



CABINET – 19TH OCTOBER 2016

SUBJECT: WAO REVIEW OF ARRANGEMENTS TO ADDRESS EXTERNAL AUDIT, INSPECTION AND REGULATION RECOMMENDATIONS AND PROPOSALS FOR IMPROVEMENT – CAERPHILLY COUNTY BOROUGH COUNCIL

REPORT BY: ACTING DIRECTOR OF CORPORATE SERVICES & S151 OFFICER

1. PURPOSE OF REPORT

- 1.1 To present Cabinet with the Wales Audit Office (WAO) report on its review of arrangements to address external audit, inspection and regulation recommendations and proposals for improvement of Caerphilly CBC.

2. SUMMARY

- 2.1 In the 2015-16 Audit Plan, the WAO identified that they would assess the Council's progress in implementing recommendations from their previous work. As part of this follow-up work, they stated they would seek assurance that the Council has appropriate corporate processes for responding to their reports, tracking implementation of their recommendations and reporting this to the appropriate committee. The WAO did this by undertaking specific follow-up work to determine progress in addressing the recommendations made in areas for improvement arising from the Special Inspection report, the Follow-up of the Special Inspection and previous audit work relating to:

- Self-evaluation
- HR and workforce planning
- Internal audit
- Scrutiny

This review sought to answer the following question: Are the Council's arrangements for addressing external audit, inspection and regulation recommendations and proposals for improvements supporting improvement?

- 2.2 The WAO review has concluded that the Council's response to their recommendations and proposals for improvements is supporting improvement in its self-evaluation and scrutiny arrangements, but further work remains to fully address weaknesses in Internal Audit and Human Resources, some of which are longstanding.

- 2.3 The WAO came to this conclusion because they found that:

- the Council has arrangements in place to address external review recommendations and proposals for improvement but they have concerns that they have not been used effectively in driving the pace of improvement in some key priority areas;
- the Council has strengthened its approach to self-evaluation although there is scope to ensure critical workforce issues are consistently identified and addressed through service plans;

- the Council now has an agreed Human Resources strategy and workforce planning activities are taking place but as the Council develops its vision and considers the future shape of the organisation, it would benefit from identifying its workforce requirements more strategically to implement this vision;
- whilst there are some signs that the Council is starting to improve the use of its Internal Audit service, progress has been slow until more recently and the Council would benefit from developing a wider assurance framework so that it can be assured that it is addressing its key risks; and
- the Council is taking action to improve the effectiveness of scrutiny but the full impact of the changes will not be evident until later this year.

3. LINKS TO STRATEGY

- 3.1 Strong corporate governance arrangements are essential in any Local Authority or public body.

4. THE REPORT

- 4.1 The WAO report on the outcome of its review in respect of arrangements to address external audit, inspection and regulation recommendations and proposals for improvement was issued in August 2016 and is attached as Appendix 1. Overall the report concludes that:-

- P1 As the Council develops its vision and considers the future shape of the organisation, it should identify and plan for the workforce requirements to implement its vision.
- P2 The Council should develop an assurance framework that sets out how it obtains assurance in relation to key risks from across the organisation.
- P3 To address fully the recommendation made in our Special Inspection and the proposal for improvement made in our Special Inspection Follow-up relating to Internal Audit, the Council needs to:
- Demonstrate more clearly how the work planned as set out in the Internal Audit Plan is linked to the Council's key risks;
 - Improve the quality of working papers;
 - Provide summary reports to the Audit Committee highlighting the findings from the work of Internal Audit during the year;
 - Ensure the Internal Audit outturn report fully reflects the work undertaken during the year and progress against the planned programme of work;
 - Confirm the timetable for the peer review of its Internal Audit service and complete its self-assessment against the Public Sector Internal Audit Standards (PSIAS);
 - Monitor the progress of undertaking the peer review of Internal Audit and consider how the outcome of the peer review will be used to strengthen Internal Audit.
- P4 The Council should strengthen arrangements to enable Scrutiny to hold Cabinet to account more effectively and to take action to ensure its Cabinet Members are equipped and prepared to be held accountable for the roles they fulfil.

- 4.2 The officer responses to the above proposals for improvement are attached in the template in Appendix 2, entitled Management Response.

- 4.3 The monitoring in respect of the delivery of the improvements will be undertaken by the Corporate Governance Panel. The Corporate Governance Panel comprises; Nicole Scammell - Acting Director of Corporate Services & S151 Officer, Cllr. Forehead - Cabinet Member for HR & Governance/Business Manager, Colin Jones - Head of Property, Gail Williams – Interim Head of Legal Services & Monitoring Officer, Paul Lewis – Acting Head of IT, Richard Harris – Internal Audit Manager. It meets 4 to 5 times per annum and the minutes of this Panel are presented to the Audit Committee. In addition the completion of these proposals for improvement will be included in periodic reports to the Audit Committee.

5. EQUALITIES IMPLICATIONS

- 5.1 This report is for information purposes so the Council's Equalities Impact Assessment process does not need to be applied.

6. FINANCIAL IMPLICATIONS

- 6.1 There are no direct financial implications arising from this report.

7. PERSONNEL IMPLICATIONS

- 7.1 There are no direct personnel implications arising from this report.

8. CONSULTATIONS

- 8.1 There are no consultation responses that have not been reflected in this report.

