



AUDIT COMMITTEE

MINUTES OF THE MEETING HELD AT PENALLTA HOUSE, TREDOMEN, YSTRAD MYNACH ON TUESDAY 16TH OCTOBER 2018 AT 2.00 PM

PRESENT:

Councillor M.E. Sargent – Chair

Councillors:

Mrs E. Aldworth, D.T. Davies, Mrs A. Gair, Mrs B. Miles, Ms T. Parry and J. Simmonds.

Together with:

G. Jones (Wales Audit Office)

R. Edmunds (Corporate Director for Education and Corporate Services), N. Scammell (Head of Corporate Finance and Section 151 Officer), S. Harris (Interim Head of Business Improvement Services), D. Gronow (Acting Internal Audit Manager), E. Lucas (Head of Digital and Customer Services), R. Roberts (Performance Manager) S. Couzens (Chief Housing Officer), P. Smythe (Housing Technical Manager) and K. Houghton (Committee Services Officer).

1. APOLOGIES

Apologies for absence were received from Councillors J. Bevan, C. Elsbury, Ms J. Gale, D. Hardacre, G. Simmonds and Mr N. Yates (Vice Chair)

2. DECLARATIONS OF INTEREST

There were no declarations of interest made at the beginning or during the course of the meeting.

3. MINUTES – 24TH JULY 2018

It was moved and seconded that the minutes of the meeting held on the 24th July 2018 be agreed as a correct record and by a show of hands this was unanimously agreed.

RESOLVED that the minutes of the Audit Committee held on the 24th July 2018 (Minute No. 1 –12) be approved as a correct record.

REPORTS OF OFFICERS

Consideration was given to the following reports.

4. WALES AUDIT OFFICE REPORT – OVERVIEW AND SCRUTINY FIT FOR THE FUTURE? – CAERPHILLY COUNTY BOROUGH COUNCIL

The representative from the WAO introduced the report which advised Members of the outcome of the review undertaken by the Wales Audit Office (WAO) as outlined in Appendix 1 entitled 'Overview and Scrutiny Fit for the Future'. Having been discussed at the Scrutiny Leadership Group on 11th October 2018, the report was before Audit Committee for its consideration.

The representative from the WAO explained that the WAO undertook a review of the scrutiny function across all 22 Welsh local authorities and looked at how well they were responding to current challenges such as the Wellbeing of Future Generations Act 2015, scrutiny of Public Services Boards and continued pressure on public finances. The review also looked at the progress made by the local authorities in addressing the recommendations made as a result of a WAO national improvement study 'Good Scrutiny? Good Question' in 2014. He referred Members to Appendix 1 which detailed the characteristics that formed the framework of the review.

The key findings and recommendations as a result of this review were outlined to Members, this included a judgement that the Council values its overview and scrutiny but Members required more focused training, development and support with a clear action plan in place to maximise the impact of scrutiny. He highlighted the WAO recommendations as being improving the provision of training and development opportunities for Members, clarifying the role of Cabinet Members within the overview and scrutiny process to ensure that arrangements support transparency and accountability and setting clear priorities and actions for improvement for the scrutiny function taking into account current and future challenges.

A Member enquired as to whether the 2017 newly elected cohort of Members experiencing scrutiny for the first time would have skewed the results of the review. The representative from the WAO confirmed that both newly and re-elected Members had been invited to workshops and acknowledged that it had been a steep learning curve for new scrutiny Members which is why detailed recommendations propose an ongoing training package for throughout a Member's term rather than one-off training sessions when a Member is selected to sit on a scrutiny committee.

A Member raised concerns in regard to the accuracy of the WAO report, a concern previously raised at a meeting of the Scrutiny Leadership Group on the 11th October 2018. As Chair of the Regeneration and Environment Scrutiny Committee, the Member felt that the Committee's actions on a meeting observed by the WAO in December 2017 had been inaccurately portrayed and was concerned that there was no consultation with Members prior to the publication of the report. The representative from the WAO responded that prior to the finalisation and publication of the report the WAO agreed an approach with CCBC for producing a draft report which could be viewed by the Authority in order to judge the accuracy, tone and balance. The Corporate Director for Education and Corporate Services acknowledged that scrutiny Chairs should see the draft reports and although this did not happen on this occasion, it will do in the future. The Member raised a further concern that the specific report under discussion remained unchanged with the inaccuracy included. The Corporate Director for Education and Corporate Services offered to provide an apology in writing and an opportunity for the Member to discuss the matter further outside of the meeting.

