



WALES **AUDIT** OFFICE  
SWYDDFA **ARCHWILIO** CYMRU

Special Inspection

# Caerphilly County Borough Council

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# Status of report

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The Auditor General for Wales, was supported by Anthony Barrett, Alan Morris, Non Jenkins, Jackie Joyce and PricewaterhouseCoopers LLP in conducting the inspection and producing this report.

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# Summary report

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## Summary

1. In September 2013, the Auditor General announced his intention to conduct a special inspection into corporate governance arrangements at Caerphilly County Borough Council (the Council), following up the findings of the Appointed Auditor who issued a Report in the Public Interest<sup>1</sup> in March 2013. This report highlighted failures in governance arrangements and inadequacies in the processes followed by the Council to set the pay of chief officers. The Auditor General also wished to follow up the wider governance issues highlighted in his Annual Improvement Report<sup>2</sup>, published on 10 September 2013.
2. In the Report in the Public Interest, the Appointed Auditor concluded that the Council 'acted unlawfully with regards to this pay-setting process', and made five recommendations. The Council is undertaking its own disciplinary investigation as a result of the report, but this is on hold pending an investigation by Avon and Somerset Police.
3. The Annual Improvement Report said: 'since I concluded, in September 2012, that the Council was likely to comply with the requirement to make arrangements to secure continuous improvement during 2012-13, providing it increased the pace of improvement, we have found significant failings in its governance arrangements'. The Annual Improvement Report also concluded that: 'the Council's progress against regulators' recommendations is mixed and often slow. Encouragingly it has accepted that accountability arrangements to manage and deliver the findings from audit and inspection work need to be strengthened, but these arrangements have not yet been put in place.'
4. In light of the findings of the Appointed Auditor and the wider governance issues highlighted in the Annual Improvement Report, this special corporate governance inspection focused on the Council's governance and decision-making arrangements, and assessed the progress it has made in addressing the recommendations made in the Appointed Auditor's Report in the Public Interest. Our inspection sought to answer the question:

**'Do the authority's governance and accountability arrangements support robust, transparent and effective decision making?'**

Our inspection methodology is described in [Appendix 1](#).

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<sup>1</sup> Audit of accounts 2012/13 Report in the Public Interest

[www.wao.gov.uk/assets/Local\\_Reports/144A2013\\_CaerphillyCBC\\_Audit\\_of\\_Accounts\\_PIR\\_English.pdf](http://www.wao.gov.uk/assets/Local_Reports/144A2013_CaerphillyCBC_Audit_of_Accounts_PIR_English.pdf)

<sup>2</sup> Annual Improvement Report Caerphilly County Borough Council

[www.wao.gov.uk/assets/englishdocuments/399A2013\\_Caerphilly\\_AIR\\_English.pdf](http://www.wao.gov.uk/assets/englishdocuments/399A2013_Caerphilly_AIR_English.pdf)

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5. Our overall conclusion is that **a combination of a number of weaknesses inevitably led to governance failings at the Council and whilst it is making encouraging progress in improving its governance arrangements, it is too early to conclude whether these improvements can be sustained.**
  6. Whilst the Council has put an action plan in place to improve its governance arrangements following the Report in the Public Interest, there is a need to implement the plan fully and to further strengthen certain key governance functions such as risk management and internal audit. The Council also needs to ensure that the more robust arrangements it is putting in place are maintained going forwards into a further period of increased financial pressures and a large change agenda.
  7. We reached this conclusion for the following reasons:

### The pace of change and a combination of a number of weaknesses inevitably led to governance failings

8. The tone at the top of the organisation changed with the appointment of a new Chief Executive in September 2010. The Council became more action oriented with a greater risk appetite and pressure for an increased pace of working. There was increased pressure to raise the profile of the Caerphilly area and to promote the achievements of the Council. The changes introduced by the new Chief Executive had an impact on the capacity of the Senior Management Team.
9. Key governance arrangements were not reviewed or changed to reflect the change in tone at the top of the organisation and the increased operating pace. The potential for conflicts of interest inherent in the new structures were not considered and key statutory officer roles did not have sufficient profile or influence.
10. A number of decisions were taken by the Council which did not follow appropriate governance procedures. There were also weaknesses in the preparation of business cases to support decisions and in the transparency and comprehensiveness of reports prepared to support decisions.
11. Weaknesses in the Council's internal challenge functions were present throughout this time. In particular, its risk management arrangements were weak, the Internal Audit service was not used effectively, scrutiny arrangements were not sufficiently effective and there were weaknesses in performance management arrangements. This increased the risk that governance failures would not be prevented or detected.
12. There continues to be some uncertainty amongst officers as to when to consult members and when officers can make decisions. The Council's constitution still lacks clarity over decision-making processes. Whilst training is taking place on report writing, the Council has not yet embedded a cultural shift that ensures that transparency, comprehensiveness and balance of reports is maintained over time.