9. RECOMMENDATIONS

- 9.1 Cabinet is asked to:-

9.1.1 Consider and comment upon the content of the WAO report.

9.1.2 Note the officer responses to the WAO proposal for improvement as detailed in Appendix 2 – Management Response.

9.1.3 Endorse the monitoring arrangements detailed in paragraph 4.3.

10. REASONS FOR THE RECOMMENDATIONS

- 10.1 To ensure that Cabinet is aware of the review work undertaken by the WAO and the resultant findings, conclusion and proposals for improvement, along with actions to deliver and monitor work required.

11. STATUTORY POWER

- 11.1 Local Government Acts 1972 and 2003.

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Consultees: Corporate Management Team
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Stephen Harris, Interim Head of Corporate Finance
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Colin Jones, Head of Performance & Property
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Cllr Christine Forehead, Cabinet Member HR & Governance/Business Manager

Background Papers:

Follow up Improving Governance Programme Update, Cabinet 20th May 2015

Appendices:

Appendix 1 – WAO Report, Review of arrangements to address external audit, inspection and regulation recommendations and proposals for improvement, Caerphilly CBC August 2016

Appendix 2 – Management Response



Review of arrangements to address external
audit, inspection and regulation
recommendations and proposals for
improvement

Caerphilly County Borough Council

Audit year: 2015-16

Issued: August 2016

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Status of report

This document has been prepared as part of work performed in accordance with statutory functions.

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The team who delivered the work comprised Avril Watkins, Sara-Jane Byrne and Non Jenkins under the direction of Alan Morris.

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Summary report

The Council's response to our recommendations and proposals for improvements is supporting improvement in its self-evaluation and scrutiny arrangements, but further work remains to fully address weaknesses in Internal Audit and Human Resources, some of which are longstanding

1. During October and November 2013, the Auditor General undertook a Special Inspection into the corporate governance arrangements at Caerphilly County Borough Council (the Council).
2. The Auditor General published his report on the Special Inspection in January 2014. He concluded that 'a combination of a number of weaknesses inevitably led to governance failings at the Council and whilst it was making encouraging progress in improving its governance arrangements, it was too early to conclude whether these improvements could be sustained'. He made eight formal recommendations.
3. During October 2014, we undertook a follow-up review to determine the Council's progress in addressing the eight recommendations made in the Special Inspection report. Specifically, we conducted reviews to:
 - Examine the Council's progress in addressing the recommendations made in the Special Inspection report and the recommendations made by the Appointed Auditor in his second Report in the Public Interest.
 - Assess the Council's progress since the Special Inspection in addressing the recommendations made by the Appointed Auditor in his first Report in the Public Interest.
 - Follow up the Council's progress since the Special Inspection in addressing the four proposals for improvement identified in our Human Resources (HR) and workforce planning thematic review undertaken in 2011.
 - Provide a baseline assessment of the Council's progress in developing its approach to self-evaluation. This was a review carried over from our 2013-14 Regulatory Programme of Work.
4. We published our follow-up report in January 2015. We concluded that 'the Council had made good progress in addressing most of the recommendations from the Special Inspection report and the Reports in the Public Interest. However, the Council still needs to take a lawful decision on the annual leave and essential car user allowances and to further improve other areas, particularly scrutiny.' We raised one recommendation and eight proposals for improvement.
5. The Council took a lawful decision on the annual leave and essential car user allowances in January 2015.

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6. In our Special Inspection follow-up report in January 2015, we came to the following conclusions in relation to self-evaluation, HR and workforce planning, Internal Audit and Scrutiny:
- the Council has taken a measured approach to implementing self-evaluation but it has yet to agree the purpose of self-evaluation, and how it will be used to inform corporate, service and financial planning remains unclear;
 - the Council is not yet realising the benefits of the strategic aspects of human resources and workforce planning although significant progress has been made in developing human-resources-related policies to facilitate the implementation of the Council's medium-term financial plan;
 - the Council is beginning to address aspects of our recommendations to improve Internal Audit but it lacks a robust action plan to ensure it can keep track of progress; and
 - the effectiveness and impact of scrutiny are mixed and its role needs to be clarified.
7. In our 2015-16 Audit Plan, we identified that we would assess the Council's progress in implementing recommendations from our previous work. As part of this follow-up work, we stated we would seek assurance that the Council has appropriate corporate processes for responding to our reports, tracking implementation of our recommendations and reporting this to the appropriate committee. We did this by undertaking specific follow-up work to determine progress in addressing the recommendations made in areas for improvement arising from the Special Inspection report, the Follow-up of the Special Inspection and previous audit work relating to:
- Self-evaluation
 - HR and workforce planning
 - Internal audit
 - Scrutiny
8. This review sought to answer the following question: Are the Council's arrangements for addressing external audit, inspection and regulation recommendations and proposals for improvements supporting improvement?
9. Our review has concluded that the Council's response to our recommendations and proposals for improvements is supporting improvement in its self-evaluation and scrutiny arrangements, but further work remains to fully address weaknesses in Internal Audit and Human Resources, some of which are longstanding.
10. We came to this conclusion because we found that:
- the Council has arrangements in place to address external review recommendations and proposals for improvement but we have concerns that they have not been used effectively in driving the pace of improvement in some key priority areas;
 - the Council has strengthened its approach to self-evaluation although there is scope to ensure critical workforce issues are consistently identified and addressed through service plans;

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- the Council now has an agreed Human Resources strategy and workforce planning activities are taking place but as the Council develops its vision and considers the future shape of the organisation, it would benefit from identifying its workforce requirements more strategically to implement this vision;
 - whilst there are some signs that the Council is starting to improve the use of its Internal Audit service, progress has been slow until more recently and the Council would benefit from developing a wider assurance framework so that it can be assured that it is addressing its key risks; and
 - the Council is taking action to improve the effectiveness of scrutiny but the full impact of the changes will not be evident until later this year.

