

# Agenda

## Pwyllgor Archwilio

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Date: Dydd Iau, 21 Tachwedd 2019

Time: 5.00 pm

Venue: Committee Room 1 - Canolfan Dinesig

To: Councillors J Guy, J Jordan, L Lacey, H Thomas, K Thomas, R White, D Williams and P Hourahine

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Item	Wards Affected
1	<u>Ymddiheuriadau dros Absenoldeb</u>
2	<u>Datganiadau o ddiddordeb</u>
3	<u>Cofnodion y Cyfarfod Diwethaf (Tudalennau 3 - 10)</u>
4	<u>Galw yn y Pennaeth a Chadeirydd Llywodraethwyr Ysgol Caerllion Ynghylch yr Archwiliad Mewnol Barn Anfoddfaol (Tudalennau 11 - 38)</u>
5	<u>Cynllun Archwilio Mewnol 2019/20- Cynnydd (Chwarter 2) (Tudalennau 39 - 50)</u>
6	<u>Adroddiad Rheoli Trysorlys (Tudalennau 51 - 64)</u>
7	<u>Gwersi a Ddysgwyd 2018/19 (Tudalennau 65 - 72)</u>
8	<u>Memorandwm Ariannol ar Archwiliad Ariannol 2018/19</u>
9	<u>Dyddiad y Cyfarfod Nesaf</u> 23 Ionawr 2020

Contact: Pamela Tasker, Swyddog Llywodraethu

Tel:

E-mail: [democratic.services@newport.gov.uk](mailto:democratic.services@newport.gov.uk)

Date of Issue: Dydd Iau, 14 Tachwedd 2019

Mae'r dudalen hon yn wag yn

# Minutes

## Audit Committee

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Date: 17 October 2019

Time: 5:00pm

Venue: Committee Room 1

Present: Mr J Baker (Chair), Councillors R. White, P. Hourahine, H. Thomas, K. Thomas, D. Williams, J. Jordan.

In attendance: Andrew Wathan (Chief Internal Auditor), Jan Furtek (Principal Auditor), Gareth Lucey (Audit Manager, Wales Audit Office), Paul Flint (Performance & Research Business Partner), Tracy Mckim (Policy Partnership & Involvement Manager), Deborah Weston (Service Manager Resources & Planning), Sarah Morgan (Chief Education Officer), Meirion Rushworth (Head of Finance).

Apologies: Councillor L Lacey, J. Guy.  
Dona Palmer (Audit Manager)

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### 1. Apologies for Absence

Councillors L. Lacey, J. Guy

### 2. Declarations of Interest

None

### 3. Minutes of the last meeting

#### Agreed:

The Minutes of the meeting held on the 5 September 2019 were confirmed to be a true record.

### 4. Audit Committee Self Evaluation Exercise

The Committee Members were requested by the Chief Internal Auditor to fill out a Self-Evaluation Exercise. This was last completed by Committee Members 2 years ago in November 2017. The Chief Internal Auditor explained that the exercise was to ascertain how the Members felt Audit Committee was operating and how effective it was, including its roles and responsibilities, internal processes, how it was run etc. The Chief Internal Auditor requested for the exercise to be completed and returned and Committee Members were advised that the Chief Internal Auditor was available for consultation if Members needed to discuss the exercise further.

The Chair requested for Members to complete the exercises this year and these responses could then be reflected in the Annual Governance Statement.

## **5. Public Sector Internal Audit Standards**

The Chief Internal Auditor explained to Audit Committee Members that an external review was conducted in March 2018 and it was found that Audit was generally compliant with the Standards (the highest level of compliance). There was an updated action plan with 9 actions that were required to be undertaken. In a verbal update the Chief Internal Auditor confirmed that 8 actions had been addressed with 1 action still outstanding. This action will be addressed by the end of this financial year and the next assessment will be in 4 year's time. It was mentioned how the team compared to other audit teams and it was confirmed that the team were comparable with all other Internal Audit teams in Wales.

## **6. Corporate Risk Register Update**

The Committee was requested to view the Quarter 1 Corporate Risk Register Update. The Policy Partnership & Involvement Manager explained to the Committee that the role of audit was to assess risk management processes. Cabinet also received risk updates.

### **Main Points:**

It was confirmed that the Risk Management Policy was being redrafted and would be presented to a future Audit Committee with changes.

At the end of Quarter 1 there were 7 High Level risks identified (risk scores 15-25) and 5 medium risks identified (risk scores 5 to 14).

At the end of Quarter 1 there were 12 corporate risks which consisted of 8 high and 4 medium risks. Appendix 1 of the report provided a summary of the new Corporate Risk Register 2019/20.

The summary of risks were as follows:

- A new risk identified as Demand for Additional Learning Needs (ALN) and Special Educational Needs support had been added in.
- The Brexit Risk was carried forward into 2019/20 and its risk score had been increased to 16 and reflected the current ever-changing situation.

### **Questions:**

A Member commented that they thought that the process was fine but queried the rise in risk in Newport Councils Property Estate which had a risk of 16 and where did the Committee query this. It was confirmed that Cabinet looked at the scores and that the Audit Committee should not query the detail of the risk.

A Member commented that the new risk of Educational Out of County Placements was a surprise as it was thought that this area was fine due to a new building that had been sourced for Looked after Children needing placements.

The Policy Partnership & Involvement Manager confirmed that this was an education risk in relation to the new education requirements, which is what the risk referred to.

It was discussed how the Social services risk was a risk involving the whole Council but this Education risk was a higher risk than that and that these 3 Educational risks compound on each other.

The Chair mentioned that the Committee looked at the general process but that there could be a possible change in audit, so at that stage, we could look at this in future. This change could occur in about 18 month's time.

It was questioned as to who was responsible for the Brexit issues and it was confirmed that Cabinet was responsible for this issue. The total risk register was managed by Cabinet and the process was reviewed by Audit. It was discussed how Brexit affected all things but some were more impacted than others and the Chair confirmed that it was a valid question. It was confirmed that all Members could attend briefing sessions in relation to Brexit.

A Member had a question regarding school financial pressures and what they would look like in Quarter 2. It was discussed how some schools were struggling with deficit and that Education Services and the Finance teams were working together to reduce this deficit.

At the end of Quarter 1 the risk of schools presented as showing a deficit and scored a high risk and a member asked why there was a deficit and what would happen. The Chair commented that this was maybe an issue for Scrutiny.

The Chair also commented on the Risk Score Profile table on page 17 and what the Committee wanted the risk to become and should there be a comment to say how it would be reduced. The Chair also commented that it would be useful if there was a column to see the direction of risk.

A Member asked how we knew that the assessment was correct, the implication of Brexit could be years ahead and as a Council we were occupied by Brexit but could we do much about Brexit. The Member also questioned whether this risk was overestimated.

The Policy Partnership & Involvement Manager confirmed that there were many things the Council could do regarding Brexit and the individual areas impacted were scored. In relation to the risks escalated there was a further review by the senior leadership teams, which was then further agreed at Cabinet. A presentation of this process will be presented to the Committee in a future meeting.

There was a query regarding paragraph 3 on page 13 in relation to Risk Appetite and whether there was one at the moment.

It was confirmed that a new Risk Management Policy would replace the current Risk Management Strategy and there were some discussions being held with Cabinet Members as to what a Risk Appetite should be. The new strategy would be assertive as to what this was. It was explained that there was an evolving risk appetite so this was not reflected in risk policies.

In relation to the risk regarding vulnerable children there was caution in this area. The Chair commented that in relation to Financial Controls should there be a bit more risk and it was agreed that this could be expressed better.

The Chair commented that it was limited as to what Members could do, the Committee could query the process but the Committee could not say one figure should be another. Welsh Government could determine that this could alter and maybe Audit could make decisions of this kind in the future.

It was suggested that maybe it would be helpful in a future agenda for the Committee to receive a presentation on the Risk Process.

The Chair confirmed that they attended an Audit Committee Chairs Conference where a consultation document was being considered and the plan was for Welsh Government to agree to the document, subject to consultation where it would then be widely circulated.

Audit Committee therefore might change and so the plan would be brought to the Audit Committee in the future.

**Agreed:**

For the Audit Committee to receive a presentation on the Risk Process at a future Committee.

**7. Call In the Headteacher and Chair of Governors of Caerleon School re the Internal Audit Unsatisfactory Opinion**

The Chair confirmed for the Committee that this agenda item would be number 8 and that the agenda item "*Call in the Chief Education Officer re the Internal Audit of School Trips and Visits resulting in a second Unsatisfactory Opinion*" would now be item number 7.

The Chair reiterated that the Committee had been advised that this agenda item be deferred to the next Committee meeting in October as September was a busy time for schools. An invitation had been sent to the Chair of Governors and the Headteacher of Caerleon School but an extension had been requested by those parties to defer further to November's Committee.

The Chair expressed disappointment that the invited parties were not present as both parties needed to be at the Committee. It was commented that the Chair did not find this acceptable.

The Chair suggested for the agenda item to be postponed to November's Committee and if the Chair of Governors and the Headteacher were not present, the Committee would proceed without those parties present.

The Chair commented that the Audit took place in December 2018 and it was months before the present Committee taking place and if parties disagreed with the report then they needed to discuss the material in the report.

A Member stated that they were not satisfied with the parties not being present at the Committee and wanted this challenged.

The Chief Internal Auditor commented that they were aware that some of the issues were being addressed and that the Headteacher had disagreed with some of the concerns raised in the Internal Audit report. The final report was submitted last week and this contained management comments from the Headteacher. It was not known whether recommendations had been actioned at this stage; this will be checked when the Internal Audit team undertake a follow up audit within 6 to 12 months of the final report being issued.

A Member asked whether the school were in the process of discussing the issues with Finance.

The Head of Finance confirmed that a lot of work was completed with all schools in relation to their budgets as well as Caerleon School. They also confirmed that the situation was not resolved but conversations were ongoing and the Council took a firm view. Actions had been suggested to the school which would be considered by the Headteacher and when Finance consulted with the Headteacher at their next meeting, it would be confirmed at that time.

A Member questioned whether this non-attendance was an attempt to stall as there were concerns regarding the figures, in terms of the projected £1 million deficit as it needed to be brought down as it was concerning.

The Chair agreed with this statement and stated that wider questions needed to be asked but this was not appropriate for this meeting. The Chair also stated that if the invited parties did not attend November's meeting, the Chief Executive would be notified of this absence.

It was confirmed that the figures would be revised soon, and the Chair requested for the Head of Finance to provide a verbal update to the Committee on the latest position at a future Committee.

It was commented that the Committee required written answers in relation to whether the issues highlighted had been addressed by the school as the Committee could possibly be discussing issues that may have been addressed. It was confirmed by the Chair that a written response would be requested from the Headteacher.

It was discussed by the Committee that there were other issues in the Audit report that were concerning not just the financial issues which were also worrying as there were concerns regarding possible negligence.

The Head of Finance confirmed that all issues needed to be looked at as the deficit was worrying as well as the basic day to day issues and a balanced conversation was needed.

It was questioned by a Member that issues like this should possibly be on the Corporate Risk Register.

The Chief Internal Auditor confirmed that the report presented to Audit Committee was a summary of key weaknesses identified during the audit of the School; and it

was suggested that the Audit Committee could receive a presentation from the Chief Internal Auditor in future of how Internal Audit reports are compiled and how the overall opinion is arrived at taking into account strengths and weaknesses.

It was stated that item 3:10 in the *Moderate* table had been previously in the *Significant* table in previous versions of the Internal Audit report and this reflected work that was done. The risk was reassessed after consulting with the Headteacher.

**Agreed:**

- For the agenda item to be deferred to the Audit Committee on the 21 November 2019.
- For the Governance Support Officer to send a letter to the Headteacher of Caerleon School requesting a written response in relation to the audit report presented to the Audit Committee.
- The Head of Finance to provide a verbal update on financial progress.

**8. Call in Chief Education officer re the Internal Audit of School Trips and Visits resulting in a second Unsatisfactory Opinion.**

As previously stated this item was changed by the Chair from item 8 to item 7.

The Chief Internal Auditor informed the Committee that following the presentation of the Internal Audit's six monthly update on unfavourable audit opinions in June 2019, Members of the Committee agreed to call in the Chief Education Officer to provide reasons why controls were poor and to provide assurances to the Committee that actions would be taken to make the necessary improvements.

The Chief Education Officer explained that in the procuring of an expert working in the service, value for money was very important and as it was very difficult to risk assess school trips, alternative solutions were considered such as what was available in other local authorities. However nothing had met service needs and now as an option for a new contract on January 1<sup>st</sup> 2020 had arisen, Audit were informed that there would not be anything in place until then. It was confirmed for the Committee that this new contract would meet Audit requirements.