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## The Council is now improving its governance arrangements

13. The Council clearly recognises, and is embracing, the need to change and improve its governance arrangements. There is a strong determination amongst members and officers to ensure governance arrangements are working properly and to re-build the Council's credibility. The Council has established an Improving Governance Programme Board (the Board) and has implemented the majority of actions it has identified to improve governance. However, certain governance functions need further improvement.
14. Risk management is not yet successfully embedded across the Council. Whistle-blowing procedures are out of date and do not reflect the most recent legislative changes. Internal audit is not used effectively to provide assurance over the major risks facing the Council. In addition, identified actions to improve its HR functions and performance management are yet to be implemented.
15. Members generally trust officers to deliver the work of the Council and respect their knowledge and professionalism. Whilst members feel able to challenge officers, there is a mixed view as to the effectiveness of the Council's scrutiny committees. The Council is continuing to observe and learn from how scrutiny operates at other local authorities. Members are becoming more challenging and are growing in confidence although this is not yet consistent across committees.

## It is uncertain whether the improved governance arrangements can be sustained during a period of further change

16. The appointment of a former Chief Executive as Interim Chief Executive has provided re-assurance to members, staff and other stakeholders that the stability experienced by the Council previously for many years can be attained. Changes have been made that have strengthened the Corporate Management Team and the roles of statutory officers. A revised approach to dealing with reports and recommendations from external regulators has been implemented and the Leader and the Interim Chief Executive have focused on the need to communicate with staff and the public.
17. There has been a healthy focus in the Council on getting on with providing services and dealing with normal business. However, future changes are inevitable following the completion of the police investigation. It is critical that the Council ensures that the improvements in governance already made or planned are implemented fully and are robust enough to be sustainable for the future.

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## The way forward

18. We found that there is a strong determination amongst members and officers to ensure the governance arrangements are working properly and to re-build the Council's credibility. In response to the Report in the Public Interest, the Council is making improvements to its governance and decision-making arrangements. The Council has developed an action plan, not only to address the recommendations in the Report in the Public Interest, but also to review and strengthen other aspects of governance including scrutiny, human resources, performance management and risk management. It is positive that the Council has taken the opportunity to do this.
19. In responding to the findings in this report, the Council must ensure that it continues to implement the improvements in governance that have begun and takes the opportunity to apply the same energy to improving other aspects of its corporate services. The way that the Council addresses the challenge of determining and delivering a sustainable financial plan should enable it to demonstrate transparency and accountability ie, a robust governance framework that operates effectively. All members and staff have a role to fulfil to achieve this and personal responsibility to do so.

## Statement by the Auditor General

20. This report sets out the results of my special inspection of the Council under section 21 of the Local Government (Wales) Measure 2009 (the Measure). The Measure requires me to mention any matter in respect of which I believe, as a result of the inspection, that the Council is failing to comply with the requirements of Part 1 of the Measure (local government improvement). Whilst this report identifies areas for improvement, I have not concluded that these matters represent a failure to comply with the requirements of Part 1 of the Measure.

## Recommendations

21. To assist the Council in making the required improvement we have set out some recommendations in the table below. The Council is required by the Measure to prepare a statement of any action that it proposes to take as a result of this report, and its proposed timetable for taking that action. This must be prepared within 30 days of receipt of this report.
22. We recommend that the Council:



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R1	Clarifies, in an easily understandable format, governance and decision-making roles, specifically of the Cabinet; Chief Executive; Corporate Management Team; corporate directors; scrutiny committees; and Audit Committee.
R2	Ensures that appropriate documentation is maintained of all decisions made, and by whom to provide further assurance that decision making is undertaken appropriately and transparently.
R3	Continues to implement the Improving Governance Programme Board action plan to enhance governance arrangements for the future.
R4	Strengthens its risk management processes further to embed risk management across the Council. Specifically there should be: <ul style="list-style-type: none"> <li>• more frequent review of the corporate risk register by Corporate Management Team;</li> <li>• explicit action planning for the key risks identified;</li> <li>• more oversight of, and consistency in, approach to directorate risk registers;</li> <li>• clarification of the role and remit of the Risk Management Group; and</li> <li>• enhanced training for Audit Committee members.</li> </ul>
R5	Clarifies roles and responsibilities for whistle-blowing procedures and ensures that the new policy is updated to reflect recent legislative changes.
R6	Reassesses its expectations of the Internal Audit service and puts in place a programme for its Internal Audit service to address the findings of this inspection.
R7	Ensures that the actions identified to improve the HR function and workforce planning are implemented.
R8	Emphasises the importance of following appropriate procurement procedures and ensures that relevant key performance indicators are set for the procurement function.

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# Detailed report

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## The pace of change and a combination of a number of weaknesses inevitably led to governance failings

