

# Pecyn Dogfennau Cyhoeddus

Penallta House,  
Tredomen Park,  
Ystrad Mynach,  
Hengoed CF82 7PG

Ty Penallta,  
Parc Tredomen,  
Ystrad Mynach,  
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Am unrhyw ymholiad yn ymwneud â'r agenda hwn cysylltwch â Amy Dredge  
(Rhif Ffôn: 01443 863100 E-bost: [dredga@caerphilly.gov.uk](mailto:dredga@caerphilly.gov.uk))

**Dyddiad: Dydd Mercher, 14 Hydref 2020**

Annwyl Syr/Fadam,

Bydd cyfarfod o'r **Pwyllgor Awdit** yn cael ei gynnal trwy Microsoft Teams ar **Dydd Mercher, 21ain Hydref, 2020** am **10.00 am** i ystyried materion a gynhwysir yn yr agenda canlynol. Mae croeso i chi ddefnyddio'r iaith Gymraeg yn y cyfarfod, a dylid rhoi cyfnod rhybudd o 3 diwrnod gwaith os ydych yn dymuno gwneud hynny.

Mae pob cyfarfod Pwyllgor yn agored i'r Wasg a'r Cyhoedd. Gofynnir i arsylwyr a chyfranogwyr ymddwyn gyda pharch ac ystyriaeth at eraill. Sylwer y bydd methu â gwneud hynny yn golygu y gofynnir i chi adael y cyfarfodydd ac efallai y cewch eich hebrwng o'r safle.

Yr eiddoch yn gywir,

**Christina Harrhy**  
PRIF WEITHREDWR

## A G E N D A

Tudalennau

- 1 I benodi Cadeirydd ac Is-gadeirydd am y flwyddyn nesaf.
- 2 I dderbyn ymddiheuriadau am absenoldeb

A greener place Man gwyrddach



Correspondence may be in any language or format | Gallwch ohebu mewn unrhyw iaith neu fformat

3 Datganiadau o Ddiddordeb.

Atgoffi'r Cynghorwyr a Swyddogion o'u cyfrifoldeb personol i ddatgan unrhyw fuddiannau personol a/neu niweidiol mewn perthynas ag unrhyw eitem o fusnes ar yr agenda hwn yn unol â Deddf Llywodraeth Leol 2000, Cyfansoddiad y Cyngor a'r Cod Ymddygiad ar gyfer Cynghorwyr a Swyddogion.

I gymeradwyo a llofnodi'r cofnodion canlynol: -

4 Pwyllgor Archwilio a gynhaliwyd ar 28 Ionawr 2020. 1 - 6

5 Blaenraglen Waith y Pwyllgor Archwilio 7 - 10

I dderbyn ac ystyried yr adroddiad(au) canlynol:-

6 Datganiadau Ariannol ar gyfer 2019/20.- diweddariad Ilaafar gan Grant Thornton.

7 Adroddiad Archwilio Mewnol Blynnyddol 2019/20. 11 - 20

8 Cynllun Archwilio 2020 a Llythyrau gyda diweddariadau - Cyngor Bwrdeistref Sirol Caerffili. 21 - 50

9 Cynllun Archwilio Blynnyddol y Gwasanaethau Archwilio Mewnol 2020/21. 51 - 58

10 Aseiad Cynaliadwyedd Ariannol - Cyngor Bwrdeistref Sirol Caerffili. 59 - 74

11 Cynaliadwyedd Ariannol Llywodraeth Leol o ganlyniad i Pandemig Covid - 19. 75 - 90

I dderbyn a nodi yr eitem(au) gwybodaeth ganlynol

12 Deddf Rheoleiddio Pwerau Ymchwilio 2000. 91 - 94

13 Adroddiad Adolygiad y Bwrdd Diogelu Corfforaethol. 95 - 106

Os oes aelod o'r Pwyllgor Craffu yn dymuno i unrhyw un o'r Eitemau Gwybodaeth uchod i gael eu dwyn ymlaen ar gyfer adolygiad yn y cyfarfod, cysylltwch â Amy Dredge, 01443 863100, erbyn 10.00am ar ddydd Mawrth, 20fed Hydref 2020.

**Cylchrediad:**

Cynghorwyr M.A. Adams, Mrs E.M. Aldworth, J. Bevan, C.J. Cuss, Ms J. Gale, D.T. Hardacre, C.P. Mann, B. Miles, Mrs T. Parry, Mrs M.E. Sargent (Cadeirydd), G. Simmonds a J. Simmonds

Aelod Lleyg – Mr N.D. Yates (Is Gadeirydd)

Archwilwyr – Ms S.J. Byrne (Wales Audit Office), Ms N. Jenkins (Wales Audit Office), Ms L. Brown (Grant Thornton UK LLP) and Mr B. Morris (Grant Thornton UK LLP)  
A Swyddogion Priodol.

## **SUT FYDDWN YN DEFNYDDIO EICH GWYBODAETH**

Bydd yr unigolion hynny sy'n mynychu cyfarfodydd pwyllgor i siarad/roi tystiolaeth yn cael eu henwi yng nghofnodion y cyfarfod hynny, weithiau bydd hyn yn cynnwys eu man gweithio neu fusnes a'r barnau a fynegir. Bydd cofnodion o'r cyfarfod gan gynnwys manylion y siaradwyr ar gael i'r cyhoedd ar wefan y Cyngor ar [www.caerffili.gov.uk](http://www.caerffili.gov.uk). ac eithrio am drafodaethau sy'n ymwneud ag eitemau cyfrinachol neu eithriedig.

Mae gennych nifer o hawliau mewn perthynas â'r wybodaeth, gan gynnwys yr hawl i gael mynediad at wybodaeth sydd gennym amdanoch a'r hawl i gwyno os ydych yn anhapus gyda'r modd y mae eich gwybodaeth yn cael ei brosesu.

Am wybodaeth bellach ar sut rydym yn prosesu eich gwybodaeth a'ch hawliau, ewch i'r Hysbysiad Preifatrwydd Cyfarfodydd Pwyllgor Llawn ar ein [gwefan](#) neu cysylltwch â Gwasanaethau Cyfreithiol drwy e-bostio [griffd2@caerffili.gov.uk](mailto:griffd2@caerffili.gov.uk) neu ffoniwch 01443 863028.

Gadewir y dudalen hon yn wag yn fwriadol



## AUDIT COMMITTEE

### MINUTES OF THE MEETING HELD AT PENALLTA HOUSE, TREDOMEN, YSTRAD MYNACH ON TUESDAY 28TH JANUARY 2020 AT 2.00 PM

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#### PRESENT:

Councillor M.E. Sargent – Chair  
N. Yates – Vice Chair

#### Councillors:

M. Adams, Mrs E. Aldworth, Ms J. Gale, C.P. Mann, G. Simmonds and J. Simmonds.

#### Together with:

R. Edmunds (Corporate Director for Education and Corporate Services), S. Harris (Interim Head of Business Improvement Services and Acting Section 151 Officer), R. Harris (Internal Audit Manager) and A. Dredge (Committee Services Officer).

G. Hawkins (Grant Thornton – External Auditors).

D. Green (Hymans Robertson LLP).

#### 1. APOLOGIES

Apologies for absence were received from Councillors J. Bevan, A. Gair, D. Hardacre, Mrs B. Miles and Mrs T. Parry.

#### 2. DECLARATIONS OF INTEREST

There were no declarations of interest received at the commencement or during the course of the meeting.

#### 3. MINUTES - 15TH OCTOBER 2019

RESOLVED that the minutes of the Audit Committee held on the 15th October 2019 (Minute No. 1 – 12) were approved as a correct record.

#### REPORTS OF OFFICERS

Consideration was given to the following reports.

#### **4. PRESENTATION FROM THE PENSION FUND ACTUARY**

The Chair welcomed Mr D. Green from Hymans Robertson LLP, to the meeting. Mr Green delivered a presentation which provided the Audit Committee with background information (for illustration purposes) in respect of Caerphilly County Borough Council in the Local Government Pension Scheme (LGPS). The Greater Gwent (Torfaen) Pension Fund is hosted by Torfaen County Borough Council in its capacity as the "administering authority" as defined in the Local Government Pension Scheme Regulations. The Council has delegated responsibility for the management of the Pension Fund to a Pension Committee which makes decisions and takes responsibility for the management and investments of the Fund.

Members were advised that Caerphilly CBC has defined LGPS obligations and the LGPS funding complies with strict governance from the UK Government. The Actuary confirmed that the Council has a credible long-term plan to meet its pension liabilities and he explained in detail that the pension deficit figure disclosed in the Financial Statements is calculated in a very different way to the process taken by the Actuary, which makes the deficit seem much larger. He also explained that it is the figures calculated by the Actuary that determine the level of employer contributions into the Fund. Details were provided in relation to the National picture and that of the Local LGPS picture and it was explained how each of the parties interact and how the Fund finances work.

The purpose of the Funding Strategy Statement is to establish a clear and transparent Fund-Specific Strategy that will consider how contributions are set for different types of employer. Contributions vary in different circumstances. Members noted that as part of the governance process, employers are consulted at every (triennial) funding valuation, which outlines the responsibilities of the different parties. The position in respect of the Council's assets and liabilities between 2016 and 2019 was summarised along with the funding position in relation to the whole Torfaen Fund. It was explained what stabilisation means for Council contributions and how the assumptions for each funding plan are reached and how the modelling is used to set a contribution rate so that enough outcomes are 'successful'. In terms of the Council's current contributions, it was explained that these have stabilised with gradual increases. There was an expectation from 2016 that rates would continue to rise. From the 1st April 2020, the stabilisation will continue and strong investment returns have allowed some relief. As a result of the strong returns on investments the Actuary has recommended that employer contributions can be frozen at current levels for the next two financial years.

Members discussed the content of the presentation and Mr Green responded to a number of questions raised. He advised that within the Public Sector, there is no choice but to participate in the LGPS as this complies with the Regulations. There has been a significant rise in costs due to the impact of life expectancy in that on average people are living 10 years longer. He emphasised the importance of what the contributions currently are and what they need to be in the future. In terms of how the finances work, Torfaen Council looks after 57 Employers, all contributing different amounts due to the level of Membership. Caerphilly CBC contributes 26% of the overall contributions which are tracked. It was noted that based on the figures calculated by the Actuary Caerphilly CBC's deficit has halved in the last three years. In concluding, Mr Green explained why assumed investment returns matter, as different assumptions give different answers and a higher assumed return gives a lower present liability value, and therefore a lower deficit (and vice versa).

The Chair thanked Mr Green for delivering the presentation and responding to Members' questions and this was echoed by Members and Officers. The Interim Head of Business Improvement Services and Acting S151 Officer emphasised that in line with the Actuary's calculations a recommendation will be made to Council to freeze the employer contributions at existing levels for the next two financial years.

#### **5. AUDIT COMMITTEE FORWARD WORK PROGRAMME**

The Interim Head of Business Improvement Services and Acting Section 151 Officer presented the Forward Work Programme for 2020 which provided Members with an opportunity to request additional items to be included for future meetings. He advised that the Council's Annual Performance Report will be presented to the Audit Committee at a future meeting, prior to consideration by Council. The Directorate Performance Assessments Report currently scheduled for the meeting on the 21st April 2020 will also be considered by Scrutiny and Cabinet.

Members noted the Forward Work Programme and the Chair thanked the Officer for the update.

## **6. CERTIFICATION OF GRANTS AND RETURNS 2018-19**

Ms G. Hawkins (Grant Thornton) presented her report which set out the arrangements for the External Auditors in certifying claims and returns for the Council under Paragraph 20 of Schedule 8 to the Government of Wales Act 2006. The purpose of the work undertaken was to certify individual claims and to answer the question: *'Does Caerphilly County Borough Council (the Council) have satisfactory arrangements in place to ensure the production of co-ordinated, accurate, timely and properly documented grant claims?'* In completing the certification work, the Auditors concluded *that while the Council had adequate arrangements in place for the submission of its claims, there is scope for improvement.* Work is continuing with the Council to support these improvements in 2019-20.

Members noted that for 2018-19, 11 grant claims and returns were certified (10 in 2017-18) and the Council submitted 91% of its 2018-19 grant claims on time. It was confirmed that all claims have been certified, at a total audit cost of £45,845 (£41,788 for 2017-18). The proportion of claims that were qualified was 2:11 which compares favourably with the long-term Welsh average of 1:4 for 2017-18, the most recent years for which all-Wales data is available.

The Committee were referred to Exhibit 5 which summarises the key issues behind each of the adjustments or qualifications that were made. They related to the areas of Housing Benefit and Authority Tax Subsidy, Teacher's Pension Return and free Concessionary Travel. The recommendations are set out in Exhibit 7. In respect of the error in Housing Benefits, it was recommended that staff receive refresher training in order to maximise quality control checks, with immediate effect.

Members discussed the contents of the report and Ms Hawkins responded to a number of questions raised. She considered that overall, there were not many issues this year and that this was a good report. The numbers of grants have decreased in recent years and it was confirmed that grants will continue to be available due to efficiency savings. Clarification was also provided in that the External Auditors do not audit grants under £100K and that the 2:11 qualified figure in relation to the all-Wales average is nothing for the Council to be concerned about.

The Chair thanked Ms Hawkins for presenting the report and for responding to questions during the course of the debate.

## **7. REGULATOR PROPOSALS FOR IMPROVEMENT PROGRESS UPDATE**

The Interim Head of Business Improvement Services and Acting Section 151 Officer presented the report. Members were provided with an update as to the progress against proposals or recommendations made by all regulators since the last update provided to the Audit Committee in January 2019. It also provided details on new proposals that have been added since that time.

Members were advised that 5 new recommendations have been added onto the register. There are currently 5 statutory recommendations, 10 proposals and 5 areas for improvement on the register, totalling 20. There are 9 proposals which are now considered to be actioned and completed and it was recommended that subject to Members' agreement, for these to be removed from the register. This would then leave 11 outstanding. Details of the proposals and recommendations are set out in paragraph 5.1 of the report.

It was noted that 3 reports had been received since the last update was provided, but only 1 has been put on the register as the other two are still to be formalised and presented to the relevant Scrutiny Committee. The reports are:

- Corporate Safeguarding arrangements for Children's Services (on the register).
- The Well-being of Future Generations 'Steps' examination on 'Preventing unnecessary admissions to hospital and facilitating timely discharges' which is part of the Wales Audit Office (WAO) work on how public bodies are implementing the Well-being of Future Generations Act (Wales) 2015.
- Environmental Health – Follow up review.

It was clarified that Wales Audit Office (WAO) issue proposals and recommendations. The difference between the two is that a proposal is a 'suggestion for improvement'. This means the Authority does not have to act on it, but if it is on the register it has been agreed that it will be acted upon. Recommendations are statutory, which means there is a 'statutory duty' in which to act upon the recommendation. Areas for Improvement are a new category and looks at how the Council has applied the Sustainable Development Principle in forming actions to deliver the Well-being Objectives.

Members discussed the financial resilience and the review of arrangements to address external Audit Inspections. Officers advised that the financial resilience proposal is almost complete with a set of dates scheduled early in the year for a 'Commercial Strategy' to be approved. It was explained that the Organisational Development Strategy was not completed by January 2020, however an Officer has now been appointed to undertake the role. The draft Strategy will be consulted upon and will then be considered by the Policy and Resources Scrutiny Committee and Cabinet thereafter. An update will be provided at the Audit Committee Meeting scheduled on the 9th June 2020.

It was explained that the Well-being of Future Generations 'steps' examination of 'improve the take up of Flying Start' will be shared with the Education Scrutiny Committee and an update will be provided to the Audit Committee thereafter. The Committee referred to the Corporate Safeguarding Report - agenda item 15 (Information Item). The report had been presented to the Social Services Committee in October 2019 but had not been called forward for discussion at this meeting. An update from G. Jenkins (Assistant Director – Children's Services) would be provided to the Committee following the meeting. A Member referenced the Savings Planning Report as set out in Appendix A which had been presented to Cabinet previously. The Officer advised that to strengthen financial planning arrangements, savings templates have been developed to capture detailed information on future savings proposals. These will include consideration of the Wellbeing of Future Generations (Wales) Act 2015. The savings templates were used for all savings proposals included in the Draft Budget Proposals for 2020/21. The format and content of the templates will be kept under review to ensure that they remain fit for purpose.

Members requested an update regarding the Asset Management (Land and Property) Strategy Review. The Officer advised that the Strategy goes back to September 2013. The Strategy had been updated and obtained Cabinet approval in May 2019. There are 22 Service Asset Management Plans (SAMPS) and 14 SAMPS have now been completed. The remaining 8 are in various stages of completion between 25%-75%. It is anticipated the proposal will be completed later this year as those that are due to be completed are signed off. After this the monitoring of the SAMPS will then move into day to day business. It was



agreed that further details shall be obtained from the Interim Head of Property Services and emailed to the Committee following the meeting.

The Chair thanked the Officer for delivering the report and responding to questions raised during the course of the debate.

Following consideration and discussion, it was moved and seconded that the recommendations in the report be approved. By a show of hands this was unanimously agreed.

RESOLVED that for the reasons contained in the Officer's Report, the 9 Proposals and Recommendations set out within Appendix A, are closed down due to completion.

## **8. CORPORATE RISK REGISTER (Q2 2019/20)**

The Interim Head of Business Improvement Services and Acting Section 151 Officer presented the report. Members were provided with an update of the Corporate Risk Register in accordance with the Council's Risk Management Strategy. The report also provided an update on the changes that have been made to the overall Performance Framework particularly in relation to risk.

It was explained 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 presented to Cabinet. Updates are also provided to Audit Committee, which has the critical role of reviewing and challenging the Risk Register and where relevant, resultant action plans for the Council's key strategic and corporate risks. The report contains the most recent information which had been considered by CMT on the 9th December 2019.

It was noted that no new risks have been added to the register since it was presented to Audit Committee on 15th October 2019. However, the key change is the Brexit Risk (CRR 01) which has become a Low risk. The Committee were advised to keep this item on the register for a further 11 months due to the uncertainty around Brexit. The Climate Change (CRR 04) risk has increased from Medium to High following discussions at the last meeting. All other risk levels have remained the same. Members discussed the risks referred to within the register and felt that on balance, the Brexit Risk should be categorised as Medium, due to the level of uncertainty and this proposal was unanimously supported by the Committee.

