

## AUDIT COMMITTEE

2 APRIL 2019

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

Councillors Bale, Goddard, Howells, McGarry, Walker and  
Williams

### 83 : APPOINTMENT OF NEW MEMBERS

Members were asked to note that Council on 28 February 2019 appointed Councillors Goddard and Williams to the Committee.

### 84 : APOLOGIES FOR ABSENCE

Apologies were received from Councillors Cunnah and Singh.

### 85 : DECLARATIONS OF INTEREST

No declarations of interest were received.

### 86 : MINUTES

The minutes of the meeting held on 22 January 2019 were approved by the Committee as a correct record and were signed by the Chairperson.

#### Operational Matters

### 87 : CHIEF EXECUTIVE - UPDATE ON THE COUNCIL'S CONTROL ENVIRONMENT

The Committee received a report from the Chief Executive on the Council's Control Environment.

The Chairperson welcomed Paul Orders, Chief Executive; Sarah McGill, Corporate Director of People and Communities; Davina Fiore, Director of Governance and Legal Services and Monitoring Officer and Gavin Macho, Principal Emergency Manager; to the meeting.

The Chief Executive advised Members that he would take questions on any relevant area of the Council's control environment, but would otherwise focus the presentation and assurances on 'Brexit', and 'budget monitoring' as identified areas of Audit Committee interest in advance of the meeting. The report included wider information on corporate risk reduction targets and challenges, senior management assurances on governance, and internal audit assurance.

The Chief Executive outlined that Lead Officers were in place in each Directorate to co-ordinate the Brexit response, with a first priority given to understanding service delivery risks. Members were advised that Directorates have reviewed Brexit risks, engaged with suppliers and supply chains, and provided assurance that all known

risks have been considered and that appropriate mitigation is in place. The Chief Executive provided examples of supply chain risks and how they have been managed, and then outlined the national command, control and communication arrangements in place, and the mechanisms to support community cohesion.

The presentation concluded with a focus on communication. Information was given on the Citizen Settlement Scheme, and support provided through the Information Hub on the Council Website, digital access facilities support in Libraries, and communications to Members and Staff. Information was also provided on the support provided to businesses and to Members.

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

- In terms supply chains, a Member asked if UK-based contractors have been identified as alternatives. The Chief Executive stated that the authority must be mindful of potential disruption to the supply chain and have alternative arrangements in place including use of UK-based suppliers. An example was provided of biodegradable food waste bags, for which an alternative supplier has been identified that can deliver supplies within 10 days.
- A Member stated that there had been a limited level of information provided to Councillors. The Chief Executive advised that the uncertainty of Brexit had impacted upon planning arrangements. In recent months work had ratcheted up due to a need for increased mitigation.
- The Committee referred to the internal controls in place and asked whether the Chief Executive was confident that his Directors have a grip on overspend. The Chief Executive advised that he expects Directors to work within their budget allocation. He advised that he was not satisfied with the outturn position, but acknowledged that some service areas are subject to exceptional demand. The Senior Management Team (SMT) would make interventions where necessary to ensure that an overall balanced position is achieved. This was a key piece of work for the new Section 151 Officer. SMT was more data driven and focussed on delivering service improvements. The Chief Executive stated that he has absolute confidence in the control in place but he does not wish to downplay the challenges ahead.
- In terms of managing and mitigating the risks from Brexit, Members asked how much has been allocated to specific mitigations. The Chief Executive advised that there was no specific budget allocation. The WLGA has set aside a transition fund. The Welsh Government also has a migration support scheme post-Brexit.
- Members asked whether the Chief Executive had considered the adequacy of communications with staff and customers. The Chief Executive stated that the key messages have been of the open, and the welcoming nature of

the City, and to provide support in relation to the EU Settlement Scheme. A Member noted the work done by the NHS to proactively engage with patients and felt that vulnerable people in the City would also benefit from similar proactive engagement. The Chief Executive stated that support is in place for care providers with high numbers of EU staff. The Chief Executive considered that whilst a reasonable amount of communication has happened, more remains to be done.