In summary, the representative from the WAO advised Members that following agreement from the Scrutiny Leadership Group on 11th October 2018, to develop an action plan, the WAO would return to review progress subject to discussions with the Council.

The Chair thanked the Officer for their report and Members for their questions and comments. Members noted the contents of the report.

5. WHQS – ACCEPTABLE FAILS UPDATE

The Housing Technical Manager presented the report which sought the views of Members on the application and volume of Welsh Housing Quality Standard (WHQS) elements classified as “Acceptable Fails” and the process for managing incidences of No Access on the programme for the surveying of properties and the completion of works on site. This report had been previously presented, for comment, to the Policy and Resources Scrutiny Committee as an information item on 2nd October 2018 and the Caerphilly Homes Task Group on 20th September 2018.

Officers provided Members with a definition of an ‘Acceptable Fail’ as set out in the Welsh Government’s WHQS revised guidance document (2008) which recognises that it may not be possible to bring all elements within a property up to the required standard offering one or a combination of the following criteria for an ‘Acceptable Fail’ – cost of remedy, timing of remedy, residents choice and physical constraints.

Members were advised that in addition to the ‘Acceptable Fail’ criteria there are properties which may have elements categorised ‘Previously Achieved’ where improvements were undertaken prior to the commencement of WHQS which were to the WHQS standard, and ‘No Access’ where every attempt is made to gain access to the property if the tenant opts out of the improvement programme. It was explained to Members that the ‘opt out’ option is not available when the upgrade was an electrical installation improvement on the basis of health and safety and an Electrical No Access procedure is followed in those cases.

Officers’ highlighted to Members that the total expenditure on the WHQS capital programme for 2017/18 was £42m, of which £18m related to internal works and £17.5m related to external works. The remainder of the spend was in relation to fees, large scale voids, adaptations and garages and to date there had not been any borrowing for WHQS.

Members sought clarification on the cost implications for the Council if contractors carry out substandard work and it requires remedial work and who carries the costs incurred from recorded fails. The Chief Housing Officer informed Members that properties are not deemed as completed until the Clerk of Works and Tenant sign off on the works carried out. If there are issues then the expectation is that the contractor remedies the work at no cost. He advised Members that there had been some issues early on in the project with contractors and this had led to the employment of replacement contractors. A Member asked a follow up question regarding the level of monitoring of contractor work. The Chief Housing Officer confirmed that through the Tenant Liaison Officers and Standard of Work Monitor, the work is closely monitored.

Members referred to the personnel implications detail in the Appendix which sited staff movement and recruitment difficulties as a risk to the programme and sought assurance in terms of how this risk was being addressed. The Chief Housing Officer confirmed that there had been staff movements to ensure coverage for key positions and a succession plan had been put in place. A recruitment drive is ongoing and agency staff have also been employed.

Members discussed the Electrical No Access Procedure as detailed in Appendix 3 and the 4% of properties where access has been refused by the tenants where electricity or gas is involved and how often the Notice Seeking Possession has been used to gain access to a property. The Housing Technical Manager advised Members that the number of No Access properties was relatively low and had been reducing due to the procedures in place for electrical or gas related surveys and improvements. The process is stringent as it is a health and safety matter but forced entry does not happen often.

Members enquired as to the cost implications in instances where lease holders are asked for a financial contribution to meet costs and the impact if these costs are not met. Members were informed that there was a specific legislative process in place for lease holders and two tenders for works are required prior to any work being carried out so that it is cost effective

and realistically priced for the lease holder to meet costs. The costs are charged quarterly and therefore there is no shortfall for the Council. If the costs are beyond the lease holders means than a payment plan can be arranged.

A Member referred to a specific issue with the costs of repairing concrete fronted housing. The Member agreed to discuss this matter with the Chief Housing Officer outside of the meeting as it was beyond the Audit Committee's remit.

