

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO THE GOVERNANCE AND AUDIT COMMITTEE

15 MARCH 2022

REPORT OF THE HEAD OF THE REGIONAL INTERNAL AUDIT SERVICE

ARBED SCHEME CAERAU

1. Purpose of report

- 1.1 The purpose of this report is to provide members of the Committee with an update report on the work undertaken by Internal Audit relating to the Arbed scheme, as requested by this Committee on 28 January 2022.

2. Connection to corporate well-being objectives / other corporate priorities

- 2.1 This report assists in the achievement of the following corporate well-being objective under the **Well-being of Future Generations (Wales) Act 2015**:
- **Smarter use of resources** – ensuring that all resources (financial, physical, ecological, human and technological) are used as effectively and efficiently as possible and support the creation of resources throughout the community that can help to deliver the Council's well-being objectives.

3. Background

- 3.1. At the request of the former Chief Executive in 2018, the Council's Internal Audit team conducted an audit review to ascertain the extent to which the Council's policies and procedures had or had not been applied in respect of the Arbed funded scheme in Caerau for the period September 2012 to April 2013. Concerns were raised by the then Chief Executive specifically relating to an apparent absence of an audit trail and whether there would be any circumstances that would explain this.
- 3.2. A draft audit report produced in early 2019 concluded that the review was hampered by the lack of a clear audit trail and the unavailability of key officers who were involved at the time. The report also concluded that no evidence of any form of competition to demonstrate value for money could be found.
- 3.3. The Internal Audit team was therefore requested to undertake further work and to focus on the financial and procurement aspects of the scheme. The final report was completed in October 2019 and highlighted several significant concerns relating to the governance, decision making, procurement, monitoring and control aspects of the Arbed Scheme which the Council administered at the time and the conduct and role of a Councillor.
- 3.4. To provide assurance that there was no evidence that these issues were widespread, Internal Audit undertook a further review of the procurement and governance aspects of 10 externally funded schemes from 2018 onwards. This report was presented to the Governance & Audit Committee in January 2021. An audit opinion of reasonable

assurance was given and as a result only four minor recommendations were made. No significant issues were identified. It was found that, from the sample selected and reviewed, the concerns arising from a previous externally funded Arbed scheme had not been replicated.

- 3.5. Audit Wales were appraised of the findings throughout this work.
- 3.6. On 26 January 2022 a summary of the findings of the Internal Audit report in respect of the Caerau scheme, funded via Arbed, was published on the Council's website.

4. Current situation/proposal

- 4.1. The document published on the Council's website on 26 January 2022, is at **Appendix A**. The document outlines the findings and the conclusions from the work undertaken by Internal Audit which was reported in October 2019. The report identifies several significant concerns relating to the governance, decision making, procurement, monitoring and control aspects of the Arbed Scheme and the conduct and role of a Councillor as a Director of Green Renewable Wales Ltd. The report therefore made recommendations, all of which have been implemented by the Council.
- 4.2. The report was shared with the Police in August 2019 and after due consideration they determined it was not appropriate for them to take any action.
- 4.3. The issues relating to the conduct of the Councillor were reported to the Public Services Ombudsman for Wales for investigation in November 2019. Following their investigation they made a referral to the Adjudication Panel for Wales and a hearing was scheduled. However due to the circumstances no further action could be taken.
- 4.4. The wider issues in respect of governance, decision making, and procurement were subject to a further internal audit undertaken as part of the 2020/21 audit plan. The objective of the review was to provide assurance that the Council's policies and procedures, as well as the funding terms and conditions, were being adhered to when managing external funding received by the Council. This report identified the 10 schemes reviewed and the findings and recommendations made as a result of the work. It was found that, from the sample selected and reviewed, the concerns arising from a previous externally funded Arbed scheme had not been replicated. Documentation was available to support compliance with the Council's Contract Procedure Rules and the involvement of Corporate Procurement when engaging contractors. There was also evidence of supplier monitoring, reporting and governance across all the projects. An audit opinion of reasonable assurance was given, that is that key controls exist but there may be some inconsistency in application. As a result, only 4 minor recommendations were made. The full audit report was presented to the Governance & Audit Committee in January 2021.
- 4.5. In addition, an audit of project and contract management of two schemes within the service area responsible for the Arbed scheme was completed and the report issued in October 2021. An audit opinion of reasonable assurance was given with areas including project planning, monitoring and reporting found to be well controlled. Some areas of improvement were suggested in respect of the terms of reference for the project management board, performance indicators and business continuity plans.