- A Member asked what level of stress testing is being conducted around the scenario that Brexit triggers a recession and the 'knock-on' effect on budget savings and resilience. The Chief Executive stated that SMT have discussed a range of potential scenarios based on Bank of England predictions. It is anticipated that the economic impact would be similar to the 2007-09 crash, for which hardship payments of inter-work services would be mobilised, and there is capacity to flex resources to deal with worse case scenarios.
- Members asked what mechanisms were in place to challenge or review the adequacy of the mitigations. The Chief Executive advised that SMT/Directors provide challenge collectively. The Emergency Management Team received all Directorate mitigation returns, and colleagues in Audit review processes for assurance.

RESOLVED – That:

- (1) the report be noted;
- (2) Audit Committee Chairperson, via the Audit Manager, to thank the Chief Executive for his Audit Committee attendance and detailed assurances, welcoming continued communications to inform those involved in delivery and oversight.

88 : ANDREW GREGORY - WASTE MANAGEMENT UPDATE

The Committee received a report in response to its request for an update on the control environment within Waste Management. The Chairperson welcomed Andrew Gregory, Director and Matt Wakelam, Assistant Director to the meeting to deliver the presentation.

Members were advised that, in respect of the investigation of potential criminal activity within Waste Management, it would not be appropriate to disclose any specific details whilst the investigation is ongoing. The update focussed on management assurances, internal controls and the management of risk within Waste Management. A summary of the internal controls and processes within Waste Management were set out in the presentation.

The Director recognised that there have been gaps in control within the Waste Management service, whilst advising that the function is highly scrutinised with frequent briefings to Cabinet and the Chief Executive. Gaps in collective working and

communication within Waste were highlighted as areas of difficulty, and breaking down silos and having a clear understanding and accuracy of data across the service were identified as priorities.

The Chairperson opened the debate on this item. The Committee's comments are summarised as follows:

- A Member considered that historically Waste Management has tolerated low productivity and high levels of sickness and there was a major task ahead to address these issues. A question was asked relating to how this will be addressed whilst avoiding any risk of industrial action. The Director stated that they are working with Trade Unions, who acknowledge that there is a need for change.
- Referring to the investigation in Waste Management, a Member asked what action have been taken to improve governance. Members were advised that the investigation had been completed and the disciplinary process had commenced. Members were advised that it was not expected that the cost of the investigation in Waste Management would be covered by corporate insurance policies.
- A Member noted that Cardiff has the lowest recycling rates in Wales. The Director advised that Cardiff's recycling rate is 64%, no other urban area in Wales is performing better than Cardiff, and that when compared to other cities in the UK Cardiff it is one of the best performers.
- A Member asked whether staff were comfortable with completing the staff survey honestly and whether bringing independent surveying has been considered in relation to matters such as health and safety. The Director and Assistant Director stated that they spend more time at Lamby Way, and that they are working with the Operational Manager, Health and Safety to progress health and safety as an improvement matter.
- A Member asked how many staff in the service area and those providing services were EU nationals. The Director agreed to provide details, and information on service delivery mitigation.
- The Chairperson requested that once disciplinary procedures have concluded within the Waste Management Service, Audit Committee would like to be informed of the terms of reference and approach for delivering Post Investigation Reviews.

RESOLVED – That:

- (1) the report be noted;
- (2) In consideration of the impact of Brexit on the Waste Management Service, the Director of Planning Transport and Environment to provide details on the

number of EU nationals who work for and provide key supplies to the service, and how service delivery risks are being mitigated.

- (3) Once disciplinary procedures have concluded within the Waste Management Service, Audit Committee to be informed of the terms of reference and approach for delivering the associated Post Investigation Review.