### The tone at the top of the organisation changed with the appointment of a new Chief Executive in September 2010

23. Since local government re-organisation in 1996 to September 2010, the Council had a history of stable top management with only two chief executives in post during this period. Although political leadership of the Council has changed at every election, the tone and culture within the organisation remained broadly unaffected by changes in political administration.
24. In September 2010, the then Director of Environment was appointed Chief Executive. The previous two chief executives came from a background of working in corporate services and had focused on steady, incremental improvement with a cautious risk appetite.
25. The tone at the top of the organisation changed with the appointment of the new Chief Executive to become more action oriented, with a greater risk appetite and an increased pace of operating. There was a change in vision to promote the area and the Council's reputation. For example, the Council successfully bid to host a stage of the Tour of Britain and it held the BBC Proms in the Park. These changes were made against a backdrop of an increasingly challenging financial environment and emerging demographic changes which required addressing.
26. The Chief Executive implemented a number of changes at the Council that had an impact on the capacity of the Senior Management Team. These changes included:
  - A strong focus on taking a lead role in respect of collaborative arrangements. Given the pace of change in the Council, this placed additional pressures on capacity at a senior level.
  - A management restructuring following a Council decision, which significantly reduced the number in the Senior Manager Team and reduced the number in Corporate Management Team from five to four. In the new management structure, individuals had new roles and responsibilities and capacity was reduced.
27. The Chief Executive had a different leadership style to his predecessors. This change in style resulted in:
  - The tone at the top being perceived by some officers as more assertive.
  - Corporate Management Team meetings being conducted in a different manner. There was a reduced emphasis on reflection and of being a forum for collective agreement. There was less internal dialogue and consultation/collaboration at Corporate Management Team, leading to less of a corporate focus and more of a focus on individual accountability.

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- A tendency for informality and a drive to complete the agenda quickly at Corporate Management Team meetings. There was less time for consultation and consideration.
- 28.** A number of challenges were tackled effectively under the Chief Executive, including action to reduce sickness absence, implementing the living wage and rationalisation of the estate to co-locate Social Services in Penallta House.

### Key governance arrangements were not reviewed or changed to reflect the change in tone at the top and the increased operating pace

- 29.** The appointment of a new Chief Executive in 2010 brought a different leadership style and a desire to move things forward more quickly. The governance structures, processes and arrangements were not reviewed or changed to reflect the change in pace desired by the Chief Executive. For example, the change in the Council's risk appetite was not formally articulated or captured. This left the Council exposed to risk.
- 30.** A number of processes had been in place for a long time with little change or review. For example, the standing orders had not been formally reviewed for a number of years. This, combined with the changes in pace, management structure and capacity, meant that there was an increased risk that processes would not support the new ways of working. The result appears to be that processes were being followed less well due to the desire to get things done more quickly.

### Potential conflicts of interest were not considered

- 31.** The Chief Executive retained responsibility for the Environment Directorate. The potential conflict of combining the Director of Environment and Chief Executive roles was not considered formally. There was a risk of confusion in relation to the service area and more susceptibility for the arrangement to be a source of difficulties within Corporate Management Team, with an adverse effect on accountability. For example, decisions made at the Senior Management Team in the Environment Directorate were taken by the Chief Executive rather than by a director. As a result, there was no Chief Executive challenge to decisions made in respect of the Environment Directorate.
- 32.** Following the appointment of the Chief Executive, the Environment Directorate also grew in terms of its responsibilities, taking on responsibility for transport and catering initially. Later, leisure services were also transferred from Education to Environment. This added to the workload of the Chief Executive. Whilst we understand that this was approved by members, it is an example of an officer recommendation which would have lacked challenge by a Chief Executive independent of the Environment Directorate.

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## The Statutory Section 151<sup>3</sup> and Monitoring Officer roles did not have sufficient profile and influence within the new management structure

- 33.** The new Corporate Management Team had less experience of running corporate services. None of the Corporate Management Team members had prior experience of performing the Section 151 or Monitoring Officer statutory officer roles, or of being a Head of Paid Service, unlike under the prior Chief Executive who was a former Section 151 Officer.
- 34.** There was a consequent reduction in the experience of these statutory roles on the Corporate Management Team. The Section 151 Officer and the Monitoring Officer were not members of Corporate Management Team and were not in attendance throughout Corporate Management Team meetings, so were not there for all the discussions that took place. This, combined with the lack of previous experience in these roles amongst existing Corporate Management Team members, increased the risk that statutory officers would not be consulted at the right time or in the most effective way.
- 35.** The change in tone at the top and focus on quickened pace for decision making reduced the time Statutory Officers outside of Corporate Management Team had to review some key reports, particularly given the increased responsibilities that they were given as part of the management restructure. For example, there was a lack of timeliness of formal consultation with the Section 151 Officer in respect of the proposed integration of Social Services with Blaenau Gwent County Borough Council and there was no formal consultation with either the Section 151 Officer or the Monitoring Officer in respect of a decision to buy out certain allowances received by chief officers, albeit advice was obtained informally from the Monitoring Officer.
- 36.** The combination of factors outlined above reduced the effectiveness with which the statutory roles could be performed.

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<sup>3</sup> Section 151 of the Local Government Act 1972 requires every local authority to make arrangements for the proper administration of their financial affairs and requires one officer to be nominated to take responsibility for the administration of those affairs. The Section 151 Officer is usually the local authority's treasurer and must be a qualified accountant belonging to one of the recognised chartered accountancy bodies. The Section 151 Officer has a number of statutory duties, including the duty to report any unlawful financial activity involving the authority (past, present or proposed) or failure to set or keep to a balanced budget. The Section 151 Officer also has a number of statutory powers in order to allow this role to be carried out, such as the right to insist that the local authority makes sufficient financial provision for the cost of internal audit.