**Steps taken:**

- A contract for a further procurement expert was delayed.
- In relation to the Evolve computer based system, 1-2 trip coordinators were needed to log on the trips for approval e.g. a small trip or a large long distance trip. A number of people logged on this system that should have been removed were still on the system. It was advised that the checks on the trips would be carried out by the trips coordinator and if the Evolve system was different then the school was contacted to remove that person and this was done in a dual way but the responsibility was placed on the school and this would be tightly mandated in the future.
- Criticisms were noted where schools had not provided adequate 28 day's notice of a trip. Schools had been submitting late information as Schools pay into those trips. The school had been notified that this was unacceptable. As this did not meet Audit requirements checks were now being done on all school trips coming through and those that were not authorised by the trips



coordinator were being highlighted in red. Two schools had submitted a late notice and this was escalated to the Headteacher. It was hoped that this assured the Committee that improvements had been made.

- No unauthorised trips were identified. It was up to the Headteacher and governing body to ensure authorisations were made and it was potentially a disciplinary issue if authorisations were not made.
- In relation to Training it was picked up by Audit that training was not received but was now advised that training was now offered every autumn term on a bespoke basis. Evolve has a training facility to evidence training was being done which was now being used as it had previously not been utilised.

### **Questions:**

It was discussed that if a school trip was not authorised and an incident occurred on that trip then the liability lies with the Headteacher and the Governing Body.

If the trip was authorised and an incident happened then it depended on the nature of the incident, however the school was always liable for the safety of individual pupils and that the risk assessments have been addressed.

The Chair questioned that if the liability was with the school what difference did Evolve make. It was confirmed that it demonstrated that the risk assessment was completed and that the Headteacher was not the trip coordinator and that certain categories needed more high level status.

It was explained for the Committee that when a trip occurred the ratio of teachers that have to be there depends on where the trip is, gender of pupils, food and drink required, weather conditions also and the Trips coordinator would also need to know the terrain of the location etc and so it was a very detailed risk assessment.

A Member asked a question as to who was responsible for outside activity. It was stated that the trips guidance came up in 2010 from Welsh Government and the trips policy was now agreed and it was the school's responsibility to have it authorised.

A Member mentioned a previous trip where a person had died while on a school trip and how the schools ensured safety as it was a concern. It was confirmed that there were arrangements at present and it was being looked at as to whether it was the appropriate level, and a trip was never allowed to occur if the risk was too high.

The Chair made reference to point 1.09 on page 50 and asked whether it was a problem and it was confirmed that this was a self-employed individual and this role was limited on the market so it was a case of balancing the risk and alternative delivery models were being looked at. The Chair stated that they had no problem with a third party etc but that this line implied that this person was caught by IR35 so was this a finance issue as every contractor has to be considered in the same way.

It was explained that the process was that the person would go through HR and Payroll but were they properly assessed and would payroll do this. It was recommended that the Head of Finance could have a discussion with the Chief Education Officer and the team about this. HR had already provided support.

The Chair commented that there were two unfavourable audit reports and that this was easily fixed. The Chief Education Officer stated that the issue was that the individual was retired and that they did not want an employment contract with the Council and if enforced they may no longer be interested in the role.

The Chair confirmed that they did not need an employment contract for this individual and they were still caught by IR35 so did not need this.

To summarise, the Chief Internal Auditor stated that Audit were checking against council policy to make sure things were compliant and in some cases strengths and weaknesses were present but that the Committee could be reassured that improvements were being made.

## **9. Date of Next Meeting**

21 November 2019

# Report

## Audit Committee

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### Part 1

**Date:** October 2019

**Item no:** 4

**Subject** **Call in of Headteacher & Chair of Governors of Caerleon Comprehensive School following Unfavourable Internal Audit Opinion.**

**Purpose** To allow Members of the Audit Committee to discuss, with the Headteacher and Chair of Governors their concerns raised in the Internal Audit review of:

- Caerleon Comprehensive School

and to gain assurances that action will be taken to improve the internal controls in operation and agree how to follow up implementation of actions

**Author** Chief Internal Auditor

**Ward** General

**Summary** Following the presentation of the Internal Audit's six monthly update on unfavourable audit opinions in June 2019, Members of the Audit Committee agreed to escalate their concerns and call the Headteacher and Chair of Governors of Caerleon Comprehensive School in to provide reasons why the controls were poor and provide assurances that action will be taken to make the necessary improvements. This was in relation to an **Unsatisfactory** audit opinion in relation to:

- Caerleon Comprehensive School

**Proposal**

- 1) To review and assess proposed actions and come to a view if they are robust and deliverable and will address the issues identified satisfactorily within reasonable timescales.
- 2) To ensure the Headteacher takes responsibility for implementing the proposed actions.
- 3) Agree that Internal Audit will carry out further follow up work in this area by the end of 2019/20 and report the resulting outcome back to Audit Committee.
- 4) The Audit Committee is asked to note the assurances given by the Headteacher that improvements will be made to the service provided by the implementation of the agreed management actions so that the further Internal Audit follow up review will result in a more positive audit opinion.

- 5) At the October Audit Committee, Audit Committee Members asked for a response to the issues raised by Internal Audit from the Headteacher – these are included at Appendix C.

**Action by** Audit Committee  
**Timetable** Immediate

## Background.

1. An internal audit review is undertaken to provide assurances (or otherwise) that appropriate internal controls, governance arrangements and risk management processes are in place to safeguard the Council's assets, to ensure the proper use of public money and that it has been used effectively, efficiently and economically, that fraud, error and misappropriation has been minimised and overall risks have been reduced.
2. Following the presentation of Internal Audit's six monthly update on unfavourable audit opinions in June 2019, Members of the Audit Committee were concerned that a significant number of issues were identified in the original draft Internal Audit report of Caerleon Comprehensive School. They were concerned that the School was operating with a large budget deficit which was projected to reach in excess of £1.6 million within the next 18 months. No recovery plan was in place to reduce the deficit amount and the School had exceeded the licenced deficit amount without obtaining further approval from the LEA. The School was in breach of the June 2014 Intervention Plan and unable to repay the £500k loan agreement with the LEA.
3. The Internal Audit of this school identified 1 Critical weakness, 25 significant weaknesses and 18 Moderate weaknesses.
4. It is important to note that the Internal Audit opinion is based on a balance of strengths and weaknesses identified within the internal control environment; an **Unsatisfactory** opinion is given where the critical / significant weaknesses identified outweigh the strengths identified. Both strengths and weaknesses are based on the evidence, or lack of, seen by the Internal Audit team, or expected to be in place but wasn't, during the audit. This report is still in draft (@ 4/10/2019) as the Headteacher has continually disagreed with the many elements of the content and management actions of this report.
5. The timeline for the Internal Audit review was as follows:

	<u>Date of audit visit to the school</u>	<u>Draft Report Issue Date</u>	<u>Final Report Issue Date</u>	<u>Audit Opinion</u>
Original Report	5 <sup>th</sup> & 6 <sup>th</sup> December 2018	15 <sup>th</sup> March 2019	Not Applicable as at 4 <sup>th</sup> October 2019	Unsatisfactory

6. Initial responses and management actions were provided by the School on 29<sup>th</sup> March 2019. Between the end of March and September 2019 a number of meetings and correspondence have taken place between the School and Internal Audit. In the main, this was to give the School the opportunity to provide additional evidence in place at the time of the audit to help support a strength in control. Although some was forthcoming, it did not change the overall Unsatisfactory Audit opinion.
7. The issues identified during the course of the audits highlighted a continued lack of internal control and exposed the Council to an unacceptable level of risk. The table of critical, significant and moderate weaknesses identified during the review is shown at Appendix B. The critical risk related to the school's budget deficit position, the fact that it had not improved and the probability that it was likely to increase significantly.
8. The weaknesses shown at Appendix B are those which Internal Audit can support by evidence, or lack of evidence which should have been in place, as at 30<sup>th</sup> September 2019.

9. A follow up audit will need to be undertaken within 6 months of the issue of the final report, with the subsequent audit opinion being reported back to Audit Committee in due course.
10. One of the key objectives of an audit report is to outline compliance against expected controls within a system, an establishment or the duration of a project or contract. Generally, the audit report should give management assurance that there are adequate controls in place to enable the system to run effectively, efficiently and economically. If adequate controls are not in place then there is greater exposure to the risk of fraud, theft, corruption or even waste.
11. NCC Internal Audit reports outline strengths of the system under review along with any weaknesses in internal control. The reports are discussed with operational management where the issues identified are agreed. The operational manager will then add his / her action plans to the report which will address the agreed issue and mitigate any further risk.
12. Heads of Service and service managers are responsible for addressing any weaknesses identified in internal systems and have agreed to do this by incorporating their comments within the audit reports and taking on board the agreed management actions.
13. Internal Audit are continuing to raise the awareness of financial regulations and contract standing orders within the Council by delivering seminars to all service areas; during recent years this training has been further targeted towards areas that have had unsatisfactory audit opinions.
14. Where managers are compliant with Council policies and procedures and sound financial management can be demonstrated then audit reviews should result in an improved audit opinion being given. If, as a result, improvements are made to internal controls then greater assurance can be given by Internal Audit to the Audit Committee, the Leader and the Chief Executive on the overall effectiveness of all the Council's internal controls.
15. Giving management assurance on systems in operation gives them confidence that there is sound financial management in place, that more effective services can be provided and the risk of theft, fraud and corruption is minimised. Better service provision, looking after the public pound makes our City a better place to live for all our citizens

## Financial Summary

16. There are no financial issues related to this report.

## Risks

17. If the issues identified in the audit reports are not addressed then weaknesses in the control environment will continue which could expose the Council to a potential risk of non-compliance, fraud, error or misappropriation.

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Issues not addressed by implementation of agreed management actions	M	H	School Management need to agree what action they intend taking in order to address the identified weaknesses; this then needs to be implemented.	Headteacher / Chair of Governors

\* Taking account of proposed mitigation measures

### **Links to Council Policies and Priorities**

18. Giving management assurance on systems in operation gives them confidence that there is sound financial management in place, that more effective services can be provided and the risk of theft, fraud and corruption is minimised. Better service provision, looking after the public pound makes our City a better place to live for all our citizens, hence Improving People's Lives.

### **Options Available**

19. This is a factual progress report and therefore there are no specific options to be considered. Internal Audit team assess the adequacy of the Council's internal control environment to ensure the public pound is spent wisely and appropriately and that fraud, theft and corruption is minimised.

20. The Audit Committee is asked to note the assurances given by the Chief Education Officer that improvements will be made to the service provided by the implementation of the agreed management actions so that the further Internal Audit follow up review will result in a more positive audit opinion.

### **Comments of Chief Financial Officer**

21. This report is compiled on behalf of the Head of Finance. It is important that the Audit Committee review proposed actions thoroughly and come to a conclusion on whether improvements will be realised, within a reasonable timescale. It will be essential that Internal Audit carry out the follow up audit sometime in 2019/20 in this area and ensure controls have improved to satisfactory levels and this will provide the Committee's future assurance in this area.

### **Comments of Monitoring Officer / Head of Law & Regulation**

22. The Report has been prepared in accordance with the Council's internal audit procedures and Performance Management framework. It will be important to review the adequacy of the proposed management actions to address the identified risks within acceptable timescales. In particular, critical risk areas will need to be addressed as a matter of priority.

### **Comments of Head of People and Business Change**

23. The report highlights areas for concern within the operational management of the school. The Committee is being asked to consider whether the actions outlined and progress to date are satisfactory. Internal Audit provides a critical function within the Council to provide assurance on financial systems and monitoring and to highlight weaknesses so that issues can be identified and addressed.

The Chief Internal Auditor has considered the sustainable development principle as required by the Wellbeing of Future Generations Act (2015).

### **Comments of Cabinet Member**

24. Not applicable

### **Local issues**

25. N/A

### **Scrutiny Committees**

26. N/A

### **Equalities Impact Assessment and the Equalities Act 2010**

27. The Equality Act 2010 contains a Public Sector Equality Duty which came into force on 06 April 2011. The Act identifies a number of 'protected characteristics', namely age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; sexual orientation; marriage and civil partnership. The new single duty aims to integrate consideration of equality and good relations into the regular business of public authorities. Compliance with the duty is a legal obligation and is intended to result in better informed decision-making and policy development and services that are more effective for users. In exercising its functions, the Council must have due regard to the need to: eliminate unlawful discrimination, harassment, victimisation and other conduct that is prohibited by the Act; advance equality of opportunity between persons who share a protected characteristic and those who do not; and foster good relations between persons who share a protected characteristic and those who do not. The Act is not overly prescriptive about the approach a public authority should take to ensure due regard, although it does set out that due regard to advancing equality involves: removing or minimising disadvantages suffered by people due to their protected characteristics; taking steps to meet the needs of people from protected groups where these differ from the need of other people; and encouraging people from protected groups to participate in public life or in other activities where their participation is disproportionately low.

