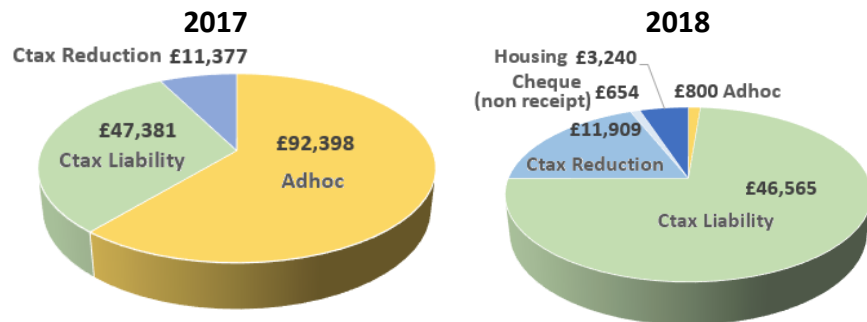


## Investigations concluded

103 cases were concluded with a value in excess of £63,000 compared to 132 cases in 2017 and 116 in 2016:

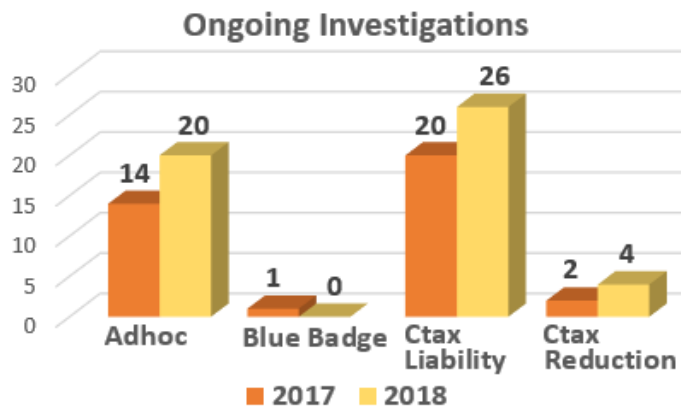


### Value of concluded investigations:



## Investigations ongoing

There are currently 50 investigations ongoing, compared to 37 last year:



## Data Matching



The Investigation Team, working with the Wales Audit Office and Cabinet Office has submitted all of the required data sets in order to participate in the National Fraud Initiative (NFI) 2018 and NFI council tax single person discount 2018 exercises. Data matches (potential fraud and irregularities) will be reviewed during quarter 4.

## South Wales Police



The team continues to assist the Police with their criminal investigation within Waste. The Group Auditor (Investigations) is leading the internal disciplinary investigations, with a number of reports already produced. Investigators also liaise with Auditors and Senior Managers to ensure that control weaknesses are addressed. Due to the complexity and scope of the investigation, and the limited team resource, this has had an impact on the team's ability to deal with other criminal referrals. It is expected that the internal investigations will be concluded in quarter 4, enabling normal activities to resume.




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**DRAFT INTERNAL AUDIT CHARTER 2019/20 AND DRAFT AUDIT PLAN  
2019/20**

**REPORT OF THE AUDIT MANAGER**

**AGENDA ITEM: 10.3**

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**Reason for the Report**

1. The Terms of Reference for the Audit Committee sets out its responsibility:
  - To approve the Internal Audit Charter.
  - To approve the risk-based Internal Audit Plan, containing internal audit's resource requirements, the approach to using other sources of assurances and any work required to place reliance upon those other sources.
2. The Audit Committee has a responsibility to review its Terms of Reference annually.
3. This report has been prepared to provide Audit Committee Members with the Draft Internal Audit Charter for 2019/20 and appendices, including a draft Audit Committee Terms of Reference. The report also provides the Draft Summary Audit Plan for 2019/20.

**Background**

4. At the commencement of each financial year, consideration is given to updating key documents which form part of the Internal Audit function. The draft documents are submitted to Audit Committee at the January meeting to enable members of the Committee to consider and feed in comments which will support the development of final documents to be approved by Committee on 2 April in respect of the new financial year.
5. Under the PSIAS (standard 1110 – organisational independence), the Audit Committee is required to approve the Internal Audit Charter and the risk based Internal Audit Plan. These documents are attached for 2019/20 in draft form, with the audit plan presented at a summary level of detail prior to the detailed review and population of audit engagements in quarter four 2018/19. Accompanying the Charter is a draft version of the proposed Audit Committee Terms of Reference for 2019/20.

**Issues**

**Audit Charter**

6. The Draft Internal Audit Charter set out in **Annex 1** is a formal document which establishes the Internal Audit Service's position within the organisation, the Audit

Manager's functional reporting relationship with the Audit Committee, authorises access to records, personnel, physical properties relevant to the performance of engagements, and defines the scope of internal audit activities. Audit Committee approved interim changes to the Internal Audit Charter 2018/19 on 13 November 2018 to formalise the responsibilities and reporting requirements of the newly appointed Audit Manager as the Chief Audit Executive.

7. The Draft Audit Charter 2019/20 has been updated to reflect the current best practices as suggested in Audit Committee CIPFA guidance published in 2018, and the updated guidance and principles from the Institute of Internal Auditors (IIA). These proposed changes are shown in bold red text within the Draft Charter and its appendices.
8. Contained within the Draft Internal Audit Charter are five appendices which add a further dimension to the Charter by explaining the parameters within which Internal Audit and the Audit Committee operate.
9. Appendix A sets out the Code of Ethics for Internal Auditors and is focussed on the four key principles of Integrity, Objectivity, Confidentiality and Competence. This appendix is formally used in the quality assurance process as part of each audit, and as part of ongoing performance reviews.
10. Appendix B sets out the Core Principles. which taken as a whole, articulate internal audit effectiveness. These Core Principles underpin the Mission of the Internal Audit service *'To enhance and protect organisational value by providing risk based and objective assurance, advice and insight'*. These Core Principles are a new addition to the Draft Audit Charter in recognition of best practice from the IIA.
11. Appendix C sets out the staffing resources allocated to the Internal Audit function as well as outlining the reporting lines between the Audit Manager, the Section 151 Officer and the Audit Committee. This section also outlines the skill base of the team and the commitment to developing staff further through Audit or Investigation qualifications.
12. Appendix D suggests the terms of reference for Audit Committee in recognition of the best practice CIPFA guidance as published in 2018. In accordance with the CIPFA model template, a statement of purpose has been included in the proposed terms of reference, and all other additions made to account for CIPFA updates are shown in bold red text.
13. Appendix E sets out the Quality Assurance and Improvement Programme (standard 1300), which is designed to enable an evaluation of the Internal Audit section's conformance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and is used to identify and deliver opportunities for improvement. The QAIP has been refreshed by the Audit Manager and is built around a performance management approach which involves 'setting expectations', 'reviewing performance', and 'reporting performance' at individual auditor and team levels