The Chair thanked the Officer for delivering the report and responding to questions raised during the course of the debate.

Following consideration and discussion and subject to the foregoing, it was moved and seconded that the recommendations in the report be approved. By a show of hands this was unanimously agreed.

RESOLVED that:

- (i) the Brexit Risk (CRR 01) currently categorised as Low Risk, is changed to Medium Risk;
- (ii) the content of the Corporate Risk Register and associated mitigating actions, be supported.

## **9. INFORMATION ITEMS (Agenda Items 9 – 15):**

- (i) Regulation of Investigatory Powers Act 2000.

- (ii) Annual Audit Letter - Caerphilly County Borough Council 2018-19.
- (iii) Caerphilly Certificate of Compliance - Audit of Caerphilly County Borough Council's Assessment of 2018-19 Performance.
- (iv) Officers Declarations of Gifts and Hospitality.
- (v) Six monthly update on the number of Complaints received under the Council's Corporate Complaints Policy.
- (vi) Corporate Governance Review Panel Minutes - 24th September 2019.
- (vii) Corporate Safeguarding Review Report.

The meeting closed at 3.40 pm.

Approved as a correct record and subject to any amendments or corrections agreed and recorded in the minutes of the meeting held on 9th June 2020, they were signed by the Chair.

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CHAIR

## AUDIT COMMITTEE – FORWARD WORK PROGRAMME

AUDIT COMMITTEE – 21ST OCTOBER 2020 AT 10.00AM			
TITLE	PURPOSE	KEY ISSUES	PRESENTING OFFICER
Financial Statements for 2019/20 – Verbal update from Grant Thornton.			Grant Thornton – External Auditors
Annual Internal Audit Report 2019/20.			Deb Gronow
Audit Wales 2020 Audit Plan and Update Letters – Caerphilly County Borough Council.			Steve Harris/Gareth Jones
Internal Audit Services Annual Audit Plan 2020/21.			Deb Gronow
Financial Sustainability Assessment – Caerphilly County Borough Council.			Gareth Jones
Financial Sustainability of Local Government as a Result of the COVID-19 Pandemic.			Steve Harris/Gareth Jones
<b>INFORMATION ITEMS</b>			
Regulation of Investigatory Powers Act 2000	To advise Members of the numbers of covert surveillance operations undertaken by the Council in accordance with the provisions of the Regulation of Investigatory Powers Act 2000 (RIPA)		Lisa Lane

## AUDIT COMMITTEE – FORWARD WORK PROGRAMME

Officers Declarations of Gifts and Hospitality	To provide the Audit Committee with the information regarding the Register of Employees' Interests Forms completed by officers of the Council (excluding Schools) regarding Gifts and Hospitality for the last quarter and a comparison with the previous three quarters.		Lynne Donovan
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### SPECIAL AUDIT COMMITTEE – 16TH NOVEMBER 2020 AT 2PM

	PURPOSE	KEY ISSUES	PRESENTING OFFICER
Audit Committee Assurances Over Management Processes and Arrangements			Steve Harris
Financial Statements for 2019/20.			Steve Harris/Grant Thornton

### AUDIT COMMITTEE – 26TH JANUARY 2021

TITLE	PURPOSE	KEY ISSUES	PRESENTING OFFICER
Audit Wales Report – the National Fraud Initiative in Wales 2018-20			Steve Harris
<b>INFORMATION ITEMS</b>			
Regulation of Investigatory Powers Act 2000	To advise Members of the numbers of covert surveillance operations undertaken by the Council in accordance with the provisions of the Regulation of		Lisa Lane

## AUDIT COMMITTEE – FORWARD WORK PROGRAMME

	Investigatory Powers Act 2000 (RIPA)		
Officers Declarations of Gifts and Hospitality	To provide the Audit Committee with the information regarding the Register of Employees' Interests Forms completed by officers of the Council (excluding Schools) regarding Gifts and Hospitality for the last quarter and a comparison with the previous three quarters.		L. Donovan
Corporate Complaints	To provide Members with an update on the number of complaints received under the Corporate Complaints Policy during 2020.	To update Members on the use of the Policy and Procedure to deal effectively with unacceptable, persistent or unreasonable actions by complainants.	Lisa Lane

Gadewir y dudalen hon yn wag yn fwiadol



## **AUDIT COMMITTEE – 21ST OCTOBER 2020**

**SUBJECT: ANNUAL INTERNAL AUDIT REPORT 2019/20**

**REPORT BY: ACTING INTERNAL AUDIT SERVICES MANAGER**

### **1. PURPOSE OF REPORT**

- 1.1 The purpose of this report is to inform the Audit Committee of the Internal Audit Manager's overall opinion on the Authority's Internal Control Systems derived from the work undertaken by Internal Audit Services during the 2019/20 financial year.

### **2. SUMMARY**

- 2.1 It is a requirement the Council's Financial Regulations, the Internal Audit Charter and the Public Sector Internal Audit Standards (PSIAS) that the Head of Internal Audit provides an annual report to support the Annual Governance Statement. The report should: -

- Include an opinion on the overall systems of internal controls.
- Present a summary of the audit work that has been undertaken on which this opinion is based.
- Draw attention to any issues which may impact on the level of assurance provided.

### **3. RECOMMENDATIONS**

- 3.1 That the Audit Committee notes the content of this report

### **4. REASONS FOR THE RECOMMENDATIONS**

- 4.1 To ensure that the Audit Committee is aware of the level of Internal Audit coverage during the 2019/20 financial and the overall opinion derived from undertaking this work.

### **5. THE REPORT**

- 5.1 Both the Council's Financial Regulations and the Internal Audit Charter set out the reporting requirements for Internal Audit Services and the Public Sector Internal Audit Standards (PSIAS) introduced in 2013 have also reinforced the links with corporate governance and the assurance framework.
- 5.2 The purpose of this report is to provide Members of the Audit Committee with an opinion or view of the robustness and effectiveness of the internal control systems and procedures in place within the organisation during the 2019/20 financial year.
- 5.3 The opinion is a key element of the annual governance review process and forms part of the published Annual Governance Statement.

- 5.4 The approach adopted for reviewing and evaluating the internal controls and processes revolves around a flexible well constructed plan that considers several factors such as risk, impact, nature and history etc. Audits undertaken are evaluated against pre-set criteria to provide a ranking which is used to feed into the overall assessment.
- 5.5 Information used within the assessment process can also be obtained from other work undertaken such as grant certification work, system advice, participation on working groups and special investigations etc. all of which provide audit staff with intelligence which can both inform the audit planning function and inform the overall assurance provided by the audit opinion.
- 5.6 The Audit Management Software system, MK Insights was introduced in 2019 and a significant amount of the Internal Audit Manager and the Group Auditor's time was invested in implementing and developing the system, including populating the audit universe, audit planning, developing audit work programmes and reporting and then training the staff to use the system. The system went live with a phased approach commencing in September 2019 and management were continuing to work with the software providers in developing management reporting up until late March 2020 when work was suspended due to the impact of Covid-19 and the national lockdown. Work on MK Insights will continue into 2020/21 in order to fully implement the system over all audits and to introduce and embed the integrated recommendation tracking system and management portal.
- 5.7 A number of large or complex pieces of work, some of which relate to work commenced in 2018/19, have taken resource away from previously planned areas for 2019/20; however, as previously discussed with the Audit Committee through having the ability to prioritise and reschedule, the Team is able to respond to emerging or new risks.
- 5.8 The Head of Financial Services & S151 Officer took the decision to suspend the general work of the Internal Audit Section in March 2020 due to the need to support other priority services directly linked to Covid-19. As a result a number of audits remained uncompleted at the year end and these will be prioritised when the audit programme recommences during the 2020/21 financial year.
- 5.9 The audits completed, opinions generated and recommendations made, used to generate the overall opinion are shown in tables below (5.16, 5.17 and 5.18) which also highlight the extent of the work completed and its diversity.
- 5.10 During 2019/20 there were a number of ongoing investigations, three within schools and the other relating to the Council's Waste Service. The school issues are isolated incidents relating to individual members of staff and are not something that is common across our school estate. Once these investigations are concluded any changes or system improvements will be addressed and appropriate action plans agreed. The Waste Service investigation relates to irregularities with the working practices of operatives and potential weaknesses in respect of contract management. This investigation is yet to be concluded but in response to the findings to date a Waste Review Group has been established to review areas such as working practices, structures and service standards and several improvements have been implemented in relation to contract management.
- 5.11 Audits have been carried out over a wide range of areas and establishments in order to gain an overall opinion of the effectiveness of the internal control system operating within the Council. Systems audits cover the key financial systems but may also address non-financial systems which are considered to be high risk or high impact. In the main systems or processes related to cash, income, payments or where high transaction volumes exist are covered in this way. Council operational establishments i.e. Schools etc. are audited on a rotational basis. The control systems and processes in establishments cover most of the administrative/financial operations carried out at the establishment, some of which feed into corporately managed systems which are audited centrally.



- 5.12 Some high risk areas traditionally covered by systems work received audit coverage via the evaluation and investigation of data matches identified from the National Fraud Initiative (NFI) data upload in 2018. Data matches were released in January 2019 and this work was carried forward into 2019/20 for completion. Detailed outcomes of the NFI will be the subject of a separate report once these have been collated.
- 5.13 Where findings are reported, each is risk rated and recommendations are made to management, who are required to indicate the actions they are planning to take to address the findings noted. These form part of action plans which are either followed up as a separate process or built into the planning of the next audits of particular systems.
- 5.14 The individual findings are evaluated and these then inform an overall opinion for the Audit in line with the report to Audit Committee in October 2018.
- 5.15 Furthermore, in line with PSIAS, systems reports now also contain a “direction of travel” indicator to show whether there has been an improvement/ reduction in the nature or type of risks reported.
- 5.16 The following table summarises the opinions reported in respect of finalised audit assignments in 2019/20. Not all audits generate an opinion for example grants certification, however any issues found are reported to management as part of the audit work. In accordance with the recommendations of the External Auditors the number of recommendations and the risk ratings for each audit are also reported in the table.

#### Finalised audits

Audit Title	Opinion	High Risk	Medium Risk	Merits Attention
		Number	Number	Number
Bryn Awel Primary	In need of improvement	7	7	0
YG Gilfach Fargoed	In need of improvement	2	3	0
Hendredenny Primary	Effective with opportunity for improvement	0	8	0
Cwrt Rawlin Primary	Effective with opportunity for improvement	0	8	2
Tourist Information Centre	In need of improvement	1	1	0
Cwmfelinfach Primary	Effective with opportunity for improvement	0	7	0
Brooklands Day Centre	In need of improvement	1	5	1
Bargoed Library	Effective with opportunity for improvement	0	2	4
Machen Primary	Effective with opportunity for improvement	0	13	0
Brondeg Day Centre	In need of improvement	2	4	0
Ystrad Mynach Primary	Effective with opportunity for improvement.	0	4	3
Glyngaer Primary	Effective with opportunity for improvement.	0	9	0
Rhydri Primary	In need of improvement	4	6	1
YG Trelyn	Effective with opportunity for improvement			
Cwmaber Juniors	Effective with opportunity for improvement.	0	2	1
Blackberry Catering	In need of Improvement	1	3	1
Winding House	In need of Improvement	2	6	1
Trinant Primary	Effective with opportunity for	0	3	1

Audit Title	Opinion	High Risk	Medium Risk	Merits Attention
	improvement.			
Springfield Day Centre	Effective with opportunity for improvement.	0	4	0
Castle View HFE	Effective with opportunity for improvement.	0	8	0
Leavers and IT processes	Effective with opportunity for improvement.	0	8	1
Education Improvement Grant (£6m)	Unqualified certification	N/A	N/A	N/A
Pupil Deprivation Grant	Unqualified certification	N/A	N/A	N/A
Supporting People Finance (£6m)	Unqualified certification	N/A	N/A	N/A
Supporting People Outcomes	Unqualified certification	N/A	N/A	N/A
CCTV (Public Open Space) Scheme 2019-20	Effective/ Effective with Opportunity for improvement	0	10	5
Youth Service Grant	Unqualified certification	N/A	N/A	N/A
Social Services - External Providers deceased residents data match	In need of Improvement	0	9	2
Homelessness	Effective with opportunity for improvement	1	20	1
NFI 2018/2020	All high risk matches reviewed	N/A	N/A	N/A
Rents High Level controls (Calculation and collection of rents)	Effective	0	0	0
Rents High Level controls (Arrears management and recovery)	Effective	0	0	0

5.17 The table below provides the Audit Committee with an updated position for audit reviews completed and reported from previous periods. Showing progress made in the implementation of agreed recommendations it will enable the Committee to see that satisfactory progress is being made and also review those areas where additional focus may be required. Revisits / follow up reviews and action plan reviews are normally planned to take place when the proposed timescales have elapsed and the actions proposed have been implemented. However, in some cases workload, service area constraints and other issues can impact on the timing of these reviews.

#### Outstanding recommendations from previous periods

Audit Review Title	Rating	Reviewed in 19/20	Revised Rating
Islwyn High	Inadequate	Yes	Effective with opportunity for improvement
Park Primary	In need of	Yes	Effective with

Audit Review Title	Rating	Reviewed in 19/20	Revised Rating
	improvement		opportunity for improvement
Risca Primary	In need of improvement	Yes	Effective with opportunity for improvement
White Rose Primary	In need of improvement	Yes	Some improvement noted – working with the school to further improve
YG Bro Allta	In need of improvement	Yes	Effective with opportunity for improvement
Llanfabon Infants	In need of improvement	Yes	Effective with opportunity for improvement
Gilfach Fargoed Primary	In need of improvement	Yes	Effective with opportunity for improvement
Bryn Awel Primary	In need of improvement	Yes	Some improvement noted – working with the school to further improve
YG Gilfach Fargoed	In need of improvement	Yes	Some improvement noted – working with the school to further improve
Visit Caerphilly	In need of Improvement	Visit deferred	O/S
Brooklands day centre	In need of Improvement	Visit planned – now deferred	O/S
Rhydri Primary	In need of Improvement	Visit planned – now deferred	O/S
NFI payroll	In need of improvement	Followed up in 19/20 -in progress	O/S
WHQS data Compliance	In need of improvement	Yes	Improvements noted
Treasury Mgt	In need of improvement	Yes	Actions in place to address issues
School Transport - Taxis	Unsatisfactory/ In need of improvement	Yes	Considerable revisions to working practices have been proposed which should achieve improvements.
Section 17 payments Compliance	In need of improvement	O/S	
Customer and Digital Services – cash handling processes	In need of improvement	Not able to progress. Service area now undergoing changes so will a new review will be needed once working practices have been developed	

year. It is planned to complete these when possible although allowances will have to be made for changes in working practices and other considerations arising from the Covid-19 pandemic. These are shown in the table below.

#### Audit reviews started but ongoing at end of period

Audit	Status
Payroll -deductions high level control review	In progress
Payroll -employee existence high level control review	In progress
Payroll -leavers high level control review	In progress
Payroll -starters high level control review	In progress
Payroll -variation to pay high level control review	In progress
St James Primary	In progress
YG Cwm Derwen	In progress
Schools IT inventory control and recording themed audit (20 schools)	In progress
Purchase ledger creditor payments high level control review	In progress
Trinity Fields School	Deferred due to COVID
Penllwyn Primary	In Progress
YG Bro Sannon	In Progress
Blackwood Primary	In Progress
Idris Davies School	In Progress
Pontllanfraith Primary	In Progress
Compliance with Flexible Working Policy	In Progress
VAT mismatch	In progress
NFI payroll match to PL	In progress

5.19 Other audit work undertaken during the period under review included regularity work, advisory work, supporting working parties and advising on best practise in relation to new systems and processes.

5.20 A number of Welsh Government grants are received by the Authority that are subjected to a review of accuracy and compliance with terms and conditions requiring a year-end certification. Significant revenue streams arise from these grants.

5.21 Audit staff supported the IT Section in retaining the authority's PCI (Payment Card Industry) accreditation. This required certain systems and processes to be in place and for these to be reviewed and checked at least annually. Failure to adhere to these Standards could result in the withdrawal of the facility to accept card income and the imposition of fines and penalties. In 2019/20 all locations that accept debit and credit card income were visited and reminders of best practice and any breaches noted were reported to site managers and a full report was issued to the PCI forum and IT Security Officer. Recommended improvements were put in place and the Authority remains fully compliant with the Standard.

5.22 Audit staff had continued to provide advice and guidance to the Purchase Ledger Team in respect of best practices in administering and complying with the requirements of HMRC in paying contractors and limited companies and identifying instances of "deemed employment". This is considered to be a high risk area. Regulations issued are recent and case law

and practice is emerging in this area whilst fines and penalties imposed by HMRC for non-compliance have the potential to be major.

- 5.23 Primary school meal income amounts to over £1million per annum and issues relating to the administration and collection are a recurring theme in schools. Further ongoing advice and support has been provided to Catering Services and individual schools as the cashless primary school meals system was embedded in the pilot schools. The rollout of cashless catering is proposed for the wider school estate during the 2020/21 financial year.
- 5.24 The Group Auditor was assigned as the Corporate Finance Information Governance Steward during 2017/18, a role that has continued into 2019/20.
- 5.25 One member of staff was seconded full time to the housing department to assist with the data validation exercise being undertaken as a result of previous internal audit review of WHQS. This continued until February 2020 when the member of staff retired.
- 5.26 Internal Audit Services has continued to undertake final account reviews and other contract audit work with 73 contractors' final accounts being reviewed during the year (63 in 2018/19). These had a value of £10.8m (£23.5m 2018/19).
- 5.27 Anonymous letters, reports and complaints are received and assessed within Internal Audit to ensure that they are properly considered and if necessary, they are then passed to appropriate departments for further investigation or review. Resource demand for this process is difficult to forecast due to their very nature. During the year there were 48 letters logged (59 in 2018/19). These communications cover a range of possible issues and include highways, planning, anti-social behaviour, tipping, animal control, neighbour issues, child protection and safeguarding and possible other illegal activities. Each report is assessed individually and referred appropriately. Where allegations relate to criminal activities, benefit fraud, staff irregularities or safeguarding immediate referrals are made to relevant parties.
- 5.28 Internal Audit also log and record cheques returned to the Authority. These are scrutinised to ensure they do not relate to breakdowns in control processes. 40 were logged in 2019/20 (61 in 2018/19). Any breakdown in processes identified can then be followed up and investigated if necessary. Resources for this process are difficult to forecast, however these numbers are showing a continued downward trend which is to be expected as the number of cheque payments issued by the Council reduces.
- 5.29 The Public Sector Internal Audit Standards (PSIAS) came into force on the 1<sup>st</sup> April 2013 and consist of the following: -
- Definition of internal audit.
  - Code of Ethics.
  - Standards for the Professional Practice of Internal Auditing.
- 5.30 The Standards aim to promote further improvement in the professionalism, quality and effectiveness of Internal Audit across the public sector. The Standards require that each public sector Internal Audit Service has in place robust arrangements for quality assurance and requires that Internal Audit is subject to an external assessment at least once every 5 years.
- 5.31 The results of an external assessment in 2017/18 were reported to the Audit Committee in January 2018. The assessment noted that there were no significant deviations from the Standards but a small number of recommendations to improve conformance were made and these are being progressed. The Internal Audit Service continued to conform to the Standards during 2019/20 and no significant deviations have been noted.

