

AUDIT COMMITTEE

26 JANUARY 2021

Present: Independent Members: David Hugh Thomas (Chairperson)
Gavin McArthur and David Price

Councillors Cunnah, Goodway, Howells and Williams

64 : APOLOGIES FOR ABSENCE

Apologies were received from Councillor Simmons.

65 : DECLARATIONS OF INTEREST

No declarations of interest were received.

66 : COMMITTEE MEMBERSHIP

The Committee was asked to note that Council on 27 November 2020 appointed the following Members to this Committee:

Independent Members: Hugh Thomas, David Price, Gavin McArthur, Ian Arundale
Councillors: Cowan, Cunnah, Goodway, Howells, Lister, Simmons, Singh, Williams

The Chairperson asked Members to further note that Councillor Lister has since tendered his resignation from the Committee.

67 : AUDIT COMMITTEE TERMS OF REFERENCE

The Audit Committee terms of reference were noted.

68 : MINUTES

The minutes of the meeting held on 17 November 2020 were approved by the Committee as a correct record, subject to the following amendment:

Page 2, 3rd paragraph – delete 'are' replace with 'as'.

69 : SARAH MCGILL, CORPORATE DIRECTOR - PEOPLE & COMMUNITIES

The Committee received a presentation on the internal control environment within Social Services from the Corporate Director, People and Communities.

The presentation provided an overview of the Directorate structure and on-going restructuring. Members were asked to note the services and significant budgets within the directorate. It was therefore crucial that robust monitoring arrangements are in place to account for the large sums of expenditure set against performance delivery.

The Corporate Director highlighted the status of the Directorate's current audits. There are currently no outstanding actions, however there were a number that still

need to be completed. Members were advised that in addition to a set of arrangements that enable actions to be flagged, there are a number of forums within the Directorate that allow audits to be considered, in addition to consideration by the senior management team, for example the Safeguarding Management Board.

With regard to the Senior Management Assurance Statement (SMAS), the Corporate Director considered that given the range of services provided, there was some outstanding practice and some areas for improvement. The SMAS provides the average position but within individual services there will be varied performance and the aim was to share good practice across the Directorate.

The Directorate has two risks identified on the Corporate Risk Register in relation to Increased Demand in Children Services and Safeguarding. Members were asked to note the position in Quarter 3. The Corporate Director indicated that there has been a sharp increase in the demands placed on the service during the pandemic and concerns were raised that demand would remain high for an extended period.

The Corporate Director concluded the presentation with an update on the results of two inspections from external regulators – CIIW and HMIP.

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

- Members noted the number of audits that have the status 'insufficient with major improvement needed'. The Corporate Director was asked to provide comments. The Corporate Director stated that any audit with the status 'insufficient with major improvement needed' would immediately raise concerns. Whilst there was a wide range of issues covered and improvements required, there was a need for a clear understanding of whether the processes in place within the service area are fit for purpose. Then secondly, whether those processes are being adhered to. There were a number of structural issues that need to be addressed. Some steps have been taken and the Corporate Director was confident that where there are audit recommendations in the future they will be more in relation to how to learn from best practice.
- In relation to the SMAS, the Committee noted the number of Mixed Application activities. The Corporate Director stated that each activity was looked at across the whole directorate and there were areas of stronger or weaker performance, but the SMAS provided an average across all activity within the directorate.
- It was noted that 3 audits where the audit status was 'insufficient with major improvement needed' were in relation to finance and resources: Commissioning and Procurement; Asset Management; and Direct Payments. Members noted that Corporate Director's earlier comments regarding processes within the directorate and asked whether the managers within the directorate has the skills base to manage financial functions effectively and to what extent this features on the list of development activities, particularly in relation to the audits identified above. The Corporate Director considered that generally managers do have the technical expertise. It was accepted that there are occasions where those responsible for the management of a system need to give due consideration to the management of that system; to monitor the system and to problem solve when problems arise. The Corporate Director considered that managers need to

have the right skills, but accountability was also important and sometimes systems and the oversight of those systems sometimes take second place. The Corporate Director hoped that when next addressing the Committee a better picture of the detailed actions taken and the lessons learned going forward would be provided.