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## There were governance failings in respect of certain decisions

- 37.** In March 2013, the Appointed Auditor issued a Report in the Public Interest, which highlighted governance failings surrounding decisions regarding senior officer pay in September 2012. The matters that led to the payments in respect of senior officer pay being deemed by the Appointed Auditor to be unlawful included:
- the lack of advertisement of the meeting in September 2012;
  - the participation in the decision-making process of persons who had a pecuniary interest; and
  - the failure to present and consider a range of options.
- 38.** The Appointed Auditor also considered that there had been a failure in good governance in respect of the procedures followed for a new committee, the clarity of the report presented to the committee and the adequacy of the record of the committee meeting.
- 39.** The Council's Annual Accounts for 2012-13 disclosed further unlawful payments to chief officers in respect of the buy out of essential car user allowances and annual leave allowances. The Appointed Auditor issued a further Report in the Public Interest on 19 December 2013 in respect of these payments.
- 40.** There are three matters that led the Appointed Auditor to conclude that the payments to buy out essential car user allowances and annual leave allowances were unlawful. These were:
- the decision to make the payments was not made by a person or persons with appropriate delegated powers;
  - the participation in the decision-making process of persons who had a pecuniary interest; and
  - the failure to publish the decision in accordance with the Council's constitution.
- 41.** The Appointed Auditor has also expressed concern as to the lack of documentation of a formal decision, the informal process by which advice was obtained from a statutory officer, the adequacy of the report on which a decision appears to have been based and the late change made to the decision which put the Council at further risk.
- 42.** We reviewed a number of further specific decisions as part of this special inspection. In the main, appropriate processes and procedures have been followed in respect of specific decisions we reviewed. There were however some exceptions, as follows:
- We noted one retrospective decision in respect of additional funding to be provided to a regeneration scheme. This was a retrospective decision, as the expenditure had already been committed.
  - Correct procedures were not followed in respect of the procurement of a surveillance contract and for two further contracts with providers of social care.
  - We found some minor deviations from documented processes with regards to procurement as a result of a misinterpretation of wording of the standing orders in relation to who can open the bids and how many bids should be invited.

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43. We also found weaknesses in the preparation of business cases. In the case of the proposed Social Services integration with Blaenau Gwent County Borough Council, substantial resources were committed to workstreams which were designed to facilitate integration but without a full business case and due diligence from the outset. In addition, Cabinet approved an interim joint workforce in 2012 without a business case. Final approval in July 2013 was accompanied by a business case, but for a service which was de facto integrated by then.
  44. Some members have expressed concerns that they do not always receive sufficient information to understand the implications of the decisions they were making (particularly financial implications) and the alternative options available. This view was supported by officers with a significant proportion of respondents to our surveys saying that decision making was not supported by sufficient information.
  45. A number of confidential reports have been leaked to the media in the past and a fear of further leaks may have undermined the transparency of reporting. Furthermore, there is a perception from those interviewed that historically reports were presented, without all of the options and implications being made explicit. This meant that reports were less balanced than they might have been.
  46. Concerns were also expressed to us in relation to a lack of transparency in approach to decision making at 'policy' meetings ie, the Corporate Management Team policy group and the Cabinet policy group. These groups allow more interface between politicians and officers to get a steer on proposed policy. Historically, the actions agreed at these meetings have not been recorded meaning there is a risk that the rationale for subsequent decisions, made at formal Cabinet, is not recorded and, as such, is more open to challenge or question. There is some uncertainty amongst officers as to when to consult members and when officers can make a decision.
  47. Following the establishment of the Improving Governance Programme Board there is a renewed desire to be more consultative and transparent, which has been further emphasised by the Interim Chief Executive. An inevitable consequence is that the decision-making process has slowed. Care should be taken to ensure that the process is allowed to adjust to ensure a proportionate and workable decision-making process is developed.
  48. We recognise that the Council's constitution is under review, but note that there is a lack of clarity over decision-making processes in the constitution, which is difficult to navigate. Work is also being done as part of the Improving Governance Programme Board to make the process for who needs to be consulted and when in the process more transparent.

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## The Council is now improving its governance arrangements

### The Improving Governance Programme Board is successfully driving the Council's action plan to improve its governance arrangements

49. The Council clearly recognises and is embracing the need to change and improve its governance arrangements and the effectiveness with which they are undertaken. There is a strong determination amongst members and officers to ensure the governance arrangements are working properly and to re-build the Council's credibility.
50. Following the publication of the Report in the Public Interest in March 2013 there was a renewed focus on governance arrangements. The Council has developed an action plan not only to address the recommendations in the Report in the Public Interest but also to review and strengthen other aspects of governance including scrutiny, human resources, performance management and risk management.
51. An Improving Governance Programme Board (the Board) has been established with a remit to implement the Council's action plan. It is chaired by the Acting Director of Corporate Services and comprises other senior officers. The Cabinet member with responsibility for governance attends its fortnightly meetings, which provides a direct link into the Cabinet. Strong project management arrangements have been put in place and a senior project officer given responsibility for them. The Board reports fortnightly to Corporate Management Team and monthly to Cabinet. Progress updates have also been provided to Audit Committee and cascaded through the organisation via operational and management meetings, and communications from the Leader and Interim Chief Executive.
52. Additionally, an experienced director from the local health board was seconded to the Council on a part-time basis to provide additional expertise and capacity at a senior level. This has been a positive step, which is helping the Council to learn from the experience of other organisations.
53. The Board has implemented the majority of its actions. For example:
  - There is a training programme in place for officers and members to develop their capabilities in governance areas as part of the follow-up of the Report in the Public Interest.
  - All members have completed training on the Code of Conduct.
  - The Code of Conduct has been hand delivered to all employees by their manager and they have been required to sign to acknowledge receipt, albeit there are still some returns outstanding.
  - The Council is reviewing its processes for officers to agree their obligations under the code. A training plan on the officers' code has been produced and training is underway.