5.32 The Internal Audit Manager's opinion is that overall the Council's systems and control procedures are effective.

## **6. ASSUMPTIONS**

6.1 There are no assumptions in this report as its content reflects actual audit activity undertaken during the 2019/20 financial year.

## **7. LINKS TO POLICIES**

7.1 The work of Internal Audit Services provides assurance on the robustness of internal controls and the corporate governance arrangements operating within the Authority and identifies areas for improvement.

7.2 The Audit universe has also been mapped to the Corporate Well-being Objectives where relevant in order to link the relevance of the audit work to those Objectives.

## **8. WELL-BEING OF FUTURE GENERATIONS**

8.1 Strong corporate governance arrangements are a key element in ensuring that the Well-being Goals within the Well-being of Future Generations Act (Wales) 2015 are met.

8.2 Strong corporate governance arrangements are also an essential element of ensuring that the Council's key priorities are effectively delivered and this in turn contributes to the following Well-being Goals within the Well-being of Future Generations Act (Wales) 2015: -

- A prosperous Wales.
- A resilient Wales.
- A healthier Wales.
- A more equal Wales.
- A Wales of cohesive communities.
- A Wales of vibrant culture and thriving Welsh Language.
- A globally responsible Wales.

## **9. EQUALITIES IMPLICATIONS**

9.1 There are no equalities implications.

## **10. FINANCIAL IMPLICATIONS**

10.1 There are no direct financial implications arising from this report.

## **11. PERSONNEL IMPLICATIONS**

11.1 There are no personnel implications.

## **12. CONSULTATIONS**

12.1 Any comments received from consultees have been included within the report.

## **13. STATUTORY POWER**

## 13.1 Local Government Act 2000

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Consultees: S. Harris, Head of Financial Services & S151 Officer  
R. Edmunds, Director of Education & Corporate Services

Gadewir y dudalen hon yn wag yn fwriadol





## AUDIT COMMITTEE – 21ST OCTOBER 2020

**SUBJECT:       AUDIT WALES 2020 AUDIT PLAN AND UPDATE LETTERS – CAERPHILLY COUNTY BOROUGH COUNCIL**

**REPORT BY:    HEAD OF FINANCIAL SERVICES & S151 OFFICER**



1. Under normal circumstances the attached 2020 Audit Plan and update letters would have been presented at the Audit Committee meeting that was scheduled for the 9<sup>th</sup> June 2020.
2. Due to the suspension of meetings as a consequence of Covid-19 the Plan and update letters were emailed to the 13 Members of the Audit Committee on the 8<sup>th</sup> June 2020 with a request that responses be received confirming approval of the documents or otherwise.
3. A total of 9 responses were received from Members with 7 confirming approval of the documents and 2 neither confirming nor disagreeing.
4. To ensure that we have a minuted record Members of the Audit Committee are asked to formally endorse the Audit Wales 2020 Audit Plan and update letters.

Author:       S. Harris, Head of Financial Services & S151 Officer  
Tel: 01443 863022 Email: harrisr@caerphilly.gov.uk

Appendices:

- 1. Audit Wales 2020 Audit Plan – Caerphilly County Borough Council
- 2. 0Audit Wales Update Letter – 29<sup>th</sup> April 2020
- 3. Audit Wales Update Letter – 5<sup>th</sup> June 2020

Gadewir y dudalen hon yn wag yn fwriadol

## **2020 Audit Plan – Caerphilly County Borough Council**

Audit year: 2019-20

Date issued: May 2020

Document reference: 1890A2020-21

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

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We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

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# Summary report

## Our duties

- 1 We complete work each year to meet the following duties.

## Audit of financial statements

- 2 Each year we audit Caerphilly County Borough Council's (the Council) financial statements to make sure that public money is being properly accounted for.

## Value for money

- 3 The Council has to put in place arrangements to get value for money for the resources it uses, and we have to be satisfied that it has done this.

## Continuous improvement

- 4 The Council also has to put in place arrangements to make continuous improvements and we also check if it has done this.

## Sustainable development principle

- 5 Public bodies need to make sure that when making decisions they consider the impact they could have on people living in Wales now and in the future. We have to assess the extent to which they are doing this.

## Impact of COVID-19

- 6 The COVID-19 national emergency has had an unprecedented impact on the UK and will significantly impact on local authorities' preparation of the 2019-20 accounts and our audit work, both financial audit and performance audit.
- 7 Due to the UK Government's restrictions on movement and anticipated sickness absence levels, we understand that many local authorities will not be able to prepare accounts in line with the timetable set out in the Accounts and Audit (Wales) Regulations 2014. As well as the delivery of the Auditor General's statutory responsibilities, our priority is to ensure the health, safety and wellbeing of Audit Wales staff, their families and those of our partners elsewhere in public service at this incredibly challenging time.
- 8 In response to government advice and subsequent restrictions, we have ceased all onsite work at audited bodies and our own offices. Audit Wales staff are working from home and we will continue to make whatever progress we can whilst working and engaging with you remotely.
- 9 Consequently, this audit plan does not include any details in relation to completion of our audit work. We will discuss a timetable with the authority once the current

national emergency situation is over and the authority is in a position to prepare its accounts.

- 10 We commit to ensuring that our audit work will not have a detrimental impact on you at a time when public bodies are stretched and focused on more important matters.

## Audit of financial statements

- 11 It is my responsibility to issue a certificate and report on the financial statements which includes an opinion on their 'truth and fairness':
- we plan to give an opinion on the Council's financial statements.
  - assess whether the Council's Annual Governance Statement and Narrative Report were prepared in line with the CIPFA Code and relevant guidance. We also review whether they are consistent with the financial statements prepared by the Council and with our knowledge of the Council.
- 12 In addition to our responsibilities for auditing the Council's financial statements, we also have responsibility for:
- certifying a return to the Welsh Government which provides information about the Council to support the preparation of Whole of Government Accounts;
  - responding to questions and objections about the accounts from local electors (additional fees will be charged for this work, if necessary); and
  - the certification of a number of grant claims and returns by various dates as agreed with the funding bodies.
- 13 There have been no limitations imposed on me in planning the scope of this audit.
- 14 Further information about our work is provided in our Statement of Responsibilities, which is available on our website ([www.audit.wales](http://www.audit.wales)).

## Financial Statement Audit Risks

- 15 The following table sets out the significant risks I have identified for the audit of the Council at the planning stage of the audit.

**Exhibit 1: financial statement audit risks**

This table summarises the key financial statement audit risks identified at the planning stage of the audit.

Audit risk	Proposed audit response
<b>Significant risks</b>	
<p>The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>• test the appropriateness of journal entries and other adjustments made in preparing the financial statements;</li> <li>• review accounting estimates for biases; and</li> <li>• evaluate the rationale for any significant transactions outside the normal course of business.</li> </ul>
<p>There is a risk of material misstatement due to fraud in revenue recognition and as such is treated as a significant risk [ISA 240.26-27].</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks at the Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>Therefore, we do not consider this to be a significant risk for the Council.</p>



Audit risk	Proposed audit response
<b>Significant risks</b>	
<p><b>Valuation of land and buildings</b></p> <ul style="list-style-type: none"> <li>The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</li> </ul>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>evaluate the competence, capabilities and objectivity of the valuation expert;</li> <li>write to the valuer to confirm the basis on which the valuation was carried out;</li> <li>challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding;</li> <li>test revaluations made during the year to see if they had been input correctly into the Council's asset register; and</li> <li>evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to the current value at the year-end.</li> </ul>
<p><b>Impact of COVID-19</b></p> <p>The COVID-19 national emergency will see a significant delay in the preparation and publication of accounts. There is a risk that the quality of the accounts and supporting working papers, eg around estimates and valuations, may be compromised leading to an increased incidence of errors. Quality monitoring arrangements may be compromised due to timing issues and/or resource availability.</p>	<p>We will discuss your closedown process and quality monitoring arrangements with the accounts preparation team and make arrangements to monitor the accounts preparation process. We will help to identify areas where there may be gaps in arrangements.</p>

Audit risk	Proposed audit response
<b>Other areas of audit attention</b>	
Introduction of IFRS 16 Leases has been deferred until 2021-22. There is considerable work required to identify leases, and the COVID-19 national emergency may pose implementation risks.	My team will undertake some early work to review preparedness for the introduction of IFRS 16 Leases.

## Performance audit

16 In addition to our Audit of Financial Statements we also carry out a programme of performance audit work to discharge the Auditor General's duties set out on **page 4** in relation to value for money, continuous improvement and sustainable development. For 2020-21 this work is set out below.

### Exhibit 2: Performance Audit Programme 2020-21

This table summarises the performance audit programme for 2020-21

Performance audit programme	Brief description
Improvement audit and assessment work including improvement planning and reporting audit	Audit of discharge of duty to publish an improvement plan, and to publish an assessment of performance.
Well-being of Future Generations Act (Wales) 2015 (WFG Act) examination	A project common to all local councils that will focus on the theme of 'prevention'.
Assurance and Risk Assessment	Project to identify the level of audit assurance and/or where further audit work may be required in future years in relation to risks to the Council putting in place proper arrangements to secure value for money in the use of resources.

Performance audit programme	Brief description
Financial Sustainability	A project common to all local councils that will assess financial sustainability in the light of current and anticipated future challenges building on work undertaken during 2019-20.
Local risk-based work including follow up reviews	To be confirmed in due course.

## Certification of grant claims and returns

17 I have been requested to undertake certification work on the Council's grant claims and returns as set out in **Exhibit 3**.

### Exhibit 3: summary of grant claim certification work

This table summarises my 2019-20 programme of grant claim certification work

Name of scheme	Period of scheme	Total/annual expenditure	Significant issues identified
Housing Benefit Subsidy	2019-20	£57,973,221	<ul style="list-style-type: none"> <li>• A number of issues were identified, which resulted in a qualification, including: <ul style="list-style-type: none"> <li>– Rent Allowances</li> <li>– Rent Rebates – Total Expenditure (Benefit Granted) – this is an error that has also been identified in prior years, where the average weekly income was calculated incorrectly, this led to an extrapolated overstatement of £464.09 with a corresponding understatement in cell 113.</li> </ul> </li> </ul>

Name of scheme	Period of scheme	Total/annual expenditure	Significant issues identified
Housing Benefit Subsidy	2019-20	£57,973,221	<ul style="list-style-type: none"> <li>• A number of issues were identified, which resulted in a qualification, including:               <ul style="list-style-type: none"> <li>– Rent Rebates – Total Expenditure (Benefit Granted) – state retirement pension was uprated at a standard rate of 3%, however not all elements had risen by 3% therefore the error resulted in underpaid benefit.</li> <li>– Modified Schemes Subsidy – Expenditure due to voluntary disregarding of War Disablement or War Widow’s Pension – testing identified that the authority miscalculated and overstated the claimant’s pension resulting in an underpayment of benefit.</li> </ul> </li> </ul>
Section 33 NHS (Wales) Act 2006 Pooled Budgets – Gwent Frailty	2019-20	£16,451,708	Claim was qualified due to late certification by RFO.

Name of scheme	Period of scheme	Total/annual expenditure	Significant issues identified
Section 34/194 NHS (Wales) Act 2006 Money Transfers – Section 28a Annual Voucher – Wanless	2019-20	£1,739,344	N/A
Section 34/194 NHS (Wales) Act 2006 Money Transfers – Section 28a Annual Voucher – Learning Disabilities	2019-20	£934,850	N/A
Non-Domestic Rates return	2019-20	£43,951,545	N/A
Teachers' Pension return	2019-20	£14,867,994	An error in the data collection spreadsheet caused several variances between percentage tiers. This resulted in amendments to the claim form, however this had no impact on the total of the return.

## Fee, audit team and timetable

- 18 My fees and planned timescales for completion of the audit are based on the following assumptions:
- the financial statements are provided in accordance with a timescale to be agreed following the end of the COVID-19 national emergency, to the quality expected and have been subject to a robust quality assurance review;
  - information provided to support the financial statements is in accordance with the agreed audit deliverables document;

- appropriate accommodation and facilities are provided to enable my audit team to deliver the audit in an efficient manner;
- all appropriate officials will be available during the audit;
- you have all the necessary controls and checks in place to enable the Responsible Financial Officer to provide all the assurances that I require in the Letter of Representation addressed to me;
- Internal Audit's planned programme of work is complete and management has responded to issues that may have affected the financial statements; and
- set out the extent to which you intend to rely on Internal Audit's work and where reliance is to be placed on the work of other auditors, specialists, etc.

19 If I do receive questions or objections, I will discuss potential audit fees at the time.

## Fee

20 Your estimated fee for 2020 is set out in **Exhibit 4**. There have been some small changes to my fees rates for 2019, however, my audit teams will continue to drive efficiency in their audits to ensure any resulting increases will not be passed to you. This represents a 0.2% decrease compared to your actual 2019 fee.

### Exhibit 4: audit fee

This table sets out the proposed audit fee for 2020, by area of audit work, alongside the actual audit fee for last year.

Audit area	Proposed fee (£) <sup>1</sup>	Actual fee last year (£)
Audit of accounts <sup>2</sup>	250,000	250,000
Performance audit work <sup>3</sup>	104,700	104,815
Grant certification work <sup>4</sup>	45,000	45,845
<b>Total fee</b>	<b>399,700</b>	<b>400,660</b>

21 Planning will be ongoing, and changes to my programme of audit work and therefore my fee, may be required if any key new risks emerge. I shall make no changes without first discussing them with the Council.

22 Further information on my [fee scales and fee setting](#) can be found on our website.

<sup>1</sup> Notes: The fees shown in this document are exclusive of VAT, which is not charged to you.

<sup>2</sup> Payable November 2019 to October 2020.

<sup>3</sup> Payable April 2020 to March 2021.

<sup>4</sup> Payable as work is undertaken.

## Audit team

23 The main members of my team, together with their contact details, are summarised in **Exhibit 5**.

### Exhibit 5: my audit team

This table lists the members of the local audit team and their contact details.

Name	Role	Contact number	E-mail address
Huw Rees	Engagement Director and Engagement Lead (Performance Audit)	029 2032 0599	<a href="mailto:huw.rees@audit.wales">huw.rees@audit.wales</a>
Barrie Morris	Engagement Lead – Financial Audit	011 7305 7708	<a href="mailto:barrie.morris@uk.gt.com">barrie.morris@uk.gt.com</a>
Grace Hawkins	Audit Manager (Financial Audit)	029 2034 7542	<a href="mailto:grace.e.hawkins@uk.gt.com">grace.e.hawkins@uk.gt.com</a>
Oscar Edwards	Audit Lead (Financial Audit)	029 2034 7607	<a href="mailto:oscar.r.edwards@uk.gt.com">oscar.r.edwards@uk.gt.com</a>
Non Jenkins	Audit Manager (Performance Audit)	029 2032 0595	<a href="mailto:Non.Jenkins@audit.wales">Non.Jenkins@audit.wales</a>
Gareth Jones	Audit Lead (Performance Audit)	029 2032 0548	<a href="mailto:Gareth.Jones@audit.wales">Gareth.Jones@audit.wales</a>

## Timetable

- 24 We will continue to undertake such remote work as is possible during the COVID-19 national emergency. However, as set out above, we will not be in a position to agree a timetable with you until the COVID-19 national emergency has passed.
- 25 Therefore, we will report on a timetable for our audit work in due course.
- 26 I can confirm that my team members are all independent of the Council and your officers. In addition, I am not aware of any potential conflicts of interest that I need to bring to your attention.







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We welcome correspondence and telephone calls in Welsh and English.  
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.

Appendix 2

Christina HARRY, Chief Executive  
Caerphilly County Borough Council

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Cardiff / Caerdydd  
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**By e-mail**

**Reference:** HR20-02

**Date issued:** 29 April 2020

Dear Christina,

### **Annual Audit Plan 2020 – Impact of COVID-19**

The COVID-19 national emergency has had an unprecedented impact on the UK and will significantly impact on public bodies' preparation of the 2019-20 accounts and our audit work, both financial audit and performance audit.

Due to the UK Government's restrictions on movement and anticipated sickness absence levels, we understand that many public bodies will not be able to prepare accounts in line with the timetables set out.

Alongside the delivery of the Auditor General's statutory responsibilities, our priority is to ensure the health, safety and well-being of Audit Wales staff, their families and those of our partners elsewhere in the public service at this incredibly challenging time.

In response to the government advice and subsequent restrictions, we have ceased all on site work at audited bodies and our own offices have closed. Audit Wales staff are working from home and we will continue to make whatever progress we can whilst working and engaging with you remotely.

We commit to ensuring that our audit work will not have a detrimental impact on you at a time when public bodies are stretched and focused on dealing with the COVID-19 national emergency.

### **Amendments to the audit plan issued 14 April 2020**

In light of the above, the audit plan issued to you on 14 April 2020 will need to be amended.