#### **Audit Plan, 2019/20**

14. Contained within both the Draft Internal Audit Charter and the Terms of Reference are sections outlining the submission of a risk based audit plan to be approved by Audit Committee. **Annex 2** contains the preliminary draft plan for 2019/20 which will be

developed into further detail over the financial quarter to be submitted for approval by Audit Committee on 2 April 2019.

15. The draft audit plan is based on 10.41 FTE operational auditors, which is the same as in 2018/19. The number of available operational audit days has decreased (from 2,100 to 1,990), which is largely due to the level of training required by one of the members of the team who is a CIPFA trainee, in addition to the training days allocated to the four Auditors studying for an IIA qualification. The investigations audit plan is based on 1.5 FTEs, with the difference compared to the 2018/19 plan, reflecting the deletion of a vacant Investigating Officer post, as advised to Audit Committee in September 2018. Members will also note that the Audit Manager has not been included in the head count of available operational auditors, as this work focusses on quality, delivery and output at a strategic level across both audit and investigations teams.
16. The draft plan has been prepared at a summary-level following consideration of a risk based methodology. The detailed components of the audit planning approach take place throughout quarter four, and will result in the full risk-based audit plan for 2019/20. The approach is designed to be risk based and co-ordinated in application of an assurance mapping exercise based on the “three lines of defence” model. The process will involve the application of three basic review principles as follows:
  - (a) **Informed Inherent Risk** - The starting point is the development of an inherent audit need / risk score as a product of the the nature of the potential audit area, and the results of Senior Management Assurance Statement (SMAS) responses from Directors.
    - Audit category - There are three broad audit categories which are audited with an inherent frequency in the following priority order from highest to lowest (1) Fundamental systems, (2) Governance functions (e.g Risk Management, Health and Safety, Performance Management etc.) and (3) Operational audits, such as a school or standard system audit.
    - SMAS submissions - The Directorate self assessments of maturity in a number of core areas of governance, risk management and internal control are considered and used to moderate the inherent prioritisation of audit engagements.
  - (b) **Coordination and Reliance** - After considering the inherent need for an audit, the audit plan is refined to account for the level of further sources of assurance and indicators of risk, in considering and accounting for the:
    - Information on risk registers
    - Planned and programmed projects, scrutiny and management activities
    - Existing levels of internal audit assurance, and
    - Planned and actual work and findings from wider audit, regulatory and consultancy activities.
  - (c) **Extensive and Appropriate Audit Coverage** - In consideration of the above two stages, audits will be programmed and typically delivered through a combination of Control Risk Self Assessment (CRSA), thematic and full audit engagements. The above two stages are in the process of development. As the information sources are being developed through relationship management mechanisms in directorates there will be a greater scope to progress the approach to co-ordination and reliance in accordance with PSIAS Standard 2050.

17. Section 2010 of the PSIAS specifies that the risk based plan takes into account the organisation's assurance framework and that the work on internal audit addresses both local and national issues. This is achieved through the approach as summarised above, with the assurance available from both within and outside the Council assessed to enable informed decisions regarding the audits to be undertaken in 2019/20. Audit Committee will be aware that the Audit Plan is responsive to emerging risks and issues as they arise during the year, and these changes are brought to the Audit Committee as they arise.
18. The "three lines of defence" model is an important part of the Council's internal control environment. Senior managers, as the first line of defence, have a joint and individual responsibility for risk management, governance and the control environment within their directorate; they use their SMAS as a primary disclosure of their delivery of the management controls and report and disclose on the management of their risks and performance. The second line of defence consists of the arrangements in place to monitor and support internal governance through functions which develop, embed and monitor policies and strategies, such as Risk Management, ICT, Information Governance and Health and Safety functions.
19. As the third line of defence, Internal Audit accounts for the assurance of the first two lines of defence together with external audit and regulatory sources of assurance and indicators of risk (e.g. Wales Audit Office and Estyn work), in developing a risk-based audit plan. The summary plan, as set out in Annex 2, will be fully developed during quarter 4 and supported by an assurance map to recognise and account for the respective internal and external sources of assurance and allocate audit resources to enable the Audit Manager to provide a comprehensive opinion on the overall Council control environment.
20. At this incremental stage of audit plan development, the proposed areas for thematic review in 2019/20 are:
  - (a) Income and debtors;
  - (b) Commissioning and procurement; and
  - (c) Health and Safety
21. Following on from a decision taken in 2018/19, Members will note that it is proposed to undertake fundamental audits in 2019/20 in NDR, Treasury Management, Main Accounting and Asset Management, as well as continuing the reviews in creditor payments and payroll. However, if there are any major system or operational changes during the year in systems that are not included in the plan, an audit of that system will be added to the audit plan for 2019/20 (and this change reported to a meeting of this Committee).

### **Legal Implications**

22. There are no legal implications arising from this proposal.

### **Financial Implications**

23. There are no financial implications arising from this proposal.

### **Recommendations**

24. To consider and provide comments on the Draft Internal Audit Charter and the accompanying appendices including the draft terms of reference for Audit Committee.
25. To consider and provide comments on the direction of the draft 2019/20 Internal Audit Plan.

**CHRIS PYKE**  
**AUDIT MANAGER**

**Annex 1:** Draft Internal Audit Charter 2019/20

**Annex 2:** Draft Summary Audit Plan 2019/20

Mae'r dudalen hon yn wag yn fwriadol



Cardiff Council

# DRAFT INTERNAL AUDIT CHARTER 2019/20

## *Mission Statement*

*To enhance and protect organisational value by providing risk based and objective assurance, advice and insight*



Gweithio dros Gaerdydd, gweithio gyda'n gilydd  
Working for Cardiff, working together

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## **INTERNAL AUDIT CHARTER**

### **Definition, Objective and Scope of Internal Audit**

1. Internal Audit is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the organisation of Cardiff Council
2. It assists Cardiff Council in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organisation's risk management, control and governance processes.