28. As this is not a decision making report there is no need for an Equalities Impact Assessment. All audits are undertaken in a non-discriminatory manner.

### **Children and Families (Wales) Measure**

29. N/A

### **Wellbeing of Future Generations (Wales) Act 2015**

30. In compiling this report the principles of this Act have been considered:
- Long term: The Internal Audit workload is based on an annual operational plan supported by a 5 year strategic plan



- Prevention: Internal Audit identify strengths and weaknesses within the control environment of Newport City Council; addressing the weaknesses gives management the opportunity of preventing gaps in service provision getting worse. This should also minimise the potential for fraud, theft, loss or error.
- Integration: Internal Audit opinions provide an objective opinion on the adequacy of the internal control environment in operation and support sound stewardship of public money.
- Collaboration: Internal Audit work with operational managers to develop an appropriate action plan in order to address identified concerns.
- Involvement: Heads of Service and Senior Managers are invited to contribute to the audit planning process each year in order to prioritise audit resources.

## **Crime and Disorder Act 1998**

31. The work undertaken by Internal Audit should minimise potential fraud, corruption, theft or misappropriation within the Council. Allegations of potential criminal activity will be investigated and reported to the police where appropriate.

## **Consultation**

32. N/A

## **Background Papers**

33. N/A


Dated:

### INTERNAL AUDIT SERVICES – RISK RATINGS / AUDIT OPINIONS

- The following ratings have been applied to the individual weaknesses identified during the follow up audit

RATING	DESCRIPTION
CRITICAL	Major risk to the system.
SIGNIFICANT	Unacceptable risk.
MODERATE	Risk partially mitigated but should still be addressed.

- The Audit Opinion has been colour coded based on a traffic light system and the report only contains key issues which need to be addressed.

	GOOD	Well controlled with no critical risks identified which require addressing; substantial level of assurance.	Green
	REASONABLE	Adequately controlled although risks identified which may compromise the overall control environment; improvements required; reasonable level of assurance.	Yellow
	UNSATISFACTORY	<b>Not well controlled; unacceptable level of risk; changes required urgently; poor level of assurance.</b>	Amber
	UNSOUND	Poorly controlled; major risks exists; fundamental improvements required with immediate effect.	Red

## SUMMARY OF WEAKNESSES

The tables below summarise the individual weaknesses identified during the review.

Ref.	CRITICAL
6.01	The School was operating with a large budget deficit which is projected to reach in excess of £1.6 million within the next 18 months. No recovery plan was in place to reduce the deficit amount and the School had exceeded the licenced deficit amount without obtaining further approval from the LEA. The School was in breach of the June 2014 Intervention Plan and unable to repay the £500k loan agreement with the LEA.

Ref.	SIGNIFICANT
1.05	Receipting of budget income was not always completed promptly. Formal receipts issued did not always reflect the actual date of income received.
1.06	The income processes at the School lacked a segregation of duties. Paye.net banking reports and paying-in counterfoils had not been independently certified by the Headteacher / a designated senior officer.
1.07	There was no evidence to confirm that the School's Lettings Policy and Fees & Charges had been reviewed and agreed by the Governing Body on an annual basis. Charges for the lettings were not consistent and were collected in arrears.
2.09	The procurement quotation process for appointing a Catering Contract Management company did not present all available options to Governors. The Contract Manager was costing the School in excess of £22k over a 3 year period, despite running a deficit budget.
2.10	The School had not acquired quotes in accordance with Contract Standing Orders for Schools and there was no evidence available to support that the School had always conducted market-testing to demonstrate value for money when purchasing goods and services.
3.04	A staffing structure detailing names and job titles was not available at the time of the audit. The Teaching and Learning Responsibility (TLR) posts at the School had not been reviewed since 2015.
3.05	DBS checks were not always completed prior to members of staff commencing work at the School. In the absence of a DBS check, a DBS Risk Assessment was not always completed prior to the employees start date with the DBS application form being submitted to the DBS.
3.06	Staff were permitted to take 3 days paid leave of absence if their child was unwell. This was not recorded onto the HR & Payroll system. There was no documented policy at the School and evidence of Governing Body approval for these arrangements was not provided.
3.07	High levels of Time off in Lieu (TOIL) were being accrued by members of staff with no evidence of authorisation for the additional hours being worked. The School did not have a TOIL policy and when requesting days off using accrued TOIL, full information was not provided to the Deputy Headteacher. TOIL earned was sometimes paid as additional hours.
3.08	A number of Sickness Absence and Return to Work Discussion forms could either not be located or were not completed in full.
3.09	The review of driving at work documentation was not sufficient, had not been conducted on an annual basis for all staff and those who drove fleet vehicles / transported young people did not have their licence reviewed every 6 months.

Ref.	SIGNIFICANT
4.05	The School Private Fund management committee was not documented as meeting on a regular / termly basis to review the activities of the fund. The Fund Constitution document could not be located at the time of the audit.
4.06	Supporting documentation to identify the date and source of school private fund income being initially received was not present to support the School trip income. Teaching staff were collecting and holding significant sums of money which was in excess of the Schools Insurance arrangements.
4.07	Expenditure in relation to 'tips' on School trips were not always detailed and accompanied by supporting documentation.
4.08	The School was operating the School Private Fund across more than the permitted number of bank accounts and monthly reconciliations only accounted for 1 of the 3 SPF bank accounts held. There was no mandate held for the two additional bank accounts operated. The treasurer had online bank account access and the ability to move funds without any prior authorisation or oversight.
4.09	The SPF accounts for 2017/18 had not been independently audited. Previous account audits had not included the full fund (i.e. 3 bank accounts) and were completed by an employee of the School.
5.05	The School's inventory record was incomplete at the time of the review and did not detail all required information. It was not possible to complete an inventory check of the School's assets.
5.06	The School did not have an adequate safe and had not reviewed the access controls for a considerable period of time.
5.07	The records in support of the School's minibus were not fully completed and the statutory daily defects check sheets were not being completed.
6.02	There was no evidence to confirm that the School's budget for 2018/19 had been formally approved by the Governing Body.
6.03	No visit had been made by Schools Finance to the School for budget monitoring purposes for 5 months, despite the projected deficit. Previous visits were not made in accordance with the School's Intervention Plan (June 2014).
6.04	No budget monitoring / reconciliation documentation could be provided by the School for the period prior to the new School Business Manager commencing employment. (July 2018)
6.05	The School budget (deficit) was not a standing agenda item at the Full Governing Body meeting's The finances of the School were not regularly and sufficiently discussed by either the Full Governing Body or the Finance Sub-Committee as per the recorded minutes.
7.03	Minutes of Governing Body meetings were not readily available at the School (signed or otherwise)
7.04	Register of Business Interest forms for members of the Governing Body could not be located and had not been completed for staff employed at the School.
7.05	A number of Statutory School policies appeared out of date on the audit visit. Governing Body approval for these policies was not provided to Internal Audit.

Ref.	MODERATE
1.08	Invoices were being raised by the School in excess of £200 without going through the Corporate Debtors system.
1.09	The control record used to monitor outstanding debts was not complete. A number of invoices had been paid via the NCC Debtors system but the School records indicated the amounts were still outstanding.
1.10	The rental income for the caretaker's house had not been reviewed on an annual basis in line with the tenancy agreement.

Ref.	MODERATE
1.11	The School did not have an agreed entitlement policy for the provision of free meals to staff. Hospitality requests observed at the School were signed off by a member of staff who was absent at the time of the request's authorisation.
2.11	Purchase orders were not always raised in advance of the order being placed and the invoice being received.
2.12	Although outstanding order reports were run and reviewed by the Finance Officer on a monthly basis these were not fully annotated with the reasons for the invoices being outstanding nor reviewed by the School Business Manager. The School had 2 outstanding purchases relating to 2017.
3.10	Regular overtime was being paid to the Caretakers at the School. Income received from weekend lettings did not cover the overtime costs paid to staff. Overtime claim forms were not completed in full.
3.11	Midday supervisor allowances were paid to senior members of staff costing the School approx. £40k during the previous 12 months. As well as the allowances, these staff were also provided with a free meal. The Deputy Headteacher had approved the extension to his own midday supervisor contract.
3.12	The actual duties of the Site & IT Services Manager were not in line with the Job Description and grade.
3.13	Line rental was paid to the Site & IT Services Manager for their personal mobile phone rather than using an agreed corporate contract.
4.10	The Headteacher was not a signatory on the School Private Fund Account.
4.11	The spreadsheet used to manage the School Private Fund transactions did not detail all income received.
4.12	Statements of Account for School trips were not completed promptly and were not reported to the management committee.
5.08	The School did not have an agreed policy for the disposal of assets. There were no records maintained for assets disposed of prior to the Audit.
5.09	Portable IT and electrical equipment had not been security marked as belonging to the School / NCC.
5.10	The School did not have a complete key holder list identifying those with access to the School buildings. Keys held on the premises were not adequately concealed.
5.11	The process for visitors signing in and out at the School was inefficient.
6.06	The virement limit for the Headteacher was approved by the Finance Sub-Committee. There was no approved spend limit.

## CAERLEON COMPREHENSIVE SCHOOL RESPONSE TO AUDIT REPORT

- Wednesday 5<sup>th</sup> and Thursday 6<sup>th</sup> December 2018: audit visit
- Friday 15<sup>th</sup> March 2019: first draft report received
- Thursday 26 September 2019: invitation to meet with audit committee on 17/10/2019
- Friday 11<sup>th</sup> October 2019: final report received
- Monday 14<sup>th</sup> October 2019: Chair of Governors emailed [REDACTED] (Governance Officer) to inform that she had been called to work on Thursday 17<sup>th</sup> October 2019. No strategy was offered to secure governor representation between 14/10 and 17/10/2019, eg. alternative governor representation.
- Wednesday 16<sup>th</sup> October: Chair sent a further email to confirm she could not attend. The Chair rang [REDACTED] Governance Officer and emailed [REDACTED] Audit Manager in order to discuss. The Chair rang [REDACTED] Chief Internal Auditor on 17<sup>th</sup> October and was informed he was at lunch but would return her call. This return call was not made.
- Thursday October 17<sup>th</sup> 2019: Headteacher attends audit committee but is informed that she will not be required as the Chair of Governors is not in attendance.
- Thursday 24<sup>th</sup> October (morning): Headteacher speaks to [REDACTED] Principal Auditor and informs him that she is not available for any meetings on 21<sup>st</sup> and 22<sup>nd</sup> November and requests that the audit team are made aware so that there is no invitation for a date on which the Headteacher is not available. The Headteacher is clear that an alternative date would be appreciated.
- Thursday 24<sup>th</sup> October (afternoon): invitation to attend the audit committee on 21<sup>st</sup> November is received by the Headteacher.
- Thursday 24<sup>th</sup> October (afternoon): email to the Headteacher from [REDACTED] Principal Auditor stating that the Chair and Headteacher are expected to attend on the 21<sup>st</sup> November stating, *"If there are any issues please let us know as soon as possible"*. Headteacher emails [REDACTED] Principal Auditor to remind him of their earlier conversation.
- Monday 4<sup>th</sup> November 2019 (7.35am) this document was sent to the LA to share the points below all of which have been shared with the audit team.