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- A constitution working group has been established to ensure that the Council's new Constitution appropriately reflects its requirements and will reflect the future publication of a national Framework Constitution. The system for gifts and hospitality has been reviewed and the register is now reported to the Audit Committee.
  - Guidance on the process for managing conflicts of interest has been incorporated into the Democratic Procedure Manual.
- 54.** The Board has revised the timescales of its action plan delaying some actions until early in 2014. This is primarily due to the need for the Council to focus on updating its medium-term financial plan as a result of the need to find £28 million savings over the next three years. There are effective arrangements in place through the Board and its reporting mechanisms to ensure the momentum to deliver the action plan is maintained in 2014.
- 55.** We saw clear senior commitment to driving change in our observation of the Board. Discussions between officers were frank and challenging and conducted in an appropriate manner.
- 56.** The consensus from interviewees was that, since the publication of the Report in the Public Interest, there has been a greater willingness to present the less palatable options in reports. The Improving Governance Programme Board has looked at report writing, and as a result, training is being provided to officers. The Council recognises that actions like this will help to improve the quality of reports, but changing the culture of the organisation to allow less palatable options to be presented in reports will have a greater impact.

**The Council has started to address its risk management arrangements although, whilst a new strategy has been launched, some weaknesses remain**

- 57.** Until recently, the risk management arrangements in place at the Council have been weak. In particular, there was no risk strategy; the procedures to review the corporate risk register were limited; there were gaps in the documentation of risks in the risk register and in communication of risks; and more work was required to align the risks identified as a result of different processes, for example between the Annual Governance Statement and the corporate risk register.



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- 58.** The Council has recognised that it needs to revise and refresh its risk management approach and has gone a long way towards achieving this through the launch of a new strategy. While there is much that is positive in the strategy, the following areas need further attention:
- Corporate Management Team is planning to look at the Corporate Risk Register quarterly. Good practice suggests that this is not frequent enough.
  - The procedures for action planning need to be strengthened. Without explicit action planning there is insufficient accountability or clarity on who is doing what and by when.
  - The approach to directorate risk registers should be enhanced. At present, there are few of these in force and there is no oversight of these registers. Those directorate risk registers that do exist are inconsistent in approach and format.
  - There needs to be a greater drive from the centre to ensure that risk management is successfully embedded across the Council.
  - The role, membership and remit of the Risk Management Group needs to be clarified.
  - Whilst basic training has taken place for Audit Committee members, it was not well attended and another session is being organised. Further training should be provided for Audit Committee members at a more advanced level.

### The Council's updated whistle-blowing policy does not address the most recent legislative changes

- 59.** There has been very little whistle-blowing activity at the Council. Where whistle-blowing does take place, it is important that the Council considers all allegations made by the whistle-blower.
- 60.** We identified one instance where a whistle-blower raised allegations of fraud and corruption. However, the proposed actions in response to these allegations were not discussed with Internal Audit, which has particular expertise in this area.
- 61.** The Council's whistle-blowing policy is available on the Human Resources Portal on the Council's intranet but little has been done to raise awareness of the existence of the policy. Staff without computer access would therefore struggle to get access to the policy. There are no posters or communications about the policy.
- 62.** The Council has undertaken a consultation on its Code of Conduct including its whistle-blowing policy and has drafted a new policy. The new policy does not appear to address the changes in the whistle-blowing requirements introduced in June 2013, specifically around the move away from good faith disclosures to disclosures in the public interest. There are a number of other references that need updating, including disclosure of Prescribed Persons outside of the Council.

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63. Responsibility for overseeing the whistle-blowing policy and disclosures has rested with the Head of Human Resources. Going forward, this will now rest with the Head of Legal Services. However, there needs to be greater clarity around responsibilities in this area to avoid any ambiguity and to ensure that disclosures are dealt with consistently.

### Internal Audit is not being used effectively to provide assurance over the major risks facing the Council

64. The Council's Internal Audit service is led by an experienced manager who is clearly committed to the service. The profile of the service within the Council is however relatively low and its focus is restricted to financial areas with little consideration of broader operational and strategic risks.
65. The lack of direction and low profile of Internal Audit within the Council is having a negative impact on the way in which the service is developing its people, its processes and its systems. There is, however, a real desire by those within and outside the department to change this and progress is being made notably in relation to the engagement with the Audit Committee Chair.
66. Our inspection found that there are opportunities for improvement particularly with regard to the insight and assurance that the service provides and the quality of the work undertaken. Our review identified the following areas where governance would be strengthened by improvements to the Internal Audit service:
- **Strategy and vision** – the Internal Audit service has not effectively articulated an overall vision or strategy. There is an Internal Audit Charter although this is based on a CIPFA template from a few years ago and is not widely communicated. There is a general understanding of the role of Internal Audit although this seems to have evolved over time rather than being a clearly articulated vision driven by the Internal Audit Manager. Internal Audit's 'value proposition' to the Council is restricted to financial areas with little consideration of broader operational and strategic risks.
  - **Engagement with the Audit Committee** – the level and nature of engagement between Internal Audit and the Audit Committee was previously weak and the ability of the committee to fulfil its governance role could be strengthened by greater interaction with the Internal Audit service and some input into defining the vision and strategy of the function.
  - **Planning** – the Internal Audit Manager seeks comments from heads of service when preparing the audit plan; however, there is little response and the process appears to be something of a ritual rather than a meaningful engagement process. There is limited engagement with directors or the Chief Executive. The audit plan is driven by available resource rather than audit need. Planning for individual audits is not always supported by agreed terms of reference.