### **Role and Professionalism**

3. The internal audit activity is established by the Audit Committee. The internal audit activity's responsibilities are defined by the Audit Committee as part of their oversight role.
4. A professional, independent and objective Internal Audit service is one of the key elements of good governance in Local Government. Cardiff Council's Internal Audit Section seeks to be compliant with the Public Sector Internal Audit Standards which form a foundation for an effective Internal Audit service and encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF). Through compliance with these standards, all members of the section adhere to the Code of Ethics stipulated within the Standards. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.
5. The Code of Ethics is set out in further detail in Appendix A and works in alignment with the Council's code of professional conduct. The internal audit activity will adhere to Cardiff Council's relevant policies and procedures and the internal audit activity's protocol.

### **Authority**

6. The internal audit activity with strict accountability for confidentiality and safeguarding records and information, is authorised full, free and unrestricted access to any and all of the organisation's records, physical properties and personnel pertinent to carrying out an engagement. All employees are required to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity will also have free and unrestricted access to the Audit Committee.

### **Organisation**

7. The Audit Manager will report functionally to the Audit Committee and administratively to the Head of Finance (Deputy Section 151 Officer).
8. The Audit Committee will approve all reports regarding the performance evaluation of the Internal Audit function.
9. The Audit Committee will approve the internal audit charter, the risk based internal audit plan and receive communications from the Audit Manager on the internal audit activity's performance relative to its plan and other matters. The Audit Manager is delegated the authority to make in-year changes to the internal audit plan and approve audit engagements of no more than 10 planned audit days

without seeking approval from the Audit Committee. **The Audit Manager will use the audit resources available to deliver the audit plan and buy-in additional resources as required.**

10. The resources allocated to the Internal Audit activity are outlined in Appendix B in conjunction with the reporting arrangements.

### **Independence and Objectivity**

11. The internal audit activity will remain free from interference by any element in the organisation including matters of audit selection, scope, procedures, frequency, timing or report content to permit maintenance of a necessary, independent and objective mental attitude.
12. Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records or engage in any other activity that may impair internal auditor's judgement.
13. Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements.
14. Auditors will complete, on an annual basis, a Declaration of Business Interests form and submit it to the Audit Manager for review and authorisation. Any declarations will be used to ensure that there are no conflicts of interest in the audits allocated and to demonstrate transparency. The Group Auditor will not allocate audits to officers where potential conflicts have been identified.
15. The Audit Manager will confirm to the Audit Committee at least annually the organisational independence of the internal audit activity.

### **Responsibility**

16. The scope of internal auditing encompasses but is not limited to the examination and evaluation of the adequacy and effectiveness of the organisation's governance risk management and internal control processes in relation to the organisation's defined goals and objectives. Internal control objectives considered by internal audit include:
  - Consistency of operations or programmes with established objectives and goals and effective performance
  - Effectiveness and efficiency of operations and employment of resources
  - Compliance with significant policies, plans, procedures, laws and regulations
  - Reliability and integrity of management and financial information processes including the means to identify measure, classify and report such information
  - Safeguarding of assets
17. Internal Audit is responsible for evaluating all processes of the Council including governance processes and risk management processes. It also assists the Audit Committee in evaluating the

quality of performance of external auditors and maintains proper degree of coordination with internal audit.

18. Internal audit may perform consulting and advisory services related to governance, risk management and control as appropriate for the Council. It may also evaluate specific operations at the request of Audit Committee or management as appropriate.
19. Based on its activity, Internal Audit is responsible for reporting significant risk exposures and control issues identified to the Audit Committee and Senior Management including fraud risks, governance issues and other matters needed or required
20. The Audit Committee has a Terms of Reference which defines the area in which it operates and this is set out in Appendix C. The Terms of Reference are reviewed on a periodical basis.

### **Internal Audit Plan**

21. At least annually, the Audit Manager will submit to the Audit Committee an internal audit plan for review and approval including risk assessment criteria. The internal audit plan will include timing as well as budget and resource requirements for the next financial year. The Audit Manager will communicate the impact of resource limitations and significant interim changes to senior management and the Audit Committee.
22. The internal audit plan will be developed based on a prioritisation of all auditable areas using a risk based methodology including input of senior management and audit committee. Prior to submission to the Audit Committee for approval, the plan may be discussed with appropriate senior management. Any significant deviation from the approved internal audit plan will be communicated through the periodic activity reporting process.

### **Reporting and Monitoring**

23. A written report will be prepared and issued by the Audit Manager following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will be communicated to the Audit Committee.
24. The internal audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter by management of the audited area will include a timetable for anticipate completion of action to be taken and an explanation for any corrective action that will not be implemented.
25. The internal audit activity will be responsible for appropriate follow up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

## **Periodic Assessment**

26. The Audit Manager is responsible also for providing periodically a self-assessment on the internal audit activity as regards its consistency with the Audit Charter (purpose, authority and responsibility) and performance relative to its plan.
27. In addition, the Audit Manager will communicate to senior management and the Audit Committee on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

## **Quality Assurance and Improvement Programme - QAIP**

28. The internal audit activity will maintain a Quality Assurance and Improvement Programme that covers all aspects of the internal audit activity. The programme will include an evaluation of the internal audit activity's conformance with the Public Sector Internal Audit standards, encompassing all mandatory elements of the IPPF, including an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency of the internal audit activity and identifies opportunities for improvement.
29. The Audit Manager will communicate to senior management and Audit Committee on the internal audit activity's quality assurance and improvement programme, including results of ongoing internal and external assessments conducted at least every five years.
30. Action taken to ensure that the Quality Assurance and Improvement Programme is effective is set out in Appendix D.