## Finance

### 89 : FINANCIAL UPDATE INCLUDING RESILIENCE ISSUES

The Committee received a report providing an update on the Council's financial position. Members were advised that Cabinet considered the Month 9 Monitoring Report on 21 February 2019. The report included a summary of the 2019/20 budget, which was approved by the Council on 28 February 2019, and details of the Medium Term Financial Plan. Members were reminded that that they had been provided with the Cabinet reports for information upon publication.

The Head of Finance advised Members that the appropriateness of the Financial Update report for Audit Committee will be reviewed to ensure that it accords with the Committee's Terms of Reference. In responding to comments from a Member about the level of detail and language in the budget report, the Head of Finance agreed, saying he does not feel there is value summarising Cabinet report information in a separate report to the Audit Committee.

The Corporate Director Resources was asked to comment on his predecessors warnings in relation to capital spend. The Corporate Director stated that his overall view would be formed through his work over the next few months. However, there was no evidence to suggest that the authority was not operating within prudential limits.

RESOLVED – That the Committee notes the financial information in respect of the 2018/19 monitoring position and the outcome of the budget for 2019/20 and the medium term.

### 90 : ACCOUNTING POLICIES AND TIMESCALES FOR 2018-19 STATEMENT OF ACCOUNTS

The Committee received a report that had been prepared to provide Members with the proposed timescales for the 2018/19 financial statements, the draft accounting policies in which the Statement of Accounts will be based and wider information on the changes expected from the CIPFA Code. The Operational Manager - Capital, Corporate & Treasury presented the report.

A Member considered that, transactions of a commercial nature could be shown in more detail in the Council's Statement of Accounts. The Operational Manager advised that summary transactions are provided, and links to the detailed accounts of the relevant companies / Joint Committee accounts are included in the notes to the accounts for user information and signposting.

A Member considered more clarity was needed on the pension deficit, and considered that Rhondda Cynon Taff's accounts were particularly clear in this respect, as the pension deficit was shown alongside debt. Officers welcomed the feedback and agreed to take those comments on board.

A Member asked whether the authority has an accounting policy on the success or failure of achieving savings targets. The Head of Finance advised that the Senior Management Assurance Statements (SMAS) assess each directorate against 23 areas, one of which relates to achieving savings targets. The Corporate Director Resources stated that the Corporate Risk Register makes it clear that responsibility and accountability for ensuring processes are in place to support delivery of savings targets lies with him and it is a role he takes seriously.

A Member asked whether any consideration has been given to increasing the employee or employer contributions to the pension fund, and were advised that employee contributions levels are set nationally. Members were asked to note that the Cardiff and Vale Pension fund was cast wider afield than just local government staff.

A Member asked if the Operational Manager was comfortable with the policy on depreciation, as there are a range of issues relating to the age and condition of buildings, and the sale of property could be used to help reduce the pension deficit. The Operational Manager stated that the authority has a capital receipt target. Members were advised that assets have an accounting valuation, and whilst depreciation is important, it is considered that the authority must gauge matters such as – Are we using assets effectively? Is there an asset plan in place? Can we dispose of the asset?

RESOLVED – That Committee notes:

- (1) The timescales for the 2018/19 accounts;
- (2) The draft accounting policies and assumptions to be used in preparing the statements of accounts for 2018/19;
- (3) The key changes in the Code of Practice for 2018/19, and changes in the medium term.

## Governance and Risk Management

91 : DRAFT AGS 2018-19

The Head of Finance presented the draft Annual Governance Statement (AGS) 2018/19. Members were advised that the document had been prepared prior to the year-end and therefore a number of additions were to follow in the next iteration, namely the assurance statements from the SMT, Audit Manager and the Audit Committee. The Committee was advised that the completed draft AGS would be brought back for further consideration and Members were invited to comment.

A Member considered that Health and Safety was a key issue for the organisation but it was not included in the AGS. The Member asked whether there were any proposals to strengthen the profile of the Health and Safety Advisory Group. The

Head of Finance advised that a briefing paper would be prepared for Audit Committee Members on this area, and that the AGS would be updated to capture the position.