	AUDIT REPORT	AGREED MANAGEMENT ACTION	RESPONSE FOR AUDIT COMMITTEE
6.01	<p>The School was operating with a large budget deficit which is projected to reach in excess of £1.6 million within the next 18 months.</p> <p>No recovery plan was in place to reduce the deficit amount and the</p>	<p>There is a plan in place to limit the deficit as far as possible given the significant budget cuts in 2017-2019 (in excess of 555k). The school has the 7<sup>th</sup> lowest AWPU in Wales and the lowest in NCC.</p> <p>The school had reached an agreement with the LA to defer loan repayment.</p> <p>An updated Recovery Plan has been submitted to the Chief Education Officer. This has also been provided to Governors.</p>	<p>At the time of audit visit, the school was not projecting a £1.6m deficit within 18 months. The school does not know why that figure has been noted by audit as it is not one provided by the school. This figure had not been reported to governors nor to the LA.</p> <p>A recovery plan was in place at the time of the visit. However, full recovery is not possible due to budget cuts and increased costs. It is worth noting that the in-year deficit (£487k) at the school is lower than the budget cut suffered by the school in the period 2017-</p>

	AUDIT REPORT	AGREED MANAGEMENT ACTION	RESPONSE FOR AUDIT COMMITTEE
	<p>School had exceeded the licenced deficit amount without obtaining further approval from the LEA.</p> <p>The School was in breach of the June 2014 Intervention Plan and unable to repay the £500k loan agreement with the LEA.</p>	<p>The School will work alongside the LA and finance colleagues. Regular meetings are currently taking place.</p> <p>The GB have discussed and had a copy of the plan.</p> <p><b>Further Audit Comment:</b> Evidence of this discussion could not be found in the minutes.</p> <p>Non-repayment was agreed with the LA.</p> <p><b>Further Audit Comment:</b> Documentary evidence of this being agreed was not provided.</p>	<p>2019 (£555k). The school has the 7<sup>th</sup> lowest per pupil funding in Wales (most recent 2018 nationally collated figures) and the lowest per pupil funding of all NCC secondary schools.</p> <p>The school exceeded its licensed deficit due to unforeseen increased costs of £152,000 in relation to rising staff costs. These costs were due to the increased costs of employing the existing staff.</p> <p>The LA agreed that the school will not repay the loan whilst in deficit. This has been part of the school's deficit plans that were agreed by the LA. The first 2 instalments of the loan were paid in 2016 and 2017.</p>
1.05	<p>Receipting of budget income was not always completed promptly. Formal receipts issued did not always reflect the actual date of income received.</p>	<p>The School Business Manager will ensure all income is receipted promptly on Paye.net and recorded onto the remittance register.</p>	<p>Addressed. The School Business Manager ensures all income is receipted promptly on Paye.net and recorded onto the remittance register.</p>
1.06	<p>The income processes at the school lacked a segregation of duties. Paye.net banking reports and paying-in counterfoils had not been independently certified by the Headteacher / a designated senior officer.</p>	<p>A clear division of duties has been established. The school now has two part-time Finance Support Officers in post. SSO 1 will receive, register and receipt income, SSO 2 will prepare and bank income with the School Business Manager independently verifying paye.net banking reports to bank paying-in counterfoils. An overview will be completed by the School</p>	<p>Addressed. A clear division of duties has been established. The school now has two part-time Finance Support Officers in post. SSO 1 receives, registers and receipts income, SSO 2 prepares and banks income with the School Business Manager independently verifying paye.net banking reports to bank paying-in counterfoils. An overview is completed by the School Business Manager.</p>

	AUDIT REPORT	AGREED MANAGEMENT ACTION	RESPONSE FOR AUDIT COMMITTEE
		Business Manager.	
1.07	<p>There was no evidence to confirm that the School's Lettings Policy and Fees &amp; Charges had been reviewed and agreed by the Governing Body on an annual basis. Charges for the lettings were not consistent and were collected in arrears.</p>	<p>The School Business Manager will review lettings with the Site Manager and establish a school lettings policy that meets the needs of both the school and the community. This will ensure a fair charge meets both needs. This policy will be approved by the Governing Body on 20/06/19.</p> <p>Block bookings have a discounted rate. Small groups who have to use large spaces where no smaller space is available also pay a rate related to the group size when we do not have a smaller available space. Outdoor spaces have different rates to indoor spaces: these are reasons for differences in current charging.</p> <p>A lettings policy will be agreed by the Governing Body on 20/06/19 to reflect these points and decisions made will be documented in future.</p> <p>The timing of the issuing of invoices will be considered as part of the new policy.</p>	<p>Agreed that no evidence was provided. Governing Body sub-committee minutes could not be located / accessed in the long term absence of previous substantive School Business Manager.</p> <p>The School Business Manager reviews lettings with the Site Manager and has established a school lettings policy that meets the needs of both the school and the community. This ensures a fair charge meets both school and community needs. This policy has been approved by the Governing Body on 20/06/19.</p>
2.09	<p>The procurement quotation process for appointing a Catering Contract Management company did not present all available options to Governors.</p>	<p>The School did not discuss the use of LA procurement services however Governors were presented with all other available options for a Catering Contract Management Company. A detailed SLA with costs comparison on all three companies was presented. This was discussed in detail with Governors. Available options were discussed but not all were detailed in the minutes. Minute accuracy has been addressed with new minute taker who has been trained to make</p>	<p>Governors were presented with options for a Catering Contract Management Company. The school believed that LA procurement was not an option as the LA contract was not due for renewal until September 2020. A detailed SLA with costs comparison on three companies was presented. This was discussed in detail with Governors. Available options were discussed but not all were detailed in the minutes. Minute accuracy has been addressed with a new minute taker who has been trained to make accurate, detailed minutes. The full Governing Body will</p>



	AUDIT REPORT	AGREED MANAGEMENT ACTION	RESPONSE FOR AUDIT COMMITTEE
	<p>The Contract Manager was costing the School in excess of £22k over a 3 year period, despite running a deficit budget.</p>	<p>accurate, detailed minutes.</p> <p>Full Governing Body will continue to agree to all sub-committee recommendations through ratification of minutes.</p> <p>Appendix papers detailed the advantages and disadvantages of each company involved.</p> <p><b>Further Audit Comment:</b> Whilst advantages and disadvantages were recorded, there was no overall evaluation or reasons documented.</p> <p>There is no current capacity at school to monitor the contract due to business team cuts. The GB chose to continue with the services of the contract manager (£5100 pa) due to the specialist combined catering and financial skillset of the manager and the actual cost saving to senior leader time at the school whose time is better focused on continuing to raise standards of teaching and learning and pupil and staff wellbeing. The business admin. team time has been cut significantly over the last 18 months with a loss of 4 team members, leaving no time to manage projects of this nature. Appointing an additional member of the team for a one-off project would not provide value for money.</p> <p>The school had in-house IT specialists to manage the IT tender process but has no catering specialists. The time taken on the IT tender process was onerous and impacted on the school decision to outsource the</p>	<p>continue to scrutinise all sub-committee recommendations through the ratification of minutes. Papers supplementing the minutes detailed the advantages and disadvantages of each company involved.</p> <p>Due to cuts to support staff there is no capacity at school to monitor the catering contract. The GB chose to continue with the services of the contract manager (£5100 pa) due to the specialist combined catering and financial skillset of the manager and the actual cost saving to senior leader time at the school whose time is better focused on continuing to raise standards of teaching and learning and pupil and staff wellbeing. The business admin team time has been cut significantly over the last 18 months with a loss of 4 team members, leaving no time to manage projects of this nature. Appointing an additional member of the team for a one-off project would not provide value for money. As the School Business Manager and finance officers have developed in post, reconsideration to this service has been given. GB meeting to consider withdrawal from the contract to be undertaken in November 2019.</p>

	AUDIT REPORT	AGREED MANAGEMENT ACTION	RESPONSE FOR AUDIT COMMITTEE
		catering tender process.	
2.10	The School had not acquired quotes in accordance with Contract Standing Orders for Schools and there was no evidence available to support that the School had always conducted market-testing to demonstrate value for money when purchasing goods and services.	Market research is always conducted but records of this were not kept. Records will be kept in future and retained.  Excepted Contracts Form will be used in future where appropriate.	Market research is always conducted but records of this were not always kept. Records are now made and retained.
3.04	A staffing structure detailing names and job titles was not available at the time of the audit.  The Teaching and Learning Responsibility (TLR) posts at the School had not been reviewed since 2015.	A complete staffing structure has been provided. This structure refers to all TLR posts. It is not a comprehensive staff list.  The reason why a list was not provided is that the DHT (personnel) was not requested as such during the audit visit. He keeps structures up-to-date in accordance with his role.  The TLRs were decided for these 3 posts during the review of 2014-2015 with HR support and guidance. These will be reviewed in line with the demands of the new curriculum.  The employee is a Subject Leader for German on a TLR2c. Welsh is not classified as a MFL and cannot be grouped as such.  The Subject Leader currently line manages 1 other person and the work in German of 2 French teachers. When the direct line management	A staffing structure was available at the time of the audit visit. There was a lack of clarity with regards to the nature of the auditors' request during the visit. The DHT (Personnel) maintains a staffing structure at the school but he was not asked for such during the visit. Staff are not named on this structure list (as personnel may change). A separate named list of staff with roles is also available at the school on a separate spreadsheet. Audit were provided with this spreadsheet during their visit.  The TLR structure was reviewed in its entirety in 2015. The audit team visited in December 2018 (3 years later). There is no requirement to completely review a structure every three years. Since September 2015, the Maths, Science, Business, Social Sciences and English team TLR responsibilities have been reviewed and modified where necessary. The LSA team, business admin support team, technicians team and site team have also been reviewed since 2015. These facts were shared with the audit team during their visit.

	AUDIT REPORT	AGREED MANAGEMENT ACTION	RESPONSE FOR AUDIT COMMITTEE
		<p>disappears (09/2019), we will reflect on the relevance of the grading.</p> <p>We are lower than the national average for TLRs held at a secondary school in Wales.</p>	
3.05	<p>DBS checks were not always completed prior to members of staff commencing work at the School. In the absence of a DBS check, a DBS Risk Assessment was not always completed prior to the employees start date with the DBS application form being submitted to the DBS.</p>	<p>DBS checks / Risk Assessments will be requested / completed in advance of the employees start date for all future appointments.</p> <p>Employee A had worked for NCC only a year prior (for a 2 year period). She came to NCC with a DBS in September 2018. She did not teach until 11/09/18 because of the nature of her part-time contract and the fact there were no teaching days for her until 11/09/2018. Employee A was on site the first week of term but only post 16 pupils were present. The Risk Assessment was completed on 11/09/2018 (her first day of teaching) in case the DBS did not come in on time. However, it was received on time.</p> <p>Employee B did have a DBS from previous employment. Risk assessment was completed but a deletion was overlooked. By the time induction was complete and she was in the classroom the NCC DBS was in place.</p> <p>This is a foreign language assistant employed through the British Council. The School was unaware a DBS check was required.</p> <p><b>Further Audit Comment:</b> The British Council Terms &amp; Conditions state the School</p>	<p>The three cases queried have been discussed with the audit team on 3 separate occasions.</p> <p>Employee A (teacher) had a start date of 01/09/2018. This employee came into the school with a DBS from another authority and had worked at Caerleon Comprehensive the previous year. She was not in the classroom until 11/09/2018 due to the fact that term started with inset day and the fact that she had a part-time contract that did not require her to teach until 11/09/2019. Her NCC DBS was confirmed on 11/09/2018 before she began her teaching. A Risk Assessment was also in place in line with NCC Policy.</p> <p>Employee B (cover supervisor) had her DBS before she began work in the classroom. She also had a Risk Assessment in line with NCC Policy.</p> <p>Employee C (Foreign Language Assistant) was employed through the British Council and entered the UK with her resident country police checks in place. The school was advised by NCC HR Payroll that foreign language assistants do not require a NCC DBS. HR Payroll corrected this by applying for a DBS check when the School Business Manager pursued this line of enquiry on behalf of the employee.</p>

	AUDIT REPORT	AGREED MANAGEMENT ACTION	RESPONSE FOR AUDIT COMMITTEE
		should carry out a check within four weeks of the FLA's arrival.	
3.06	Staff were permitted to take 3 days paid leave of absence if their child was unwell. This was not recorded onto the HR & Payroll system. There was no documented policy at the School and evidence of Governing Body approval for these arrangements was not provided.	<p>We have consulted with unions who have given detailed responses on their stance. These have been forwarded to the Chief Education Officer.</p> <p>The NCC policy provides paid leave "up to three days leave with pay per annum for the serious illness of a close relative (parent, spouse, partner or child or relative who depends on the employee for care)"</p> <p>The number of absences of this nature within a rolling 12month period will be recorded onto the Leave of Absence form in future. All absences will be fully documented and recorded onto the HR and Payroll system in future. We will ensure the School complies with the NCC Leave of Absence Policy.</p>	<p>The school has consulted with teaching unions who have given detailed responses which contend there to be a discrimination case under the Equalities Act if teachers are denied paid leave to look after a sick child. These union responses have been forwarded to the Chief Education Officer.</p> <p>For clarity, the NCC policy permits "up to three days leave with pay per annum for the serious illness of a close relative (parent, spouse, partner or child or relative who depends on the employee for care)". The school contends it is applying this policy.</p>
3.07	High levels of Time off in Lieu (TOIL) were being accrued by members of staff with no evidence of authorisation for the additional hours being worked. The School did not have a TOIL policy and when requesting days off using accrued TOIL, full information was not provided to the Deputy Headteacher. TOIL earned was sometimes paid as additional hours.	<p>A TOIL policy has been developed and approved by governors.</p> <p>Changes to staff working hours have addressed the issues raised.</p> <p>TOIL has accrued due to 10 members of the business team being lost over the last 6 years.</p>	<p>TOIL had been accrued due to reduced capacity to administer essential work at the school. The size of the business team had been significantly reduced (by 10 employees) over 6 years. Changes to staff working hours has largely addressed the issue.</p> <p>A TOIL policy has been developed and approved by governors.</p>
3.08	A number of Sickness Absence and Return to Work Discussion forms	In the long term absence of the SBM, some RTW forms were not completed on time (no capacity for another	In the long term absence of the School Business Manager, some Return to Work forms were not completed on time. Due to

