

## 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 & 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