Members enquired as to the current levels of refusal of access and whether the figures included Electrical No Access properties. Members were advised that 305 of the 800 properties designated as No Access are ones relating to Electrical and Gas surveying and improvement. This number of No Access properties is a sustainable and reducible level. In cases where there is not a requirement to access the property for electrical or gas reasons then the tenant is offered three opportunities to allow the improvements to be made prior to contractors moving onto a different area. However tenants can change their mind once the contractor has moved on as 'mop up' teams have been established to conduct these works.

The Chair thanked the Officer for their report and Members for their questions and comments.

6. JOURNAL TRANSFER AUTHORISATION LIMITS

The Head of Corporate Finance and Sections 151 Officer introduced the report which presented the Members with the option to implement authorisation levels within the software module used by the Council to process journals entries in its Ledger.

The review addresses concerns raised by the Committee at the 24th July 2018 meeting regarding implementing authorisation thresholds on journals to ensure large value transactions are required to be reviewed and authorised by senior staff. These concerns are as a result of Grant Thornton's 2017-18 ISA260 report where although the current journal authorisation structure within the Council was considered acceptable it was considered a risk. It was agreed at the 24th July 2018 Audit Committee that the introduction of authorisation limits would be explored.

The Head of Corporate Finance and Section 151 Officer referred Members to the proposals as a result of the review, detailed in the Officer's report and asked Members to endorse the recommendation by Officers to implement an authorisation threshold of £100,000 to the Council's journal transfer software.

The Chair thanked the Officer for their report and Members comments were welcomed.

Members raised concerns regarding the authorisation threshold being set at £100,000 and this being too high. They questioned whether this provided enough accountability and mitigation of the risk identified by Grant Thornton in the 2017-18 ISA260 report. Officers highlighted to Members that journal transfers were an internal function and usually used when an invoice had been paid under the incorrect cost centre. The £100,000 does not represent a financial loss to the Council as it does not go out of the Authority but simply moves around it. A threshold set at £100,000 allows for a manageable amount of authorisation required without having to employ additional staff which cannot be supported by the current Council budget. The representative from Grant Thornton further commented that ideally all journal transfers should be authorised but this is impractical in a local authority setting. The setting of a threshold does however mitigate the risk.

Following consideration of the report it was moved and seconded that the recommendation to implement an authorisation threshold of £100,000 to the Council's journal transfer software be approved and by a show of hands this was agreed by the majority present.

RESOLVED that the implementation of an authorisation threshold of £100,000 to the Council's journal transfer software be approved.

7. PRESENTATION – CUSTOMER SERVICES UPDATE

The Head of Digital and Customer Services presented the Members with a Customer Services update which detailed recent developments and the current status of the service and the introduction of customer service standards.

Members were informed that Customer Services now forms part of the Customer and Digital Services team and it is proposed as part of the MTFP savings target and the team's transformation agenda that the service will undergo a restructure prior to April 2019.

Further to this, Members were advised that a report had gone to Cabinet requesting investment in digital technologies for front-facing services. This included the introduction of an end to end online payment system and a new telephony system which allows the Authority to carry out immediate surveys with the customer following service requests. As part of the implementation of new and emerging technologies, Officers will be introducing opportunities for customer feedback as part of the standard service. She also updated Members that the Authority's Customer Services Standards are now in place and work is ongoing with management teams to embed these standards in the culture of the entire Council. All the feedback gathered will be fed into the service improvement plan and individual staff development plans.

Members enquired as to where the customer feedback would be formally reported to and whether the feedback gathered so far had had a positive impact? The Head of Digital and Customer Services confirmed that the customer feedback would be reported to the Policy and Resources Scrutiny Committee but if Members were minded, it could also be reported to the Audit Committee. In terms of the feedback, she advised Members that it had proved positive and had already led to improvements including ensuring that the appointments booking system is targeted at the right people, that call-takers asked the right questions and also in assisting with support and training of staff in dealing with abusive calls.

The Chair thanked the Officer for her presentation and Members for their questions and comments.