- Members sought assurance that audit recommendations are the explicit responsibility of named managers and that there is a clear responsibility for a particular forum to oversee the implementation of those recommendations. The Corporate Director confirmed that every actions has a named officers responsible for its implementation. The Directorate's Business Unit monitor outstanding actions. Named officers understand the importance of completing their actions on time and understand the lessons learned. This is a regular point of discussion at management team meetings.
- Members considered that it would be useful for the Committee to develop their understanding of directorate risk management and asked if risk registers or risk logs exist within divisions of the directorate. Members asked the Corporate Director to explain how risk management is embedded within the directorate. Members were advised that Directorate Risk Registers are in place across the whole service, although some work is required under the new structure to bring those risk registers together. There are a significant number of issues identified within the directorate risk registers. Named individuals are responsible for oversight of those risks and for updating the directorate risk register. Risks are reviewed on a regular basis. Only the most significant risks feature on the Corporate Risk Register. The Corporate Director was happy to share further details with the Committee if requested to do so.
- With regard to the Youth Justice Services and the 2019 Inspection, Members asked whether the issues within the service could have been identified earlier; asked whether there were there internal control mechanisms in place; and were there opportunities for lessons to be learned. The Corporate Director stated that it was important to understand the core data sets, whether the service is delivering against its vision, within budget and to the satisfaction of its customers. Therefore having performance management arrangements in place is crucial. Where there is a very challenging inspection is also crucial that the authority learns from the experience and that it ensures that the improvements identified are translated into demonstrable, achievable steps that can be reported on. When the Inspector formally returns it will be possible to assess whether the progress has been implemented successfully.

The Chairperson thanked the Corporate Director for attending.

RESOLVED – That the report be noted.

70 : FINANCIAL UPDATE INCLUDING RESILIENCE ISSUES - VERBAL UPDATE

The Corporate Director Resources provided a verbal update on the general financial issues facing the Council including the latest position regarding Covid-19 related finance; the Month 6 Monitoring report; the Welsh Government settlement figure; and the budget strategy.

This document is available in Welsh / Mae'r ddogfen hon ar gael yn Gymraeg

Members were advised that expenditure claims to the end of November 2020 totalled £36.7 million in relation to Covid-19 funding across a range of activities. To date £33.3 million has been reimbursed to the Council. Decision are awaited on some items that were held. Some items claimed were unsuccessful and these are reflected in the monitoring report.

The Corporate Director stated that in terms of income expenditure, the total value of income claimed to date was approximately £30 million across a range of activities. Claims are being reimbursed in tranches. Some claims are being held by Welsh Government in order to assess whether they relate to lost income or delayed income. Quarter 1 and Quarter 2 claims were essentially reimbursed in full.

In terms of the Month 6 Monitoring report, a projected overspend of £1.133 million was predicted, including £200,000 of Covid-19 expenditure claims that was not reimbursed by Welsh Government. This reflected an improvement on the Month 4 position. The Month 9 position is due to be reported to Cabinet in February.

Members were advised that on 22 December 2020 Welsh Government issued the provisional settlement details. Cardiff's Aggregate External Funding (AEF) will increase by 3.8% next year. This meets the Welsh average. The AEF is higher than anticipated in the MTFP which should allow for savings to be made from efficiencies rather than cuts to services.

The Corporate Director stated that there is no specific indication from Welsh Government that Covid-19 related support will continue beyond 31 March 2021. Although the Welsh Government has indicated a consequential from Central Government of £766 million in their own budget. This is significantly less than the £5 billion allocated in the current year. Some elements of the funding are being ring-fenced but the risk continues to be monitored and reflected in the budget moving forward.