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- **Risk-based focus** – stakeholders seem confident that Internal Audit understands the Council, and has the ability to add value to the organisation, but feedback suggests that stakeholders are unconvinced that work is focused on areas of high risk. More work is required both inside and outside the Internal Audit service to map strategic risk to the Internal Audit programme and other means of assurance.
  - **Reporting and communication** – reporting is on an exception basis and is sometimes in the form of an e-mail. Not all reports are signed out by the Internal Audit Manager. There is a follow-up process for recommendations although this can sometimes lead to reports which are many years old being followed up. Communication between Internal Audit and its stakeholders is somewhat variable.
  - **Quality assurance and performance management** – the service does not operate consistent quality assurance mechanisms. It was not possible to see evidence of any quality review on the files we reviewed. There is also a degree of inconsistency in the issue of reports as the Internal Audit Manager does not see all reports before issue including some that are issued by e-mail. Performance management within the Internal Audit function is in need of improvement. Meaningful performance measures should be introduced and reported to the Audit Committee on a regular basis.
  - **Use of technology** – the use of technology is currently limited. This could be seen to represent a significant weakness to the service and a barrier to fundamental improvement. There is no integrated audit system in place for audit planning, execution, documentation and reporting. This could lead to inefficiency.
67. There is a lack of understanding and awareness amongst Corporate Management Team as to the role Internal Audit could play in providing assurance over risks. The service is not being used to add value and drive improvement. Had Internal Audit been empowered and challenged to operate as it could have, some of the governance issues, such as the quality of risk management arrangements, may have been picked up earlier.
68. The new Public Sector Internal Audit Standards are applicable from April 2013. These, coupled with the findings of this inspection, should be used to drive the transformational changes required in Internal Audit and to help raise its profile and improve its effectiveness.

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## The Council has been slow to implement actions to improve the HR function and to develop its workforce planning arrangements

69. Whilst the HR function has been responsible for some well-regarded developments, such as the passport scheme and redeployment process, it has also struggled with the pace and delivery of other strategic initiatives.
70. In the summer of 2012, we published a Review of HR arrangements report, which was based on fieldwork undertaken in 2011. It contained recommendations, which were focused on the strategic role of the HR function. The Council did not act upon the four recommendations until summer 2013, when it was eventually reported to Scrutiny Committee and the Audit Committee.
71. An action plan to address the recommendations from the review is now in place. A balanced scorecard of HR information is under review and a HR strategy is being developed, in line with the action plan and timetable.
72. We looked at the recruitment to a sample of chief officer posts. These were a mixture of external and internal appointments. We found that the Council's processes were properly followed for the items in our sample. The Council has an established procedure for undertaking the job evaluation of chief officer posts. An external organisation undertakes the actual evaluation, which provides a good degree of independence into the process. There are some posts within the Education Directorate for which the responsibilities have changed, possibly on a temporary basis, which have not been formally evaluated. The Council should ensure that these posts are evaluated.
73. The Council has been slow to develop Council-wide arrangements for workforce planning. A paper went to Corporate Management Team in 2009 but it did not get taken forward. The Council is now piloting workforce planning in four areas and aligning the arrangements to the revision of service improvement planning that is being undertaken. In the light of the current financial challenges, it is crucial that the Council pushes forward to improve its workforce planning arrangements.

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## The Council recognises that weaknesses remain in its performance management arrangements

- 74.** Improving performance management is a key component of the Council's Improving Governance action plan. The recent Household Survey undertaken in June 2013 found that 82 per cent of respondents were satisfied with the overall level of service provided by the Council. This is an increase since the survey was last undertaken in 2011, although the response rate is lower than 20 per cent. The Council's 2012-13 Annual Performance Report stated that of those 36 national strategic indicators which could be compared against performance in 2011-12, 24 (67 per cent) showed improved performance, two maintained optimal 100 per cent performance and 10 (28 per cent) declined in performance. This is an improved performance since that in 2011-12. The Council met 70 per cent of the targets it set for 2012-13. Again, this is an improvement over its performance in 2011-12.
- 75.** The Council's performance management mechanisms are well-established but have not been reviewed or changed significantly for a long time. With the increasing financial pressures on the Council, it is now reviewing its arrangements to ensure these are still appropriate. Changes are being considered, for example to its service planning process and its scrutiny arrangements. This is entirely appropriate.
- 76.** Our focus groups and surveys found that overall staff and members were comfortable with the existing arrangements but there was mixed views about the effectiveness of the biannual performance scrutiny committees and the service improvement plans.
- 77.** Our survey of senior officers found that: 50 per cent of respondents felt that the evaluation of performance is either effective or very effective; but 36 per cent felt it was neither effective nor ineffective; and 13 per cent thought it was ineffective or very ineffective. Eighty-nine per cent of members' surveyed felt that performance information provided to them was helpful or very helpful. However, members we spoke to as part of the inspection were broadly of the view that there is a need to better integrate performance monitoring into the routine business of scrutiny and Cabinet, rather than through separate performance scrutiny meetings.
- 78.** Moreover, it is felt there is too much emphasis on data gathering rather than on data analysis and a need for there to be greater consideration of more qualitative information and better evaluation of performance in order to drive improvement. This is supported by our audit of the Council's improvement objectives which found that the majority of measures adopted by the Council continue to be quantitative and there are limited examples of more qualitative or wider types of evidence being used to determine progress.