8. CORPORATE RISK REGISTER MONITORING (Q2 – 2018/19)

The Interim Head of Business Improvement Services introduced the report which provided Members with an update on the Corporate Risk Register in accordance with the Council's Risk Management Strategy.

It was outlined to Members that under the Council's Risk Management Strategy, the Corporate Management Team (CMT) own, manage, monitor and review the Council's Corporate Risks on a quarterly basis, with six monthly progress reports submitted to Cabinet. Updates are provided to Audit Committee, who have the role of reviewing and challenging the Risk Register and where relevant, resultant actions plans for the Council's key strategic and corporate risks.

Members were advised that the Officer's report focusses on the CMT update of the 20th September 2018, which will be reported to Cabinet on 30th January 2019 and Members were asked to note a summary of changes made to the Risk Register as detailed in the table at 4.4 of the Officer's report.

Members took note of School Attainment as an identified risk and sought reassurance that there was a comprehensive strategic improvement plan in place and if so how would progress be assessed and objectives met. The Corporate Director for Education and Corporate Services assured Members that an improvement plan was being developed and the Service was in the process of conducting meetings with Secondary Schools to pin point what was

needed out of the plan as well as formulating individual schools improvement plans. These plans will be brought forward to Members in autumn 2019. Members questioned the risk designation as long-term and whether short term should be applied in order to impact on the education of as many children at the earliest opportunity, as they move through the education system. The Corporate Director for Education and Corporate Services advised Members that the improvement strategy was a whole system change and so would be a long term strategy however there are short term improvements being made at all key stages.

A Member enquired about the Education Achievement Board regarding its aims and who was invited to sit on the board. Officers responded that the Board provided the opportunity to test the improvement plan with education professionals and other interested parties but it was not seen to be in place of the Education for Life Scrutiny Committee. A Cabinet Member and one other Member sit on the Board as the Service is keen to keep it small and not overlap with the function of the Scrutiny Committee. Members were informed that there would be a meeting of the Board on the 14th November 2018 where its terms of reference would be agreed.

Members asked whether there were contingency plans in place regarding the fragility of the Social Care market risk. The Interim Head of Business Improvement Services reassured Members that there are provisions in place if the arrangements with providers should fail however he would seek a more detail answer to Members questions from the Corporate Director for Social Services.

Members highlighted the Local Development Plan risk and whether the recent change in TAN 1 guidance had been taken into account when assessing the risk level. The Interim Head of Business Improvement Services advised Members that he would seek a more detailed response to the Members' questions from the Head of Planning and Regeneration.

A final question from Members was put to the Officers regarding Local Government Reform and whether there had been a change in the risk following Welsh Government's move away from mandatory mergers. Officers informed Members that they were awaiting more detail on this and once it was received they would update the Committee.

The Chair thanked the Officer for his presentation and Members for their questions and comments.

9. INTERNAL AUDIT SERVICES – ANNUAL OUTTURN REPORT 2017/18

The Acting Internal Audit Manager introduced the report that informed Members of the work carried out by Internal Audit Services during 2017/18 and provided a Statement of Assurance in respect of the Council's overall system of internal controls.

The Officer informed Members that the report was overdue and sited several factors that have contributed to the delay as outlined in the report. Several areas where improvement had been identified and solutions implemented were highlighted to Members. These areas included issues with staffing capacity which has been addressed with the Principal Auditor acting as the Internal Audit Manager and a secondment from Corporate Finance. In addition to these measures funding for an apprentice auditor/accountant to be shared between Audit and Corporate Finance has been approved and recruitment is expected to take place before the end of the calendar year. Steps have also been taken to procure an automated audit management software tool to support the audit planning and reporting process along with improving the quality of and information for future reporting to Audit Committee.

Members were referred to Appendix 1 and 2 which provides the detail of the review findings. Members were informed that in the course of the review of Internal Audit activity during 2017/18, no fundamental issues came to light as a result of audits carried out on both major financial systems and other financial and administrative systems, procedures and establishments. Where issues had been identified, an action plan and follow up process had been put in place to drive through improvements. Despite a variety of resourcing pressures

throughout 2017/18, the Council was considered to be operating within a control environment that was effective and supports the assurance statement within the Annual Governance Statement.