## Audit of accounts

### CIPFA/LASAAC Code of Accounting Practice

You will be aware that the CIPFA/LASAAC Code Board recently considered a proposed Code Update 2019-20 that would have disappplied large parts of the 2019-20 Code. After discussion, the CIPFA/LASAAC Code Board decided not to adopt the proposed Code Update. Therefore, the 2019-20 Code (the Code) will apply in full for this year. We understand that the authority is working towards preparing accounts in accordance with the full Code.

### Audit risks

As a result of the COVID-19 national emergency, we need to update our assessment of audit risks. The schedule at [Annex A](#) replaces Exhibit 1 in the 2020 audit plan.

### Potential audit issues

We are aware of concerns expressed by a number of local authorities about various aspects of the accounts.

Specific areas of concern raised with us include:

- Increased use of estimates. Due to the UK lockdown, authorities may be required to use more estimations for their accounts than in previous years. Our auditors are used to dealing with estimates and applying auditing standards in relation to estimates. We will discuss with you the key assumptions and evidence bases underlying estimates and will do this at an early stage.
- Asset valuations. Authorities have raised concerns about professional valuers applying disclaimers to their valuations and the potential impact on audit opinions. We will discuss these valuations and any necessary disclosures related to the valuations with you to ensure that the financial statements as a whole present a true and fair view.
- Pensions valuations. Due to the significant movements in investment markets, there are concerns over whether valuations provided by actuaries will be acceptable. Our audit process includes the use of a consulting actuary to provide audit assurance over the methodology and assumptions used by actuaries in providing data for IAS19 disclosures. We will review your actuary's IAS19 reports and our consulting actuary's assessment and discuss any concerns with you at an early stage.
- Removal of disclosure notes to simplify the accounts preparation process. We have been asked for our views on the potential for excluding disclosure notes where it is felt that the notes add limited value to the user of the accounts. Examples quoted include the remuneration notes and related party disclosures. The remuneration notes are required by statute and therefore cannot be removed from the accounts. For the other notes, we draw your attention to the Code's provisions related to materiality. The

Code sets out that omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. The nature or size of the item, or a combination of both, could be the determining factor. The Authority should consider the Code's provisions related to materiality when reviewing the disclosure notes and discuss any concerns with the audit team. Further detail on materiality can be found in the following paragraphs in the Code: 1.7.1, 2.1.2.14, 3.3.2.4, 3.4.2.7 and 3.9.2.17.

If you have any further areas of concern, please raise these with your audit team as soon as possible. Our auditors will seek to be pragmatic about the timely provision of information and evidence and sympathetic in our verbal and written communication and reporting on issues brought about by current events.

However, we must continue to undertake our audit work in accordance with auditing standards. We will seek to obtain sufficient audit evidence required to form unqualified audit opinions on the financial statements.

#### Audit timetable

In respect of our accounts work, we are aware that there may be difficulties in meeting the accounts preparation and publication dates set by the Accounts and Audit (Wales) Regulations 2014. Welsh Government have indicated that the Regulations will not be amended as they already provide sufficient flexibility to deal with any delays resulting from COVID-19.

The Regulations require the publication of a notice where the authority does not expect to achieve the dates specified by the Regulations. I have included further detail in [Annex B](#) and example notices in [Annex C](#) that the Authority may wish to consider using.

The requirements for the exercise of electors' rights under the Public Audit (Wales) Act 2004 continue to apply. This presents some practical difficulties while lockdown restrictions still apply e.g. public access to the authority's accounting records.

Therefore, the audit team will discuss with you an appropriate timetable for public inspection when we have a clear idea of the date on which the accounts will be available and when lockdown restrictions have been sufficiently relaxed.

The audit team will issue an audit notice in due course setting out the appointed date.

This may mean that there is a delay before we can issue our audit opinion.

We will need to discuss any amendments to the timetables for the production and audit of accounts with you but will continue to work as flexibly as we can. It will be vital that this engagement continues over the next few months, against what will doubtless be a fast-changing backdrop. My assessment is that our ability to meet revised audit completion dates will mainly depend on:

- the extent to which remote working and auditing is possible if the current lockdown restrictions are not lifted;

- the quality of the draft accounts and supporting working papers made available to us (driven in part by the extent of any pre-audit management reviews of that material);
- the continued availability of audited body staff to respond promptly to audit queries (given the potential pressures of sickness absences, carer and back-filling responsibilities etc);
- the continued availability of Audit Wales staff to conduct the audit work; and
- the ability of those charged with governance to convene (potentially on a virtual basis) to approve accounts.

We will of course be keeping a very close eye on all of these factors in the coming weeks and exploring options to overcome potential barriers to timely completion wherever possible, and will keep you and your team fully up to speed with any developments in this area.

### **Programme of performance work**

Our annual audit plan also set out a programme of performance audit work at the Caerphilly County Borough Council. On 18 March 2020, the Auditor General wrote to the Chief Executive explaining that, following Government guidance, he had decided to suspend all on-site performance audit work with immediate effect. We will make as much progress as possible with these activities by working remotely, if appropriate. However, the COVID-19 outbreak will have an inevitable impact on the delivery of our programme of performance audit work. We are keeping this under on-going review and will communicate further information on any revisions to our programme, timings and performance audit outputs when more is known about the duration of the COVID-19 restrictions and the wider impact of the outbreak on the local government sector.

We will provide further updates as and when necessary. In the meantime, if you have any questions, please contact one of our audit team.

Yours sincerely



Huw Rees  
Engagement Director

## Annex A: Amended financial statement audit risks

The following exhibit replaces Exhibit 1 in the audit plan issued on 14 April 2020.

Financial statement audit risks

This table summarises the key financial statement audit risks identified at the planning stage of the audit.

Audit risk	Proposed audit response
<b>Significant risks</b>	
<p>The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>• test the appropriateness of journal entries and other adjustments made in preparing the financial statements;</li> <li>• review accounting estimates for biases;</li> <li>• evaluate the rationale for any significant transactions outside the normal course of business.</li> </ul>
<p>There is a risk of material misstatement due to fraud in revenue recognition and as such is treated as a significant risk [ISA 240.26-27].</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks at the Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>

	<p>Therefore, we do not consider this to be a significant risk for Caerphilly County Borough Council.</p>
<p><b>Valuation of land and buildings</b></p> <p>The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert;</li> <li>• write to the valuer to confirm the basis on which the valuation was carried out;</li> <li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding;</li> <li>• test revaluations made during the year to see if they had been input correctly into the Council's asset register; and</li> <li>• evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.</li> </ul>
<p><b>Valuation of Pension Fund Net Liability</b></p> <p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>• identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether</li> </ul>



	<p>they are sufficient to mitigate the risk of material misstatement;</p> <ul style="list-style-type: none"> <li>• evaluate the competence, expertise and objectivity of the actuaries who carried out your pension fund valuations. They will gain an understanding of the basis on which the valuations are carried out;</li> <li>• undertake procedures to confirm the reasonableness of the actuarial assumptions made; and</li> <li>• check the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial reports from your actuaries.</li> </ul>
<p><b>McCloud judgement</b></p> <p>In 2015 the Government introduced reforms to public sector pensions, meaning most public sector workers were moved into new pension schemes in 2015.</p> <p>In December 2018, the Court of Appeal ruled that the ‘transitional protection’ offered to some members of the judges’ and firefighters’ schemes, as part of the reforms, amounted to unlawful discrimination. On 15 July 2019 the Government announced that they accept that the judgment applies to all of the main public service pension schemes. The impact of the judgement is likely to have a significant impact on pension liabilities disclosed by the Authority.</p>	<p>My audit team will review the provision made in relation to the McCloud judgement and monitor progress on the development of proposals for a remedy to be applied in the Local Government Pensions Scheme.</p>
<p><b>Impact of COVID-19 – general risks</b></p> <p>The COVID-19 national emergency is likely to have a significant impact on the Authority and its accounts production process. Potential risks include: Subsequent events. The Authority is at</p>	<p>My audit team will undertake the following steps to ensure the risks arising from COVID-19 are adequately addressed: We will extend the period of review of subsequent events in order to identify</p>

present, unlikely to prepare its accounts in accordance with the timetable laid down by the Accounts and Audit (Wales) Regulations 2014. The shifting reporting deadlines increases the period (and therefore the related risks) for events occurring between the date of the financial statements and the date of the auditor's report. The consequences of the virus post 31 March 2020 will generally be non-adjusting post balance sheet events but some form of disclosure may be needed.

Use of estimates. The uncertainties and delays caused by the UK wide lockdown may result in actual data being unavailable and greater use of estimates in preparing the accounts

any material subsequent events related to COVID-19, and whether these have been appropriately addressed or disclosed in the financial statements in accordance with the financial reporting framework.

We will consider if there are areas that may require management to provide further evidence due to the fast-changing nature of this issue.

We will ensure that appropriate changes have been made to recognise any enhanced uncertainty in the calculation of accounting estimates (including impairment calculations). We will also consider whether assumptions are appropriate in the circumstances and

We will adopt a greater focus on the following areas:

- The financial statement closing process (in particular journal entries and other adjustments made).
- The auditor's evaluation of the overall presentation of the financial statements, including consideration of whether adequate disclosures have been made.

## Annex B: Requirements of the Accounts and Audit (Wales) Regulations 2014

You may be aware that in England, the Local Government Secretary Robert Jenrick MP announced that the deadline for preparation of local government accounts will be extended to 31 August 2020 and publication of audited accounts to 30 November.

Audit Wales discussed this development with Welsh Government officials to establish if a similar announcement will be made for Wales. The Welsh Government position (as communicated to local government bodies) is currently as set out below.

### Statutory requirements

The statutory position for local government bodies in Wales is set out in the Accounts and Audit (Wales) Regulations 2014 (as amended).

### Welsh Government interpretation

Regulation 10 sets out the expected timetable for the preparation, approval and audit of the annual accounts. Due to the impact of COVID-19, Welsh Government recognises that it may not be possible for all local government bodies to meet this timetable. Regulation 10(4) provides local government bodies with sufficient flexibility to deal with delays caused by COVID-19. Its guidance on the Regulations, notes that:

“Where, extraordinarily, certification cannot happen before 15 June, action needs to be taken to publish a statement that clearly sets out the reasons why this has not happened before that date and agree a course of action to ensure this is done as soon as is practicable after 15 June.”

The guidance also notes that the accounts should be published by 15 September even if the accounts have not been approved.

On the basis that sufficient flexibility is built into the current Regulations, Welsh Government does not consider it necessary to amend the Regulations.

### Audit Wales view and impact on the audit process

Audit Wales concurs with the Welsh Government assessment that sufficient flexibility already exists in the Regulations.

In the event that the accounts are not prepared by the statutory timetable, audited bodies should notify their audit team and publish a notice setting out there is a delay and the reason for the delay. Example wording is provided in [Annex C](#).

## Annex C: Accounts and Audit (Wales) Regulations 2014 – suggested notice

Audit notice where RFO unable to certify the accounts either due to illness or because the accounts have not been prepared

Regulation 10(1) of the Accounts and Audit (Wales) Regulations 2014 (as amended) requires that Responsible Financial Officer of Caerphilly County Borough Council sign and date the statement of accounts, and certify that it presents a true and fair view of the financial position of the body at the end of the year to which it relates and of that body's income and expenditure for that year. The Regulations required that this be completed by 15 June 2020.

The Responsible Financial Officer has not signed and certified the accounts for the year ended 31 March 2020. Due to the COVID-19 outbreak, the authority has diverted resources to support key frontline services and the statement of accounts has not yet been prepared. The statement of accounts will be prepared and the Responsible Financial Officer will sign and certify the statement of accounts when the immediate pressures of the COVID-19 outbreak have subsided.

Audit notice where RFO has certified the accounts but the audited body is not meeting and therefore unable to approve the accounts

Regulation 10(1) of the Accounts and Audit (Wales) Regulations 2014 (as amended) requires that Responsible Financial Officer of [Caerphilly County Borough Council](#) sign and date the statement of accounts, and certify that it presents a true and fair view of the financial position of the body at the end of the year to which it relates and of that body's income and expenditure for that year. The Regulations required that this be completed by [15 June 2020](#).

[\[The Responsible Financial Officer signed and certified the accounts on \[date\].](#)

Regulation 10(2) of the Accounts and Audit (Wales) Regulations 2014 (as amended) requires that following the certification by the Responsible Financial Officer referred to above, [Caerphilly County Borough Council](#) approve and publish the audited statement of accounts. The Regulations required that this be completed by [\[15 September 2020\]](#).

[\[Due to the COVID-19 outbreak, the statement of accounts has not yet been prepared.\]](#)

OR

[\[Due to the COVID-19 outbreak, Caerphilly County Borough Council has not met to approve the statement of accounts.\]](#)

OR

[\[Due to the COVID-19 outbreak, the audit of the 2019-20 statement of accounts has not yet been completed and no audit opinion has been provided. The statement of accounts that is published is the unaudited statement of accounts.\]](#)

Appendix 3

Christina HARRY  
Chief Executive  
Caerphilly County Borough Council

**Reference:** HR20-05  
**Date issued:** 5 June 2020

24 Cathedral Road / 24 Heol y Gadeirlan  
Cardiff / Caerdydd  
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[www.audit.wales](http://www.audit.wales) / [www.archwilio.cymru](http://www.archwilio.cymru)

Dear Christina

### Performance Audit work programme

I hope this finds you in good health personally and that you are keeping yourself and family safe and well.

The challenges at hand are extraordinary, and I appreciate that the load you are carrying is significant at this time. Firstly, I would like to thank you and your staff, both for the incredible work that you are doing, and for the professional and sympathetic way that the limited engagement we have had over the last couple of months has been handled.

When the Auditor General wrote to you on 30 April, he set out our intention to re-shape previously planned programmes of work and to focus on the impact of the current crisis in terms of the resilience and the future shape of public services in Wales. I'm now writing to put more flesh on those bones.

In terms of the series of financial sustainability assessments conducted in the last audit year, all are now issued with the vast majority finalised. For the sake of completeness, we intend to finalise those few remaining in terms of factual accuracy, but I appreciate they are very much rooted in a point in time that is now consigned to history. Consequently, we have decided not to publish an all Wales summary position as this would no longer be relevant and would prove a distraction to current challenges. Instead, we intend to examine the financial impact of the pandemic on council budgets and their financial prospects, initially during the summer. This will follow the Welsh Government's supplementary budget in May and be at a point in time when first quarter outturn is known. This will enable us to produce an all-Wales view of the outlook for local government finance in Wales that also explores consequences and priorities for action. Our staff are in active discussions with the WLGA and the Society of Welsh Treasurers on this.

I'm sure that we are all collectively concerned that we focus on the future. With this in mind, we intend to deploy staff to support and challenge recovery planning in real-time. Collectively we need assurance that recovery takes due account of the multitude of risks, but also that it grasps the opportunities for a different and

sustainable future. We have taken the decision to replace the 'prevention' themed work that we set out in audit plans with this work on recovery planning.

We appreciate things are fast moving, which is why we are keen to identify, share and learn quickly across public services through the COVID-19 learning project that Adrian described in his letter. This is not traditional work for a public audit institution, but we believe we can add considerable value and we very much see it as complementary to our work on the 'big-ticket' areas, such as financial impact and recovery planning, that I've described.

Lastly, I know that there will be local risk-based audit projects either planned or in progress. I appreciate that, given the significance and magnitude of the areas of focus set out above, there may be little space in our audit programme to accommodate them. Our local audit team will discuss any potential areas of work that there may be benefit in retaining.

Thank you for your willingness to engage constructively. Our local audit team will be in touch to discuss the programme of work further, and please feel free to raise any issues or concerns with them.

Best wishes and thanks to all at Caerphilly County Borough Council.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Huw Rees', with a stylized flourish at the end.

Huw Rees  
Engagement Director



## AUDIT COMMITTEE – 21ST OCTOBER 2020

**SUBJECT: INTERNAL AUDIT SERVICES ANNUAL AUDIT PLAN 2020/21 (1/10/20 TO 31/3/21)**

**REPORT BY: ACTING INTERNAL AUDIT SERVICES MANAGER**

### 1. PURPOSE OF REPORT

- 1.1 To seek Audit Committee approval for the Internal Audit Services Annual Audit Plan for the remainder of the 2020/21 financial year (1/10/2020 to 31/3/2021).

### 2. SUMMARY

- 2.1 The report provides details of the planned work programme for Internal Audit Services for the remainder of the 2020/21 financial year.

### 3. RECOMMENDATIONS

- 3.1 The Audit Committee is asked to note and approve the Internal Audit Services Annual Audit Plan for the remainder of the 2020/21 financial year.

### 4. REASONS FOR THE RECOMMENDATIONS

- 4.1 To enable Internal Audit Services to carry out its function, in providing assurance on the robustness of internal controls and corporate governance arrangements.

### 5. THE REPORT

- 5.1 The Internal Audit Services Annual Audit Plan for the remainder of the 2020/21 financial year (1/10/2020 to 31/3/2021) is attached as Appendix 1. This plan is very different to those produced in previous years due to the impact of the Covid-19 pandemic on the operational work and service areas of the Council, along with direct impacts for the Internal Audit Section.
- 5.2 The Head of Financial Services & S151 Officer took the decision to suspend the general work of the Internal Audit Section in March 2020 due to the need to support other priority services directly linked to Covid-19. From March to September the Internal Audit staff were repurposed to support other operations and services. This included support for the processing of the NNDR Covid-19 business grants, the Test, Track and Protect Service and setting up the administration and financial recording system for the Buddy Scheme. Staff also undertook individual volunteering to support the Buddy Scheme.
- 5.3 One member of staff retired in February 2020 as they reached normal retirement age and another member of staff retired in August. These posts currently remain vacant. The Head of

Financial Services & S151 Officer will be undertaking a review of staffing structures over the coming months. For the time being the Internal Audit Services Annual Plan assumes that these posts will remain vacant for the remainder of the financial year.