RESOLVED – In respect of the Health and Safety Advisory Group:

- (1) Audit Committee to receive a briefing, to outline the current terms of reference and any potential development of its role to challenge and oversee good governance;
- (2) Officers to document its role in the draft Annual Governance Statement 2018/19.

## 92 : CORPORATE RISK MANAGEMENT (QUARTER 3)

The Committee received an update on the risk management position at Quarter 3 2018/19 from the Head of Finance and the lead Risk Management Officer.

Members were asked to note three corporate risks being targeted for risk reduction in Quarter 4 2018/19 – Financial Resilience, Budget Monitoring (Control) and Statutory Building Maintenance. Members were advised that both the Financial Resilience and Budget Monitoring risks are expected to be reduced to their target ratings C2 (medium) following the approval of the 2019/20 budget and the reported balanced outturn for 2018/19. In respect of Statutory Building Maintenance, the risk owner has reported that the Quarter 4 target for reduction of the risk to D3 (medium) was on track to be achieved.

A Member asked why the only corporate risk listed without a lead owner was 'Brexit'. The Head of Finance advised that this risk has collective responsibility both corporately and by Cabinet, but agreed that this principle would be reflected upon.

A Member considered that there were a high number of 'red' rated risks, including budget monitoring, and another Member noted that budgetary pressures on borrowings, deficits and reserves features across a number of corporate risks. The Head of Finance stated that the high number of 'red' rated risks reflect the authority's areas of concern where priority attention is required. The Head of Finance stated that the Budget Report 2019/20 sets out the financial risks in detail and provides further context.

A Member commented on the use of spreadsheets to present the narrative data and asked whether bespoke risk management software could be considered. The Head of Finance acknowledged those concerns and accepted the need to explore other options. Comments were also raised about the level of detail, which needs to be kept up to date in the corporate risk register, and the Head of Finance advised that opportunities will be considered to use the corporate risk register to signpost details, rather than restating detailed information.

A Member noted that the Council on 28 March 2019 declared a 'climate emergency' and suggested that this should be reflected on in the Corporate Risk Register, as the authority is expected to take action.

RESOLVED – That the report be noted.

#### 93 : AUDIT COMMITTEE SELF-ASSESSMENT FEEDBACK / ACTION PLAN

The Audit Manager presented the outcomes of the Audit Committee self-assessment workshop, which was held on 22 January 2019 using the CIPFA best practice guidance. Members were also provided with a draft Audit Committee Action Plan to target areas for progression / improvement.

Audit Committee was advised that the Self-Assessment reported a positive overall position from the reviews of good practice and effectiveness and considered that previously identified actions had been sufficiently progressed.

An additional assessment of the core knowledge and skills of individual Audit Committee Members had identified strong individual performance in each core area, and had identified some training areas where collective knowledge and skills were lower. Audit Committee Members were reminded that the first training session on 'Treasury Management' would follow the Audit Committee Meeting. The Audit Committee agreed the self-assessment results and the Action Plan.

RESOLVED – That the Audit Committee Action Plan be approved.

Wales Audit Office

#### 94 : ANNUAL AUDIT PLAN 2019

Ann-Marie Harkin, Engagement / Financial Audit Director of the Wales Audit Office (WAO) and colleagues presented the Annual Audit Plan 2019. Members were asked to note the significant financial audit risks set out in Exhibit 2 of the Plan and the programme of audits set out in Exhibit 3. The Committee was also advised that there has been a slight reduction in the costs to the authority and WAO will be looking for further efficiencies that, if brought in at a lower cost, will result in a refund.

A Member asked how and where the Cardiff Capital Region City Deal is audited and how it would be reported. Members were advised that the Auditor General for Wales has responsibility and a separate plan is in place to report to the Joint Cabinet.