## **CODE OF ETHICS**

### **Public Sector Requirement**

Internal Auditors in UK public sector organisations must conform to the Code of Ethics as set out below. If individual Internal Auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

The purpose of the Institute's Code of Ethics is to promote an ethical culture in the profession of Internal Auditing. A code of ethics is necessary and appropriate for the profession of Internal Auditing, founded as it is on the trust placed in its objective assurance about risk management, control and governance.

The Institute's Code of Ethics extends beyond the definition of Internal Auditing to include two essential components:

- 1. Principles that are relevant to the profession and practice of Internal Auditing;

and

- 2. Rules of Conduct that describe behaviour norms expected of Internal Auditors.

These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of Internal Auditors.

The Code of Ethics provides guidance to Internal Auditors serving others. 'Internal Auditors' refers to Institute members and those who provide Internal Auditing services within the definition of Internal Auditing.

### **Applicability and Enforcement**

This Code of Ethics applies to both individuals and entities that provide Internal Auditing services. For Institute members, breaches of the Code of Ethics will be evaluated and administered according to The Institute's Disciplinary Procedures. The fact that a particular conduct is not mentioned in the Rules of Conduct does not prevent it from being unacceptable or discreditable and, therefore, the member liable to disciplinary action.

### **Public Sector Interpretation**

The 'Institute' here refers to the Institute of Internal Auditors. Disciplinary procedures of other professional bodies and employing organisations may apply to breaches of this Code of Ethics.

#### **1. Integrity**

##### *Principle*

The integrity of Internal Auditors establishes trust and thus provides the basis for reliance on their judgement.

## **Rules of Conduct**

Internal Auditors:

- 1.1 Shall perform their work with honesty, diligence and responsibility.
- 1.2 Shall observe the law and make disclosures expected by the law and the profession.
- 1.3 Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of Internal Auditing or to the organisation.
- 1.4 Shall respect and contribute to the legitimate and ethical objectives of the organisation.

## **2. Objectivity**

### *Principle*

Internal Auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.

Internal Auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests, or by others, in forming judgements.

## **Rules of Conduct**

Internal Auditors:

- 2.1 Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.
- 2.2 Shall not accept anything that may impair or be presumed to impair their professional judgement.
- 2.3 Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

## **3. Confidentiality**

### *Principle*

Internal Auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

## **Rules of Conduct**

Internal Auditors:

- 3.1 Shall be prudent in the use and protection of information acquired in the course of their duties.



3.2 Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

#### **4. Competency**

##### *Principle*

Internal Auditors apply the knowledge, skills and experience needed in the performance of Internal Auditing services.

##### **Rules of Conduct**

Internal Auditors:

- 4.1 Shall engage only in those services for which they have the necessary knowledge, skills and experience.
- 4.2 Shall perform Internal Auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing.
- 4.3 Shall continually improve their proficiency, effectiveness and quality of their services.

CORE PRINCIPLES

FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING

The Internal Audit service is delivered through application of ten Core Principles, which taken as a whole, articulate internal audit effectiveness.

The following Core Principles underpin the mission of the Internal Audit service.

*'To enhance and protect organisational value by providing risk based and objective assurance, advice and insight'.*

1. Demonstrates integrity
2. Demonstrates competence and due professional care.
3. Is objective and free from undue influence (independent).
4. Aligns with the strategies, objectives, and risks of the organisation.
5. Is appropriately positioned and adequately resourced.
6. Demonstrates quality and continuous improvement.
7. Communicates effectively.
8. Provides risk-based assurance.
9. Is insightful, proactive, and future-focused.
10. Promotes organisational improvement.

## AUDIT ACTIVITY RESOURCES AND REPORTING LINES

### Resources

1. **Audit Manager** –1 FTE - responsible for leading and managing the audit and investigation teams in delivering their roles, as set out within the Public Sector Internal Audit Standards (PSIAS), and other professional Codes of Practice.
2. **Audit Team** – 10.4 FTE - who undertake system based audits, financial audits, provide advice and guidance to clients on a wide range of matters and undertake work around efficiency and value for money.
3. **Investigation Team** –1.5 FTE - dedicated to the prevention, detection and investigation of suspected fraud or financial impropriety.
4. All audit staff are required to maintain the highest standards of professional practice, and comply with professional Code of Practices. The Public Sector Internal Audit Standards are followed in all aspects of work undertaken.
5. For the purpose of the Public Sector Internal Audit Standards, the Audit Committee acts as the “Board” and the Corporate Director of Resources & Section 151 Officer is the Senior Manager overseeing the Internal Audit Function. The Audit Manager is the Chief Audit Executive.
6. All auditors and investigators are suitably qualified and collectively offer a wide range of skills, experience and knowledge. In the Audit team, there are three qualified Accountants, one Chartered Internal Auditor, and most other auditors are qualified Accounting Technicians, with four studying for the Certified Internal Audit qualification. The Investigation team is led by a Group Auditor who has the CIPFA Certificate in Investigative Practice and investigators are Professional trained investigators (PINS).
7. Ongoing development and training of auditors is fundamental to the delivery of an effective and professional Audit service. The Council’s Personal Review Scheme is fully adopted within Audit where all members of the team assess themselves against the skills required for their respective roles. This assists in the identification of team and individual development and training opportunities within a robust performance management framework.

## AUDIT COMMITTEE

### TERMS OF REFERENCE

#### Statement of Purpose

- **Our audit committee is a key component of Cardiff Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.**
- **The purpose of our audit committee is to provide independent assurance to the members of Cardiff Council of the adequacy of the risk management framework and the internal control environment. It provides independent review of Cardiff Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.**

#### Governance, Risk & Control

- To review the Council's corporate governance arrangements against the good governance framework, **including the ethical framework** and consider annual governance reports and assurances.
- To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account the internal audit opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control.
- To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- To consider the Council's framework of assurance and ensure that it adequately addresses the risk and priorities of the Council.
- To monitor the effective development and operation of risk management in the Council.
- To monitor progress in addressing risk-related issues reported to the committee.
- To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- To review the assessment of fraud risks and potential harm to the council from fraud and corruption.
- To monitor the Counter-fraud strategy, actions and resources.
- **To review the governance and assurance arrangements for significant partnerships or collaborations.**

#### Internal Audit

- To approve the Internal Audit Charter.