- 5.4 It goes without saying that as with most services the work undertaken by Internal Audit will be impacted by Covid-19 for at least the rest of this financial year and possibly in the longer-term. The Internal Audit team have adapted rapidly to these challenges and adopted remote and agile working and it is considered that the MK Insights audit system will also facilitate new ways of working.
- 5.5 Due to the impact of Covid-19 no “standard” establishment visits will be planned for the remainder of the year and wherever possible work will be undertaken remotely or if this cannot take place, by collection of financial information and examination off-site and remote meetings via Teams.
- 5.6 Working practices in respect of other audits will continue to evolve and it is planned to introduce self-assessment processes for risk and control evaluations and conduct as much work as possible remotely.
- 5.7 Resources for the remainder of the year will be concentrated on the following: -
- Completion of any unfinished work carried forward from 2019/20.
  - Financial systems and processes and any other high risk areas, including following up on “in need of improvement” audits.
  - Mandatory audits and tasks such as participation in NFI, and any WG grants such as the £500 carers grants.
  - Introduction of the remote access portal facility of MK Insights to allow auditees to record comments and actions in line with recommendations made.
  - Full development and implementation of the management tools in MK Insights in respect of planning and reporting.
- 5.8 The Acting Internal Audit Manager will also continue to support corporate governance and other corporate tasks as required and despite working remotely staff will remain available to give ad-hoc advice and guidance where requested.
- 5.9 Appendix 1 provides further details of the areas of coverage

## **6. ASSUMPTIONS**

- 6.1 It is assumed that Covid-19 will continue to impact on the work of Internal Audit Services for the remainder of the financial year.

## **7. LINKS TO POLICIES**

- 7.1 The work of Internal Audit Services provides assurance on the robustness of internal controls and the corporate governance arrangements operating within the Authority and identifies areas for improvement.
- 7.2 The Audit universe has also been mapped to the Corporate Well-being Objectives where relevant in order to link the relevance of the audit work to those Objectives.

## **8. WELL-BEING OF FUTURE GENERATIONS**

- 8.1 Strong corporate governance arrangements are a key element in ensuring that the Well-being Goals within the Well-being of Future Generations Act (Wales) 2015 are met.



8.2 Strong corporate governance arrangements are also an essential element of ensuring that the Council's key priorities are effectively delivered and this in turn contributes to the following Well-being Goals within the Well-being of Future Generations Act (Wales) 2015: -

- A prosperous Wales.
- A resilient Wales.
- A healthier Wales.
- A more equal Wales.
- A Wales of cohesive communities.
- A Wales of vibrant culture and thriving Welsh Language.
- A globally responsible Wales.

## **9. EQUALITIES IMPLICATIONS**

9.1 There are no potential equalities implications of this report and its recommendations on groups or individuals who fall under the categories identified in Section 6 of the Council's Strategic Equality Plan, therefore a full Equalities Impact Assessment has not been carried out.

## **10. FINANCIAL IMPLICATIONS**

10.1 There are no direct financial implications arising from this report.

## **11. PERSONNEL IMPLICATIONS**

11.1 There are no personnel implications other than the approved manpower resource

## **12. CONSULTATIONS**

12.1 Any comments received have been reflected in the report.

## **13. STATUTORY POWER**

13.1 Local Government Act 1972.

Author: D. Gronow Acting Internal Audit Manager  
Tel: 01443 863425 Email: [gronode@caerphilly.gov.uk](mailto:gronode@caerphilly.gov.uk)

Consultees: S. Harris, Head of Financial Services & S151 Officer  
R. Edmunds, Director of Education & Corporate Services

Appendices:

Appendix 1 Annual Audit Plan 2020/21

Gadewir y dudalen hon yn wag yn fwriadol

**CAERPHILLY COUNTY BOROUGH COUNCIL**

**INTERNAL AUDIT SERVICES**

**ANNUAL AUDIT PLAN 2020/21**

**1. Introduction**

- 1.1 The Public Sector Internal Audit Standards (PSIAS) and the Council's own Financial Regulations require that an annual Audit Plan should be prepared to ensure that there is an effective and efficient use of audit resources.
- 1.2 Following on from recommendations made by the Authority's External Auditors the plan has been split to show available man-days per quarter. This plan covers the 2 remaining quarters of the financial year.
- 1.3 Paragraph 2.1 below covers staffing resources available in more detail.
- 1.4 As previously reported to the Audit Committee, MK Insights an audit management, planning and reporting system has been introduced. Audit time has been allocated in the plan to facilitate this ongoing development and implementation.
- 1.5 In order to evaluate the available man-days per quarter the overheads have been apportioned taking account of the patterns of bank holidays etc. so minor variances will occur year by year.
- 1.6 Overheads have been estimated to arise evenly over the period, including sickness absence. It also includes other managerial provisions not directly allocated to audit assignments. Obviously, there may be variances due to unforeseen events which will affect the number of available man days.
- 1.7 Additional overheads have been generated by the granting of a programme of professional study to 2 staff members including the trainee auditor. This has been done with a view to strengthening the capacity and resilience of the section.
- 1.8 On the basis of the comments above the overheads and available audit days per quarter have been estimated and are shown in the table below. It may be opportune to further elaborate on the overheads to further inform the committee. Firstly the Acting Internal Audit Manager's time (127 days) is 100% indirect time and is allocated to overheads, in addition the overhead figures are disproportionately affected by the Covid-19 pandemic on the use of annual leave for the year as many staff members pushed back pre booked holidays into the late Summer which were then affected by national travel restrictions, quarantines and then the CCBC local restrictions.

	<b>1.10.20 - 31.12.20</b>	<b>1.1.21 - 31.3.21</b>	<b>Total for year</b>
<b>Overheads</b>	219	220	439
<b>Available man days</b>	238	237	475
<b>Vacancies</b>	127	127	254
<b>Total</b>	<b>584</b>	<b>584</b>	<b>1168</b>

- 1.9 Priority will always be given to high risk areas whether known or emerging, as in prior years, although the methods of conducting the audits will be different this year, and wherever possible audits will be conducted remotely or via desktop interrogations. This approach to audits will need to be developed and will undoubtedly evolve as time progresses.
- 1.10 It has been decided that no routine establishment visits will be undertaken to residential care homes or schools for the remainder of this financial year and this will be revisited before the end of 2020/21 when the 2021/22 plan is being formulated. However, some self-assessment and remote audit work will be undertaken in order to maintain a minimum audit coverage and generate an overall opinion at the end of the financial year.
- 1.11 There are also a number of time limited assignments that are required to be undertaken such as grants which have deadlines set by the funding bodies and where known these have been built into the plan.
- 1.12 Taking into account the factors noted above the remainder of the audit plan can be estimated over the year and the individual Directorates. Audit activity can also be allocated against the types of audit assignments such as establishment audits, systems, grants and corporate work etc. However the majority of the time available will be applied to high risk areas. The audit plan time can also be allocated by these activities over the year. Both analyses are shown below:-

<b>Directorate</b>	<b>Days</b>	<b>QTR 1</b>	<b>QTR 2</b>	<b>QTR 3</b>	<b>QTR 4</b>
Education	90	0	0	45	45
Social Services & Housing	90	0	0	45	45
Corporate Services	145	0	0	73	72
Communities	90	0	0	45	45
Corporate & management related	60	0	0	30	30
<b>Total</b>	<b>475</b>	<b>0</b>	<b>0</b>	<b>238</b>	<b>237</b>

<b>Audit type</b>	<b>Days</b>	<b>QTR 1</b>	<b>QTR 2</b>	<b>QTR 3</b>	<b>QTR 4</b>
Establishment	40	0	0	20	20
Systems /high risk	368	0	0	184	184
Grant certification	5	0	0	3	2
Contract	0	0	0	0	0
IT	2	0	0	1	1
Corporate & management related	60	0	0	30	30
<b>Total</b>	<b>475</b>	<b>0</b>	<b>0</b>	<b>238</b>	<b>237</b>

- 1.13 It is considered that changes or adjustments to either service delivery or coverage will have to be introduced on a rolling basis with a view to maintaining the level of service and keeping operational disruption to a minimum. The effect of this being that the 2020/21 plan will continue to evolve over time as the effect of increased engagement and profile filters through.

## 2. Staffing

- 2.1 The establishment level of the Internal Audit Section for 2020/21 continues to be 9.2 FTE's (currently with 2 FTE posts vacant). This also includes a fixed-term trainee post that is linked to a professional programme of study. This current level of resource continues to be in line with the Welsh average.

## 3. Plan

- 3.1 The Audit Section maintains a "list" of all auditable areas called the Audit Universe and this is used as a source upon which to build the plan. This is a dynamic document and is updated to reflect new or changing service areas or establishments.
- 3.2 In prior years due consideration was given to previous years' coverage, the risk register, input from service areas and directorates, emerging issues and "local factors" as well as themed areas linked to priorities highlighted in the Public Sector Internal Auditing Standards. However, in view of the impact of the Covid-19 pandemic a different approach has been needed for the remainder of the 2020/21 financial year in order to maintain adequate coverage of high risk areas, which will concentrate on areas such as revenues, payroll and exchequer.
- 3.3 Support and audit input to processes will be given to any Covid-19 related financial grants or expenditure such as the £500 carers grant in order to build in robust controls. This may be extended into other areas if any other similar schemes are announced.
- 3.4 High risk Corporate areas such as Governance and Safeguarding will also receive coverage.
- 3.5 The 2020/21 NFI data match exercise will commence in October 2020 with the initial upload of data and matches due to be released in January 2021. It is anticipated that audit resource will be allocated to investigating these matches when they are published.

### Action plan reviews and follow up audits

- 3.6 Resource has been allocated in the plan to complete the implementation of the MK Insights management portal which will facilitate the updating of progress on audit recommendations. The system will also identify overdue actions. It is intended that once this reporting function is operational it will prove valuable in allowing reports to be provided to Audit Committee that will support and inform the AGS process and provide assurance on an ongoing basis that agreed recommendations are being implemented by managers.

### Establishments

- 3.7 Prior to the Covid-19 pandemic the majority of council establishments would receive a visit over a three to five-year period. However, it is proposed that no routine establishment audits visits take place this year, and audit coverage is maintained by remote or desk top exercises.

### Contract Audit

- 3.8 Data suggests that the need for traditional final account/contract audit is reducing. This is not unexpected given the reduction in capital budgets also linked with the fact that the WHQS scheme is due to end in 2020. The member of staff responsible for this area of work retired in February 2020. This is also considered to be a low risk area and as a result no allocation of time has been given to contract audits for the remainder of the 2020/21 financial year.
- 3.9 However Internal Audit staff will continue to work closely with staff from Procurement Services to promote a high level of contract compliance throughout the Council.

### Computer Audit

- 3.10 The audit team does not have a dedicated IT audit specialist and this will be part of the future discussions on what and how much coverage is deemed necessary. As no IT audit coverage is currently in the plan the outcome of this discussion may affect the resource allocation.
- 3.11 As most systems and processes are IT based the ongoing systems reviews are being updated to include an element of what was previously considered to be IT Audit. The less technical IT systems reviews have been merged into the systems work stream and existing work programmes will be adjusted to cover the new approach.
- 3.12 During the year, as specific issues arise or additional risks are identified consideration will be given to how best to build these into the ongoing plan as would be the case for all emerging issues.
- 3.13 Audit work will still be undertaken to review and report on the central controls for those areas that are within scope of the BSI accreditation.



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## Financial Sustainability Assessment – **Caerphilly County Borough Council**

Audit year: 2019-20

Date issued: March 2020

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The team who delivered the work comprised Martin Gibson and Mark Jones programme managed by Non Jenkins under the direction of Huw Rees and Richard Harries.



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# Summary report

## Summary

### What we reviewed and why

- 1 The project sought to assess the sustainability of councils' short to medium-term financial position.
- 2 This included a focus on the financial strategy of each council as well as reviewing financial 'indicators' of each council's financial position in relation to:
  - performance against budget;
  - delivery of savings plans;
  - use of reserves;
  - council tax; and
  - borrowing.

#### Exhibit 1: about the Council

This exhibit sets out some background information on the Council's net revenue budget, the number of staff it employs and the value of its assets



**The Council's net revenue budget for 2019-20 was £337.7Million<sup>1</sup>**



**The Council employs around 8,400 people<sup>2</sup>**



**The Council's long term assets as at 31 March 2019 were £1.2Billion<sup>3</sup>**

- 3 We undertook this assessment because we identified financial sustainability as a risk to councils putting in place proper arrangements to secure value for money in the use of resources. In part, this was informed by the recent experiences of some councils in England, our knowledge of the financial situation in councils in Wales, and the general trend of decreasing resources for local government combined with rising demand for some services.

<sup>1</sup> Source: Net Revenue Budget for 2019-20 approved by Council on 21 February 2019.

<sup>2</sup> Source: Caerphilly County Borough Council., Annual Performance Report 2018-19 <https://www.caerphilly.gov.uk/CaerphillyDocs/Council-and-democracy/AnnualPerformanceRepor1819.aspx>.

<sup>3</sup> Source:Caerphilly County Borough Council's 2018-19 statement of accounts.



- the Council has a good track record of achieving almost all its planned savings in the last two years and expects to do so again in the current year;
- the Council has an increasingly high level of usable reserves, partly because of its continued revenue and capital underspends;
- the Council has a good track record of collecting its council tax; and
- the Council's level of borrowing has remained relatively stable, over the last four years.

# Detailed report

The Council has a strong financial position, with an increasingly high level of usable reserves, a relatively stable level of borrowing, and significant budget underspends in recent years

The Council's medium term financial plan does not fully reflect its record of significant underspending nor fully reflect its transformation plans

## Why strategic financial planning is important

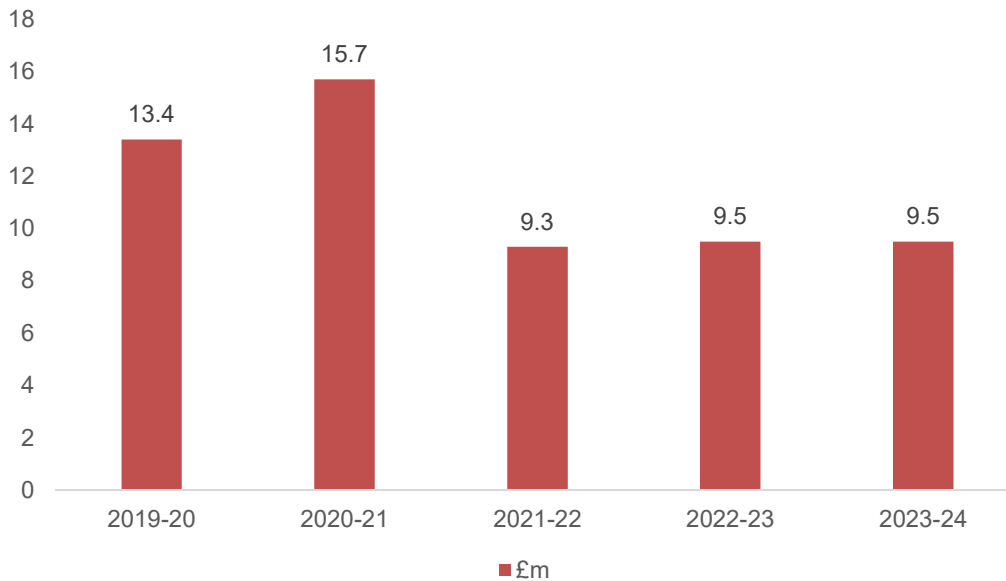
- 6 A clear and robust financial strategy is important to identify the likely level of funding available to a council, as well as the anticipated level of demand for, and cost of, providing services. Given the recent and anticipated funding pressures facing all councils it is also important that every council should identify how it intends to respond to those pressures, and particularly how it will meet projected funding gaps.

## What we found

- 7 We found that the Council's medium term financial plan does not fully reflect its record of significant underspending nor fully reflect its transformation plans. We reached this conclusion because:
  - The Council has a Medium Term Financial Plan (MTFP) which covers the period 2019-2024, which it set in February 2019. At the time of our fieldwork the Council was reviewing the MTFP which was due to be considered by the Council in February 2020.
  - The Council has repeatedly underspent both its revenue and capital budgets for the last few years which has contributed to its increasing level of usable reserves to over £119 million, most notably in the current financial year 2019-20, where these reserves have increased by £20.7 million.
  - When calculating the budget in the Council's MTFP, the budget for the previous year is used as a base to forecast the budget needed for the future year. The Council does not fully consider the previous year's actual net expenditure to inform its budget-setting process.
  - The Council's MTFP estimates a funding gap of £57.4 million in revenue income against planned expenditure from 2019-20 to 2023-24.

#### Exhibit 4: projected funding gap<sup>5</sup>

The following graph shows the revenue funding gap that the Council has identified for each of the five years 2019-20 through to 2023-24, totalling £57.4 million.



- The Council's MTFP is modelled on a rise in Council Tax of 6.95% in 2019-20 and then 4.52% increase each year to 2023-24.
- In June 2019, Cabinet agreed a transformation programme, known as '#teamcaerphilly – Better Together', which is an integrated programme of social, economic and environmental regeneration projects that aim to reshape the Borough. The programme, however, when published in June 2019 contained only high level links with its financial plans. Council officers told us that as the programme develops it will include more detailed information relating to financial benefits linked to the MTFP.
- In December 2019 the Welsh Government announced a 4.1% increase in the Council's Revenue Support Grant for 2020-21.
- Cabinet and Full Council considered the implications of the 4.1% increase during February 2020, as part of the approval of the 2020-21 budget.

<sup>5</sup> Source: Caerphilly County Borough Council's Medium Term financial Plan 2019/20 to 2023/24 – February 2019.

## In recent years the Council has underspent both its revenue and capital budgets and it expects to underspend its 2019-20 budget

### Why accurately forecasting expenditure is important

- 8 It is important that overspending and underspending are kept under control and that actual expenditure is as close to the levels planned as possible. A council that is unable to accurately forecast and plan expenditure runs the risk of creating unforeseen financial pressures that may compromise the ability to set a balanced budget. Significant patterns of underspending may be reducing the ability of a council to deliver its key objectives or meet its statutory responsibilities.

