

**AUDIT COMMITTEE: 23 March 2021**

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**UPDATE ON THE COUNCIL'S CONTROL ENVIRONMENT**

**REPORT OF CHIEF EXECUTIVE**

**AGENDA ITEM: 4.1**

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**Reason for this Report**

1. This report provides the view of the Chief Executive on the Council's Control environment.
2. The Audit Committee Terms of Reference requires the Audit Committee to:
  - Consider the Council's framework of assurance and ensure that it adequately addresses the risk and priorities of the Council.
  - To consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
  - Monitor the effective development and operation of risk management in the Council.
  - Monitor progress in addressing risk-related issues reported to the committee.
  - Consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
  - To review the governance and assurance arrangements for significant partnerships or collaborations.

**Background**

3. The Audit Committee requests an annual attendance from myself as Chief Executive of the Council, as part of its approach to receiving assurance from members of Senior Management Team.
4. I last attended Audit Committee on 2 April 2019, and was due to attend the meeting scheduled for 24 March 2020, which needed to be cancelled due to the onset of the pandemic.

**Issues**

5. The Audit Committee has an evolving role, and this is the last time it will meet in its current form prior to it taking on a wider remit and being renamed 'Governance and Audit Committee', in accordance with the Local Government and Elections (Wales) Act 2021.
6. The Committee will need to consider the timing of my future attendance, which could be aligned to the timescale for its consideration of the Council's draft annual Self-Assessment Report.

## **(a) Incident Management**

7. At the onset of the pandemic in March 2020, following a period of heightened planning and coordination and in accordance with the Cabinet's direction, I instructed that preparations be made to stand-up the Council's Emergency Management arrangements under the Civil Contingencies Act 2005. Three core principles were set out by Cabinet to guide the Council's response:
  - i. Preventing the spread of infection;
  - ii. Ensuring the health and safety of staff, service users and citizens;
  - iii. Prioritising key frontline services and support for vulnerable people.
8. An extended Senior Management Team (SMT) operated as a daily Strategic Coordination Group (SCG), and the focus of meetings was to consider the Council's response to the crisis, provide coherent strategic management of issues, clear governance arrangements whilst all decision making was logged and recorded. A command and control approach for cascading communications and decision making was applied through the designated Gold and Silver Officers, drawing on the Council's established emergency response arrangements. Existing meeting structures were utilised and increased in frequency to manage the emerging risks, service changes and decisions required as a result of pandemic. This approach has provided robust governance and supported clarity of decision making over the course of the crisis, and has drawn upon the capacity and capability that the Council has built up over many years of managing major events in the city and responding to extreme weather events.
9. Cabinet retained oversight of the Council's Incident Management Structure, with the Leader attending SCG on a weekly basis and the Leader and myself reporting and updating Cabinet on a weekly basis. Regular Member updates were provided and decisions were made with the engagement and coordination of corporate finance colleagues. Decisions were published in accordance with the scheme of delegations and subject to consideration by (an adapted) scrutiny committee. Delegations were applied as appropriate.
10. Recognising the importance of civic leadership and partnership working across public services in responding effectively to the Cardiff PSB, chaired by the Leader of the Council, has met on a monthly basis to provide cross-public service leadership and direction, supported by operational multiagency meetings chaired by senior officers. A partnership approach has been taken in addressing a series of issues, including the establishment of the Test, Trace, Protect service and most recently the roll out of the vaccination programme, the interface between Health and Social Services and across a wide range of community safety related matters.
11. Working across service areas and with partners, a wide range of issues have been managed with services adapted, enhanced or established anew, often at scale and pace. These included coordinating the acquisition and distribution of PPE, implementing a food delivery programme, enhancing free school meal provision, and establishing the regional track, trace and protect. Major work continued supporting the vaccination programme, ensuring enhanced health and safety provision, establishing blended learning arrangements to support children continue their education, instituting a new grant and relief payment facility on behalf of Welsh Government, as well as coordinating claims from the Welsh Government's Covid Hardship Fund. My reflection of the past year is that officers across the Council have shown flexibility, resilience and a commitment to working together in addressing a range of challenges and delivering against new priorities, and that partnership working between the city's public services

has operated effectively and at an unprecedented scale and speed in dealing with issues of great complexity.