Proposals for improvement

P1 As the Council develops its vision and considers the future shape of the organisation, it should identify and plan for the workforce requirements to implement its vision.

P2 The Council should develop an assurance framework that sets out how it obtains assurance in relation to key risks from across the organisation.

P3 To address fully the recommendation made in our Special Inspection and the proposal for improvement made in our Special Inspection Follow-up relating to Internal Audit, the Council needs to:

- Demonstrate more clearly how the work planned as set out in the Internal Audit Plan is linked to the Council's key risks;
- Improve the quality of working papers;
- Provide summary reports to the Audit Committee highlighting the findings from the work of Internal Audit during the year;
- Ensure the Internal Audit outturn report fully reflects the work undertaken during the year and progress against the planned programme of work;
- Confirm the timetable for the peer review of its Internal Audit service and complete its self-assessment against the Public Sector Internal Audit Standards (PSIAS);
- Monitor the progress of undertaking the peer review of Internal Audit and consider how the outcome of the peer review will be used to strengthen Internal Audit.

P4 The Council should strengthen arrangements to enable Scrutiny to hold Cabinet to account more effectively and to take action to ensure its Cabinet Members are equipped and prepared to be held accountable for the roles they fulfil.

Detailed report

The Council has arrangements in place to address external review recommendations and proposals for improvement but we have concerns that these arrangements have not been used effectively in driving the pace of improvement in some key priority areas

11. The Council has an established process in place for addressing and monitoring external review recommendations and proposals for improvement. It has developed a flow chart showing how and where it will consider external review reports. The Corporate Management Team (CMT) upon receipt considers all external review reports. The CMT then determine the appropriate member audience for the report, which has included full Council, Cabinet, Scrutiny and Audit Committee in the past. A Council report/action plan usually accompanies external review reports. The Council's Audit Committee has responsibility for assuring that arrangements are in place to respond to external review recommendations and proposals for improvement effectively.
12. The Council's self-evaluation process also includes consideration of external review recommendations and proposals for improvement. The Council has recently established a Business Improvement Board to monitor the progress with key strategic projects. This will provide another mechanism for addressing and monitoring improvement.
13. The Audit Committee receives quarterly progress reports against our proposals for improvement and recommendations. The progress reports include areas for improvement identified by other external review bodies, such as the Care and Social Services Inspectorate Wales (CSSIW) and Estyn. Improvements identified by CSSIW and Estyn are also considered by the relevant scrutiny committees.
14. The Audit Committee considers whether the Council has taken sufficient action in order for it to close the proposals for improvement and recommendations at these meetings. Our observation of the Audit Committee meeting in December 2015 found that members did challenge the officers on their proposal to close a Wales Audit Office proposal for improvement relating to asset management planning and considered the views of officers and external audit. We have since met with officers to discuss asset management. This issue was also followed up by the Council's Audit Committee at its meeting in June 2016 and we are reassured that the Council is now in the process of addressing our proposal for improvement relating to asset management.
15. The Council has had a clear process for reporting and monitoring progress against the proposals for improvement made in our Special Inspection follow-up report published in January 2015. This built upon the process the Council used for reporting and monitoring the recommendations and proposals raised in our reports in the public interest and Special Inspection report. The Council's Improving Governance Programme Board (IGPB) continued to monitor progress against the Council's

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- improving governance action plan, which the Council expanded to include actions to address the proposals for improvement made in the Special Inspection follow-up report. A programme manager supported the IGPB and there have been regular progress reports to CMT, Cabinet and Council.
16. The Council also developed specific improvement action plans to address the proposals for improvement made in our Special Inspection follow-up report relating to scrutiny and internal audit.
 17. Following Cabinet agreement in October 2015, the Council has now disbanded the IGPB as the Council has deemed that it has addressed the majority of improving governance recommendations and proposals for improvement. The final progress report to Cabinet in October 2015 showed that the Council considered that all bar two of the actions had been completed. The Council identified that the two outstanding actions, whistleblowing and HR strategy, were 'approaching completion'.
 18. Cabinet agreed that it would transfer responsibility for the outstanding actions to the Council's Corporate Governance Panel (CGP). The October report to Cabinet also states that, 'The Corporate Governance Panel will continue to monitor the corporate governance arrangements to ensure that all the actions implemented by the IGPB become embedded and business as usual.'
 19. The Council's CGP meets quarterly and has some of the same members as the IGPB thus providing an element of continuity. Progress against outstanding IGPB items is a regular agenda item of the CGP. Minutes of the meetings are very brief and provide little detail. The draft minutes of the meeting of 4 March 2016 showed that whistleblowing has been closed and the second action relating to the HR strategy will be closed following a report to the next available Performance and Resources Scrutiny committee. The minutes do not show if the CGP considered if actions implemented by the IGPB have become embedded as business as usual as requested by Cabinet in October 2015.
 20. Of the four areas we assessed during this review, we have found that whilst the Council has made good progress in addressing proposals for improvement in two of the four areas, notably to strengthen scrutiny and self-evaluation, we are of the view that the Council's assessment of progress was premature specifically in relation to Internal Audit. The Council's Corporate Governance Panel is continuing to monitor progress with HR and the Democratic Services Committee has been involved in monitoring progress with the Council's scrutiny improvement action plan. However, it is unclear how the Council will monitor progress against the Council's Internal Audit action plan and evaluate its impact. We set out our evaluation of the Council's progress in addressing our proposal for improvement relating to Internal Audit in paragraphs 41-54.
 21. Most people interviewed as part of this review felt that most of the Council's actions to improve its governance arrangements had now become business as usual. However, concerning Internal Audit and HR, the focus has been primarily on completing the process rather than evaluating the impact of actions, and the Council acknowledges that it has not sufficiently progressed our HR-related proposal for improvement. Conversely, it is evident that the Council has taken a mature approach