### What we found

- 9 We found that, in recent years, the Council has underspent both its revenue and capital budgets and it expects to underspend its 2019-20 budget. We reached this conclusion because:
- For the three financial years to 2018-19 the Council has underspent its revenue budget totalling £31.1 million (**Exhibit 5**). Over the same period the Council underspent its capital budget by £90 million.
  - The Council reported to the January 2020 meeting of its Policy and Resources Committee a forecast for 2019-20 of:
    - a £2.1 million underspend on its net revenue expenditure; and
    - a £54.6 million (77%) underspend on its £71.15 million planned capital expenditure.
  - Whilst the report to the Policy and Resources Committee gave an update on each directorate's progress in delivering their programme of planned savings, this was in narrative form and it was not possible to evaluate an overall position with any certainty.

#### Exhibit 5: amount of overspend/underspend relative to total net revenue budget

	<b>Original Budget net revenue budget (£Million)</b>	<b>Actual Outturn net revenue (£Million)</b>	<b>Amount of overall (underspend) / overspend (£Million)</b>	<b>Percentage (underspend) /overspend</b>
2016-17	324.391	313.689	(10.7)	(3.3)%
2017-18	325.431	316.748	(8.7)	(2.7)%
2018-19	332.043	320.309	(11.7)	(3.5)%
2019-20 <sup>6</sup>	337.745	335.633	(2.1)	(0.6)%
<b>Total</b>	<b>1,319.610</b>	<b>1,286.379</b>	<b>(33.2)</b>	<b>(2.5)%</b>

The Council has a good track record of achieving almost all its planned savings in the last two years and expects to do so again in the current year

#### Why the ability to identify and deliver savings plans is important

- 10 The ability to identify areas where specific financial savings can be made, and to subsequently make those savings, is a key aspect of ensuring ongoing financial sustainability against a backdrop of increasing financial pressures. Where savings plans are not delivered, this can result in overspends that require the use of limited reserves whilst increasing the level of savings required in future years to compensate for this. Where savings plans are not delivered and service areas are required to make unplanned savings, this increases the risk either of savings not being aligned to the Council's priorities, or of 'short-term' solutions that are not sustainable over the medium term.

#### What we found

- 11 We found that the Council has delivered almost all its planned savings in the last two years and it expects to do so again in the current year. We reached this conclusion because:
- the Council has a robust and detailed process for devising and monitoring the delivery of its programme of planned savings; and
  - the Council has reported the following planned savings:
    - in 2017-18, £8.9 million (98.5%) of the planned £9 million;

<sup>6</sup> Source: the forecast underspend of £2.1 million, per the Council's Revenue Budget Monitoring Report to its Policy and Resources Committee in January 2020.



- in 2018-19, £6.4 million (94.3%) of the planned £6.8 million;
- in 2019-20, £13.2 million (95%) is forecast of the planned £13.9 million; and
- in 2020-21 the Council plans to make savings of £15.7million<sup>7</sup>.

#### Exhibit 6: savings delivered during 2018-19 as a percentage of planned savings

<b>£6.8m</b>	<b>£6.4m</b>	<b>£0.4m</b>	<b>94%</b>
Total planned savings	Planned savings delivered	Planned savings not delivered	Percentage savings achieved

**The Council has an increasingly high level of usable reserves, partly because of its continued revenue and capital underspends**

#### Why sustainable management of reserves is important

- 12 Healthy levels of usable reserves are an important safety net to support financial sustainability. As well as being available to fund unexpected funding pressures, usable reserves can also be an important funding source to support ‘invest to save’ initiatives designed to reduce the ongoing cost of providing services. Councils that show a pattern of unplanned use of reserves to plug gaps in their revenue budget that result in reductions of reserve balances reduce their resilience to fund unforeseen budget pressures in future years.

#### What we found

- 13 We found that the Council has an increasingly high level of usable reserves, partly because of its continued revenue and capital underspends. We reached this conclusion because:
- The Council has a reserves strategy and presents updates on the use of its reserves to scrutiny and Cabinet prior to the final agreement of its annual budget.
  - The Council categorises its usable reserves into:
    - General Fund Balance.
    - Service Area Balances.
    - Usable Capital Receipts.
    - Capital Grants Unapplied.
    - DLO / DSO Reserves.

<sup>7</sup> Source: Caerphilly County Borough Council's Medium Term Financial Plan, February 2019.

- Capital Earmarked Reserves.
- Other Earmarked Reserves.
- School Earmarked Reserves.
- Insurance Earmarked Reserves.
- Council officers told us that while the rationale for these categories aids their financial management, ultimately, the use of the balances is interchangeable.

Exhibit 7: year-end usable reserves<sup>8</sup>

	<b>Value of usable reserves at year end (£Million)</b>	<b>Value of increase (£Million)</b>	<b>Percentage increase in year</b>	<b>Usable reserves as a percentage of net revenue budget</b>
2015-16	82.2			
2016-17	89.0	6.8	8.3%	27.4%
2017-18	91.6	2.6	2.9%	28.1%
2018-19	98.3	1.9	2.1%	29.6%
2019-20	119.0	20.7	21.1%	35.2%

- We understand that in recent years the Council has used internal borrowing to cover the costs of some capital projects. A report to the Council's Policy and Resources Committee in January 2020<sup>9</sup> stated that unless the policy is prudent, the Council will no longer adopt the policy of internal borrowing..

<sup>8</sup> Source: mid-year update on Reserves to Policy and Resources Committee on 14 January 2020.

<sup>9</sup> Source: Treasury Management Annual Strategy, Capital Finance Prudential Indicators and Minimum Revenue Provision Policy for 2020/21 report to the Policy and Resources Committee on 14 January 2020.

## Exhibit 8: amount of reserves vs annual budget, 2018-19



## The Council has a good track record of collecting its council tax

### Why council tax collection rates are important

- 14 Failure to collect the amount of council tax due to the Council will result in less income. This in turn may increase the financial pressures on the Council and require it to make additional savings. Whilst council tax is not the biggest source of funding for councils in Wales, it remains a key income source.

### What we found

- 15 We found that the Council has a good track record of collecting its council tax. We reached this conclusion because:
- The Council agreed an increase of 6.95% for council tax for the 2019-20 financial year. Its Medium term Financial Plan contains a planning assumption of an annual increase of 4.52% for each of the following four years. The Council sets the increase in council tax each year.
  - The Council has maintained a low amount of council tax written off as a percentage of total council tax debt since 2014-15.
  - Since 2012-13, the Council has seen a gradual reduction in the value of council tax arrears brought forward at 1 April each year. At the start of 2012-13, the actual arrears value was near £4 million and for 2018-19 the value of arrears had reduced to £3.3 million.
  - Collectable council tax is higher than the Council's budgeted council tax income because it sets an element of anticipated non-payment within its budgeted revenue. The Council's net revenue budget for 2019-20, in its MTFP, February 2019, valued this council tax contingency for non-payment at £1.05 million.

## Exhibit 9: council tax collection rates



Cash collected from Council Tax at 31 March 2019 was **£64.5m** (97%) against a collectable debit of **£66.5m**<sup>10</sup>

## The Council's level of borrowing has remained relatively stable, over the last four years

### Why maintaining sustainable levels of borrowing is important

- 16 Borrowing can be a valuable source of funding, for example, to fund large scale capital projects such as new schools or leisure centres. However, the cost of repaying borrowing including interest costs can have a long-term impact on ongoing revenue budgets. Councils that fail to properly balance the benefits and costs of borrowing with their current and predicted revenue budgets risk reducing the amount of funding available for service delivery. Borrowing to fund commercial activity has the potential to generate additional income to fund council services, however, it can also bring significant risks that would be associated with any commercial activity.

### What we found

- 17 We found that the Council's level of borrowing has remained stable over the last four years. We reached this conclusion because:
- **Exhibit 10** below shows that the Council's total level of borrowing has remained relatively stable over the past four years. This level of borrowing is within the limits set according to the Local Government Act 2003 and the CIPFA Prudential Code.
  - The Council does not have any commercial investments income funded by borrowing.
  - As part of its Transformation Strategy, the Council is developing a Commercial & Investment Strategy. This will set out a new approach to commercialisation as a means to increase income to support the Medium

<sup>10</sup> Source: Welsh Government, Stats Wales - Council Tax Collection Rates in Wales: 2018-19.

Term Financial Plan and may help discretionary services, in particular, remain financially resilient.

- The Council has reviewed its portfolio of investments to achieve a higher rate of return. The Council has invested £20m into long-term Strategic Pool Funds with the aim of generating additional annual investment income of £718k.

**Exhibit 10: Council borrowing<sup>11</sup>**

<b>Financial year</b>	<b>Long term borrowing as at 31 March (£million)</b>	<b>Short term borrowing as at 31 March (£million)</b>	<b>Total (£million)</b>
<b>2015-16</b>	287.5	7.7	295.2
<b>2016-17</b>	282.3	14.1	296.4
<b>2017-18</b>	279.4	10.8	290.2
<b>2018-19</b>	277.1	6.5	283.6

<sup>11</sup> Source: Caerphilly County Borough Council's annual statement of accounts.

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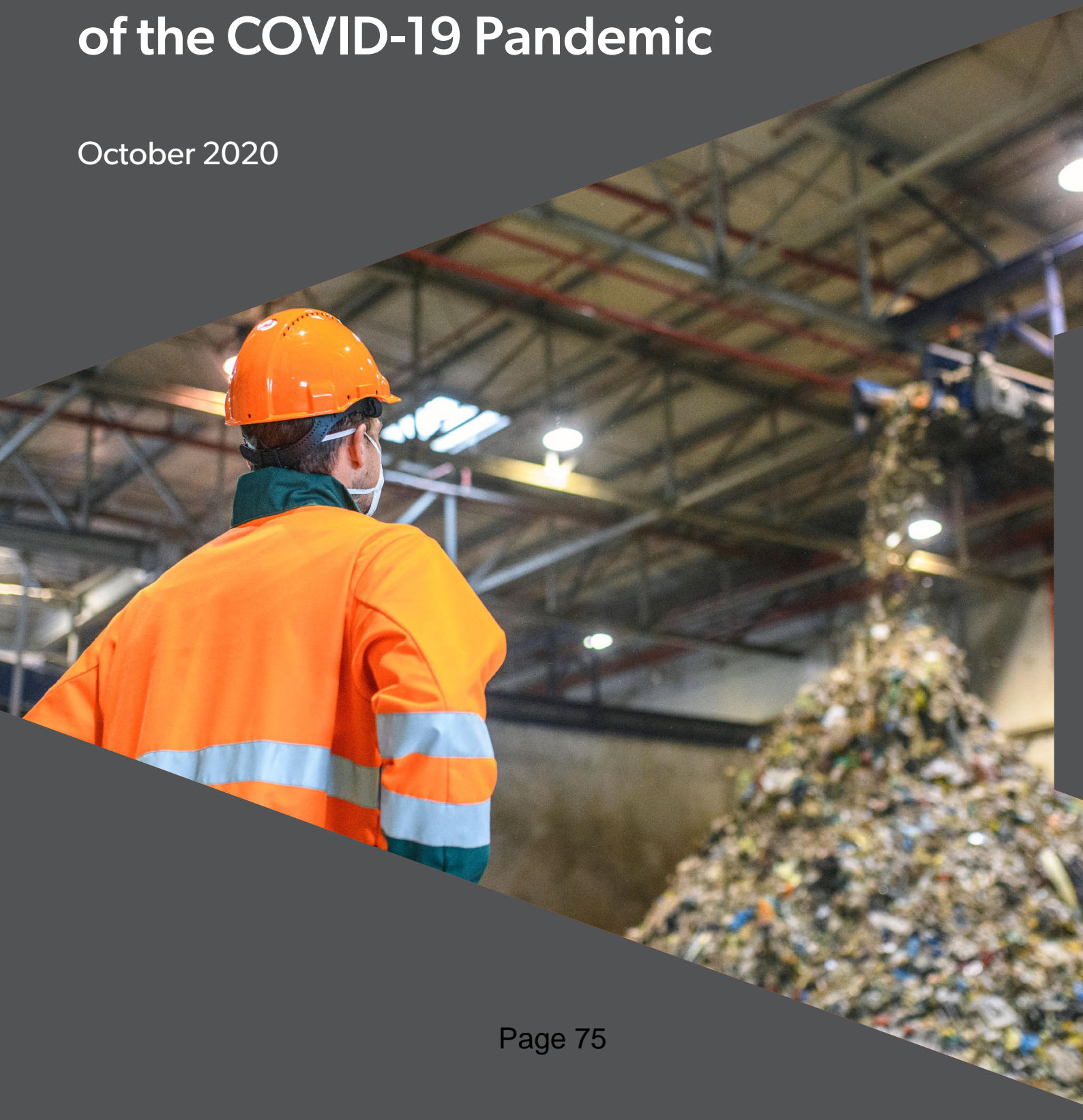
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# Financial Sustainability of Local Government as a Result of the COVID-19 Pandemic

October 2020



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# Summary report

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## Summary

### Why we have produced this report

- 1 We had already identified financial sustainability as a key risk to councils' arrangements before the pandemic occurred. This was, in part, due to the significant pressures on UK and, therefore, Welsh public finances following the financial crisis of 2008-09. We produced a report on the financial sustainability of each local council during 2019-20, and these reports showed that councils were in very different positions in terms of their level of reserves and track record of spending within their agreed budgets.
- 2 Against this backdrop the pandemic has already had an even more profound and immediate effect on public sector finances as a whole and, as a consequence, on councils' financial position. The impact on public sector spending over such a short period of time is unprecedented in modern peace time.
- 3 This report is the beginning of our work looking at the financial sustainability of local councils during 2020-21, building on the work we completed in 2019-20. The report sets a high-level baseline position, including the reserves position, of local councils before the pandemic. It also sets out the initial financial implications of the pandemic for local councils and the scale of the anticipated challenge going forward, as well as some reflections on the preparedness of local government in Wales for such an unprecedented event. Finally, we set out how Audit Wales intends to provide support and constructive challenge to councils and the local government sector, as a whole, over the remainder of 2020-21, in their efforts to maintain financial sustainability against such significant funding pressures.

## Detailed report

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Councils and the Welsh Government have worked well together to mitigate the impact of the pandemic to date but the future sustainability of the sector is an ongoing challenge

### **Against a backdrop of existing funding pressures, the financial costs of the pandemic are unprecedented in modern times**

- 4 Local government funding in Wales has been under significant pressure for over a decade, following the financial crisis in 2008-09 that triggered a severe worldwide recession.
- 5 In response to this, councils have relied on a combination of significant savings for example through efficiencies, transforming services and cuts to services to reduce costs. Councils have also increased their income through council tax and the fees and charges applied to some services. Our previous reports on the financial sustainability and resilience of local councils, including our work on savings planning in local government, includes more detail on this. These reports are [available on the Audit Wales website](#).
- 6 Against this backdrop, the cost to public spending of tackling the pandemic will seemingly dwarf the cost of the financial crisis, affecting health and wellbeing, the wider economy and public spending. Below are just some of the predictions that the Office for Budget Responsibility has made recently (July 2020):
  - net UK public sector borrowing to be between £264 billion and £391 billion for 2020-21;
  - UK GDP will shrink by between 10.6% and 14.3%; and
  - borrowing to fund public spending will rise to between 94.8% and 113.2% of GDP over 2020-21.

- 7 It is highly unlikely that the financial impact of the pandemic will be limited to the current financial year. It will almost certainly affect public sector finances including local government, for many years to come regardless of the future path of the pandemic. In an [earlier blog](#) in June 2020, we set out how £2.5 billion additional funding has been allocated to, and within, Wales in response to COVID-19. This illustrates the scale of the financial response to date. As with many things associated with the pandemic, things continue to change rapidly with further funding announcements from both the UK and Welsh Governments. ‘The Local Government Hardship Fund’ now makes available nearly £500 million in support including an announcement from the Welsh Government of up to £264 million in financial support for local authorities for the remainder of the financial year on 17 August 2020. Other funding available has also been made available for local authorities in addition to the hardship fund, for example in relation to extra funding for teachers for catch up support from education, cleaning materials for schools and part of the cultural fund.

### Some councils were better placed financially than others to respond to the challenges of the pandemic

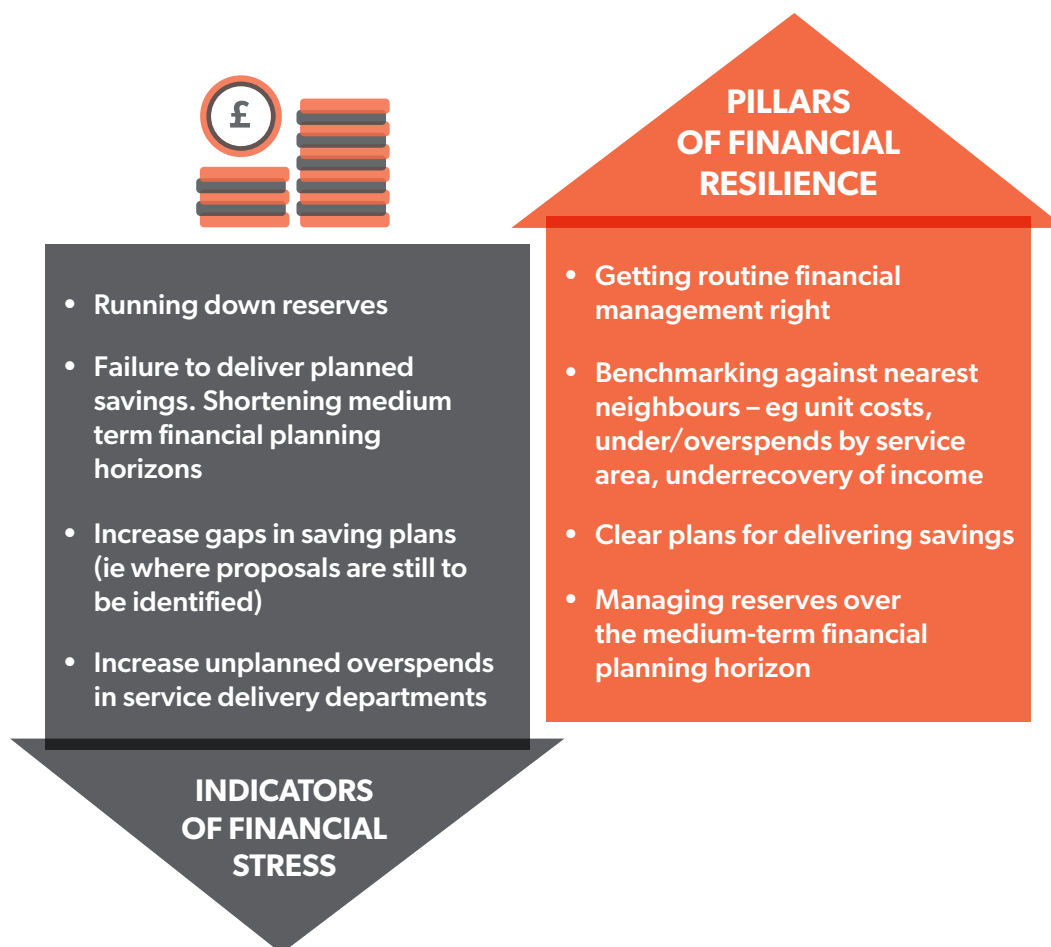
- 8 Over 2019-20 we looked at the financial sustainability of councils in Wales and produced a report on each council. Publication of some of these reports was delayed by the pandemic but most are [now available on our website](#).
- 9 The reports show that some councils were much better placed than others to weather a financial challenge such as the pandemic. This is most clearly illustrated by the varying levels of usable revenue reserves held by councils, their track record of spending within their agreed budgets in recent years and, linked to this, the extent to which their usable revenue reserves have been increasing or decreasing in recent years. We also think that the ability of councils to identify, plan and deliver savings is a key indicator of financial sustainability.
- 10 The report [Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting](#) by Sir Tony Redmond noted that:
- ‘This suggests that the external auditor should report to Full Council on risks identified and conclusions reached, in a transparent and understandable format. To be of most use, such a report would need to be timely.’<sup>1</sup>
- 11 The report also summarises CIPFA’s pillars of financial resilience and indicators of financial stress<sup>2</sup>. These are presented in **Exhibit 1** below and include several areas that we commented on in our work in 2019-20.

