



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

# The Ten General Principles of Public Life

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

## Contents

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

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

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

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

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

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

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

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

## The Role of the Audit Committee

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

## Our Work in 2013/14

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

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

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

## Key Observations

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

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

2. Contract and Procurement Matters

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

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

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

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

4. Internal Audit Resources

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

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

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

## **Standard Items**

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

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

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

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

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

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

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

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



## Treasury Management

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

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

## External Audit (Wales Audit Office)

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

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

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

## Internal Audit

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

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

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

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

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

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

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

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

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

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

## **Policy Review and Performance Scrutiny**

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

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

## **Briefing Reports**

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

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

The Audit Committee Chair received a letter from Councillor Evans, Chair of the Corporate Parenting Panel, expressing concerns on process and project management arrangements for the re-provisioning of Thornhill Road Children's Home; particularly the governance and project assurance methodology and the need to identify clear lessons that could be drawn from the experience, including firm proposals on the framework within which such future projects should be managed.

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

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

## **Welfare Reform**

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

The key issues impacting on the Council include:

- Reduction in Housing Benefit levels for private tenants;
- Social Housing Size Restrictions (Bedroom Tax);
- Introduction of the Benefit Cap;
- Council Tax Support;
- Introduction of Universal Credit;
- Changes to / reassessment of disability benefits;
- Increase in homelessness and the number of people in temporary accommodation.

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

## **Business Change**

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

The Committee on 16 September 2013 received an update from Janine Nightingale and Natalina Cottrell, Programme Managers within Business Change which informed the Committee of the revised approach for 2013/14 change activity, which was being taken forward as part of two Business Change Programmes namely:

- *Resources Programme* – containing projects that support efficiencies within the central services and which will build capacity and enablers for other change;
- *Customer Programme* – including a range of interrelated projects that will improve the way the Council responds and interacts with its customers. It also contains projects

which support process redesign, facilitate the development of a functional approach to service delivery and implement specific technology into operational delivery.

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

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

## **Procurement and Contract Matters**

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

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

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

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

## **Business Continuity**

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

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

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

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

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

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

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

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

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

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

## Other Key Items Considered

### Job Evaluation

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

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

The Committee was advised that an employee survey had been undertaken that included the subject of Job Evaluation. It was agreed that the Employee Survey would be a good source of information to be used to identify whether or not there has been any impact on staff morale. The Committee agreed to receive further information from the employee survey once available.

### Personal Performance and Development Reviews (PPDRs)

The view of the Committee was that the low levels of compliance on PPDRs is very worrying and reflects a lack of support being given to members of staff. The Committee was particularly concerned to see the low level of compliance in particular Directorates.

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

### Attendance & Wellbeing Policy

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

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

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

## **Audit Committee Self Assessment**

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

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

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

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

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

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

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



## Current Concerns & Future Priorities

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

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

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

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

## Audit Committee Membership 2013/14

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

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

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

WAO representation as appropriate.

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

## Attendance during 2013/14

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

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

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

## Audit Committee Contacts

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

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

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

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

AUDIT RECOMMENDATIONS	2013/14
Proposed recommendations by risk rating:	<b>918</b>
Red	143 (15.6%)
Red/Amber	359 (39.1%)
Amber/Green	335 (36.5%)
Green	81 (8.8%)
Agreed recommendations	<b>916</b>

RED RISK RECOMMENDATIONS	2013/14
Fundamental Audits	7 (5%)
High Risk Audits	30 (21%)
Medium Risk Audits	106 (74%)
Total Red Risk Recommendations	<b>143</b>

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

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





### Audit Committee Self Assessment – Proposed Improvement Actions

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






### Audit Committee Self Assessment - Future Considerations

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

## Audit Committee Member Profiles

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



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

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