to strengthening its self-evaluation and scrutiny arrangements, refining actions and building in time to evaluate the impact of these actions. There has been senior officer and member commitment to the Council's improving governance programme with strong programme management support.

The Council has strengthened its approach to self-evaluation although there is scope to ensure critical workforce issues are consistently identified and addressed through service plans

22. In our Special Inspection follow-up report published in January 2015 we concluded that 'The Council has taken a measured approach to implementing self-evaluation but it has yet to agree the purpose of self-evaluation, and how it will be used to inform corporate, service and financial planning remain unclear.' In that report, we made a proposal for improvement that 'the Council needs to agree the purpose of self-evaluation and how this will be used to inform corporate, service and financial planning and to ensure that the process it adopts enables it to do this effectively.'
23. The Council has responded positively to this proposal for improvement. Services now undertake the self-evaluation and service planning processes together rather than separately, as was the case previously. Incorporating self-evaluation into service planning has helped to improve the clarity of the purpose of self-evaluation and strengthened service planning with greater consideration of benchmarking and customer feedback than previously. The Council is currently finishing its third cycle of self-evaluation and it has continued to refine the process each time. There is greater understanding of the benefits of self-evaluation and officers are more comfortable with the process now it is in its third year.
24. The Council has put in place a process for challenging the robustness of the self-evaluations. A panel, which includes the Interim Chief Executive, the Head of Performance and Cabinet Member for Performance, challenges each service area on its self-evaluation. Another director challenges services falling within the Interim Chief Executive's remit. It was evident that the challenge process has been beneficial facilitating learning and encouraging consistency. The Interim Chief Executive has communicated the key themes emerging from the challenge sessions to the Senior Managers' forum.
25. Our review of a small sample of the Council's self-evaluations found that they were now more evaluative than in the past. As the Council's challenge process has already identified, there is scope to strengthen the evaluations further through better analysis of performance and customer data, and to consider value for money.
26. The self-evaluation template includes a section on workforce planning and our review of a sample of completed self-evaluations found that services were completing this section in detail. Actions to address workforce issues were also identified in the self-evaluations. However, the Council's service plans do not consistently draw out any workforce issues identified through the self-evaluation process. There are some

examples where this does happen and we were made aware of examples of some services that have workforce issues and are working with HR to address these issues. We also understand that the Interim Head of Human Resources has previously requested copies of all self-evaluations in order to assess workforce issues.

27. The Council's self-evaluation and service planning guidance recommends that services identify issues within their service plans where these are critical to the delivery of the service. However, the Council's service plan template does not have a specific workforce section to ensure services consistently reflect their workforce issues. The Council needs to assure itself that workforce issues are drawn from the self-evaluation and articulated in the service plans where necessary, particularly as it monitors the progress against the service plans. This would help strengthen accountability that action is being taken to address workforce issues consistently across the Council.
28. The Council's senior officer and Cabinet Member commitment to self-evaluation has served to strengthen the process and Heads of Service interviewed as part of this review were positive about the benefits of self-evaluation. It is positive that Cabinet members have been engaged in the self-evaluation process but there has been no involvement of scrutiny to date. As the Council continues to improve its self-evaluation and service planning process, greater engagement of scrutiny would help to strengthen the process further.

The Council now has an agreed Human Resources strategy and workforce planning activities are taking place but as the Council develops its vision and considers the future shape of the organisation, it would benefit from identifying its workforce requirements more strategically to implement this vision

29. We originally raised the need for the Council to improve its strategic HR and workforce planning in the summer of 2012 following a review of the Council's HR arrangements. In our Special Inspection report published in January 2014, we concluded that 'the Council has been slow to implement actions to improve the HR function and to develop its workforce planning arrangements'. We subsequently made the related statutory recommendation that the Council 'ensures that the actions identified to improve the HR function and workforce planning are implemented'.
30. Our Follow-up of the Special Inspection report of January 2015 concluded that the Council 'is not yet realising the benefits of the strategic aspects of human resources and workforce planning although significant progress has been made in developing human-resources-related policies to facilitate the implementation of the Council's medium-term financial plan'. We made a proposal for improvement in our Follow-up of the Special Inspection report that the Council 'should prioritise the development of an

HR strategy and workforce plan. These should form key elements of the Council's strategic planning framework.'