Members will be aware that the budget consultation exercise assumes a budget gap of £16.4 million, excluding any reference to Council Tax increase. Nominal saving targets have been set across service areas and an efficiency saving of 1.0% is expected from schools.

The Corporate Director also provided an overview of the future work being undertaken within the directorate.

Members sought clarification of the total value of claims for expenditure and income that were rejected by Welsh Government. The Corporate Director stated that rejected expenditure claims to date was £2.114 million. There are currently no rejected income claims, however there are some small balances held back from Q1 and Q2 of £190,000 and £215,000 respectively, which are subject to further review.

RESOLVED – That the report be noted.

71 : EXTERNAL AUDIT RECOMMENDATION TRACKER

The Committee received a report providing an update on the management and delivery of recommendations received from Audit Wales. The report was introduced

This document is available in Welsh / Mae'r ddogfen hon ar gael yn Gymraeg

in order to provide a periodic overview and account of the progress made in delivering agreed Audit Wales recommendations for the Committee's information and assurance.

Members were advised that Audit Wales conducts an annual programme of inspections and reviews and have the power to make formal recommendations to the Council. Appendix 1 of the report contained a summary of the progress made against recommendations raised during 2017/18, 2018/19 and 2019/20.

The Head of Performance and Partnerships was invited to introduce the report. Members were invited to comment, seek clarification or raise questions on the report.

- Members supported the proposal to bring forward reports on this matter bi-annually and to extend to scope of the reporting to other external review activities.
- Members noted that the audit of Leisure Services. Members considered that the audit recommendations and the management responses to those recommendations were not aligned and examples were highlighted. Members asked whether sufficient control mechanisms were in place when GLL was appointed and whether those controls are being developed in light of the recommendations. The Head of Performance and Partnerships considered that he was unable to comment on the governance arrangements in place within the directorate. However, the report by Audit Wales has been accepted and the Management Team is still developing its response to the report. The Head of Performance and Partnerships agreed to feedback the comments received to the service area.
- Members stated that they would welcome further dialogue and information with relevant officers about reference to the wider set of partnerships referred to in the management response, particularly in terms of the Committee's assurance that an appropriate set of controls are being devised and the processes for choosing partners are being implemented from the outset. Members asked whether the Committee should receive a response specifically on this issue sooner than the next 'recommendation tracker' report in six-months' time, in the context of the issues developing in Leisure Services. The Audit Manager agreed to liaise with officers in the services to provide an additional report to the Committee in addition to the bi-annual tracker report. It was agreed that the Committee would invite the Director of Economic Development to attend the March 2021 meeting to report on the approach to contract governance and control in leisure partnerships, and the directorate response to audit recommendations.
- Members welcomed that named individuals were made responsible for each of the recommendations. Members were asked whether, to add to their assurance, it would be possible to include reference which forum would be actively managing, monitoring and holding people to account for progress made against each recommendation. The Head of Performance and Partnerships agreed that the external audit recommendation tracker would be expanded for future reports to include 'accountability / reporting to' arrangements, in respect of relevant Committees or Boards.

RESOLVED – That:

- (1) The report be noted;
- (2) Committee invite the Director of Economic Development to attend the March 2021 Audit Committee meeting, to report on the approach to contract governance and control in leisure partnerships, and the directorate response to audit recommendations;
- (3) The external audit recommendation tracker to be expanded for future reports to Audit Committee, to include 'accountability / reporting to' arrangements, in respect of relevant Committees or Boards.

72 : SENIOR MANAGEMENT ASSURANCE STATEMENT AND ANNUAL GOVERNANCE STATEMENT (AGS) ACTION PLAN 2020/21(MID-YEAR) - VERBAL UPDATE

The Head of Finance provided a verbal update on the Senior Management Assurance Statement (SMAS) and Annual Governance Statement Action Plan. Members were advised that directorates have been active and considering their positions in terms of the SMAS. All directorates have completed their half-yearly self-assurance statements. There have also been meetings between relevant directors and the Chief Executive regarding those statements.