A Member asked whether it would be possible for WAO to circulate audit reports more widely. Members were advised that WAO works in the public domain and reports are available on their website. It is also up to the Council's officers to distribute any audit reports to relevant scrutiny committees and members.

Members welcomed the new approach to performance audits referred to in the Audit Plan. Members asked what positive impacts WAO were looking to gain from this new approach. Members were advised that it was hoped WAO would provide more support, help improve services, provide more commentary and added value. It was suggested that WAO could potentially play a more active part in Audit Committee meetings by interacting with the discussions during agenda items. The Engagement / Financial Audit Director stated that WAO can provide an opportunity to meet with Committee members before the start of Audit Committee meetings.

Members noted that a number of the performance audits from the 2018/19 plan were still in progress. The Engagement / Financial Audit Director confirmed that some work was ongoing and advised that any delays were not for Council-related reasons.

With reference to the ongoing investigation into issues in Waste Management, a Member asked whether WAO would look at how the Council has responded to the investigation. Phil Pugh, Financial Audit Manager stated that as part of their planning procedures the WAO considers the risk of fraud. Members were advised that the WAO are being kept up to date regarding the investigation and the extent of any financial irregularities. This information is used as part of the risk assessment process when WAO is assessing areas to look at and Waste Management will be looked at in 2019/20.

RESOLVED – That the Annual Audit Plan 2019 be noted.

#### 95 : CARDIFF AND VALE PENSION FUND AUDIT PLAN

Phil Pugh, Financial Audit Manager of the Wales Audit Office presented the Cardiff and Vale Pension Fund Audit Plan 2019. Members were asked to note that there are two specific areas of interest, namely, the valuation of private equity investments and the fact that Cardiff has not transferred investments across to the All Wales Pension Partnership.

RESOLVED – That the Cardiff and Vale Pension Fund Audit Plan 2019 be noted.

#### 96 : WAO ACTIVITY/REPORT PROGRESS UPDATE

Sara-Jane Byrne, Performance Audit Manager presented the Wales Audit Office Activity Report and Progress Update.

A Member reiterated a point made previously that it was important to get information out to Members as there were fewer Cabinet reports being presented at Scrutiny Committees and therefore there was limited opportunity to question officers. Other Members considered that it was incumbent on bodies to do their own tracking and questioned where WAO reports go within the Council.

The Audit Manager advised that the Corporate Policy and Performance Team track the recommendations raised through WAO reports and progress updates. Members were advised that alerts of WAO reports are sent to key managers in the organisation for their respective areas of work. In respect of Audit Committee business, the Audit Manager and the Chair are both on the distribution list, and endeavour to circulate reports to Audit Committee members relevant to the Committees terms of reference.

RESOLVED – That the report be noted.

#### Treasury Management

#### 97 : PERFORMANCE REPORT

The Committee received a report from the Operational Manager - Capital, Corporate & Treasury on the performance information and a position statement on Treasury Management as at 28 February 2019.

Members were advised that an additional £4 million of external borrowing had been undertaken since the last report. Members were also asked to note that the Council was still awaiting formal confirmation from the Welsh Government in respect of the removal of the Housing Revenue Account borrowing cap, which is expected by 31 March 2019.

RESOLVED – That the report be noted.

#### 98 : TREASURY MANAGEMENT PRACTICES

The Committee received a report from the Operational Manager - Capital, Corporate & Treasury on the proposed Treasury Management Practices (TMPs) to apply from April 2019. Members were advised that in the latest version the main changes were updates to wording and dates where relevant; staffing changes and updates to the revised Treasury Management Strategy. The practices had also been updated to include the approach to Non Treasury investments such as commercial property. Members were asked to note that such investments would be managed outside of normal treasury activity e.g. by the Council's Strategic Estates function in accordance with a strategy approved by Cabinet in November 2016.

RESOLVED – That the report be noted.