31. At the time of our fieldwork, the Council had a draft one year 2016-17 Human Resources Strategy. We were concerned about the ambitious timescales within the draft strategy but it is positive to report that since our fieldwork, the Council has updated the strategy to cover a longer timeframe. The Council's 2016-2020 Human Resources Strategy (HR strategy) was considered by the Policy and Resources Scrutiny Committee on 12 July and agreed by Cabinet on 27 July 2016.
32. The HR strategy makes reference to the Well-Being of Future Generations (Wales) Act and underlines the need to have a workforce with the right skills and support in order to achieve the cultural change envisaged by the Act. The HR strategy sets out the role of Human Resources service to help deliver the Council's corporate priorities. The Council has sensibly proposed that the HR strategy be reviewed in 12 months given the ongoing challenges facing the Council and the impact these may have on the HR strategy.
33. The HR strategy contains over 40 improvement actions under the following themes: right people, right skills, right place, right time and employee engagement. Improvement actions have supporting key performance indicators. The HR strategy links to the Council's Corporate Plan 2013-2017, its Medium Term Financial Plan, and the Single Integrated Plan 2013-2017. The Council has not yet developed the HR strategy further into a comprehensive action plan, with named lead officer responsibilities, expected outcomes and individual deadlines. The HR strategy states that the Council will complete all actions by the end of the financial year 2020.
34. The Council has identified the governance mechanisms to monitor progress with delivering the HR strategy. It is the intention that the Corporate Management Team (CMT), Policy and Resources Scrutiny Committee and the HR strategy group will monitor the HR strategy.
35. A separate workforce template exists for services to populate key data regarding their service's workforce and the Council's HR function provides a data set for managers that contains, for example, staff headcount, full-time equivalents, age profile and pay grades. This data is provided via the Council's HR database, iTrent, and the Council deems this as adequate in meeting the Council's current needs for workforce planning activities and information provision. The Council undertook two workforce planning pilots in 2014, but an evaluation of the pilots found that they had been of limited value. It is not clear how the Council learned from this experience to make improvements.
36. The Council's Corporate Management Team (CMT) regularly monitors some key workforce data, such as sickness absence rates and vacancy management and reviews the redeployment pool weekly. One of the improvement actions set out in the draft HR strategy is for HR to report to Corporate Management Team on the outcome and learning of the workforce planning. The Council needs to ensure that this takes place and it uses this information to plan the future use of its workforce effectively.
37. Many councils have developed corporate workforce plans to help them set out their future workforce requirements to deliver their vision and priorities. The Council's senior management and the Cabinet Member with portfolio responsibility for HR told us that

the overall view is that the Council has not required a corporate workforce plan to date and that such a plan would not be helpful given the diversity of services and occupations within the Council. It is evident that the Council's Heads of Service are comfortable with the existing processes in place, through the self-evaluation process, to raise workforce issues. There is evidence that some services across the Council are working with HR to address specific workforce issues, such as succession planning. The Council has also undertaken action to address specific key workforce issues, such as fast-track recruitment to help meet the Welsh Housing Quality Standard.

- 38.** Unlike many Welsh councils, the Council is not yet in a place where it has had to significantly review the way it delivers its services. It still delivers all of its services in-house and has a relatively stable workforce. It has operated a successful redeployment scheme and the numbers of compulsory redundancies have been low compared to other Welsh councils. The Council's HR strategy does recognise that this position may not be sustainable as the period of austerity continues.
- 39.** The Corporate Management Team has started to consider the future shape of the organisation and the vision for the Council. This work is still very much in the early phase of development and the Corporate Management Team plans to engage with members in the Autumn 2016 to develop this vision. The Council has found that its approach to workforce planning has been effective to date but, as the Council develops its vision, it should also review and identify its workforce requirements to help deliver this vision.
- 40.** Whilst we acknowledge that corporate workforce planning is generally not well-developed amongst Welsh councils, we are currently working with the Welsh Heads of HR forum to look at workforce planning. We strongly encourage the Council to participate fully in this work and to explore and learn from other councils and organisations, which have good HR strategies and workforce plans.

Whilst there are some signs that the Council is starting to improve the use of its Internal Audit service, progress has been slow until more recently and the Council would benefit from developing a wider assurance framework so that it can be assured that it is addressing its key risks

- 41.** In our Special Inspection follow-up report published in January 2015 we concluded that ‘the Council is beginning to address aspects of our recommendations to improve Internal Audit but it lacks a robust action plan to ensure it can keep track of progress.’ We made a proposal for improvement that ‘the Council should develop a robust action plan for improving Internal Audit. This should take account of the outcome of the self-assessment against the Public Internal Audit Standards. Reporting and monitoring mechanisms need to be agreed to maintain momentum.’
- 42.** The Council’s IGPB monitored progress against the Internal Audit related proposal for improvement made in our Special Inspection follow-up report. The Council’s Audit Committee also considered the internal audit action plan in March 2015 and a follow-up report by Internal Audit outlining progress was on the Audit Committee’s agenda for information in June 2015, but members did not call it forward for discussion.
- 43.** Since our Special Inspection follow-up, the Council has developed an action plan to improve internal audit. However, the Council has not yet completed a self-assessment against the Public Sector Internal Audit Standards (PSIAS) to inform the action plan as we suggested in our proposal for improvement.
- 44.** The Council advised us in the autumn of 2015 that it would undertake the self-assessment in 2015. The action plan states that the Council will undertake the self-assessment in September/October 2015 and this is marked as ‘in progress’, but as of March 2016, the self-assessment had not been completed. We understand the Council is in discussion with neighbouring councils to undertake a peer review against the PSIAS, but at the time of our fieldwork there were no plans or details in place to do this. It was also not clear how the Council would monitor the progress against the internal audit action plan following the disbandment of the IGPB and as the Council had considered the internal audit action plan to be ‘completed’, the Corporate Governance Panel was not picking it up and there was potential that there will be insufficient oversight of progress.
- 45.** Since our fieldwork, the Council has informed us that the peer review process is progressing. This process is being led by Newport City Council on behalf of the Welsh Chief Auditors. The timescales for completion of the peer review process are not yet clear but the Council’s Corporate Management Team has informed us that progress will be monitored by the Corporate Governance Panel. The Corporate Governance Panel will also consider the outcome of the peer review and determine what actions need to be taken as a result. The Council has also informed us that actions to strengthen Internal Audit have been built into its service plan and within appropriate

individuals' performance objectives. Progress will be monitored through the Council's performance management framework.