In terms of the AGS 2019/20, Members were advised that clear actions have been taken forward, with particular focus on decision-making and clearly there have been some challenges in all directorates during the year.

The Head of Finance advised that a further report would be brought to the March 2021 meeting of the Committee.

RESOLVED – That the report be noted.

73 : ANNUAL AUDIT SUMMARY REPORT

The Committee received a report providing an overview of the latest Annual Summary Report from Audit Wales. The Chairperson invited Samantha Clements of Audit Wales to present the report.

The report covered work undertaken during 2019/20 including the detailed findings of audit reports on the Council's 2019/20 accounts, Well-Being and Future Generations Examination – Review of Leisure Services; Continuous Improvement, Financial Sustainability, Waste Management and the National Fraud Initiative.

RESOLVED – That the report be noted.

74 : AUDIT WALES - WORK PROGRAMME / ACTIVITY UPDATE

The Chairperson invited Samantha Clements to present an update on the Audit Wales Work Programme. Members were advised that the 2019/20 Work Programme was coming to a close. Reference was made to the review of Leisure Services report and the Committee's interest in the proposals for improvement within the report were

noted. Samantha Clements advised that Audit Wales intend to conduct a piece of follow-up work in this area.

Members also received a summary of the changes to the 2020/21 Performance Audit. Member were asked to note that the Annual Audit Summary would be presented in November/December 2021 in order to align with financial audits and the annual audit letter. Audit Wales are meeting the with the Senior Management Team regarding the Insurance Risk Assessment in order to have a dialogue regarding the risks identified, the outcome of which will inform the 2020/21 work programme.

RESOLVED – That the report be noted.

75 : AUDIT AND INVESTIGATION TEAM PROGRESS UPDATE

The Committee received a report providing an update on the work of the Internal Audit and Investigation Teams as at 31 December 2020. The Audit Manager was invited to present the report.

Members were asked to note how the audit activities in quarter three have continued to adapt and respond to the current environment in which the Council is operating. The team has continued to tailor its consultancy and assurance activities to provide support and attention where it is most required during the pandemic, including Covid-19 related audit consultancy services. The majority of support has been in respect of the administration of Welsh Government funds for a range of grants and relief payment schemes.

Members were advised that towards the end of quarter one, the audit team commenced a targeted delivery of assurance audit engagements from the Audit Plan 2020/21, at a time when Council services were moving to a documented and managed 'restart'. The report set out the audits completed, relevant opinions and their status; and the current position against the Audit Plan; in Appendixes A and B respectively. The Audit Manager also referenced how CIFPA guidance has been taken into account in planning and prioritising work in respect of maximising assurance for the annual audit opinion.

There was one audit with an 'unsatisfactory' opinion in relation to British Council grants. Committee was advised that the draft report is being considered by the Director and the Committee will receive an Executive Summary in due course. Three audits had opinions of 'insufficient with major improvement needed'. A summary for each was set out in the report.

The Audit Manager highlighted the resource issues faced by the service due to a staff leaver and an ongoing long-term sickness case.

Annex 2 of the report summarised the investigation activities at the end of quarter three, and the position was outlined.

Members were invited to comment or raise questions on the report.

- Members noted that 397 recommendations had been made by internal audit. Of those 203 were still under consideration. The Audit Manager was asked whether there has been any delay in responsible officers provide responses. The Audit

Manager stated that a large proportion related to audits delivered during the quarter, particularly towards the end of the quarter. These were new reports which management needed time to consider. There are, however, a number of longstanding reports that are outstanding that need to be responded to. Directors are aware and these reports need to be prioritised.