	<b>AUDIT REPORT</b>	<b>AGREED MANAGEMENT ACTION</b>	<b>RESPONSE FOR AUDIT COMMITTEE</b>
	could either not be located or were not completed in full.	<p>team member to take on her responsibilities in her absence).</p> <p>Sickness Absence and Return to Work Discussion forms will be completed in full for all absences and held on personnel files at the School in future.</p>	<p>business admin. team reduction, there was no capacity for another team member to take on these responsibilities in her absence.</p> <p>It is normal practice for Sickness Absence and Return to Work Discussion forms to be completed in full. The fact that the school's sickness levels compare favourably to city and school average figures are testament to a well-managed process.</p>
3.09	The review of driving at work documentation was not sufficient, had not been conducted on an annual basis for all staff and those who drove fleet vehicles / transported young people did not have their licence reviewed every 6 months.	<p>A further driving documentation check has been carried out in February 2019 which includes the current School Business Manager.</p> <p>School Business Manager to ensure the 6 monthly check is carried out.</p>	A driving documentation check has been carried out in February 2019.
4.05	The School Private Fund management committee was not documented as meeting on a regular / termly basis to review the activities of the fund. The Fund Constitution document could not be located at the time of the audit.	<p>SPF Constitution is now in place.</p> <p>Termly meetings are now taking place.</p>	<p>SPF Constitution is now in place.</p> <p>Termly meetings are now taking place.</p>
4.06	Supporting documentation to identify the date and source of school private fund income being initially received was not present to support the School trip income. Teaching staff were collecting and holding significant sums of money which was in excess of the	The School will be using a cashless system (Parent Pay) from September 2019 which will record all income received and reduce the need for cash handling by teaching staff.	The school is to implement a cashless system which records all income received and reduce the need for cash handling by teaching staff (November 2019). This was originally planned for September 2019 but staff workload has delayed implementation.

	AUDIT REPORT	AGREED MANAGEMENT ACTION	RESPONSE FOR AUDIT COMMITTEE
	school's insurance arrangements.		
4.07	Expenditure in relation to 'tips' on school trips were not always detailed and accompanied by supporting documentation.	A proforma is now in place for all 'cash' issued during a trip. The transfer of cash and subsequent expenditure will be signed for. This will be applied to any 'tips' given.	A proforma is already in place for all 'cash' issued during a trip. The transfer of cash and subsequent expenditure is signed for.  The trip queried by the auditors in relation to 'tips' was a visit to the USA whereby a teacher had listed the tips but had not signed a statement to confirm the tip charges. Teachers will sign a separate statement to confirm 'tips' in future as per audit instruction. <b>For clarity, School Private Funds are not used for 'tips'.</b>
4.08	The School was operating the School Private Fund across more than the permitted number of bank accounts and monthly reconciliations only accounted for 1 of the 3 SPF bank accounts held. There was no mandate held for the two additional bank accounts operated. The treasurer had online bank account access and the ability to move funds without any prior authorisation or oversight.	Monthly reconciliations of all 3 accounts are being completed.  The School will obtain written confirmation from the bank with regards to the access and transfer arrangements for the deposit accounts.  SPF Treasurer will obtain authorisation for future transfer of funds between the additional accounts to the main SPF account from authorised signatories of the SPF fund.	Monthly reconciliations of all 3 accounts have been completed.  The school has had confirmation from the bank with regards to the access and transfer arrangements for the deposit accounts. To clarify, the treasurer can only move funds between these accounts and not transfer monies out of these accounts.  SPF Treasurer now obtains authorisation for future transfer of funds between the additional accounts to the main SPF account from authorised signatories of the SPF fund.
4.09	The SPF accounts for 2017/18 had not been independently audited. Previous account audits had not included the full fund (i.e. 3 bank accounts) and were completed by an employee of the school.	A full consolidated end of year Statement of Accounts for 2017/18 has now been completed and is ready for audit.  A new fund auditor will be sought who is independent of the School.  Following the fund audit a copy of the signed statement will be submitted into	A full consolidated end of year Statement of Accounts for 2017/18 has been completed and has been audited.  A new fund auditor is in place. Following the fund audit a copy of the signed statement has been submitted to Schools Finance.

	AUDIT REPORT	AGREED MANAGEMENT ACTION	RESPONSE FOR AUDIT COMMITTEE
		Schools Finance.	
5.05	The school's inventory record was incomplete at the time of the review and did not detail all required information. It was not possible to complete an inventory check of the School's assets.	All records have been transferred to the NCC inventory format, showing where assets have been disposed of where applicable. Inventory checks are now in place in line with insurance requirements.	There were two separate, complete inventory records at the time of audit visit: one for IT; one for all other items.  All records have been transferred to the NCC inventory format, showing where assets have been disposed of where applicable. Inventory checks are in place in line with insurance requirements.
5.06	The school did not have an adequate safe and had not reviewed the access controls for a considerable period of time.	The School will look at costs for a new safe. However, from September 2019 the School will be using a cashless payment system (Parent Pay) which will reduce the cash / cheques held by the School. The School will conduct more regular banking trips if the money held goes over the insurance limit for the School safe.  The School will investigate how to change the combination code for the safe.	The school has adopted a cashless payment system (planned for November 2019). This reduces the cash / cheques held by the school. The school conducts regular banking trips if the money held goes over the insurance limit for the school safe.
5.07	The records in support of the School's minibus were not fully completed and the statutory daily defects check sheets were not being completed.	Staff have been reminded it is a legal requirement to complete the daily defect logs. Staff have also been reminded to complete the journey log sheet for each vehicle with full details.	Staff have been reminded it is a legal requirement to complete the daily defect logs. Staff have also been reminded to complete the journey log sheet for each vehicle with full details.
6.02	There was no evidence to confirm that the School's budget for 2018/19 had been formally approved by the Governing Body.	A meeting of the full Governing Body has approved the budget for the 2019/20 Financial Year.  The School has appointed and trained a new minute taker for sub-committee meetings and will ensure minutes accurately reflect discussions in the meetings in future.	A meeting of the full Governing Body has approved the budget for the 2019/20 Financial Year.  The Governing Body approve the budget every year.

	AUDIT REPORT	AGREED MANAGEMENT ACTION	RESPONSE FOR AUDIT COMMITTEE
		These instances refer to times when the SBM was on long term sickness leave which is why finance did not feature at the stated meetings.	
6.03	No visit had been made by Schools Finance to the School for budget monitoring purposes for 5 months, despite the projected deficit. Previous visits were not made in accordance with the School's Intervention Plan (June 2014).	Schools Finance have allocated a dedicated FBP to work closely with the school on a monthly basis to monitor the deficit position with support from senior finance officers. The school will be supported through an enhanced finance support SLA for the financial year 2019/20 and on-going if required and regular contact meetings with the Chief Education officer, Schools Finance and the school will take place during year to review the position.	Agreed.
6.04	No budget monitoring / reconciliation documentation could be provided by the School for the period prior to the new School Business Manager commencing employment. (July 2018)	Monthly budget monitoring and reconciliation records are now held by the School.	Monthly budget monitoring and reconciliation records are now held by the school.
6.05	The School budget (deficit) was not a standing agenda item at the Full Governing Body meetings. The finances of the School were not regularly and sufficiently discussed by either the Full Governing Body or the Finance Sub-Committee as per the recorded minutes.	<p>The School budget features as part of the Head's Report to the GB twice annually as well as finance GB committee meeting half termly to discuss budget matters.</p> <p>The School has appointed and trained a new minute taker for sub-committee meetings and will ensure minutes accurately reflect meeting discussions in future.</p> <p><b>Further Audit Comment:</b> Given the Schools deficit budget situation, we would</p>	<p>The school budget features as part of the Headteacher's Report to the GB twice annually. Finance GB committee meeting minutes are reviewed at every GB meeting as a standing item. The finance sub-committee meets half termly to discuss budget matters.</p> <p>The school has appointed and trained a new minute taker for sub-committee meetings to ensure minutes accurately reflect meeting discussions.</p>



	AUDIT REPORT	AGREED MANAGEMENT ACTION	RESPONSE FOR AUDIT COMMITTEE
		recommend the finances of the School are reported to the GB at every opportunity to enable them to be closely monitored.	
7.03	Minutes of Governing Body meetings were not readily available at the School (signed or otherwise)	<p>The audit visit was made at a time when the outgoing School Business Manager was on long term sick. This is why the sub-committee documents were not available (she kept these records). Full Governing Body minutes are held on file and are available. Some minutes not located and the SBM has left the school.</p> <p>Going forward, all minutes will be signed and filed centrally at the School.</p> <p><b>Further Audit Comment:</b> Despite numerous requests copies of signed Governing Body minutes have not been provided. The School should ensure that all documents / paperwork (including minutes) are returned by the previous SBM.</p>	<p>The audit visit was made at a time when the outgoing School Business Manager was on long term sick (4 May 2018- 30 November 2018). This is why the subcommittee documents were not available (she kept these records). Full Governing Body minutes are held on file and are available. Some minutes have not been located as the SBM has left the school.</p> <p>All minutes are signed and filed centrally at the school.</p>
7.04	Register of Business Interest forms for members of the Governing Body could not be located and had not been completed for staff employed at the School.	<p>Register of Business Interest forms for School Governors cannot be found and will be updated at the next AGM.</p> <p>Staff forms to be completed on inset day in June 2019. School to design online form to keep data safe and to ensure appropriate collation &amp; ease of annual updates.</p> <p>The day is for school improvement planning for the core team. This is a model employed by NCC Headteachers when planning and discussing school improvement. Market testing was conducted but no records kept by the previous post-holder. These</p>	<p>Register of Business Interest forms for members of the Governing Body could not be located during the time of the visit even though they had been completed. (Outgoing SBM was absent.) All are in place for staff and governors. The school has devised a secure electronic Register for staff.</p>

	AUDIT REPORT	AGREED MANAGEMENT ACTION	RESPONSE FOR AUDIT COMMITTEE
		will be retained in future.	
7.05	A number of Statutory School policies appeared out of date on the audit visit. Governing Body approval for these policies was not provided to Internal Audit.	<p>The Audit team visited when there was nobody co-ordinating policies (due to the SBM absence). There has been an appointment to cover these policy duties from the current team.</p> <p>These policies have been updated and approved by Governors.</p> <p>The School has appointed and trained a new minute taker for sub-committee meetings and will ensure minutes accurately reflect meeting discussions in future.</p>	<p>The Audit team visited just after the termination of the absent SBM's contract. The auditors did not ask relevant staff at the school for up-to-date copies of the statutory policies and concluded that these 'appeared' to be out of date.</p> <p>To clarify, all statutory policies were up-to-date at the time of the audit visit.</p>
1.08	Invoices were being raised by the School in excess of £200 without going through the Corporate Debtors system.	Not required as a Moderate Weakness	Agreed & addressed.
1.09	The control record used to monitor outstanding debts was not complete. A number of invoices had been paid via the NCC Debtors system but the School records indicated the amounts were still outstanding.	Not required as a Moderate Weakness	Agreed & addressed.
1.10	The rental income for the caretaker's house had not been reviewed on an annual basis in line with the tenancy agreement.	Not required as a Moderate Weakness	To be reviewed 2019/2020.
1.11	The School did not have an agreed entitlement policy for the provision of free meals to staff.	Not required as a Moderate Weakness	No 'free' meals are provided to staff. Meals are provided for staff undertaking a lunch duty. At the time of the audit visit the cost per meal was £1.10 per day.