- 46.** The PSIAS outline that the mission of Internal Audit is 'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'. The PSIAS also define internal auditing as 'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.' For an Internal Audit function to be considered effective, the following 10 core principles set out in the PSIAS should be present and operating effectively:
- Demonstrates integrity
 - Demonstrates competence and due professional care
 - Is objective and free from undue influence (independent)
 - Aligns with the strategies, objectives, and risks of the organisation
 - Is appropriately positioned and adequately resourced
 - Demonstrates quality and continuous improvement
 - Communicates effectively
 - Provides risk-based assurance
 - Is insightful, proactive, and future-focused
 - Promotes organisational improvement
- 47.** Our review has found that, contrary to the Council's own assessment of progress, the Council needs to undertake further work to address fully our statutory recommendation from the Special Inspection and our proposal for improvement made in our Special Inspection follow-up relating to Internal Audit and to ensure that the service operates in accordance with all of the core principles set out above. Whilst the Council has agreed that change would take place over a period of two to three years, we believe the pace of change to date has been slow and the extent of change has been limited.
- 48.** The consensus, consistent across all of our interviewees, is that Internal Audit is slowly moving away from a purely operational and financial model to one with a greater focus on more strategic issues and risks. Internal Audit has undertaken reviews relating to the Welsh Housing Quality Standard, waste management and residential care.
- 49.** However, the 2014-15 outturn Internal Audit report did not identify any key areas of work that were immediately relevant to the Council's key risks or priorities. The 2015-16 Audit Plan included some examples of activity in high-risk areas, such as the Welsh Housing Quality Standard (WHQS) and an audit of waste data. The 2016-17 Internal Audit Plan remains high level and there is a lack of detailed analysis around the rationale for undertaking specific reviews, such as previous assurance levels, assessment of risk and timetabling of activity. The majority of planned work relates to systems reviews and establishment audits, but the plan does not set out how these reviews align with the Council's risks and priorities.

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- 50.** The Council's Internal Audit Plan would benefit from being clearer in what work is planned and the findings from this work. There are no regular progress or summary reports to the Audit Committee summarising the findings from the work of Internal Audit during the year. Internal Audit, therefore, lacks visibility and transparency of its work and this hinders the Audit Committee's ability to perform its role effectively. Internal Audit needs to be valued and sufficiently supported to be a key independent resource and challenge mechanism to ensure good governance across the Council.
 - 51.** Scope remains to improve the quality of working papers and Internal Audit reports. Reports do not always include the scopes of the reviews or opinions on the overall findings. At the time of our fieldwork, Internal Audit had also not prioritised the recommendations. We understand that since our fieldwork, the Council has updated its working papers and reports including the ranking of audit findings to help services prioritise areas for improvement.
 - 52.** The Audit Committee does not routinely consider the overall findings of the work of Internal Audit. We believe it is good practice for the Audit Committee to be provided with a high level, summary report of findings from work undertaken. This does not need to be detailed but should provide the Audit Committee with the key findings so it can be reassured that risks and control weaknesses are being identified and addressed. This often happens quarterly at other public sector bodies.
 - 53.** The Council broadly recognises that it needs to strengthen the capability of the Internal Audit team yet it has taken no action to address this. The team does not include any IT auditors and relies upon the IT general controls work performed by external audit, but there are potential gaps around data management and business continuity as a result. The Council does not use any specialists to undertake reviews to strengthen the capacity and skill mix of the team. The team consists of 8.2 full-time equivalents and half of the team have a professional audit qualification, which requires them to maintain continuing professional development (CPD) in accordance with their professional bodies. We understand that the team received vocational training via the South Wales Chief Auditors training initiative but we would expect the team to hold appropriate qualifications or to be working towards them.
 - 54.** We understand that the Council gets assurance from other teams within the Council including finance, performance management, and programme management but this is not articulated anywhere. The Council would benefit from developing an assurance framework that shows how it obtains assurance in relation to key risks from across the organisation. This is an approach used widely in the NHS.

The Council is taking action to improve the effectiveness of scrutiny but the full impact of the changes will not be evident until later this year