The Chair thanked the Officer for their report and Members comments were welcomed.

Members enquired about section 4.7.1 of Appendix 1 which refers to audit reports “in need of improvement” which all relate to schools and why these reports were difficult to produce. The Acting Internal Audit Manager identified the difficulty being that financial responsibility lies with the school and its governing body so information can be hard to extract. However working directly with the Education service greatly mitigates this.

Members discussed the impact of recruiting an apprentice, to be shared between Internal Audit and Corporate Finance. Officers advised Members that the apprenticeship was part of an accredited 4 years training process through Newport and Cardiff Universities. This apprenticeship would assist in succession planning within Internal Audit and Corporate Finance. A member sought clarification as to why the post would be shared between the two services. Officers clarified that the post required direct experience in Finance which could not be solely supported by Internal Audit and so the post is being shared with Corporate Finance.

Following consideration of the report it was moved and seconded that the report be noted and by a show of hands this was agreed by the majority present.

RESOLVED that the report be noted.

10. INTERNAL AUDIT SERVICES – REVISED METHODOLOGY FOR 4 TIER AUDIT OPINIONS, RISK RATINGS AND ASSURANCE – DRAFT REPORT

The Head of Corporate Finance and Section 151 Officer introduced the report which informed Members of the revised methodology used by internal audit to assign risk to the findings or points arising from an audit and the consequent priority rating of the recommendations arising. This revision is following the July Audit Committee and the ISA 260 report from the External Auditors (Grant Thornton) where it was agreed that management would provide additional information to the Committee in respect to audit assignments undertaken. This prompted a review of the current method of rating audit findings and how these relate to the “opinion” expressed in respect to the assignment. Members were informed that the opinions generated from assignments support and inform the overall Statement of Assurance given by the Internal Audit Manager which is included in the Annual Governance Statement.

The Head of Corporate Finance and Section 151 Officer advised Members that a new reporting regime will be started which will see audits within certain opinion categories reported to the Committee which means more detail and improved flagging of issues for the Audit Committee. This also ensures there is a transparent and clear criteria relating to the rationale behind all audit opinions

Members were referred to the detail of the report and appendix and asked to note the contents of the report and endorse the revised methodology.

The Chair thanked the Officer for their report and Members comments were welcomed.

Members discussed the new methodology and expressed their appreciation for the revised approach to reporting.

Following consideration of the report it was moved and seconded that the report be noted and the recommendation be endorsed and by a show of hands this was agreed by the majority present.

RESOLVED that the content of the report be noted and the evaluation process that is applied in rating each finding, the opinions and overall level of assurance generated by each assignment, and how it supports and informs the overall AGS process, be endorsed.

11. AUDIT COMMITTEE FORWARD WORK PROGRAMME

The Interim Head of Business Improvement Services presented the Audit Committee's Forward Work Programme (FWP) for the period of October 2018 – April 2019.

The Audit Committee FWP is a working document and is updated regularly when additional reports are identified by Members and Officers. The FWP is made up of reports identified by Officers and Members and the Committee is asked to review this programme at every meeting going forward.

The reports planned for the 29th January 2019 Audit Committee were highlighted to Members with the proposed addition of a report from the Welsh Audit Office providing grant certification for 2017/18.

Members were advised that they could submit their report requests either during the Committee meeting or via email

The Chair thanked the Officer for his report and following consideration of the report it was moved and seconded that subject to the aforementioned addition, the Audit Committee Forward Work Programme for October 2018 – April 2019 be approved and by a show of hands this was agreed by the majority present.

RESOLVED that the October 2018 – April 2019 Audit Committee Forward Work Programme be approved.

INFORMATION ITEMS

The Committee received and noted the following information items:-

- (i) Caerphilly County Borough Council – Annual Audit Letter 2017-18
- (ii) Regulation of Investigatory Powers Act 2000
- (iii) Officers Declaration of Gifts and Hospitality – April to June 2018

The meeting closed at 15:46pm.

Approved as a correct record and subject to any amendments or corrections agreed and recorded in the minutes of the meeting held on 29th January 2019, they were signed by the Chair.

CHAIR