	AUDIT REPORT	AGREED MANAGEMENT ACTION	RESPONSE FOR AUDIT COMMITTEE
	Hospitality requests observed at the School were signed off by a member of staff who was absent at the time of the request's authorisation.		Hospitality requests were signed off with an electronic form at the time of audit visit. This included the electronic signature of the outgoing SBM. This has since been changed.
2.11	Purchase orders were not always raised in advance of the order being placed and the invoice being received.	Not required as a Moderate Weakness	Addressed.
2.12	Although outstanding order reports were run and reviewed by the Finance Officer on a monthly basis these were not fully annotated with the reasons for the invoices being outstanding nor reviewed by the School Business Manager. The School had 2 outstanding purchases relating to 2017.	Not required as a Moderate Weakness	SBM now signs all.  The 2 outstanding purchases have been settled.
3.10	Regular overtime was being paid to the Caretakers at the School. Income received from weekend lettings did not cover the overtime costs paid to staff. Overtime claim forms were not completed in full.	Not required as a Moderate Weakness	2 caretakers work at the school. The buildings are in excess of 50 years old and require a lot of maintenance. The following has been explained to the auditors.  Caretaker A works weekend overtime. This overtime does not only cover lettings related work. 2 hours are paid to open and close site facilities and 2 hours is paid for essential site maintenance. The cost of overtime opening and closing the site at weekends for lettings is £67.12. The income for lettings exceeds costs. Alternative provision has been tried. NORSE operatives were

	AUDIT REPORT	AGREED MANAGEMENT ACTION	RESPONSE FOR AUDIT COMMITTEE
			<p>more expensive, varied in quality and did not carry out site maintenance. The cost of 4 hours of NORSE services to close and open the site at weekends was £215.01 (see invoice 73-03845).</p> <p>Caretaker B works early morning overtime (6.30-7am). This enables him to open the site for early morning catering deliveries and to open buildings for staff who enter from 6.30am. He is also able to start site maintenance duties before pupils are on site (from 7.15am).</p> <p>The alternative of not opening until 7am had been tried but this delayed deliveries and caused traffic issues on site and into Cold Bath Road causing a safety issue for road users and students.</p> <p>The alternative of moving the shift so that the caretaker finished at 2.30 has been considered. However, he carries out the NCC bus patrol duties (an NCC contract to ensure safety at the off-site bus bays). This role was advertised on more than one occasion and there were no applicants. If the caretaker were not at work until 3pm then he would not undertake the bus contract as he would leave at 2.30pm.</p> <p>Whilst these arrangements are not usual, they are fit-for purpose with no viable, cost-effective alternative.</p>
3.11	<p>Midday supervisor allowances were paid to senior members of staff costing the School approx. £40k during the previous 12 months. As well as the allowances, these staff were also provided with a free meal.</p>	<p>Not required as a Moderate Weakness</p>	<p>There are 12 midday supervisors paid at the NCC living wage. This is in line with the 1 for every 100 pupils guide in the ISB guidance document.</p> <p>These staff comprise senior staff, middle level leaders and cover supervisors who give up their lunchbreak for a small payment to ensure site safety for pupils.</p>

	AUDIT REPORT	AGREED MANAGEMENT ACTION	RESPONSE FOR AUDIT COMMITTEE
	The Deputy Headteacher had approved the extension to his own midday supervisor contract.		<p>Alternatives have been considered but lunchtime supervisors from the community do not command the same level of respect from students, do not know the students and are hard to recruit at such low levels of pay.</p> <p>The Deputy Headteacher had approved the extension to his own midday supervisor contract. Error which has been addressed.</p>
3.12	The actual duties of the Site & IT Services Manager were not in line with the Job Description and grade.	Not required as a Moderate Weakness	The Site & IT Services Manager's duties are in line with his Job Description and pay grade. The Job Description was constructed with and assessed by HR. The nature of the duties has been explained to the auditors.
3.13	Line rental was paid to the Site & IT Services Manager for their personal mobile phone rather than using an agreed corporate contract.	Not required as a Moderate Weakness	Agreed. At contract renewal service will change.
4.10	The Headteacher was not a signatory on the School Private Fund Account.	Not required as a Moderate Weakness	Agreed.
4.11	The spreadsheet used to manage the School Private Fund transactions did not detail all income received.	Not required as a Moderate Weakness	Resolved.
4.12	Statements of Account for School trips were not completed promptly and were not reported to the management committee.	Not required as a Moderate Weakness	Resolved. Sub-committee of governors acts as 'management committee'.
5.08	The School did not have an agreed policy for the disposal of assets. There were no	Not required as a Moderate Weakness	Addressed.

	AUDIT REPORT	AGREED MANAGEMENT ACTION	RESPONSE FOR AUDIT COMMITTEE
	records maintained for assets disposed of prior to the Audit.		
5.09	Portable IT and electrical equipment had not been security marked as belonging to the School / NCC.	Not required as a Moderate Weakness	All IT equipment is listed by serial number on the school inventory. This is secure. This was in place at the time of audit.  Security marking of portable electrical equipment ongoing.
5.10	The School did not have a complete key holder list identifying those with access to the School buildings. Keys held on the premises were not adequately concealed.	Not required as a Moderate Weakness	Only caretakers and site manager have keys to external doors. This was in place at the time of audit. Keys on premises are in a cupboard in the caretakers' office which is locked unless the caretaker is in the office which is located in a place with no public/pupil thoroughfare. This was in place at time of audit.
5.11	The process for visitors signing in and out at the school was inefficient.	Not required as a Moderate Weakness	For security and GDPR compliance we removed our visitor sign-in book from Reception as visitors could see a list of visitors on site. At a time when the school cannot afford electronic sign in equipment, the decision was made that visitor names would be recorded on the receptionist's electronic spreadsheet. This takes no longer than electronic self sign-in and does not carry the risk inherent in a visible visitor sign-in book/ledger. The system at the school is no less efficient than electronic sign-in and is more secure than the traditional sign-in ledger.
6.06	The virement limit for the Headteacher was approved by the Finance Sub-Committee. There was no approved spend limit.	Not required as a Moderate Weakness	The finance sub-committee recommend virement levels through their minutes for GB approval. The virement limit for the Headteacher is £5k. To clarify, there is no virement for the Deputy Headteacher.



# Report

## Audit Committee

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### Part 1

**Date:** 21 November 2019

**Item No:** 5

**Subject** Internal Audit – Progress against audit plan 2019/20 Quarter 2

**Purpose** To inform Members of the Council's Audit Committee of the Internal Audit Section's progress against the 2019/20 agreed audit plan for the first 6 months of the year by providing information on audit opinions given to date and progress against key performance targets.

**Author** Chief Internal Auditor

**Ward** General

**Summary** The attached report identifies that the Internal Audit Section is making good progress against the 2019/20 audit plan and internal performance indicators.

**Proposal** 1) The report be noted by the Council's Audit Committee

**Action by** The Audit Committee

**Timetable** Immediate

This report was prepared after consultation with:

- Chief Financial Officer
- Monitoring Officer
- Head of People and Business Change

**Signed**

## Background

1. This report aims to inform Members of the Audit Committee of progress of work undertaken by the Internal Audit Section of the Council against the agreed audit plan. Progress against the audit plan for the first 6 months of the year will be reported along with the performance of the team for that period.
2. The report gives Members assurance (or otherwise) on the adequacy of the internal control environment operated within the Council by providing the audit opinions on work undertaken at the end of Q2.

### Internal Audit Staffing

3. The team currently operates with an establishment of 8 audit staff. At the start of the year there were 7 audit staff in the team; there has been a vacancy in the team since August 2018.
4. In order to take account of the budget savings contribution and the delayering exercise required by senior management following the job evaluation exercise, the Internal Audit team was restructured and reduced in numbers in 2016/17.
5. The relationship with Monmouthshire County Council (for sharing of the Chief Internal Auditor) continues.

### Audit Plan

6. The Public Sector Internal Audit Standards (PSIAS) (IIA) came into force from April 2013 (updated March 2017) which the team needs to ensure it is compliant with as it carries out work in line with the Audit Plan. These standards replace the former Code of Practice for Internal Audit within Local Government (CIPFA).
7. A requirement of the PSIAS is for the Internal Audit team to be externally assessed once every five years to ensure compliance with these Standards. The Welsh Chief Auditors' Group proposed an option of a peer review in order to meet the requirements of this external assessment, which has been agreed by respective S 151 Officers of local authorities in Wales. Newport's peer review took place in 2017/18; the outcome being that the team is generally compliant with the Standards, with no significant areas of non-compliance; this is the highest standard of compliance.
8. The 2019/20 Draft Audit Plan was agreed by the Audit Committee on the 28<sup>th</sup> March 2019 with the Final being approved on the 6<sup>th</sup> June 2019.

### Performance

9. The Audit Section's performance is measured against planned work, which incorporates externalities like special investigations, financial advice and financial regulations training. Where actual time taken for the review exceeds planned time there will be an impact on the audit plan. Ad-hoc reviews requested by management cannot be planned for but will have an immediate impact on the achievement of the audit plan; we will endeavour to minimise these throughout the year. The section has been involved with some special investigations so far this year but if this increases significantly it could have an impact on this year's achievement of the audit plan; there have also been a few unplanned reviews.



10. The section's performance is measured against performance indicators set and agreed by the Welsh Chief Auditors' Group. Performance against these indicators is reported to the Audit Committee on a quarterly basis; the targets for each of the indicators are set internally by the Chief Internal Auditor.
11. The performance for Quarter 2 2019/20 is summarised below with the detail shown at **Appendix A**:
  - a. 33% of the audit plan has been achieved so far which is higher than the profiled target of 30%;
  - b. The promptness of issuing draft reports (comparing timescale between finalising all fieldwork and issuing the draft report to management) averages at 6 days, well within the target time of 10 days;
  - c. The promptness of report finalisation (comparing timescale from meeting with client to discuss issues raised in the draft report to issue of finalised report to management) averages 1 day which is well within the target time of 5 days.
12. Coverage of the plan at this stage of the year is just above expectations; the target being 30% for Quarter 2, despite the team being involved with a number of special investigations and unplanned reviews. Although performance may dip throughout the year, historically things have picked up in the final quarter; this year will depend on sufficient audit resources being available to complete the audit plan. Key financial systems will be reviewed by the year end.
13. 48 days have been spent finalising 22 2018/19 audit reviews; 18 of which have now been finalised.
14. A vacancy / secondment provision was taken into account in the planning stage which related to the Chief Internal Auditor's work with Monmouthshire.
15. Inevitably there will be some overruns on reviews undertaken within the team which may result in not as many reviews being undertaken as were planned for the year.
16. From time to time the team does get involved with non-planned audit work which often results in special investigations.

#### Quality Control

17. On completion of all audit reviews, an evaluation questionnaire is sent out to the service manager with the final report. This gives the manager who has been audited an opportunity to comment on the audit review itself, confirming (or not) that it was of benefit to their service and that the main risks had been covered; the staff, their approach, constructiveness and helpfulness; the report, covering the benefits of discussing the draft report, whether the balance was right via the inclusion of strengths and weaknesses, whether management comments were correctly reflected and if the report format was easy to follow. These questionnaires are returned in confidence to the Chief Internal Auditor who will assess the comments and address any criticisms. Generally, there has been positive feedback from service managers via these questionnaires; this will continue to be collated throughout the year and fed into the annual audit report for 2019/20.

#### Financial Training

18. In the Audit Section's continued efforts to ensure that Council's assets are safeguarded and to provide assurance to management that their internal controls are robust, further training specifically on financial regulations and contract standing orders is offered to all service areas. An overview of financial management is also part of the Corporate Induction Programme and the course is also available on a self-nomination basis, quarterly, as part of the Corporate Training Programme. Feedback from staff who have attended courses has been positive.

#### Audit Opinions 2019/20

19. Audit opinions issued so far in 2019/20 are shown at **Appendix B**. Definition of audit opinions currently given is shown at **Appendix D**.
20. 10 jobs completed to at least draft report stage by 30 September 2019 warranted an audit opinion: 2 x *Good*, 6 x *Reasonable*, 2 x *Unsatisfactory*. In addition, 7 grant claim audits have been undertaken during the year; all were *Unqualified*. Other work completed related to the Annual Governance Statement, National Fraud Initiative (NFI), provision of financial advice and training (**Appendix C**). Audits in draft at the year end (31/3/19) were also finalised in Q1 and Q2.
21. The audit opinion relates to the adequacy of internal controls within the system or establishment being reviewed. The opinion is derived from the balance of strengths and weaknesses identified from evidence obtained, and testing undertaken, during the audit. Where the auditor believes that any issues identified are the result of a deliberate action and may be in breach of the Disciplinary Code or Employee Code of Conduct, further investigations will be carried out and action taken as appropriate.

#### Service Management Responsibilities

22. Heads of Service and service managers are responsible for addressing any weaknesses identified in internal systems and demonstrate this by incorporating their agreed actions into the audit reports. When management sign off the reports they are accepting responsibility for addressing the issues identified within the agreed timescales.
23. Although Heads of Service are responsible for implementing and maintaining adequate internal controls within service areas, operational managers are responsible for working within those controls and for ensuring compliance with Council policies and procedures. All reports, once finalised, are sent to the respective Heads of Service for information and appropriate action where necessary.