- 4.6. **Appendix B** summarises the 11 audits undertaken within the same service area which administered the Arbed scheme, that related to either capital schemes, grant funded schemes, project management and/ or procurement. These audits were completed between November 2011 and October 2021 and outline the strengths and weaknesses identified at the time.
- 4.7. The findings of these audits confirm that no major issues of concern were identified and procurement and project management processes were being followed across the Service Area. A number of strengths were identified along with some weaknesses as shown in **Appendix B**.
- 4.8. These audits would have been included as part of the regular Internal Audit Outturn Reports and Progress Against the Plan Reports taken by Internal Audit to this Committee at the time and would have been included within the Annual Internal Audit Reports for the periods concerned. However, due to audit opinions of reasonable assurance or substantial assurance being given these audits would not have been specifically highlighted in those reports.
- 4.9. This information also provides additional assurance that the issues found as part of the Arbed report were not identified during any other work undertaken by Internal Audit from 2011 to date.

Comments from Audit Wales

- 4.10. The Audit Director at Audit Wales has made the following observations in relation to the Arbed scheme :

“The reports produced by the Council’s Internal Audit Department identify serious deficiencies in the Council’s administration of the Arbed funding scheme for the period September 2012 to April 2013. In particular, the reports highlight fundamental concerns regarding the Council’s failure to comply with its established governance arrangements in respect of its dealing with Green Renewable Wales Ltd.

I take assurance that Internal Audit has reviewed the procurement and governance aspects of 10 externally funded schemes from 2018 onwards, and have found no evidence that the issues identified in respect of the Arbed funding scheme were widespread. I also note that the Council has addressed the specific findings and recommendations of the October 2019 Internal Audit report.

I endorse the recommendation of Internal Audit’s October 2019 report:

“The wider issues identified in the report need to be considered to identify what needs to be implemented/changed to minimise the risk of a similar occurrence of a breakdown in Governance taking place at the Council e.g. knowledge and awareness of:

- *Contract procedure rules*
- *Contract management & supervision processes*
- *Financial procedure rules*
- *Codes of conduct for Members and Officers and*
- *Protocol for member & officer relationships*
- *Decision making processes and documentation*

• *Management & supervision*”

It is clear from the work undertaken by Internal Audit, that the Council’s failed to keep a proper documentary audit trail to support the funding decisions it made in respect of Green Renewable Wales Ltd. I would therefore reinforce the importance of ensuring that officers understand the need to maintain proper documentation to show what considerations have been taken into account when reaching decisions, and how the Council’s governance requirements have been met. The Council would in my view also do well to undertake checks on a sample basis to ensure that its required standard of documentation is being adhered to.

I have considered whether it would be appropriate for an external review of matters relating to the Arbed funding to be undertaken. Overall, having considered the content of the Internal Audit reports, I am satisfied that Internal Audit acted without partiality and has not sought to downplay the seriousness of its findings. I therefore do not consider that it would serve a useful purpose for Audit Wales to conduct a further audit into the matters already considered by Internal Audit. Furthermore, I do not think it would be a proportionate use of audit resources given that the length of time that has elapsed since the events to which the concerns relate occurred.

For completeness, I note that where issues were raised by Internal Audit that were potentially relevant to the remit of other external agencies, the Council referred those matters to those agencies for their consideration.”

5. Effect upon policy framework and procedure rules

5.1 There is no effect upon the policy framework and procedure rules.

6. Equality Act 2010 implications

6.1 The protected characteristics identified within the Equality Act, Socio-economic Duty and the impact on the use of the Welsh Language have been considered in the preparation of this report. As a public body in Wales the Council must consider the impact of strategic decisions, such as the development or the review of policies, strategies, services and functions. This is an information report, therefore it is not necessary to carry out an Equality Impact assessment in the production of this report. It is considered that there will be no significant or unacceptable equality impacts as a result of this report.

7. Well-being of Future Generations (Wales) Act 2015 implications

7.1 The well-being goals identified in the Act were considered in the preparation of this report. It is considered that there will be no significant or unacceptable impacts upon the achievement of well-being goals/objectives as a result of this report.

8. Financial implications

8.1 Effective Audit planning and monitoring are key contributors in ensuring that the Council’s assets and interests are properly accounted for and safeguarded.

9. Recommendations

- 9.1 That members of the Committee note this update report on the work undertaken by Internal Audit relating to the Arbed scheme.
- 9.2 That members of the Committee note the assurance provided by Internal Audit that the issues identified within the Arbed scheme during 2012/2013 were not identified during any other work undertaken by Internal Audit at the Council from 2011 to date.
- 9.3 Members of the Committee note the observations of Audit Wales in relation to the Arbed scheme.

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Background Documents :

None