- **To review proposals in relation to the appointment of external providers of internal audit services and to make recommendations.**
- To approve the risk-based internal audit plan, containing internal audit's resource requirements, the approach to using other sources of assurances and any work required to place reliance upon those other sources.
- To approve significant interim changes to the risk based internal audit plan and resource requirements.
- To make appropriate enquiries of both management and the audit manager to determine if there are any inappropriate scope or resource limitations.
- **To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the Audit Manager. To approve and periodically review safeguards to limit such impairments.**
- To consider reports from the Audit Manager on Internal Audit's performance during the year **including the performance of external providers of internal audit services. These** will include:
  - Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work
  - Regular reports on the results of the Quality Assurance and Improvement Programme (QAIP)
  - Reports on instances where the internal audit function does not conform to the PSIAS and Local Government Application Note (LGAN) considering whether the non- conformance is significant enough that it must be included in the Annual Governance Statement.
- **To consider the Audit Manager's annual report:**
  - **The statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement – these will indicate the reliability of the conclusions of internal audit**
  - The opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control together with a summary of the work supporting the opinion – these will assist the committee in reviewing the Annual Governance Statement.
- To consider summaries of specific internal audit reports as requested.
- To receive reports outlining the action taken where the Audit Manager has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
- To contribute to the Quality Assurance and Improvement Programme and in particular the external quality assessment of internal audit that takes place at least once every five years.
- To consider a report on the effectiveness of internal audit to support the Annual Governance Statement, where required to do so by the Accounts and Audit Regulations.

- **To provide free and unfettered access to the Audit Committee Chair for the Audit Manager, including the opportunity for a private meeting with the committee.**

#### External Audit

- To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
- To consider specific reports as agreed with the external auditors.
- To comment on the scope and depth of external audit work and to ensure it gives value for money.
- To commission work from internal and external audit.
- To advise and recommend on the effectiveness of relationships between external and internal audit and other inspector agencies or relevant bodies.

#### Financial Reporting

- To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
- To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.
- 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.

#### Accountability Arrangements

- To report to Council on the Committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of the governance, risk management and internal control frameworks, financial reporting arrangements and internal and external audit functions.
- To report to Council on an annual basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.
- **To publish an annual report on the work of the committee.**
- To raise the profile of probity generally within the Council and to report on matters of concern to the individual Cabinet Member, relevant Scrutiny Committee, Cabinet or to Council as necessary and appropriate.
- To work in synergy with the five Scrutiny Committees of the Council and liaise with other Council Committees as and when appropriate to avoid duplication in work programmes.

#### Training & Development

- To attend relevant training session in accordance with the Member Development Programme including specialist training tailored for Members of the Audit Committee e.g. treasury management.

## QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME (QAIP)

A Quality Assurance and Improvement Programme (standard 1300) is designed to enable an evaluation of the Internal Audit section's conformance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics.

The programme also assesses the efficiency and effectiveness of the internal audit activity and is used to identify and deliver opportunities for improvement.

Key principles of the QAIP:

- The Audit Manager has established a system of ongoing monitoring of conformance with the standards and the Code of Ethics as part of each audit engagement, and a system of periodic review and reporting.
- Regular periodic reports and an Annual Internal Audit Report are presented to the Section 151 Officer and to Audit Committee.
- There is a commitment to undergoing an external inspection on conformance to PSIAS every five years.

To support the delivery of an efficient and effective service:

- Each Directorate has a relationship manager with whom they hold regular meetings to discuss risks and emerging issues, progress against and development of the audit plan, and audit outcomes and feedback.
- The Audit Manager has regular contact with the Audit Committee Chair, the Wales Audit Office, Senior Managers including the Chief Executive and the Section 151 Officer, and peers within Welsh Local Authorities and the Core UK Cities.
- Benchmarking exercises are undertaken in order to assess performance against other comparable organisations and report on significant variances, with action plans developed and implemented where appropriate.
- Annual personal reviews include auditor assessments against a skills and competency framework, leading to development goals and targets.
- Quality assurance is delivered through monitoring and review processes at key stages within the audit, to ensure all relevant Codes of Practice and Standards are adhered to.
- All Auditors are required to comply with the Code of Ethics, any other professional standards for the associations to which they belong and the Council's Codes of Conduct.

## QAIP - OPERATIONAL APPROACH

The QAIP is built around a performance management approach which involves 'setting expectations', 'reviewing performance', and 'reporting performance' at individual auditor and team levels. The application of these control stages are summarised as follows.

### 1. Setting expectations - With clear expectations in place, auditors can focus on delivery.

- ✓ **Audit Allocation** - Each auditor has a quarterly allocation of work, which is stretching but achievable. Auditors are responsible for delivering their allocation effectively and on time.
- ✓ **Scoping and Objectives** – Each auditor has clear and documented objectives for each audit engagement, that they are responsible for delivering.
- ✓ **Audit 'Pit Stop'** - When half of the audit time is used, a senior team member completes a short and sharp review of progress against the audit objectives. This can either result in assurance that the audit is being delivered effectively, or it leads to expectations being re-set, with actions developed for the auditor to conclude a high quality audit engagement on time.
- ✓ **Personal Reviews** – Each year delivery, training and development goals and objectives are established for each auditor, in recognition of the individual and collective skills needed to deliver the risk-based plan effectively in the current and medium term.

### 2. Reviewing Performance - Expectations are revisited in quality assurance and control reviews.

- ✓ **Monitoring** - Each auditor attends a monthly monitoring meeting, through which the delivery of their 'Audit Allocation' is reviewed, issues are identified and addressed.
- ✓ **Quality Assurance Review** - Each audit is subject to a quality assurance review by a member of the audit management team, to ensure high quality delivery in accordance with the Code of Ethics and the Standards. The review considers the quality of evidence to support the audit 'Objectives', and the delivery of actions resulting from the audit 'Pit Stop'.
- ✓ **Post Audit Assessment** – Upon conclusion of each audit, the auditor, and a senior team member review the auditor's performance against best practice technical and behavioural qualities. A client satisfaction survey is also used to identify the audit delivery and value from the client's perspective. Any development needs are identified and progressed.
- ✓ **Six Monthly Personal Review** – Progress is measured against the objectives and targets in each Auditor's 'Personal Review', taking account of the findings and outcomes from the activities in the 'Reviewing Performance' control stage. It can lead to new objectives, targets and support.