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1 Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting, Sir Tony Redmond, September 2020

2 building financial resilience: managing financial stress in local authorities, CIPFA, June 2017

### Exhibit 1: CIPFA Pillars of Financial Resilience<sup>3</sup>



- 12 **Exhibit 2** shows the level of usable revenue reserves held by each council at 31 March 2019 and then at 31 March 2020, together with the amount by which they increased or decreased over that time. **Exhibit 2** shows that, in total, councils held over £1 billion usable reserves at the end of March 2020. We commented above that for 2020-21 additional funding from the Welsh Government has largely mitigated the financial impact of the pandemic on local councils. However should the impact of the pandemic continue into future years, it may be the case that councils will need to increasingly use their reserves to meet additional costs or supplement income losses.
- 13 We would expect differences in the level of reserves held by each council with, for example, those councils with larger net cost of services are likely to hold higher levels of reserves. **Exhibit 3** shows the amount of reserves held by each council as a percentage of their net cost of services. This varies considerably between councils, with the usable reserves as a percentage of the net cost of services varying from 33% to 5%.

<sup>3</sup> Taken from the Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting, Sir Tony Redmond, September 2020

- 14 However, the level of usable reserves should be treated with some caution. Whilst we have defined this as the level of revenue reserves including ‘earmarked’ reserves and ‘general fund’ reserves that could be re-purposed should the council decide to do so, we recognise in practise that some reserves would be easier to re-purpose than others, depending on what they have been earmarked for.
- 15 There are clearly a range of factors that could affect a council’s financial sustainability as we noted above. These also include but are not limited to its balance sheet, level of liabilities and also other funding that it has available that could be re-directed such as contingency funds that are not part of reserves. Nevertheless, clearly a council with significantly higher levels of revenue reserves relative to its net cost of services that have been increasing in recent years, indicates that its financial position is more sustainable than a council with lower reserves that have been reducing over several years. Particularly where reserves have been used to fund unforeseen revenue expenditure.
- 16 The table below sets out the level of usable revenue reserves held by each local council at the end of 2018-19 and 2019-20. By usable reserves we mean the total general fund balance, together with earmarked reserves that councils are not legally prevented from redirecting to use for another purpose.

**What we mean by ‘usable reserves’**

Reserves usable for revenue costs, where the purpose is not protected by law. This is the total of the general fund, earmarked reserves and schools balances. It excludes the HRA, Capital receipts and capital grants unapplied.



**Exhibit 2: amount of usable reserves by local authority 2018-19 and 2019-20**

	<b>Net cost of services 2019-20 in £000<sup>4</sup></b>	<b>Usable revenue reserves at 31 March 2019 in £000<sup>5</sup></b>	<b>Usable revenue reserves at 31 March 2020 in £000<sup>6</sup></b>	<b>Increase/ (decrease) in usable revenue reserves between 2019 and 2020 in £000<sup>7</sup></b>
Blaenau Gwent	£148,762	£12,725	£14,056	£1,331
Bridgend	£289,242	£56,883	£64,562	£7,679
Caerphilly	£370,910	£90,896	£100,547	£9,651
Cardiff	£712,111	£67,969	£69,149	£1,180
Carmarthenshire	£373,888	£93,898	£100,837	£6,939
Ceredigion	£155,817	£24,192	£27,688	£3,496
Conwy	£237,279	£14,114	£11,005	(£3,109)
Denbighshire	£207,366	£38,047	£36,434	(£1,613)
Flintshire	£315,765	£27,334	£24,318	(£3,016)
Gwynedd	£250,149	£64,885	£71,090	£6,205
Isle of Anglesey	£143,705	£15,271	£16,017	£746
Merthyr Tydfil	£118,608	£16,743	£15,875	(£868)
Monmouthshire	£177,834	£13,741	£15,246	£1,505
Neath Port Talbot	£306,961	£61,394	£59,093	(£2,301)
Newport	£313,904	£94,742	£78,806	(£15,936)
Pembrokeshire	£240,375	£46,435	£45,746	(£689)
Powys	£276,153	£26,758	£28,584	£1,826
Rhondda Cynon Taf	£529,390	£119,470	£119,873	£403
Swansea	£444,555	£77,022	£93,752	£16,730
Torfaen	£186,602	£18,690	£16,738	(£1,952)
Vale of Glamorgan	£248,602	£81,161	£83,008	£1,847
Wrexham	£257,842	£28,944	£26,205	(£2,739)
<b>Total</b>	<b>£6,305,820</b>	<b>£1,091,314</b>	<b>£1,118,629</b>	<b>£27,315</b>

4 Draft statement of accounts for 2019-20 subject to audit. Value used is the net cost of services charged to the general fund from the Expenditure Funding Analysis, less any Housing Revenue Account cost of services, plus precepts, levies and debt interest

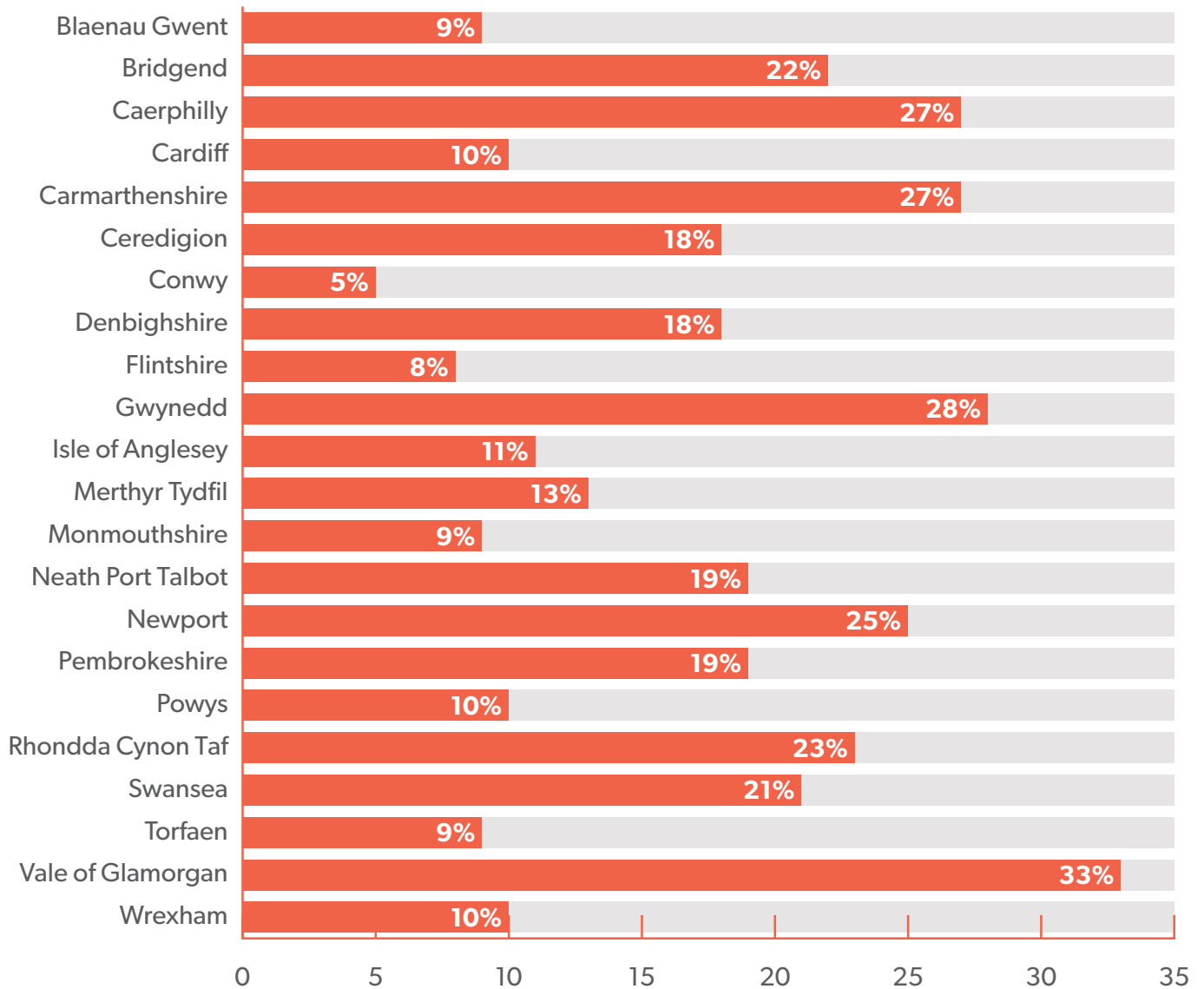
5 Audited Statement of Accounts for 2018-19

6 Draft Statement of Accounts for 2019-20 subject to audit

7 Audit Wales calculations

17 The exhibit below sets out the level of usable revenue reserves held by each local council at the end of 2019-20 as a proportion of the net cost of services of each council.

**Exhibit 3: amount of usable reserves as a proportion of the net cost of services of each council**



■ Usable revenue reserves as a % of net cost of services<sup>8</sup>



- 18 As shown above, at the end of the 2019-20 financial year councils held over £1 billion in usable revenue reserves, which equates to 18% of the total net cost of service across all councils. However, this is not evenly spread across councils, and it is also clear that some councils hold significantly more reserves than others relative to their approximate net cost of services. Although this is a relatively simplistic analysis, the level of usable reserves available to a council is one of the key indicators of financial resilience and sustainability.
- 19 From the work we undertook during 2019-20, that largely focused on the position at the end of the 2018-19 financial year, we identified some of the following themes that pre-date the pandemic but may well impact on the ability of councils to respond to it. These include:
- most councils reported either relatively small underspends or overspends overall in 2018-19 and it was a similar picture for 2017-18.
  - some councils relied on the unplanned use of reserves to balance their budgets during 2018-19. This approach is unlikely to be sustainable, particularly in those councils whose levels of usable reserves were already relatively low.
  - some councils relied on planned use of reserves as part of budget setting. Whilst this may have been planned at the start of the financial year, nevertheless, consistently using reserves, even in a planned way, to balance revenue expenditure is unlikely to be sustainable if this contributes to declining levels of reserves.
  - most councils, including those who delivered an overall surplus, still had some significant overspends in some demand-led services, with services such as social services being an area of overspend in many councils. Pressure on many demand-led services is likely to intensify as a result of the pandemic.
  - most councils delivered most of their savings, but very few delivered all of their planned savings in 2018-19.

## The cost of the pandemic to councils is significant, although a large proportion of the short-term impact has been mitigated through the provision of extra funding

- 20 The costs to councils in responding to the pandemic have been unprecedented both in their scale and the speed with which they have arisen. Additional funding has been made available to councils to mitigate these costs, however, the extent to which this will fully fund the cost of dealing with the pandemic, particularly over the medium to long term, is unknown. This is partly inevitable due to the rapidly developing picture in terms of the progress of the pandemic, as well as its economic impact. This picture will also change considerably depending on whether or not there are future waves of the pandemic, and how many and how severe they might be.
- 21 The pandemic has affected local government finances both in terms of increased costs and loss of income. **Exhibit 4** shows the estimated additional net expenditure and income loss that councils have estimated as a result of the pandemic for the first six months of the 2020-21 financial year for quarter 1 and quarter 2.
- 22 The biggest areas of increased cost pressures so far are in social services and education.
- 23 Councils receive income from a range of services including leisure facilities, car parking, school meals and school transport. The largest estimated income losses are in leisure and cultural services.
- 24 It is also clear that the financial impact of the pandemic is likely to continue throughout 2020-21 and into future years.
- 25 **Exhibit 4** sets out the total amount of additional expenditure and income loss that local authorities have estimated as a result of the COVID-19 pandemic, based on submission from local authorities to the Welsh Local Government Association (WLGA).

**Exhibit 4: total estimated additional net expenditure and income loss across the 22 unitary authorities in Wales as a result of the COVID-19 pandemic**

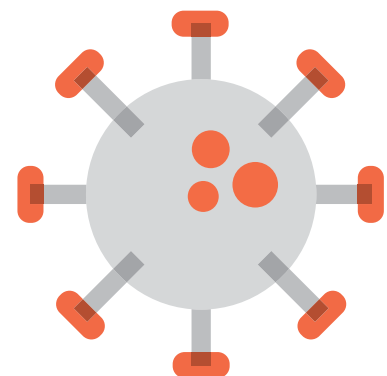
	Estimated additional net revenue expenditure	Estimated revenue income loss as a result of COVID-19
Quarter 1 (Apr-Jun)	£84.2 million	£100.1 million
Quarter 2 (Jul-Sept)	£81.3 million	£59.7 million

Source: WLGA

- 26 Public services have been significantly impacted by the pandemic and, in this context, mitigating the impact on councils will not only depend on the actions that they are able to take, but also to a large degree on the amount of resources allocated by governments. We recognise that a key issue for councils in trying to financially plan over the medium term remains uncertainty around both the level of funding they will receive from government, and their own income streams, such as council tax and fees and charges. Added to this is the uncertainty around the potential future costs associated with the pandemic. We note above that Welsh Government made nearly £500 million available for councils through the Local Government Hardship Fund as well as other additional funding.
- 27 This has mitigated local councils additional costs and income losses to date, but depending on the future course of the pandemic, there may still be a significant funding shortfall for local authorities during 2020-21. Welsh Government has also accelerated access to the Revenue Support Grant and other funding streams early in the financial year to help councils' cashflow. Welsh Government also announced in August 2020 an extra £2.8 million for councils to help fund the increase in demand on the Welsh Government's Council Tax Reduction Scheme (CTRS) since the start of the pandemic. There is clearly uncertainty surrounding the future course of the pandemic and therefore the costs and income loss associated with it. This poses a considerable challenge to both local and national governments in supporting the sustainability of the local government sector. We recognise the many uncertainties around the course of the pandemic and the future funding that will be available to councils. This makes it more difficult for councils, and governments, to plan over the medium term. However to ensure the future sustainability of councils, robust medium term financial planning is crucial.
- 28 Our local work on financial sustainability will continue to examine the extent to which councils face a budget shortfall for this and future years, and their plans to mitigate this in the context of future Welsh Government funding.

## The financial challenges arising from the pandemic are numerous and go well beyond the more immediate and obvious costs of responding to the crisis

- 29 The pandemic is likely to affect almost every aspect of local government services, and therefore finances. The income loss and additional expenditure costs noted above are a significant element of this. But even as services re-open in the short to medium term, there will be added costs around the provision of personal protective equipment for staff and for other safety measures. For example, as schools re-open in September, there are likely to be costs associated with the re-introduction of school transport.
- 30 At the same time, it is likely that income streams such as from leisure centres and car parks will continue to be affected, due to safety requirements and/or potentially less demand for services. The economic impact of the pandemic is also likely to have wider repercussions for people's ability to pay for services, particularly those that they may view as 'non-essential'. This could also lead to an increase in eligibility for concessionary pricing schemes, which might also affect the level of income that councils are able to draw in.
- 31 As the economic impact of the pandemic deepens, it is also likely that income from council tax will fall, as well as housing revenue for those councils that still hold their own housing stock.
- 32 The sustainability of some services may be under threat with particular pressures likely to be felt in areas such as leisure services and the social care sector. The WLGA has also identified significant cost pressures in some service areas, most notably social services and education. By 2022-23 it estimates that the combined costs pressures in these services alone will equate to approximately £600 million.
- 33 Given the breadth, and depth, of the impact of the pandemic to date, alongside the uncertainty surrounding its future course, local authorities are likely to face difficult choices over the short and medium term. In this context, good strategic financial planning and robust governance and decision-making arrangements become even more important.



## **Audit Wales future work – supporting financial sustainability and recovering planning**

- 34 Over 2020-21, in keeping with our commitment to support public bodies' response to the pandemic, we will work with councils to gain assurance that they are putting in place proper arrangements to secure financial sustainability. In doing so, we will seek to gather and share real-time learning and practice across the public sector. The focus of our financial sustainability work over 2020-21 will be on the issues identified above and how councils are planning for a sustainable recovery over the medium and long term. This work will also run alongside our support and challenge of recovery planning and the work we are undertaking through our 'COVID-19 learning project'. We will shortly be engaging with councils to discuss the next phase of our financial sustainability work in more detail.