12. Feedback from external regulators on the Council response to management of the pandemic has been supportive, including Cardiff's response to supporting schools and learners during the pandemic being highlighted as good practice by Estyn. Audit Wales have also been undertaking observations of SCG meetings and of the Council's recovery and renewal programme (see section (b) below).
13. The Council has also continued to use established processes to manage a range of other issues. As part of Brexit preparations for instance, the Council's Resilience Unit coordinated a Council-wide exercise to update the Council's Brexit Issues Register. Each Directorate reviewed its wider Brexit preparedness, noting the impact of the pandemic, considered additional risks, refreshed mitigating actions and gave particular focus to supply chains and ensuring continuity of supply. The overall position was monitored and managed through the Corporate Risk Register.
14. In November 2020, in preparation for the UK's departure from the EU and the anticipated winter pressures (including severe weather and flu) the Council's Emergency Management Unit hosted a briefing to alert Silver Officers and Brexit Liaison Officers<sup>1</sup> to the nature of the challenges. In order to ensure the resilience of the Council against these possibly concurrent challenges:
  - Each Directorate's Duty Silver Officer was required to complete a report each day to note any emerging issues. A consolidated report was provided each evening to Gold Officers.
  - Brexit Liaison Officers were required to regularly monitor and update the relevant issues in the Brexit Issues Register. Brexit Liaison Officers meet with the Emergency Management Unit once every 2 months to discuss issues and ensure that that the Council has a robust ongoing strategy to address EU Transition.
  - Directorates were asked to review their Business Continuity Plans, taking into consideration the challenges outlined to them.
15. As daily Covid-19 case numbers continue to decrease, SCG oversight of pandemic management has reduced to two meetings weekly. Previously daily meeting arrangements of fast-moving developments can be quickly re-established, however, should this be required.

## **(b) Recovery and Renewal**

16. A Cabinet Report, published in February 2021, set out the Council's response to the urgent issues facing Cardiff in the ongoing management of the pandemic, as well as a timetable of further work in relation to city recovery and renewal.
17. In response to the improving Covid-19 position, the Welsh Government have indicated that there will be a gradual and cautious lifting of restrictions over the coming months. In preparation for this, the Council has been undertaking detailed planning work, using the 'Restart, Recover, Renew' framework approved by Cabinet in June 2020, to enable the safe restart of council services. The Council will once again be utilising a disciplined and

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<sup>1</sup> Each Council Directorate has a nominated Brexit Liaison Officer, responsible for ensuring that their Directorate is aware of and able to deal with/ mitigate the impacts of EU Transition.

coordinated corporate process for reopening services, consistent with legislation and the latest Public Health Wales advice.

18. Recovery priorities for the year ahead are established in the Council's new Corporate Plan, which was approved by Council in March 2021. These recovery priorities were identified through a cross-Cabinet portfolio and department exercise on recovery planning, setting out clearly how Covid-19 has changed the operating environment for services, and what needs to be done, by when and by whom, over the course of 2021-22 in order to restart and recover Council and partners' services.
19. A programme of 'city renewal' will be published in May 2021. This will set out a Cardiff response to the significant longer-term shifts in the way in which people live, work and travel as a consequence of the pandemic, as well as how the Council will lead a greener, fairer recovery from Covid-19 will. This will be informed by a series of reports published in May and June, including:
  - The future of Cardiff's economy, and how the city should respond to the economic crisis in order to build a stronger, more inclusive and sustainable post-pandemic economy.
  - Delivering a Child Friendly Recovery, including the impact of the pandemic on children and young people's education, rights, well-being, and future pathways into employment.
  - A programme of action to address the climate emergency and deliver the One Planet Cardiff vision agreed by Cabinet in autumn 2020.
  - The future of local public services, including the shift towards being an agile organisation, the increased use of digital technologies and data in service delivery, and the application of locality working for front line community services.
20. The Council will also establish a programme of engagement with the public and city stakeholders on its proposals for city renewal over the summer. The outcome of this work will be presented to Cabinet to further inform the long term renewal priorities.