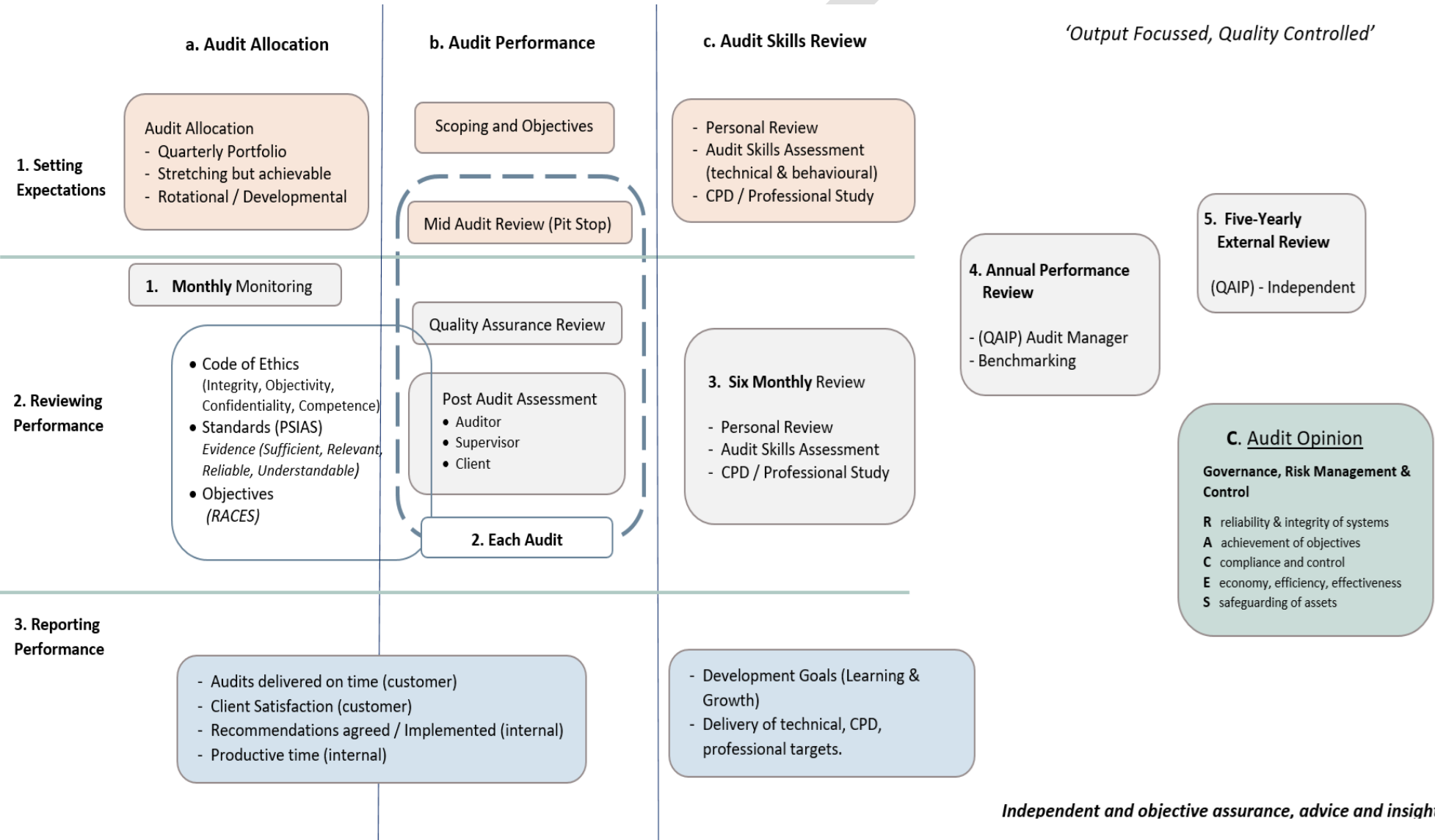
### 3. Reporting Performance - A range of performance measures are used for reporting and review.

- Core performance measures relate to the audits delivered on time, client satisfaction, recommendations agreed / implemented, productivity and the delivery of personal objectives.
- Performance information is regularly monitored by the Audit Manager and is considered by the Finance Management Team and the Audit Committee on a quarterly basis.
- On an annual basis, the Audit Manager reviews and reports on the application and findings of the performance management Framework that underpins the QAIP to the Audit Committee. An external assessment of conformance with the PSIAS is completed and reported at least every five years.



# QAIP – OPERATIONAL APPROACH (DIAGRAM)

Tudalen 211



Mae'r dudalen hon yn wag yn fwriadol

**DRAFT SUMMARY AUDIT PLAN, 2019/20**

<b>Fundamental Audits - S151 Assurance</b>	<b>Type of engagement</b>	<b>CIPFA classification</b>	<b>Original audit plan, 2018/19</b>	<b>Proposed audit plan 2019/20</b>
Creditor Payments & Processing (including procurement)	Assurance	Chargeable	70	60
Payroll	Assurance	Chargeable	70	60
Council Tax	Assurance	Chargeable	15	0
NNDR	Assurance	Chargeable	0	20
Local Housing Allowances	Assurance	Chargeable	15	0
Treasury Management	Assurance	Chargeable	0	10
Main Accounting	Assurance	Chargeable	0	15
Income and Debtors	Assurance	Chargeable	30	0
Asset Management	Assurance	Chargeable	0	15
Housing Rents	Assurance	Chargeable	15	0
<b>Total</b>			<b>215</b>	<b>180</b>
<b>Corporate Governance Assurance - Audit</b>			<b>Original audit plan, 2018/19</b>	<b>Proposed audit plan 2019/20</b>
Audit of risk management arrangements	Assurance	Chargeable	20	20
Audit of governance arrangements	Assurance	Chargeable	30	20
Audit of Scrutiny	Assurance	Chargeable	0	20
Audit of ethics and values	Assurance	Chargeable	25	0
Audit of Wellbeing of Future Generations Act	Assurance	Chargeable	0	20
Audit of performance management	Assurance	Chargeable	20	20
Audit of Health and Safety framework	Assurance	Chargeable		0
Audit of Information governance	Assurance	Chargeable	15	0
<b>Total</b>			<b>110</b>	<b>100</b>
Delegation and decision making	Assurance	Chargeable	0	20
Programme and projects (including CADT)	Assurance	Chargeable	20	0
<b>Total</b>			<b>20</b>	<b>20</b>
<b>Other Assurance</b>			<b>Original audit plan, 2018/19</b>	<b>Proposed audit plan 2019/20</b>
Contract Audit	TBC	Chargeable	100	50
Education - SOP	TBC	Chargeable	0	20
Computer Audit	TBC	Chargeable	100	50
Value for Money studies	TBC	Chargeable	30	30
Taxation (incl. VAT)	TBC	Chargeable	0	25
System Development	TBC	Chargeable	30	30
Pensions and Investments	TBC	Chargeable	0	15
Insurance	TBC	Chargeable	10	0
Mileage & subsistence	TBC	Chargeable	10	0