#### Follow up audit reviews

24. Where unsatisfactory and unsound opinions are issued, they are followed up within a twelve month timescale to ensure that the agreed actions have been taken by management and that the internal control systems are improved. These are reported separately to this Audit Committee on a six-monthly basis.

#### **Financial Summary**

25. There are no financial issues related to this report.

#### **Risks**

26. If the plan is not completed due to a lack of resource in the team, the Chief Internal Auditor may have to qualify his year end assurance opinion provided to the Audit Committee.

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Audit Plan not completed	M	L	Passed potential management issues back to management ; Will take on interim external support to cover long term vacancy	Chief Internal Auditor

\* Taking account of proposed mitigation measures

### Links to Council Policies and Priorities

27. Giving management assurance on systems in operation gives them confidence that there is sound financial management in place, that more effective services can be provided and the risk of theft, fraud and corruption is minimised. Better service provision, looking after the public pound makes our City a better place to live for all our citizens, hence Improving People's Lives.

### Options Available

28. This is a factual progress report and therefore there are no specific options to be considered. The quarterly reports provide a mechanism for monitoring the performance and progress of the Internal Audit team and the adequacy of the Council's internal control environment to ensure the public pound is spent wisely and appropriately and that fraud, theft and corruption is minimised.

29. The Audit Committee is asked to note progress on delivery of the audit plan and audit opinions given to date and ask questions, make observations and recommendations, as necessary.

### Preferred Option and Why

30. N/A

### Comments of Chief Financial Officer

31. I can confirm that I have been consulted and have no additional comments.

### Comments of Monitoring Officer

32. There are no legal implications. The Report has been prepared in accordance with the Council's internal audit procedures and the Performance Management framework. The progress made to date in delivering the objectives set out in the approved Audit Plan highlights the effectiveness of the work undertaken by this service area in ensuring that adequate and effective internal financial controls are in place.

### Staffing Implications: Comments of Head of People and Business Change

33. In terms of Corporate Policy & Performance, the report presents a review of audit activity during the period concerned and is set out in the context of performance framework. Clearly the work of the audit team is critical in giving assurance that the work of the Council is being undertaken within the set policies and procedures. It is also critical in ensuring that the organisation meets its statutory responsibilities under the Well-being of Future Generations Act (2015).

## **Comments of Cabinet Member**

34. N/A

## **Local issues**

35. N/A

## **Scrutiny Committees**

36. N/A

## **Equalities Impact Assessment and the Equalities Act 2010**

37. The Equality Act 2010 contains a Public Sector Equality Duty which came into force on 06 April 2011. The Act identifies a number of 'protected characteristics', namely age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; sexual orientation; marriage and civil partnership. The new single duty aims to integrate consideration of equality and good relations into the regular business of public authorities. Compliance with the duty is a legal obligation and is intended to result in better informed decision-making and policy development and services that are more effective for users. In exercising its functions, the Council must have due regard to the need to: eliminate unlawful discrimination, harassment, victimisation and other conduct that is prohibited by the Act; advance equality of opportunity between persons who share a protected characteristic and those who do not; and foster good relations between persons who share a protected characteristic and those who do not. The Act is not overly prescriptive about the approach a public authority should take to ensure due regard, although it does set out that due regard to advancing equality involves: removing or minimising disadvantages suffered by people due to their protected characteristics; taking steps to meet the needs of people from protected groups where these differ from the need of other people; and encouraging people from protected groups to participate in public life or in other activities where their participation is disproportionately low.

38. As this is a progress report on performance and audit opinions there is no need for an Equalities Impact Assessment. All audits are undertaken in a non-discriminatory manner.

## **Children and Families (Wales) Measure**

39. N/A

## **Wellbeing of Future Generations (Wales) Act 2015**

40. In compiling this report the principles of this Act have been considered:

- Long term: The Internal Audit workload is based on an annual operational plan supported by a 5 year strategic plan
- Prevention: Internal Audit identify strengths and weaknesses within the control environment of Newport City Council; addressing the weaknesses gives management the opportunity of preventing gaps in service provision

getting worse. This should also minimise the potential for fraud, theft, loss or error.

- Integration: Internal Audit opinions provide an objective opinion on the adequacy of the internal control environment in operation and support sound stewardship of public money.
- Collaboration: Internal Audit work with operational managers to develop an appropriate action plan in order to address identified concerns.
- Involvement: Heads of Service and Senior Managers are invited to contribute to the audit planning process each year in order to prioritise audit resources.

## **Crime and Disorder Act 1998**

41. The work undertaken by Internal Audit should minimise potential fraud, corruption, theft or misappropriation within the Council. Allegations of potential criminal activity will be investigated and reported to the police where appropriate.

## **Consultation**

42. N/A

## **Background Papers**

43. N/A

Dated:

## Appendix A

## Newport City Council

## Internal Audit Service

## Performance Indicators

Tudalen 46

2018/19	2018/19 Target	1 <sup>st</sup> Qtr 18/19	2 <sup>nd</sup> Qtr 18/19	3 <sup>rd</sup> Qtr 18/19	4 <sup>th</sup> Qtr 18/19	Comments
Proportion of planned audits complete	82%	20%	36%	53%	83%	[Profiled Target 82%]
Proportion of planned audits complete within estimated days	65%	50%	56%	47%	65%	Cumulative figures
Directly chargeable time against total time available	50%	59%	59%	58%	62%	Quarterly performance
Directly chargeable time against planned	84%	92%	92%	87%	91%	Quarterly performance
Proportion of Special Reviews responded to within 5 working days	100%	N/A	100%	100%	100%	Cumulative figures
Number of sessions provided to train staff in all Service Areas on best financial practice	11	3	6	7	9	Cumulative figures
Staff turnover rate (number of staff)	1	0	1	0	0	Quarterly performance
Promptness of draft report issue (end of fieldwork to draft report issue date)	10 days	3 days	9 days	11 days	11 days	Cumulative figures
Promptness of report finalisation (date of client meeting to final report issue date)	5 days	2 days	3 days	3 days	3 days	Cumulative figures

2019/20	2019/20 Target	1 <sup>st</sup> Qtr 19/20	2 <sup>nd</sup> Qtr 19/20	3 <sup>rd</sup> Qtr 19/20	4 <sup>th</sup> Qtr 19/20	Comments
Proportion of planned audits complete	82%	18%	33%			[Profiled Target 30%]
Proportion of planned audits complete within estimated days	65%	100%	25%			Cumulative figures
Directly chargeable time against total time available	50%	58%	54%			Quarterly performance
Directly chargeable time against planned	84%	86%	80%			Quarterly performance
Proportion of Special Reviews responded to within 5 working days	100%	100%	100%			Cumulative figures
Number of sessions provided to train staff in all Service Areas on best financial practice	8	0	3			Cumulative figures
Staff turnover rate (number of staff)	0	0	0			Quarterly performance
Promptness of draft report issue (end of fieldwork to draft report issue date)	10 days	1 day	6 days			Cumulative figures
Promptness of report finalisation (date of client meeting to final report issue date)	5 days	1 day	1 day			Cumulative figures

**Appendix B**  
**Opinions as at 30 September 2019, Qtr 2**

Good	2
Reasonable	6
Unsatisfactory	2
Unsound	0
Total	10

**Internal Audit Services - Management Information for 2019/20 Q2**

Job number	Group	Service Area	Section or Team	Job Title	Risk Rating / Priority	Opinion given
P1920-4	CE	Finance	Income Collection	National Non Domestic Rates (NNDR)	Medium	Good
P1920-25	People	Children & Young People Serv	Safeguarding, Quality Assurance & Child Protection	Adults at Risk	Medium	Good
P1920-13	CE	People & Bus Change	Human Resources	Employment Status	High	Reasonable
P1920-39	Place	Law & Regulation	Democratic Services & Communications	Destination Development (Inc City Events)	Medium	Reasonable
P1920-42	Place	Law & Regulation	Public Protection	Licensing (Premises)	High	Reasonable
P1920-64	Place	City Services	Waste & Cleansing	Street Cleansing - Follow-up	High	Reasonable
P1920-79	People	Education Serv	Primary Schools	Maesglas Primary (2018/19)	Medium	Reasonable
P1920-81	People	Education Serv	Secondary Schools	The John Frost School	Medium	Reasonable
P1920-56	Place	City Services	Environment & Leisure	Grounds Maintenance (2018/19)	Medium	Unsatisfactory
P1920-62	Place	City Services	Highways & Engineering	Passenger Transport Unit - Taxi Contracts (2018/19)	High	Unsatisfactory

Job number	Group	Service Area	Section or Team	Job Title	Risk Rating / Priority	Opinion given
P1920-34	People	Adult & Comm Serv	Service Development & Commissioning	Supporting People Programme Grant (SPPG) Certification (Finances)	Medium	Unqualified
P1920-35	People	Adult & Comm Serv	Service Development & Commissioning	Supporting People Programme Grant (SPPG) Certification (Outcomes)	Medium	Unqualified
P1920-43	Place	Law & Regulation	Public Protection	Scambusters Grant Claim 2018/19	Medium	Unqualified
P1920-48	Place	RI&H	Community Regeneration	30 Hours Free Childcare	Medium	Unqualified
P1920-49	Place	RI&H	Community Regeneration	Flexible Funding Grant 2018/19	Medium	Unqualified
P1920-71	People	Education Serv	Education Grants	School Improvement Grant (SIG) 2018/19	High	Unqualified
P1920-72	People	Education Serv	Education Grants	Pupil Development Grant (PDG) 2018/19	Medium	Unqualified




## Appendix C

### Non Opinion work 2019/20 Q2

Job number	Group	Service Area	Section or Team	Job Title	Opinion
P1920-7	CE	Finance	General	Annual Governance Statement	Not applicable
P1920-9	CE	Finance	General	Financial Advice	Not applicable
P1920-18	CE	People & Bus Change	General	Financial Advice	Not applicable
P1920-19	CE	People & Bus Change	General	Financial Regulations Training	Not applicable
P1920-28	People	Children & Young People Serv	General	Financial Advice	Not applicable
P1920-36	People	Adult & Comm Serv	General	Financial Advice	Not applicable
P1920-45	Place	Law & Regulation	General	Financial Advice	Not applicable
P1920-53	Place	RI&H	General	Financial Advice	Not applicable
P1920-63	Place	City Services	Highways & Engineering	Civil Parking Enforcement (Consultancy)	Not applicable
P1920-65	Place	City Services	General	Financial Advice	Not applicable
P1920-85	People	Education Serv	General	Financial Advice	Not applicable
P1920-87	External	Ext Audits	SWCAG	SWCAG Training Programme	Not applicable

Appendix D

**INTERNAL AUDIT SERVICES – OPINION DEFINITIONS**

	<b>GOOD</b>	<b>Well controlled with no critical risks identified which require addressing; substantial level of assurance.</b>	<b>Green</b>
	REASONABLE	Adequately controlled although risks identified which may compromise the overall control environment; improvements required; reasonable level of assurance.	Yellow
	UNSATISFACTORY	Not well controlled; unacceptable level of risk; changes required urgently; poor level of assurance.	Amber
	UNSOUND	Poorly controlled; major risks exists; fundamental improvements required with immediate effect.	Red

Unqualified	<p>The Financial Statement is free from material misstatement and presents fairly the activities of the organisation.</p> <p>The terms and conditions of the grant funding have been complied with.</p>
Qualified	<p>There is a lack of supporting information or documentation to verify that that figures quoted in the Financial Statement fairly represent the activities of the organisation.</p> <p>The terms and conditions of the grant funding have not been fully complied with.</p>

# Report

## Audit Committee

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### Part 1

**Date:** 28 October 2019

**Item no:** 6

**Subject** **Report on Treasury Management for the period to 30 September 2019**

**Purpose** This report is to inform the Audit Committee of treasury activities undertaken during the period to 30 September 2019 and confirms that all treasury and prudential indicators have been adhered to in the first half of the financial year.

**Author** Assistant Head of Finance

**Ward** General

**Summary** During the first half of the financial year, the Council continued to be both a short-term investor of cash and borrower to manage day-to-day cash flows. Current forecasts indicate that in the future, temporary borrowing will continue to be required to fund normal day to day cash flow activities. No additional temporary borrowing was required in the first half of the year, however there has been a small amount of long-term borrowing taken at zero interest for a specific project.