### **(c) Risk Management**

21. The Council's Capital Ambition involves the coordination of a wide range of diverse functions and programmes of work. Delivering our objectives requires the management of a wide range of risks on a daily basis at both operational and strategic levels. The risk management process has incorporated the challenges provided by the pandemic throughout the year. This progressive risk management approach focuses on identifying the key risks to our delivery, in order to develop and implement actions to achieve targeted risk levels.
22. Our approach to risk management ensures that Senior Managers are supported to identify and report risks at the right level in a timely manner. Officer risk champions and operational managers support each director in formally identifying and reviewing their operational and strategic risks on a quarterly basis, and are on hand for ongoing advice, guidance and support.
23. We continue to report new and emerging risks through the process of risk escalation where directors communicate significant risks to SMT to raise collective awareness and support.

Whilst directors are accountable for deciding which risks they escalate to SMT, as a minimum requirement all 'red' residual risks are escalated each quarter.

24. The corporate risk register is formally reviewed and updated on a quarterly basis to ensure that it is a current reflection of the primary risks to our objectives. Management of the Council's most critical risks is prioritised, with particular attention paid to red residual risks, and any increase in residual risk.
25. Target risk ratings have been developed for 'red' residual corporate risks, and challenging, but achievable, timescales for reducing these risks have been set. Of ten such risks at the end of Q3 2020/21, target residual risk levels are identified for eight risks.
26. It is not currently possible to target overall risk reductions for the two remaining corporate risks. This is because of external factors, which have presented uncertainty and limited levels of actual control.

**a. City security**

The current focus is on making targeted incremental improvements through investment in the City infrastructure. The Council is actively engaged in partnership working to prevent, protect and prepare for a major security-related incident, with a new Protective Security Preparedness Group established, chaired by myself and reporting in to the city's CONTEST Board, but this is against the backdrop of the UK threat level of 'substantial'.

**b. Welfare reform**

As Universal Credit has rolled out, there has been considerable impact on our citizens and the Council will continue to work with partners to mitigate the effects going forward. The roll out across Cardiff and the impact of the pandemic as well as the introduction and extension of the furloughing scheme makes it not currently possible to identify and progress formal risk reduction targets.

**Red Risk Targets – Corporate Risk Register Quarter 3 2020/21.**

No.	Risk	Risk Rating		Target Date
		Current	Target	
1	Climate Change	A1	B2	Q1 2022/23
2	Brexit	B1	B3	Q3 2021/22
3	Financial Resilience	B2	C2	Q3 2021/22
4	Air Quality and Clean Air Strategy	B2	C3	Q1 2022/23
5	Cyber Security	B2	D1	Q1 2022/23
6	Coastal Erosion	B2	C2	Q1 2022/23
7	Waste Management	B2	C2	Q1 2022/23
8	Increase in Demand (Children's Services)	C1	D1	Q4 2021/22

**(d) Senior Management Assurance Statement (SMAS)**

27. The senior management assurance process provides a strong internal challenge for us to continue to identify and target improvements in key areas of governance. The approach

has strengthened during the last 12 months with the introduction of a challenge session that I hold with each Director in conjunction with performance and Finance.

28. Each director has worked with their management teams to assess their mid-year directorate position, before submitting their returns for discussion in SMT. The SMT review is attended by the Corporate Director Resources and other SMT members representing Finance, Legal, HR and Performance and are able to provide independent insight when we consider the overall position. Individually as Directors and collectively as a SMT we have considered how the changes to delivery of services as a result of the pandemic and indeed the closure of some services need to be reflected in updated assurance statements.
29. I have continued to emphasise that areas of weakness need to be addressed in these challenging and changing times and there remains the importance of achieving consistent standards of governance and control across all directorates. I reinforced the need for these expectations to be monitored and managed through the 2020/21 senior management assurance statement process
30. The year-end SMAS returns will be collected during April and May 2021 with a detailed discussion and review leading to the overall assurance statement at SMT prior to the July Audit Committee. The output from this discussion will be the overall assurance statement for the Annual Governance statement (AGS) and the Action Plan of significant governance issues to sit alongside the Statement of Accounts.
31. The SMT decided to retain the two governance issues and corresponding actions for the ongoing AGS Action Plan for 2020/21. The Two issues are set out below;
  - Informed, evidenced based decision making' including aspects of Future Generations and further assurance work in relation to partnership and collaborative governance.
  - Compliance, specifically around understanding the gaps in the compliance (conformance) with the corporate process to provide a more focussed assessment.
32. At the end of the year, SMT will review whether to retain these as significant governance issues or whether there are other areas that require enhanced monitoring during 2022