55. In our Special Inspection follow-up report published in January 2015, we concluded that ‘the effectiveness and impact of scrutiny are mixed and its role needs to be clarified’. In this report, we made a proposal for improvement that ‘The Council should review the role and effectiveness of its scrutiny committees. There needs to be better prioritisation of agenda items and alternative mechanisms explored for information-only items to enable Scrutiny to focus on those areas where it may have the greatest impact.’
56. The Council has responded positively to this proposal for improvement to strengthen scrutiny. The Council established a project group involving the Cabinet Member for Governance, the Chairs of the Scrutiny Leadership Group and Democratic Services Committee, the Interim Monitoring Officer and Interim Head of Democratic Services to oversee the scrutiny improvement programme. In addition, the Council engaged members and officers in a series of workshops to consider how it could best improve scrutiny.
57. Through this process, the Council has identified a range of improvements, which include: reducing the number of agenda items to four, facilitated by a prioritisation matrix; a review of work programmes at each meeting; calling on expert witnesses more frequently; and the development of a public engagement strategy. The Council agreed the improvements in October 2015 and the Interim Head of Democratic Services in conjunction with the project group has developed a scrutiny improvement action plan.
58. The Council opted to adopt a phased approach to implementing the changes identified in its scrutiny improvement plan, recognising the need to ensure that there is clear ownership and support throughout the process. The changes were implemented by the end of May 2016. Our review found that there was good ownership of the changes, with broad support from scrutiny chairs.
59. The Council’s action plan sensibly includes an action to evaluate progress through peer observations in October 2016. It also allows time for member development in preparation for the changes. The Council’s scrutiny chairs stated that they had received a good level of support and training. They were particularly positive about the support they receive from the Scrutiny Officer, whom the Council has recently appointed as the Interim Head of Democratic Services. The Interim Head is clearly very committed to working with members to improve scrutiny but members recognised she has limited capacity.
60. In our Special Inspection follow-up report published in January 2015, we suggested that the Council consider the use of task and finish groups so that it could undertake more in-depth reviews. It is positive to report that the Council has done this, for example, on topics such as hospital discharge and community centres. However, members and officers agreed that the impact and effectiveness of the task and finish

groups have been mixed. Our observation of a meeting of the hospital task and finish group found there was a good level of knowledge and questioning by members but the meeting could have been more outcome-focused.

- 61.** Our review has found that the Council's progress is in line with the broad timescales set out in the scrutiny improvement action plan. The Council has taken steps to reduce the remit of the Regeneration Scrutiny Committee. There have been some good examples of bringing in external people/bodies to attend scrutiny committees. For example, there is now a programme of head teacher attendance at the Education for Life scrutiny committee.
- 62.** Pre-meetings are now taking place with involvement of the Council's solicitors to help members shape potential questions. Scrutiny chairs had mixed views about the introduction of pre-meetings. Whilst there was general agreement that the involvement of solicitors in the pre-meetings was helping to improve members' quality of questioning, some scrutiny chairs were concerned about the additional time required for pre-meetings and the impact on spontaneity and follow-up questions. It is positive that the scrutiny improvement plan includes a role for the Scrutiny Leadership Group to share good practice for pre-meetings, including peer observations.
- 63.** The Council has developed a series of guidance and protocol documents for improving its scrutiny function including enabling scrutiny to focus its activity on key risks and issues. These include a protocol for aligning scrutiny forward work programmes to the Cabinet work programme as well as limiting the number of agenda items to four per meeting. Officers have developed a prioritisation matrix to help do this. 'For information' items are now available on the members' portal in order to free up time on agendas to focus on key issues. Together these actions will help to address our concerns about the length of meeting agendas.
- 64.** There has been training on report writing for officers but scrutiny chairs feel this remains an area for improvement citing that many reports are repetitive and too long. They also felt officer presentation of reports is mixed with some officers just reading out the reports rather than drawing out the salient points. The scrutiny improvement action plan includes a role for the Scrutiny Leadership Group to review and monitor the quality of reports six months after the implementation of the new scrutiny arrangements.
- 65.** The scrutiny improvement action plan includes an action to re-establish dedicated performance management meetings. These meetings are part of the normal cycle of scrutiny meetings and are not additional 'special' meetings but are held only once a year rather than bi-annually, as was the case previously. Scrutiny chairs felt this is a retrograde step and they would rather performance be integrated in all their work.
- 66.** We understand that scrutiny chairs have requested more comparative information to be included within reports but currently, reporting of performance information is patchy. The Council has informed us that members are fully involved in agreeing which meeting during the year will be dedicated to performance. A series of workshops was held for each scrutiny committee during March 2016 to discuss the annual work programmes and agree what each committee's priorities should be. We will assess the

Council's approach to performance management in more detail as part of our 2016-17 work.

- 67.** The relationship between Cabinet and Scrutiny is also key to ensuring scrutiny is effective. However, scrutiny chairs were generally dissatisfied with the Cabinet Member briefings provided at the start of scrutiny meetings. Our observations of scrutiny meetings support this view as we found that the quality of presentations continues to be variable and that they do not focus sufficiently on key issues and risks. The Council has developed a protocol outlining the expectations of Cabinet Members at scrutiny, which includes that Cabinet Members' statements will be circulated in advance of the scrutiny meeting to enable Scrutiny to develop appropriate questions. The Cabinet Members' statements will also be placed on the members' portal.
- 68.** Currently, opportunities for scrutiny to hold Cabinet Members to account are limited. We found that the Council has placed considerable focus over the past 18 months on putting arrangements in place to improve its scrutiny, including the provision of training and support to Scrutiny Members. Since our fieldwork, we understand that in July 2016 the Council has provided training for Cabinet Members on responding to questions at scrutiny committees and that Cabinet Members are now accompanying directors when directors are presenting performance reports to scrutiny. This is a positive step forward towards achieving better accountability.
- 69.** Cabinet Members play a key role in the Council's business and the Council is starting to take steps to facilitate increased Cabinet Member accountability. However, more could be done to ensure Cabinet Members are fully prepared to respond to improving scrutiny arrangements and to be held more robustly to account for their roles and responsibilities. At some other councils, it is not uncommon for Cabinet Members to present reports to committees and to respond to questions about the content of the reports and on matters within their portfolios. This is not yet routinely the case at Caerphilly Council.