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## AUDIT COMMITTEE – 21ST OCTOBER 2020

**SUBJECT: REGULATION OF INVESTIGATORY POWERS ACT 2000**

**REPORT BY: HEAD OF LEGAL SERVICES AND MONITORING OFFICER**

### **1. PURPOSE OF REPORT**

- 1.1 To advise Members of the numbers of covert surveillance operations undertaken by the Council in accordance with the provisions of the Regulation of Investigatory Powers Act 2000 (RIPA) for the period 1<sup>st</sup> January to 30<sup>th</sup> September 2020.

### **2. SUMMARY**

- 2.1 To provide an update on the number of operations undertaken in accordance with RIPA for the period 1<sup>st</sup> January 2020 to 30<sup>th</sup> September 2020.

### **3. RECOMMENDATIONS**

- 3.1 None. This report is for information only.

### **4. REASONS FOR THE RECOMMENDATIONS**

- 4.1 To ensure compliance with statutory requirements

### **5. THE REPORT**

- 5.1 The Regulation of Investigatory Powers Act 2000 (RIPA) sets out strict controls for public authorities wishing to carry out covert surveillance of individual members of the public as part of their exercise of their statutory functions. In addition to this Act, advice and guidance is found within the Codes of Practice issued by the Investigatory Powers Commissioner's Office.
- 5.2 The Authority has a corporate policy, which provides guidance on how surveillance should be used by the relevant officers.
- 5.3 Public Authorities undertaking covert surveillance of individual members of the public are subject to inspection by the Investigatory Powers Commissioner's Office.
- 5.4 Members are advised that for the period 1<sup>st</sup> January 2020 to 30<sup>th</sup> September 2020 there have been two RIPA operations undertaken as follows:

Directed Surveillance (i.e. the covert surveillance of individuals)

One relating to the sale of alcohol to persons under the age of 18 years.

Covert Human Intelligence Sources

This is the use of either undercover officers or informants who establish or maintains a personal or other relationship with a person for the covert purpose of obtaining information, or access to information or covertly disclosed information obtained by the use of such a relationship. A covert purpose is one calculated to ensure that one of the parties to the relationship is unaware of the purpose.

One relating to the sale of nitrous oxide.

## 5.5 **Conclusion**

The report advises members that there have been two applications made in relation to RIPA operations for the period 1<sup>st</sup> January 2020 to 30<sup>th</sup> September 2020

## 6. **ASSUMPTIONS**

6.1 There are no assumption in this report.

## 7. **LINKS TO RELEVANT COUNCIL POLICIES**

7.1 This report contributes to the governance arrangements on the use of directed surveillance and covert human intelligence sources under the Regulation of Investigatory Powers Act 2000 as set out in the Council's Policy and Procedure under the Regulation of Investigatory Powers Act 2000.

## 8. **WELL-BEING OF FUTURE GENERATIONS**

8.1 The Council is under an obligation to comply with legislative requirements - this report helps to achieve that.

8.2 The Regulation of Investigatory Powers Act 2000 (RIPA) provides a statutory mechanism for authorising directed surveillance and the use of a covert human intelligence source, which aims to ensure that any interference with the individual's right to privacy under Article 8 of the European Convention is necessary and proportionate, and that both the public interest and the human rights of individuals are protected and as such contributes to the following wellbeing goals within the Well-being of Future Generations Act (Wales) 2015.

A prosperous Wales

A resilient Wales

A healthier Wales

A globally responsible Wales

## 9. **EQUALITIES IMPLICATIONS**

9.1 There are none, the report is for information only.



**10. FINANCIAL IMPLICATIONS**

10.1 There are none, the report is for information only.

**11. PERSONNEL IMPLICATIONS**

11.1 There are none, the report is for information only.

**12. CONSULTATIONS**

12.1 There has been no consultation this report is for information only

**13. STATUTORY POWER**

13.1 Regulation of Investigatory Powers Act 2000.

Author: Lisa Lane Head of Democratic Services and Deputy Monitoring Officer

Consultees: Robert Tranter Head of Legal Services and Monitoring Officer





## AUDIT COMMITTEE – 21 OCTOBER 2020

**SUBJECT: OFFICERS DECLARATIONS OF GIFTS AND HOSPITALITY  
OCTOBER TO DECEMBER 2019**

**REPORT BY: HEAD OF PEOPLE SERVICES**

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### **1. PURPOSE OF REPORT**

- 1.1 The purpose of the report is to provide the Audit Committee with information regarding the Register of Employees' Interests Forms completed by officers of the Council (excluding Schools) regarding Gifts and Hospitality for the period 1 October to 31 December 2019 ie the third quarter of the financial year 2019/2020 and a comparison with the previous three quarters.

### **2. SUMMARY**

- 2.1 Enclosed as Appendix 1 is a list of Register of Employees' Interests Forms in respect of Gifts and Hospitality completed by officers of the Council (excluding Schools) for the period 1 October to 31 December 2019.

### **3. RECOMMENDATIONS**

- 3.1 The Audit Committee are asked to note the contents of this report.

### **4. REASONS FOR THE RECOMMENDATIONS**

- 4.1 The recommendation is designed to ensure members of the Audit Committee have an oversight of the position in relation to officers' Gifts and Hospitality.

### **5. THE REPORT**

- 5.1 The Council's Code of Conduct for Employees sets out guidance for employees on a range of issues, including the completion of a Register of Employee Interests form, which help maintain and improve the high standards of conduct within Local Government and protect employees from misunderstandings and confusion.

- 5.2 Completed Register of Employees' Interests forms are submitted to Heads of Service, Directors or the Chief Executive who countersign the forms to show they are aware of the declaration. The form also records details of any controls / action taken to protect the Council's interests in the circumstances outlined on the form. A copy of the countersigned form is given to the employee and a copy sent to Human Resources for filing on the employee's personal file.
- 5.3 The Head of Service, Director or Chief Executive retains the original form and maintains a summary spreadsheet to record the forms. On a monthly basis the summary spreadsheet or a nil return is submitted to Human Resources for collation and monitoring for consistency and compliance.
- 5.4 In accordance with the Council's Code of Conduct for Employees, Gifts / Hospitality of less than £25 may be accepted by the employee but any Gift / Hospitality which could be seen by a third party as placing the employee under an improper obligation such as more than one Gift / Hospitality from the same party must be refused, irrespective of its value.
- 5.5 Employees may accept small offers of Hospitality only where the activity is of a nature where there is a genuine need to impart information or to represent the Council in the community. Offers to attend purely social or sporting functions should be accepted only when these are part of the life of the community or where the Council should be seen to be represented.
- 5.6 The table below details the number of declarations regarding Gifts submitted by Directorate for the period 1 October to 31 December 2019 and the previous three quarters for comparison.

Directorate	Number of declarations received - Gifts			
	Oct – Dec 2019	July – Sept 2019	April – June 2019	Jan – March 2019
<b>Chief Executive</b>	2	0	0	0
<b>Communities</b>	1	0	0	3
<b>Education and Corporate Services</b>	1	0	1	0
<b>Social Services and Housing</b>	4	1	5	1
<b>Total</b>	<b>8</b>	<b>1</b>	<b>6</b>	<b>4</b>

- 5.7 The table below details the number of declarations regarding Hospitality submitted by Directorate for the period 1 October to 31 December 2019 and the previous three quarters for comparison.

Directorate	Number of declarations received - Hospitality			
	Oct – Dec 2019	July – Sept 2019	April – June 2019	Jan – March 2019
Chief Executive	1	0	0	0
Communities	1	0	4*	1
Education and Corporate Services	2	0	1	0
Social Services and Housing	0	0	0	0
<b>Total</b>	<b>4</b>	<b>0</b>	<b>5</b>	<b>1</b>

\* includes an Agency worker.

## 5.8 Conclusion

The Head of People Services will continue to monitor the declarations submitted and work with Heads of Service to improve their understanding, promote best practice and corporate compliance of the Code of Conduct where appropriate.

## 6. ASSUMPTIONS

- 6.1 There are no assumptions made within this report.

## 7. LINKS TO RELEVANT COUNCIL POLICIES

- 7.1 The Council's Code of Conduct for Employees confirms that in performing their duties, employees must act with integrity, honesty, impartiality and objectivity and that they must act in accordance with the principles set out in this Code, recognising the duty of all public sector employees to discharge public functions reasonably and according to the law. This is a Statutory Code requirement.

### 7.2 Corporate Plan 2018-2023

Whilst this report does not specifically contribute towards the Corporate Well-being Objectives, it does support good governance which is the foundation of the Council's performance management framework.

## 8. WELL-BEING OF FUTURE GENERATIONS

- 8.1 Having considered the five ways of working, they will not be affected by the contents of this report.

## **9. EQUALITIES IMPLICATIONS**

- 9.1 There are no equalities implications, as the reason for declaring an interest applies equally to all staff, regardless of their individual characteristics.

## **10. FINANCIAL IMPLICATIONS**

- 10.1 None.

## **11. PERSONNEL IMPLICATIONS**

- 11.1 The personnel implications are included in this report.

## **12. CONSULTATIONS**

- 12.1 There are no consultation responses that have not been included in the report.

## **13. STATUTORY POWER**

- 13.1 Local Government Act 2000.

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Appendices:  
Appendix 1 Declarations of Gifts and Hospitality 1 October to 31 December 2019

**Appendix 1**  
**Declarations of Gifts and Hospitality 1 October to 31 December 2019**

Directorate	Service Area	Post Title of Employee Making the Declaration	Type of Declaration	Details Of Declaration	Post Title of Head of Service, Director or Chief Executive who authorised the declaration	Outcome
Chief Executive		Interim Chief Executive	Gift	Bouquet of flowers, given as a thank you by a Councillor. Approx value £10.	Leader of the Council	Accepted
Chief Executive		Interim Chief Executive	Gift	Christmas plant, given as a thank you by a member of the public. Approx value £20.	Leader of the Council	Accepted
Communities	Public Protection	Trading Standards Officer	Gift	Gift voucher given as a thank you by a member of the public. Value £20. Donated to Mayor's charity.	Head of Public Protection	Accepted
Education and Corporate Services		Corporate Director	Gift	Christmas gift from a supplier. Box of Hotel Chocolat chocolates. Approx value £25. Given to team to share.	Interim Chief Executive	Accepted
Social Services and Housing	Social Services	Telecare Manager	Gift	Christmas gift from a supplier of a branded, reusable water bottle, filled with chocolates, pen and 5cl Baileys. Approx value £4. Received in the post. Chocolates shared in admin office.	Assistant Director Adult Services	Accepted
Social Services and Housing	Social Services	Social Worker	Gift	Christmas gift from a service user. Gordons pink gin Christmas gift set. Approx value £10. Accepted as service user said they would feel offended if not accepted.	Assistant Director Adult Services	Accepted

Directorate	Service Area	Post Title of Employee Making the Declaration	Type of Declaration	Details Of Declaration	Post Title of Head of Service, Director or Chief Executive who authorised the declaration	Outcome
Social Services and Housing	Social Services	Social Worker	Gift	Christmas gift from a service user. Yankee candle Christmas gift set. Approx value £8-10. Accepted as service user said they would feel offended if not accepted.	Assistant Director Adult Services	Accepted
Social Services and Housing	Social Services	Social Worker	Gift	Christmas gift from a service user. Italian pastries. Approx value £10. Accepted as service user said they would feel offended if not accepted.	Assistant Director - Adult Services	Accepted
Chief Executive		Interim Chief Executive	Hospitality	Invitation by Cardiff University to attend CBI Dinner. Value £140-£170. Accepted to represent the Council as part of the CCCR. University is one of the key partners of the CCCR.	Leader of the Council	Accepted
Communities		Interim Corporate Director	Hospitality	Invitation by Bryn Meadows Resort to attend Pontllanfraith Rotary Business Lunch. Approx value £40. Accepted Council should be represented at this local event with an opportunity to network with the local business community.	Interim Chief Executive	Accepted
Education and Corporate Services		Corporate Director	Hospitality	Invitation from Caerphilly Sports Development to attend the Caerphilly Sports Awards Evening. Approx value £40.	Interim Chief Executive	Accepted
Education and Corporate Services		Corporate Director	Hospitality	Invitation by Coleg Y Cymoedd to attend CBI Dinner. Value £140-£170. Accepted as it was a business and networking dinner.	Interim Chief Executive	Accepted





## **AUDIT COMMITTEE – 21 OCTOBER 2020**

**SUBJECT: OFFICERS DECLARATIONS OF GIFTS AND HOSPITALITY  
JANUARY TO MARCH 2020**

**REPORT BY: HEAD OF PEOPLE SERVICES**

---

### **1. PURPOSE OF REPORT**

- 1.1 The purpose of the report is to provide the Audit Committee with information regarding the Register of Employees' Interests Forms completed by officers of the Council (excluding Schools) regarding Gifts and Hospitality for the period 1 January to 31 March 2020 ie the fourth quarter of the financial year 2019/2020 and a comparison with the previous three quarters.

### **2. SUMMARY**

- 2.1 Enclosed as Appendix 1 is a list of Register of Employees' Interests Forms in respect of Gifts and Hospitality completed by officers of the Council (excluding Schools) for the period 1 January to 31 March 2020.

### **3. RECOMMENDATIONS**

- 3.1 The Audit Committee are asked to note the contents of this report.

### **4. REASONS FOR THE RECOMMENDATIONS**

- 4.1 The recommendation is designed to ensure members of the Audit Committee have an oversight of the position in relation to officers' Gifts and Hospitality.

### **5. THE REPORT**

- 5.1 The Council's Code of Conduct for Employees sets out guidance for employees on a range of issues, including the completion of a Register of Employee Interests form, which help maintain and improve the high standards of conduct within Local Government and protect employees from misunderstandings and confusion.

- 5.2 Completed Register of Employees' Interests forms are submitted to Heads of Service, Directors or the Chief Executive who countersign the forms to show they are aware of the declaration. The form also records details of any controls / action taken to protect the Council's interests in the circumstances outlined on the form. A copy of the countersigned form is given to the employee and a copy sent to Human Resources for filing on the employee's personal file.
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- 5.5 Employees may accept small offers of Hospitality only where the activity is of a nature where there is a genuine need to impart information or to represent the Council in the community. Offers to attend purely social or sporting functions should be accepted only when these are part of the life of the community or where the Council should be seen to be represented.
- 5.6 The table below details the number of declarations regarding Gifts submitted by Directorate for the period 1 January to 31 March 2020 and the previous three quarters for comparison.

Directorate	Number of declarations received - Gifts			
	Jan – March 2020	Oct – Dec 2019	July – Sept 2019	April – June 2019
<b>Chief Executive</b>	0	2	0	0
<b>Communities</b>	0	1	0	0
<b>Education and Corporate Services</b>	0	1	0	1
<b>Social Services and Housing</b>	3	4	1	5
<b>Total</b>	<b>3</b>	<b>8</b>	<b>1</b>	<b>6</b>

- 5.7 The table below details the number of declarations regarding Hospitality submitted by Directorate for the period 1 March to 31 March 2020 and the previous three quarters for comparison.

Directorate	Number of declarations received - Hospitality			
	Jan – March 2020	Oct – Dec 2019	July – Sept 2019	April – June 2019
Chief Executive	1	1	0	0
Communities	0	1	0	4*
Education and Corporate Services	2	2	0	1
Social Services and Housing	0	0	0	0
<b>Total</b>	<b>3</b>	<b>4</b>	<b>0</b>	<b>5</b>

\* includes an Agency worker.

## 5.8 Conclusion

The Head of People Services will continue to monitor the declarations submitted and work with Heads of Service to improve their understanding, promote best practice and corporate compliance of the Code of Conduct where appropriate.

## 6. ASSUMPTIONS

- 6.1 There are no assumptions made within this report.

## 7. LINKS TO RELEVANT COUNCIL POLICIES

- 7.1 The Council's Code of Conduct for Employees confirms that in performing their duties, employees must act with integrity, honesty, impartiality and objectivity and that they must act in accordance with the principles set out in this Code, recognising the duty of all public sector employees to discharge public functions reasonably and according to the law. This is a Statutory Code requirement.

### 7.2 Corporate Plan 2018-2023

Whilst this report does not specifically contribute towards the Corporate Well-being Objectives, it does support good governance which is the foundation of the Council's performance management framework.

## 8. WELL-BEING OF FUTURE GENERATIONS

- 8.1 Having considered the five ways of working, they will not be affected by the contents of this report.

## **9. EQUALITIES IMPLICATIONS**

- 9.1 There are no equalities implications, as the reason for declaring an interest applies equally to all staff, regardless of their individual characteristics.

## **10. FINANCIAL IMPLICATIONS**

- 10.1 None.

## **11. PERSONNEL IMPLICATIONS**

- 11.1 The personnel implications are included in this report.

## **12. CONSULTATIONS**

- 12.1 There are no consultation responses that have not been included in the report.

## **13. STATUTORY POWER**

- 13.1 Local Government Act 2000.

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Appendices:  
Appendix 1 Declarations of Gifts and Hospitality 1 January to 31 March 2020

**Appendix 1**  
**Declarations of Gifts and Hospitality 1 January to 31 March 2020**

Directorate	Service Area	Post Title of Employee Making the Declaration	Type of Declaration	Details Of Declaration	Post Title of Head of Service, Director or Chief Executive who authorised the declaration	Outcome
Social Services and Housing	Social Services	Social Worker	Gift	Gift from a service user. Approx value £10. Would have given offence not to accept.	Assistant Director Adult Services	Accepted
Social Services and Housing	Social Services	Social Worker	Gift	Gift from a service user. Approx value £5-£10. Would have given offence not to accept.	Assistant Director Adult Services	Accepted
Social Services and Housing	Social Services	Social Worker	Gift	Gift from a service user. Approx value £13. Would have given offence not to accept.	Assistant Director Adult Services	Accepted
Chief Executive		Interim Chief Executive	Hospitality	Attendance at South Wales Argus Education Awards. Caerphilly CBC paid for ticket £32.	Monitoring Officer	Accepted
Education and Corporate Services		Corporate Director	Hospitality	Attendance at South Wales Argus Education Awards. Caerphilly CBC paid for ticket £32.	Interim Chief Executive	Accepted
Education and Corporate Services	Learning Education and Inclusion	Chief Education Officer	Hospitality	Attendance at South Wales Argus Education Awards. Caerphilly CBC paid for ticket £32.	Corporate Director	Accepted

Gadewir y dudalen hon yn wag yn fwiadol