Fleet Management (pool cars, grey fleet, etc.)	TBC	Chargeable	0	20
Procurement	Assurance	Chargeable	0	0
Stores	TBC	Chargeable	10	10
Business Continuity	TBC	Chargeable	15	0
Health and Safety (moved to Corporate Governance in 2019/20)	TBC	Chargeable	10	
TBA	TBC	Chargeable	0	30
<b>Total</b>			<b>315</b>	<b>280</b>
<b>Service specific audits</b>			<i>Original audit plan, 2018/19</i>	<i>Proposed audit plan 2019/20</i>
Planning, Transportation and Environment	TBC	Chargeable	150	170
Housing and Communities	TBC	Chargeable	150	150
Economic Development (incl. Commercial Services)	TBC	Chargeable	130	150
Education and Lifelong Learning	TBC	Chargeable	350	300
Governance and Legal Services	TBC	Chargeable	50	50
Resources	TBC	Chargeable	50	50
Social Services	TBC	Chargeable	320	300
<b>Total</b>			<b>1,200</b>	<b>1,170</b>
<b>External</b>			<i>Original audit plan, 2017/18</i>	<i>Proposed audit plan 2019/20</i>
External clients	Assurance	Chargeable	10	20
Grants	Assurance	Chargeable	20	10
<b>Total</b>			<b>30</b>	<b>30</b>
<b>Contingencies</b>			<i>Original audit plan, 2018/19</i>	<i>Proposed audit plan 2019/20</i>
General Audit		Chargeable	30	30
<b>Total</b>			<b>30</b>	<b>30</b>
<b>Management</b>			<i>Original audit plan, 2018/19</i>	<i>Proposed audit plan 2019/20</i>
Corporate work – Audit Committee, WAO etc.	Consultation	Chargeable	50	50
Assurance mapping	Consultation	Chargeable	10	10
CRSA development	Consultation	Chargeable	20	0
Process development	Consultation	Chargeable	20	20
Work for Audit Manager	Consultation	Chargeable	20	30
Planning, monitoring & reporting	Consultation	Chargeable	20	30
Review of financial rules etc.	Consultation	Chargeable	40	20
General advice and guidance	Consultation	Chargeable	0	20
<b>Total</b>			<b>180</b>	<b>180</b>

<b>Audit Team Non Chargeable Leave/Sickness/Training</b>			<i>Original audit plan, 2018/19</i>	<i>Proposed audit plan 2019/20</i>
Annual Leave		Non-chargeable	321	321
Public Holidays		Non-chargeable	74	83
Maternity / Paternity / Parental Leave		Excluded	5	15
Sickness		Non-chargeable	25	22
Professional Studies		Non-chargeable	41	115
Courses and seminars		Non-chargeable		
<b>TOTAL AUDIT TEAM NON CHARGEABLE LEAVE/SICKNESS/TRAINING DAYS</b>			<b>466</b>	<b>556</b>
<b>Audit Team Non Chargeable Other</b>			<i>Original audit plan, 2018/19</i>	<i>Proposed audit plan 2019/20</i>
General Admin. (no identifiable client)		Non-chargeable	77	80
General management		Non-chargeable	7	11
Staff Development		Non-chargeable	20	24
Internal Audit meetings (such as team meetings)		Non-chargeable	36	45
<b>TOTAL AUDIT TEAM NON CHARGEABLE OTHER DAYS</b>			<b>140</b>	<b>160</b>
<b>TOTAL AUDIT TEAM CHARGEABLE DAYS</b>			<b>2,100</b>	<b>1,990</b>
<b>TOTAL AUDIT TEAM NON CHARGEABLE DAYS</b>			<b>606</b>	<b>716</b>
<b>TOTAL DAYS</b>			<b>2,706</b>	<b>2,706</b>
<b>Investigations</b>			<i>Original audit plan, 2018/19</i>	<i>Proposed audit plan 2019/20</i>
General			490	390
<b>Total</b>			<b>490</b>	<b>390</b>
<b>Investigations Non Chargeable Leave/Sickness/Training</b>			<i>Original audit plan, 2018/19</i>	<i>Proposed audit plan 2019/20</i>
Annual Leave		Non-chargeable	80	53
Public Holidays		Non-chargeable	18	12

Sickness		Non-chargeable	5	3
Professional Studies		Non-chargeable	5	3
Courses and seminars		Non-chargeable		
<b>TOTAL INVESTIGATIONS NON CHARGEABLE LEAVE/SICKNESS/TRAINING DAYS</b>			<b>108</b>	<b>71</b>
<b>Investigations Non Chargeable Other</b>			<i>Original audit plan, 2018/19</i>	<i>Proposed audit plan 2019/20</i>
General Admin.		Non-chargeable	10	6
General management		Non-chargeable	10	10
Staff Development		Non-chargeable	15	11
Internal Audit meetings		Non-chargeable	17	13
<b>TOTAL INVESTIGATIONS NON CHARGEABLE OTHER DAYS</b>			<b>52</b>	<b>40</b>
<b>TOTAL INVESTIGATIONS CHARGEABLE DAYS</b>			<b>490</b>	<b>279</b>
<b>TOTAL INVESTIGATIONS NON CHARGEABLE DAYS</b>			<b>160</b>	<b>111</b>
<b>TOTAL DAYS</b>			<b>650</b>	<b>390</b>