- A Member advised of disappointment that the audit of mileage and subsistence has a negative audit outcome, but suggested that this highlights the importance of routine internal audits.
- In terms of the British Council grants audit, a Member asked whether there has been any consideration to an investigation. The Audit Manager stated that he is discussing the audit findings with the Director and that, as with any audit, the full range of actions in response to the findings, including relevant investigations would be considered, as appropriate.
- Members referred to the summary of audit recommendations. The Committee asked whether an observation to the Directors of Education and Economic Development that the responses to their red and red/amber recommendations was necessary. It was agreed that a Chairperson's letter to each Director would be issued to request information and assurance on their responses to internal audit recommendations.

RESOLVED – That:

- (1) the report be noted;
- (2) The Audit Committee Chair to write to the Director of Education and Lifelong Learning and the Director of Economic Development, for information and assurance on their respective responses to internal audit recommendations.

76 : DRAFT AUDIT CHARTER AND DRAFT SUMMARY AUDIT PLAN 2021/22

The Audit Manager presented a report that had been prepared to provide Audit Committee Members with the Draft Internal Audit Charter for 2021/22 and appendices, including a draft Committee Terms of Reference. The report also provided a summary of the Draft Audit Plan for 2021/22.

Members were also asked to note that from 1 April 2021, the Audit Committee will be renamed a Governance and Audit Committee, and its role will be expanded in accordance with the Local Government and Elections (Wales) Act. The existing terms of reference had been updated by officers in Audit and Democratic Services to incorporate additional responsibilities.

Members were asked to consider the documents and provide comments or feedback on their contents prior to the documents being brought back to the Audit Committee for approval at its meeting in March 2021.

Members asked whether the Committee would soon be in a position to understand how the self-assessment process, which is currently under review, will operate. The Audit Manager advised that the Audit Committee will receive a briefing on the performance management process and the self-assessment process.

This document is available in Welsh / Mae'r ddogfen hon ar gael yn Gymraeg

RESOLVED – That the report be noted.

77 : DRAFT MONITORING EMPLOYEES AT WORK POLICY

The Audit Manager presented a report on the draft Monitoring Employees at Work Policy, which was due to be considered for Cabinet approval in March 2021.

The Audit Manager advised that consultation on the draft policy with the trades unions was ongoing. There was an expectation that the Committee would be advised of any substantial material changes to the policy. The final policy would be made available to the Committee prior to its approval.

RESOLVED – That:

- (1) The report be noted;
- (2) Audit Committee to receive a final version of the draft Monitoring Employees at Work Policy, once engagement with Trade Unions has concluded.

78 : PERFORMANCE REPORT

The Operational Manager (OM), Capital, Corporate and Treasury presented the Treasury Management Performance report as at 31 December 2020.

Members were advised that the level of investments totalled £141.4 million. The overall level of borrowing was £828.2 million, which represented little change on the previous report received by the Committee. Members were asked to note the level of planned internal borrowing during the year.

RESOLVED – That the report be noted.

79 : DRAFT STRATEGY 2021/22

The Committee received a report and were asked to consider the draft Treasury Management Strategy for 2021/22, which is required to be approved as part of the 2021/22 budget setting process.

Members were asked to note the main points of the Strategy as set out in paragraph 3 of the report.

Members asked whether assumptions regarding capital receipts received have been impacted by the Covid-19 pandemic. The Operational Manager (OM), Capital, Corporate and Treasury advised that the timing of receipts received has been impacted. The annual Property Strategy which is due to be considered by the Cabinet in June 2021 will provide a further update on the time and values of capital receipts. The delay in timing of receipts will result in an increase in borrowing requirements.

RESOLVED – That the report be noted.

80 : OUTSTANDING ACTIONS

This document is available in Welsh / Mae'r ddogfen hon ar gael yn Gymraeg

RESOLVED – That the outstanding actions be noted.

81 : CORRESPONDENCE

No correspondence was received.

82 : WORK PROGRAMME UPDATE

RESOLVED – That the work programme update be noted.

83 : URGENT ITEMS (IF ANY)

No urgent items were received.

84 : DATE OF NEXT MEETING - 23 MARCH 2021

The meeting terminated at 7.00 pm