#### Internal Audit

#### 99 : AUDIT TEAM PROGRESS UPDATE

The Committee received a report providing an update on the work of Internal Audit as at 15 March 2019. The Audit Manager provided an outline of the audit delivery and the audit findings and recommendations relating to the reporting period. In summarising the audit delivery, the Audit Manager wished to record his gratitude to the Internal Audit Team for their strong performance in the final quarter, to deliver 77% of the audit plan, which was the highest delivery in some years. The audit findings and recommendations were outlined to the Audit Committee with prominence given to the critical findings and emerging trends, the executive summaries for two unsatisfactory audits finalised since the last progress report, and the status of the audit recommendations raised.

A Member expressed concern about an audit undertaken at Pontprennau Primary School where a number of concerns were highlighted, and asked whether consideration had been given to removing the authority of the Governing Body. The Audit Manager advised that the Director of Education and Lifelong Learning was well engaged in the audit and its findings, and in terms of the governance mechanism to monitor, manage and control areas where schools require improvement, the Audit Committee will receive an update in September. Members were advised that the Governing Body and Headteacher accepted all of the recommendations in the report, and have committed to addressing the matters raised in the report. The Member stated that he had no idea the school had issues of concern and asked at which point a local Councillor would be advised. The Chairperson noted the points raised regarding liaison with local members but considered that this was not a matter for the Audit Committee to pursue.

A Member noted that a draft report on the Youth Food project had been issued. The Member asked whether the report had considered value for money and whether the project was achieving its outcomes. The Audit Manager advised that the audit focussed on the financial systems in place, as a new operation, which required Section 151 Officer assurance.

RESOLVED – That the report be noted.

#### 100 : INVESTIGATION TEAM PROGRESS UPDATE

The Committee received an update on the work of the Audit Section's Investigation Team as at 15 March 2019.

In addition to the progress update, the Audit Manager drew attention to the Counter-Fraud and Corruption Strategy development. Members were advised that once agreed by the Senior Management Team in the next few weeks, the draft Strategy would be circulated ahead of the next Committee meeting where it is scheduled for consideration on 25 June.

RESOLVED – That the report be noted.

#### 101 : AUDIT CHARTER AND AUDIT PLAN 2019-20

The Audit Manager presented the report and reminded Members that on 22 January 2019 they had received the Draft Internal Audit Charter and Audit Plan 2019/20 to consider and provide comments. This further report provided details of the minor additions to the Internal Audit Charter 2019/20. In particular, these additions focussed on the CIPFA Local Government Application Note, which was published in February 2019.

Members were also advised that the Audit Plan had also been further developed since it was provided in draft form to Audit Committee in January, and it was presented for approval by Committee following discussions with senior management.

Members welcomed the audit of Ethics and Values, as there was interest in assurance on gifts and hospitality and declarations of interest. Members asked whether the Charter would require any adjustment to reflect the comments raised by the Committee regarding communication with local members. The Audit Manager advised that the Audit Charter follows best professional practices, from the IIA and CIPFA, and considered that any wider communication of audit outputs would be a matter for the clients who receive the Audit Reports and senior officers.

RESOLVED – That the Internal Audit Charter and Terms of Reference 2019/20 and the Internal Audit Plan 2019/20 be approved.

#### 102 : SCRUTINY CORRESPONDENCE (SCRUTINY COMMITTEE ACTIVITY)

The Audit Manager advised that the Chairperson's written correspondence since the last Audit Committee meeting has been published on the Council's website and Members were signposted to the relevant pages.

The Chairperson confirmed that he has requested information regarding the use of non-disclosure agreements and the response would be shared with Members of the Committee in due course.

103 : OUTSTANDING ACTIONS

The outstanding actions were noted.

104 : WORK PROGRAMME UPDATE

The Committee's Work Programme update was noted.

105 : URGENT ITEMS (IF ANY)

No urgent items were received.

106 : DATE OF NEXT MEETING

The next meeting of the Committee will take place on 25 June 2019, subject to approval by Annual Council on 23 May 2019.

The meeting terminated at 5.00 pm