Audit Committee Action Plan

(Updated following meeting held on 13 November 2018)

Minute No. /Agenda No.	Actions	Timeline	Action Owner
	<b>Finance (Budget)</b>		
	<b>Governance &amp; Risk Management</b>		
13.11.18	<ul style="list-style-type: none"> <li>Audit Committee receive a report on Flood Risk Management at a future meeting. (completed 22.01.19)</li> </ul>	Jan. 2019	AG
	<b>Wales Audit Office (WAO)</b>		
	<b>Internal Audit</b>		
13.11.18	<ul style="list-style-type: none"> <li>Audit Manager to manage the level of documentation included in Committee pages. (Completed)</li> <li>The Director of Governance &amp; Legal Services and the Audit manager to consider the options available to audit the scrutiny process. (To be included in 2019/20 Audit Plan)</li> <li>Audit Manager to confirm completion of the outstanding recommendation on ICT Cloud compliance. (Audit of Cloud Computing arranged for Q4 to confirm)</li> <li>Audit Committee to receive information on the impact of the Audit and Risk Management 2019/20 savings proposals. (Completed. Email sent 15.11.18)</li> <li>Audit Manager to coordinate the Audit Committee response to the 2019/20 budget consultation. (Completed – no responses)</li> <li>Audit Committee be provided with the Wales Audit Office National Study on Waste Management upon publication. (Completed. Emailed on 15.11.18)</li> </ul>	Jan. 2019  March 2019  March 2019  Nov. 2018  Jan. 2019  Nov. 2018	CP  CP  CP  CP / VP  CP  CP
	<b>Treasury Management</b>		
	<b>Operational Items</b>		
18.09.18	Report to a future meeting on the Youth Innovation Grant addressing concerns raised around the auditing/evaluation of performance and transparency of the Youth Service commissioning model. (Action underway - Internal Audit arranged for Youth Innovation Grant)	Q4 2018/19 (Audit arranged)	CP
	<b>Work Programme</b>		
13.11.18	Audit Committee Chair to be informed of the decisions of other Committees in considering the work programme in respect of Brexit.	Ongoing	CP
	<b>WAO Tracker/Other Studies</b>		
	<b>Outstanding Actions</b>		
	<b>Published Scrutiny Letters</b>		

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Topic	Tuesday 26.06.18 at 2pm (CR4)	Tuesday 18.09.18 at 2pm (CR4)	Tuesday 13.11.18 at 2pm (CR1)	Tuesday 22.01.19 at 2pm (CR4)	Tuesday 02.04.19 at 2pm (CR4)	Tuesday 25.06.19 at 2pm (CR4)
				12.30-1.30pm - Committee Self- Assessment		
Wales Audit Office	Annual Improvement Report					Annual Improvement Report
		Audit of Financial Statement Report for City of Cardiff Council (ISA260)			Annual Audit Plan 2019	
		Audit of Financial Statement Report - Cardiff & Vale of Glamorgan Pension Fund (ISA260)			Cardiff & Vale Pension Fund Audit Plan	
	WAO Activity/Report Progress Update	WAO Activity/Report Progress Update	WAO Activity/Report Progress Update	WAO Activity/Report Progress Update	WAO Activity/Report Progress Update	WAO Activity/Report Progress Update
Treasury Management	Performance Report	Performance Report	Performance Report	Performance Report	Performance Report	Performance Report
		Annual Report	Half Year Report			
				Draft Strategy 2019-20	Treasury Management Practices	
Finance	Financial Update including Resilience Issues	Financial Update including Resilience Issues	Financial Update including Resilience Issues	Financial Update including Resilience Issues	Financial Update including Resilience Issues	Financial Update including Resilience Issues
	Draft Statement of Accounts 2017-18 (including the AGS)	Final Statement of Accounts for 2017-18 (including the AGS)			Draft Accounting Policies for 2018/19 and AGS	Draft Statement of Accounts 2018-19 (including the AGS)
					Annual Report on the Council's position on income	
	WAO Tracker / Other Studies	WAO Tracker / Other Studies	WAO Tracker / Other Studies	WAO Tracker / Other Studies	WAO Tracker / Other Studies	WAO Tracker / Other Studies
Internal Audit	Progress Update	Progress update (to include Benchmarking & Comparative Data Matching)	Progress Report	Progress Update	Progress Update	Progress Update
	Internal Audit Annual Report 2017-18			Draft Audit Charter and Draft Audit Plan 2019-20	Audit Charter and Audit Plan 2019-20	Internal Audit Annual Report 2018-19
Governance and Risk Management	Audit Committee Annual Rep.2017-18			Audit Committee Annual Report Discussion 2018-19		Audit Committee Annual Report 2018-19
	Senior Management Assurance Statement Review			Senior Management Assurance Statement Review		Senior Management Assurance Statement Review
				AGS 2018-19 Action Plan (Mid-Year)	Draft AGS 2018-19	
	Corporate Risk Management (Year-End)	Corporate Risk Management (Quarter 1)	Corporate Risk Management (Mid-Year)		Corporate Risk Management (Quarter 3)	Corporate Risk Management (Year-End)
	Audit Committee Self-Assessment Feedback/Action Plan				Audit Committee Self-Assessment Feedback/Action Plan	
Operational matters / Key risks	Christine Salter Update on Internal Control Environment	Nick Batchelar Update on Internal Control Environment & Annual Report on School Governance (inc. Balances) & Deficits	Sarah McGill (People & Communities) Update on Internal Control Environment	Claire Marchant (Social Services) Update on Internal Control Environment	Andrew Gregory Update on Waste Management Internal Control Environment	<i>Nick Batchelar School Governance and Internal Control - Assurance Update (TBC)</i>
	Paul Orders Senior Management Assurance Statements	Andrew Gregory Update on Internal Control Environment	Davina Fiore Update on Internal Control Environment	Andrew Gregory Coastal Risk Management Programme		
			Isabelle Bignall Cybersecurity			
To be Allocated	<ul style="list-style-type: none"> <li>Council's performance against the Well-being and Future Generations Act</li> </ul>					

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