#### **(e) Internal Audit Assurance**

33. Audit Committee approves the plan of audits each year, following its development by the Audit Manager, in engagement with the Senior Management Team. The Council requires comprehensive audit assurance, and I meet with the Audit Manager on a regular basis where I receive a summary of the work being undertaken by audit and act as a point of escalation where needed.
34. The work of Internal Audit has been essential during 2020/21:
  - We have received substantial real-time audit consultancy and support services in areas associated with the pandemic, as services have needed to adapt, evolve and in some cases establish for the first time. Notably, audit colleagues supported a project team to establish robust controls in administering Welsh Government relief payments, which has been vital given the necessity to distribute emergency funding accurately and at pace.

- After a managed restart of services at the end of quarter one, there was a targeted rollout of assurance audit work, with priority given to fundamental systems and areas of corporate governance. The Audit Manager has carefully managed and communicated the approach to delivering the assurance audit work, with close attention to audit coverage and risk.
35. The Audit Manager attends meetings of the Senior Management Team at regular stages during the year to provide an overview of Internal Audit planning and assurance, key messages from work completed, and tracking information on the timely response to audit reports and recommendations. Audit and counter-fraud work has an important and prominent profile in the Council. The Council's Counter-Fraud and Corruption Strategy launched last financial year, and was supported by mandatory training, with awareness and communication campaigns used to reinforce our commitment to tackling fraud and safeguarding public resources.
36. It is positive that Directors meet with their audit relationship manager regularly to review and discuss audit reports and recommendations for required attention and action, and to consider areas of risk in the development of future audit plans. The information I receive provides me with a level of independent assurance that I use in conjunction with the SMAS returns and the Corporate Risk updates.
37. I am aware that the Audit Committee is continuing to seek particular assurance in the control environment in Education and Lifelong Learning, most notably schools, and Waste Management. I note that:
- Audit Committee has invited the new Director of Education of Lifelong Learning to present later in the agenda, to receive an initial report and to agree the areas and frequency of future reports.
  - Internal Audit is undertaking a Control Risk Self-Assessment audit exercise across all schools in Cardiff, which will provide timely baseline assurance across a breadth of schools, and will inform school audit work in the year ahead.
  - Recent Waste Management follow up audits have received improved audit opinions, and have provided assurance that management interventions are leading to an improved control environment in the areas reviewed. Whilst audit opinions are improving, I welcome the sustained increase in audit coverage for Waste Management given the number of adverse audit opinions received in recent years.
38. The need for prompt action on recommendations is a high priority and, following some slippage as officers focused on responding to the immediate pressures of the crisis at the beginning of the financial year, we are seeing an improving visible performance. However, I recognise that the need to continue to provide assurance on key controls is of paramount importance at a time where the financial and demand pressures facing services is increasing. I encourage Directors to have a close relationship with the Internal Audit team, and in all areas, there is clear evidence of an effective two-way communication between them.

**(f) Wider Assurance**

39. An external audit recommendation tracker item has been recently introduced in Audit Committee meetings, which is a positive step forward and widening of the systematic assurance reports provided to the Audit Committee.

40. It is intended for the scope of this item to expand to cover wider assurance, inspection and regulatory activities for Committee review and comment. I welcome the insight, comment and any recommendations from Audit Committee in considering these reports.

### **Legal Implications**

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

### **Financial Implications**

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

### **RECOMMENDATIONS**

43. That the Committee considers and notes the contents of the report.

**Paul Orders**  
**Chief Executive**