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## There are some weaknesses in how the Council utilises its procurement function

79. The procurement function should act as a strategic enabler within the Council to support the achievement of value for money in all purchased goods and services. The Council has a mature Procurement Team in place and a draft report from a recent external review highlights its strengths. The Council's procurement strategy focuses on regeneration, supporting local businesses and fostering economic development.
80. The status of the procurement function within the Council was reduced as part of a management restructuring in 2010. This subsequent reduction in the profile of the procurement function, caused tensions within the organisation when the function undertook its role to ensure procurement processes were followed and done so transparently.
81. Correct procedures were not followed in respect of the procurement of a surveillance contract and two further contracts with providers of social care. We also found some minor deviations from documented procurement processes as a result of misinterpretation of wording of the standing orders in relation to who can open bids and how many bids should be invited.
82. The reallocation of some of the Procurement Team into the Housing Department, has also contributed to the role being blurred and could undermine the ability of the procurement function to act as a strategic enabler.
83. The Council should re-emphasise the importance of following appropriate procurement procedures and should ensure that relevant key performance indicators are set for the service that emphasise its role as a strategic enabler.

## Relationships between officers and members are broadly good although scrutiny is not consistently effective

84. Members generally trust officers to deliver the work of the Council and respect their knowledge and professionalism. There is no evidence in the survey that either members or officers feel that relationships are ineffective.
85. Overwhelmingly, members considered officers to be accessible and receptive and felt that if they required information or advice, officers were willing and able to provide it for them. All interviewees were positive about the relationships using terms such as 'approachable, mutual respect, critical friend and constructive'.

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- 86.** The survey suggests that members feel able to challenge officers; however, members and officers had a mixed view of the effectiveness of the Council's scrutiny committees. The chairs of these committees felt that there were areas where scrutiny could be improved. This is attributed to a range of reasons, such as:
- whether the right reports are being presented to scrutiny committees;
  - members' understanding and confidence in their roles; and
  - a view that the six-monthly scrutiny of council performance was too weak and is not an integrated part of the scrutiny process and hinders progress towards a self-evaluative approach.
- 87.** The Council engaged in the Wales Audit Office improvement study on scrutiny in 2012-13, which included an aspect of peer review and self-evaluation. Following the study, the Council has developed a scrutiny improvement action plan, which is being seen as an integral part of the improving governance programme. Many of the actions have recently been implemented. Procedural changes have been introduced to better distinguish between members and officers in committees and a Scrutiny Leadership Group has been set up. Many of these changes are still in their infancy and are not yet in place consistently and robustly across all committees. Further changes and improvements are also due to be made during 2014.
- 88.** The Council is continuing to observe and learn from how scrutiny operates at other local authorities. Our observation of scrutiny committees and Audit Committee is that members are becoming more challenging and are growing in confidence although it is evident that there is still much to do to ensure there is greater consistency of performance across committees.
- 89.** The Improving Governance Board has identified the need for officer reports to committees to be improved, for example to more clearly summarise the main points of the report and to provide members with a range of options and information to enable them to make more informed decisions. It is in the process of commissioning training to address this.
- 90.** The Audit Committee has become more effective in its role with more challenge to the reports produced and to management evident from its operation. Pre-meetings with auditors and the Section 151 Officer and the chair of the committee assist in understanding the key points of papers presented. There should be a stronger role for the committee in ensuring the Internal Audit programme addresses the risks facing the Council as a form of assurance that risks are being adequately mitigated.
- 91.** The Council has a process in place for reviewing its Annual Governance Statement but aspects could be formalised and embedded further to add value and give more assurance to the Council and public. The Council has not evaluated its process for preparing an Annual Governance Statement but is taking action to do so.