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Management response

APPENDIX 2

Report title: Review of arrangements to address external audit, inspection and regulation recommendations and proposals for improvement

Issued: August 2016

Ref	Proposal for Improvement	Intended outcome/ benefit	High priority (✓)	Accepted	Management response	Completion date	Responsible officer
P1	As the Council develops its vision and considers the future shape of the organisation, it should identify and plan for the workforce requirements to implement its vision.	The Council has a clear assessment and understanding of its future workforce needs to deliver its priorities.		Yes	The Council's workforce requirements are based on operational need. The Council will review these requirements if / when any fundamental changes to service delivery are agreed.	October 2017	Lynne Donovan
P2	The Council should develop an assurance framework that sets out how it obtains assurance in relation to key risks from across the organisation.	The Council has a system and framework in place which articulates how it will gain assurance about the effectiveness of controls to mitigate its key risks.	✓	Yes	A report is currently being drafted which will set out all elements of the assurance framework. This report will be presented to the Corporate Management Team in late November and the Audit Committee on the 14 th December 2016.	14 th December 2016	Steve Harris

Ref	Proposal for Improvement	Intended outcome/ benefit	High priority (✓)	Accepted	Management response	Completion date	Responsible officer
P3	<p>To address fully the recommendation made in our Special Inspection and the proposal for improvement made in our Special Inspection Follow-up relating to Internal Audit, the Council needs to:</p> <ul style="list-style-type: none"> • Demonstrate more clearly how the work planned as set out in the Internal Audit Plan is linked to the Council's key risks; 	<p>The Council has a strong, high quality Internal Audit service, which is focused on the Council's key risks and priorities and enables Audit Committee to be assured of the controls to manage the risks.</p>		Yes	<p>As part of the preparatory work on formulating the annual Internal Audit Plan Directorate Risk Registers will be reviewed. A Panel will be established to undertake this review and will be chaired by the Interim Head of Corporate Finance.</p>	April 2017	Steve Harris
	<ul style="list-style-type: none"> • Improve the quality of working papers; 			Yes	<p>Current processes will be reviewed by Dec 2016 and the Interim Head of Corporate Finance will periodically undertake a sample check. This will be reported to the Audit Committee in the Internal Audit Outturn reports.</p>	Dec 2016	Steve Harris

Ref	Proposal for Improvement	Intended outcome/ benefit	High priority (✓)	Accepted	Management response	Completion date	Responsible officer
	<ul style="list-style-type: none"> • Provide summary reports to the Audit Committee highlighting the findings from the work of Internal Audit during the year; 			Yes	In addition to the annual outturn report a mid-year progress report will also be presented to the Audit Committee in future. Both reports will include a summary of themes and issues arising from the audit work undertaken.	March 2017	Steve Harris
	<ul style="list-style-type: none"> • Ensure the Internal Audit outturn report fully reflects the work undertaken during the year and progress against the planned programme of work; 			Yes	The 2015/16 outturn report presented to the Audit Committee on the 14 th September 2016 included more detail on the range of work undertaken by Internal Audit during the year. Future reports will be enhanced to include details of themes and issues arising.	September 2017	Steve Harris
	<ul style="list-style-type: none"> • Confirm the timetable for the peer review of its Internal Audit service and complete its self-assessment against the Public Sector Internal Audit Standards (PSIAS); 			Yes	The self-assessment is underway and the outcome will be presented to the Audit Committee at its meeting on the 14 th December 2016.	December 2016	Steve Harris

Ref	Proposal for Improvement	Intended outcome/ benefit	High priority (✓)	Accepted	Management response	Completion date	Responsible officer
	<ul style="list-style-type: none"> Monitor the progress of undertaking the peer review of Internal Audit and consider how the outcome of the peer review will be used to strengthen Internal Audit. 			Yes	<p>This report will also include an update on the peer review process being followed for the Public Sector Internal Audit Standards (PSIAS). Monmouthshire County Council will be undertaking the peer review of Caerphilly's Internal Audit Service during March 2017.</p> <p>A report will be presented to the Audit Committee at the end of the peer review process outlining the key findings and proposals for improvement.</p>	June 2017	Steve Harris
P4	The Council should strengthen arrangements to enable Scrutiny to hold Cabinet to account more effectively and to take action to ensure its Cabinet Members are equipped and prepared to be held accountable for the roles they fulfil.	Cabinet Members are held to account for the roles they perform and have the necessary skills and support to do so.		Yes	The Council's new approach to its scrutiny arrangements as approved by Full Council in October 2015 requires cabinet members to provide a regular formal statement to the appropriate Scrutiny Committee, which will be published in advance of the scrutiny meeting.	These arrangements commenced after the summer recess and are now in place.	Gail Williams

Ref	Proposal for Improvement	Intended outcome/ benefit	High priority (✓)	Accepted	Management response	Completion date	Responsible officer
					<p>This will provide an opportunity for Scrutiny members to question Cabinet members on their portfolios. It is intended that the Statements will be focussed on key strategic issues many of which will be contained in the published Forward Work Programme.</p> <p>In addition the annual performance scrutiny meetings will give scrutiny members an opportunity to raise questions about the performance of their portfolio area (s). Finally in order to ensure accountability for their portfolios, cabinet members are required to participate in PDR's and One to One meetings with the Leader of Council.</p>	<p>The final stage of the review of the new Scrutiny arrangements includes a Self Evaluation of the scrutiny changes which will commence in the Autumn 2016 with outcomes reported to members early in the new year 2017.</p>	