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**It is uncertain whether the improved governance arrangements can be sustained during a period of further change**

92. The appointment in July 2013 of a former Chief Executive as Interim Chief Executive was greeted by the organisation with a sense of relief. He commands widespread respect and provides re-assurance to members, staff and other stakeholders that the stability experienced previously for many years can be attained.
93. The Interim Chief Executive does not have operational responsibilities for a service department, which has removed this source of potential tension. He was also previously a Section 151 Officer and the Head of Paid Service, so has had experience of fulfilling these Statutory Officer roles. The Acting Director of Corporate Services is the Council's Section 151 Officer and a member of Corporate Management Team.
94. In addition, the role of the Monitoring Officer was re-designed to remove any responsibilities for service areas and instead be focused on governance and the statutory role.
95. The role and focus of Corporate Management Team has been revised to promote collaboration and consultation in the discharge of its role. Interviews suggest that confidence and trust is being restored under the Interim Chief Executive and reversion to a more consultative approach.
96. We have noted other indications of governance improving. Following discussion at the Improving Governance Board, a revised approach to dealing with reports and recommendations from external regulators has been suggested, which should ensure consistency, reduce the time to finalise a report and make the process more constructive. The mechanisms for members to monitor the progress of implementing actions to address recommendations have also been reviewed. Previously, the Council had not reported or monitored regulators' reports in a consistent way. Now, all Wales Audit Office reports are reported to Audit Committee and the Board has suggested that this approach should be followed for all regulators' reports, including Estyn and the CSSIW.
97. The Leader and Interim Chief Executive have focused on the need to communicate with staff and the public. They have held a series of roadshows with staff to explain how they are addressing concerns and as a means to boost morale. There is an 'Ask the CEO' postcard system put in place by the Interim Chief Executive, enabling staff to ask him questions to which he replies. These are appropriate and necessary actions to rebuild trust.
98. There has been a healthy focus within the organisation on getting on with providing services and dealing with normal business. The challenges of developing a financial strategy, will involve making fundamental and difficult decisions. However, it does provide an opportunity to do so in a transparent and accountable way. For example, as part of its budget-setting process, the Council is asking the public for views on how the budget should be spent to prioritise services.



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- 99.** However, whilst the police investigation and the possibility of legal action remain undetermined, an air of uncertainty will continue, which can only be concluded once these matters are resolved. In due course, the Council will need to consider what impact the cessation of the appointment of the Interim Chief Executive will have on the stability of the recovery of trust and confidence.
- 100.** Through focus groups, we received feedback that the increased emphasis on process and governance is at the expense of strategic direction, and that the Council is now struggling from a lack of dynamism. It is quite appropriate that the Council has focused on addressing the governance issues and we would expect that once these improvements have been made, the Council will begin to redress the balance once again.

# Appendix 1

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## Methodology

This appendix sets out the scope of our Special Inspection and the methods we used in the course of our work. We sought to answer the question:

### **Do the authority's governance and accountability arrangements support robust, transparent and effective decision making?**

We focused our work on the following main issues:

- Do clear roles and responsibilities enable good governance and strong accountability?
- Do elected members and officers exhibit appropriate values and behaviour?
- Are there adequate arrangements in place to support members and officers to be effective in their role?
- Is decision making across the authority robust and effective?
- Do challenge, scrutiny and review processes ensure a range of informed views are sought and actively considered to aid decision making and improvement?
- Does the engagement that the authority has with its stakeholders support real accountability?
- Does the authority ensure that effective governance and accountability is maintained when the authority delivers services through companies, trusts or other external entities?

In carrying out the Special Inspection, we undertook various activities both desk-based and on-site fieldwork at the Council. This included document review, structured interviews and focus groups, observation of member meetings, specific probes of recent information, a high-level review of the effectiveness of internal audit and risk management arrangements and the use of survey data.

## Document review

We undertook a review of documentation relevant to corporate governance and management. This included plans and strategies, agenda and minutes of meetings, internal reviews and reports, guidance documents and internal communications, correspondence, and external reports. We also took into consideration previous work and reports of the Wales Audit Office.

## Meetings and interviews

During our fieldwork, we carried out semi-structured interviews with:

- Members (specific members of Cabinet with relevant portfolio responsibilities)
- Members of the Corporate Management Team
- Heads of service and other senior officers

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## Focus groups

We undertook focus groups using a semi-structured set of questions focused on the different components of an effective governance framework.

Focus groups were conducted with:

- Cabinet members
- Chairs of the Scrutiny Committee
- Team leaders (or equivalent)

## Probes of recent information

In order to test the governance arrangements surrounding decisions, we undertook a review of the processes surrounding decision making on a sample basis in the following areas:

- procurement decisions;
- recruitment decisions and the process for updating job evaluations of chief officer posts;
- decision making surrounding the suspension of the Chief Executive and Acting Chief Executive; and
- key operational decisions.

## Survey

In order to receive as many views as possible from those wishing to contribute, we arranged an online survey and sent a link in e-mails to members and senior officers. Respondents were able to remain anonymous if they so desired. In total, there were 99 respondents: 55 members and 44 senior officers.



WALES **AUDIT** OFFICE  

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SWYDDFA **ARCHWILIO** CYMRU

Wales Audit Office  
24 Cathedral Road  
Cardiff CF11 9LJ

Swyddfa Archwilio Cymru  
24 Heol y Gadeirlan  
Caerdydd CF11 9LJ

Tel: 029 2032 0500

Ffôn: 029 2032 0500

Fax: 029 2032 0600

Ffacs: 029 2032 0600

Textphone: 029 2032 0660

Ffôn Testun: 029 2032 0660

E-mail: [info@wao.gov.uk](mailto:info@wao.gov.uk)

E-bost: [info@wao.gov.uk](mailto:info@wao.gov.uk)

Website: [www.wao.gov.uk](http://www.wao.gov.uk)

Gwefan: [www.wao.gov.uk](http://www.wao.gov.uk)