All borrowing and investments undertaken during the first half of the year was expected and within the Council's agreed limits

**Proposal** **To note the report on treasury management activities for the period to 30 September 2019 and provide comments to Council.**

**Action by** Head of Finance

**Timetable** Immediate

This report was prepared after consultation with:

- Treasury Advisors
- Head of Finance

Please list here those officers and members you have consulted on this report.

**Signed**

## Background

1. The Council's Treasury Management Strategy and Prudential Indicators were approved by Council in February 2019 alongside the Capital Strategy and the Medium Term Financial Plan and the 2019/20 Budget.
2. The Treasury Management Strategy for 2019/20 has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year. The Code also recommends that members are informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is embracing best practice in accordance with CIPFA's recommendations.
3. The 2017 Prudential Code includes a requirement for local authorities to produce and approve provide a Capital Strategy, covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 26<sup>th</sup> February 2019.
4. This report presents the following information.
  - details of capital financing, borrowing, debt rescheduling and investment transactions
  - reports on the risk implications of treasury decisions and transactions
  - details the half year monitoring position on treasury management transactions in 2019/2020
  - confirms compliance with treasury limits set and Prudential code
5. Whilst the Council has significant long term borrowing requirements, the Council's capacity for further in internal borrowing has reached capacity, and in the latter half of 2019/20 the Council is expected to undertaken external borrowing both for the refinancing of maturing loans and to fund the existing capital programme; it will remain as much 'internally borrowed' as is possible and increase actual external borrowing only when needed to manage its cash requirements.
6. Although this report looks at treasury management activities to 30<sup>th</sup> September 2019, on 9<sup>th</sup> October HM Treasury announced a change to the margin of 1% which was applied to PWLB interest rates, increasing the cost of borrowing immediately from that point forward. This was an unexpected increase, and was not anticipated across local government.
- 7.
8. Given the recent rise in PWLB interest rates the authority will discuss with treasury advisors on whether the strategy of not undertaking early long-term borrowing is still applicable, this will be updated in the treasury management strategy to be approved for 2020/21.
9. As shown in Table 2 in Appendix B, during the first half of the year the amount of borrowing has reduced by £42m to £150.8m. This is mainly due to repayment of the stock issue which matured on the 10<sup>th</sup> April 2019. The Council took out a loan to do this but did this before 31<sup>st</sup> March and therefore this increase in loans taken out was reported in the previous half-year / financial year. As this loan was taken a few weeks earlier than needed, it was temporarily invested and then used to repay the Bond and therefore, as shown in the same table, there is a corresponding reduction in investments as this was done. In essence, we have simply re-financed the Bond with another loan of the same value and in pursuing an internally borrowed borrowing strategy, is as expected.
10. A small amount of long-term borrowing was taken out in the first half of the financial year amounting to £1.5m. This was in relation to interest free Welsh Government and Salix loans linked to specific projects. It is anticipated that the Council will need to undertake additional borrowing on a short term basis for the remainder of the year in order to cover normal day to day cash flow activity. With current estimates there is the potential that a small amount of additional long-term borrowing could be required in this financial year.

11. Appendix B summarises the Council's debt position as at 30 September 2019. The changes in debt outstanding relate to the raising and repaying of temporary loans and the reduction in borrowing is in relation to the £40m stock issue.
12. In regards to LOBOs, no loans were called during the period. All £30m outstanding is subject to potential change of interest rates by the lender (which would automatically trigger a right to the Council to repay these loans) prior to the end of this financial year. Should a change of interest rate be requested, then it will be considered in detail and a decision on how we proceed will be made in conjunction with our treasury advisors.

## **INVESTMENTS ACTIVITY / POSITION**

13. Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority will look to diversify into more secure and/or higher yielding asset classes in the future. This is especially the case for the estimated £10 million that is available for longer-term investment. All of the Authority's surplus cash is currently invested in short-term unsecured bank deposits and local authorities.
14. As per the Council's investment strategies, the Council had made investments to assist local public services, including making loans to businesses to promote economic growth.
15. The Council's strategy of being a short-term investor has been maintained, and in line with our strategy, this will be allowed to reduce over the next year or so. There is now a long term reduction now a long term reduction in the Council's internally borrowed capacity. As at 30 September 2019, there was a £17.0m balance of short-term investments.
16. All investments are currently placed on a temporary basis and are placed in high security institutions, in line with our other strategy in this area, dealing with our investing priorities of (i) security (ii) liquidity and (iii) yield, in that order. At the 30 September 2019, £8m was placed with various local authorities and £9m with banks and building societies.
17. January 2018 saw the implementation in the UK of the second Markets in Financial Instruments Directive (MiFID II), where firms will be obliged to treat all local authorities as retail clients unless they opt up to professional client status and meet certain criteria. These criteria include holding a minimum of £10m investment balance and employing knowledgeable and experienced staff to carry out investment transactions. It is anticipated that our investment balances will remain well above the minimum £10m for the remainder of the financial year.
18. The Council does not hold any long-term (more than 364 days) investments as at 30 September 2019. However, as stated above the Authority is now aiming to diversity into higher yielding, long term financial instruments in the second half of 2019/20, this is further detailed in the report being presented to Audit Committee on investments to pooled funds.

## **OTHER MID YEAR TREASURY MATTERS**

### **Economic background and Counter Party Update**

19. Appendix A outlines the underlying economic environment during the first half of the financial year, as provided by the Council's Treasury Management Advisors Arlingclose.
20. The Council does not currently have any long-term investments, and the investments that it currently undertakes are mainly with other local authorities which are deemed very secure, therefore the risk is currently limited. There were no significant changes in credit ratings advised in the first half of the financial year that had implications for the approved lending list. The long term rating of Santander UK, the Council's bankers, remains at A above the Council's minimum level of A-.

## Compliance with Prudential Indicators approved by Council

19. The Authority measures and manages its exposures to treasury management risks using various indicators which can be found in Appendix B. The Authority has complied with the Prudential Indicators for 2019/20, set in March 2019 as part of the Treasury Management Strategy. Details of treasury-related Prudential Indicators can be found in Appendix B.

### Risks

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Investment counterparty not repaying investments	High but depending on investment value	Low	The Council only invests with Institutions with very high credit scores. It employs advisors to monitor money market movements and changes to credit scores and acts immediately should things change adversely. The lower levels of funds available for investment will also alleviate the risk.	Members, Head of Finance, Treasury staff, based on advice from treasury advisors
Interest Rates moving adversely against expectations	Low	Low	Despite recent increase in the bank rate to 0.75%, future expectations for higher short term rates are subdued. The Treasury strategy approved allows for the use of short term borrowing once investment funds are exhausted to take advantage of these low rates. In October 2019 HM treasury raised the margin by 1% which had an impact on the PWLB rates, making PWLB a more expensive form of borrowing. Any further increases in HM Treasury is unlikely in the near future.	Head of Finance, Treasury staff, treasury advisors

\* Taking account of proposed mitigation measures

### Links to Council Policies and Priorities

It is the Council's policy to ensure that the security of the capital sums invested is fully recognised and has absolute priority. The Council follows the advice of the Welsh Governments that any investment decisions take account of security, liquidity and yield in that order.

### Options Available and considered

The Prudential Code and statute requires that, during and at the end of each financial year, reports on these matters are presented to Council for approval. Thus the only option available is consider the report and provide comments to the Council.

## **Preferred Option and Why**

Note the contents of the report and provide comments to the Council.

## **Comments of Chief Financial Officer**

Decisions made on treasury matters will be made with a view the Treasury Management Strategy, Treasury Advisors and Prudential Indicators.

## **Comments of Monitoring Officer**

There are no legal implications. The in-year and annual treasury management report is consistent with relevant Chartered Institute of Public Finance and Accountancy Guidance, Treasury Management principles and the Council's investment strategy.

## **Comments of Head of People and Business Change**

There are no direct HR implications associated with the report.

The Council is required through the Prudential Code to report on treasury management activities during and at the end of each financial year. The Well-being of Future Generations Act requires public bodies to balance short-term needs with the needs to safeguard the ability to meet long-term needs. As stated in this report, the Council continues to be both a short-term investor of cash and borrower to manage day-to-day cash flows but current forecasts indicate that in future temporary borrowing will continue to be required to fund normal day to day cash flow activities. All borrowing and investments undertaken during the first half of the year was expected and within the Council's agreed limits. The matters within this report fit in with the well-being goal of a Prosperous Wales.

## **Comments of Cabinet Member**

N/A.

## **Local issues**

N/A

## **Scrutiny Committees**

N/A

## **Equalities Impact Assessment and the Equalities Act 2010**

The Equality Act 2010 contains a Public Sector Equality Duty which came into force on 06 April 2011. The Act identifies a number of 'protected characteristics', namely age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; sexual orientation; marriage and civil partnership. The new single duty aims to integrate consideration of equality and good relations into the regular business of public authorities. Compliance with the duty is a legal obligation and is intended to result in better informed decision-making and policy development and services that are more effective for users. In exercising its functions, the Council must have due regard to the need to: eliminate unlawful discrimination, harassment, victimisation and other conduct that is prohibited by the Act; advance equality of opportunity between persons who share a protected characteristic and those who do not; and foster good relations between persons who share a protected characteristic and those who do not. The Act is not overly prescriptive about the approach a public authority should take to ensure due regard, although it does set out that due regard to advancing equality involves: removing or minimising disadvantages suffered by people due to their protected characteristics; taking steps to meet the needs of people from protected groups where these differ from the need of other people; and encouraging people from protected groups to participate in public life or in other activities where their participation is disproportionately low.

## **Children and Families (Wales) Measure**

N/A

## **Wellbeing of Future Generations (Wales) Act 2015**

This report is a backwards looking report of the treasury management activities of the Council. It shows that we followed the treasury management strategy and the compliance with prudential code and treasury management indicators. This links into the long-term objectives of the authorities and ensures that the councils activities are carried out in an affordable, prudent and sustainable manner.

## **Crime and Disorder Act 1998**

Section 17(1) of the Crime and Disorder Act 1998 imposes a duty on the Local Authority to exercise its various functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent, crime and disorder in its area.

## **Consultation**

N/A

## **Background Papers**

Treasury Management Strategy report to Audit Committee January 2019.  
Report to Council February 2019: Capital Strategy and Treasury Strategy

Dated: 04 November 2019



## APPENDIX A

**Economic background:** UK Consumer Price Inflation (CPIH) fell to 1.7% year/year in August 2019 from 2.0% in July, weaker than the consensus forecast of 1.9% and below the Bank of England's target. The most recent labour market data for the three months to July 2019 showed the unemployment rate edged back down to 3.8% while the employment rate remained at 76.1%, the joint highest since records began in 1971. Nominal annual wage growth measured by the 3-month average excluding bonuses was 3.8% and 4.0% including bonuses. Adjusting for inflation, real wages were up 1.9% excluding bonuses and 2.1% including.

The Quarterly National Accounts for Q2 GDP confirmed the UK economy contracted by 0.2% following the 0.5% gain in Q1 which was distorted by stockpiling ahead of Brexit. Only the services sector registered an increase in growth, a very modest 0.1%, with both production and construction falling and the former registering its largest drop since Q4 2012. Business investment fell by 0.4% (revised from -0.5% in the first estimate) as Brexit uncertainties impacted on business planning and decision-making.

Politics, both home and abroad, continued to be a big driver of financial markets over the last quarter. Boris Johnson won the Conservative Party leadership contest and has committed to leaving the EU on 31st October regardless of whether a deal is reached with the EU. Mr Johnson prorogued Parliament which led some MPs to put forward a bill requiring him to seek a Brexit extension if no deal is in place by 19th October. The move was successful and, having been approved by the House of Lords, was passed into law. The Supreme Court subsequently ruled Mr Johnson's suspension of Parliament unlawful.

Tensions continued between the US and China with no trade agreement in sight and both countries imposing further tariffs on each other's goods. The US Federal Reserve cut its target Federal Funds rates by 0.25% in September to a range of 1.75% - 2%, a pre-emptive move to maintain economic growth amid escalating concerns over the trade war and a weaker economic environment leading to more pronounced global slowdown. The euro area Purchasing Manager Indices (PMIs) pointed to a deepening slowdown in the Eurozone. These elevated concerns have caused key government yield curves to invert, something seen by many commentators as a predictor of a global recession. Market expectations are for further interest rate cuts from the Fed and in September the European Central Bank reduced its deposit rate to -0.5% and announced the recommencement of quantitative easing from 1st November.

The Bank of England maintained Bank Rate at 0.75% and in its August Inflation Report noted the deterioration in global activity and sentiment and confirmed that monetary policy decisions related to Brexit could be in either direction depending on whether or not a deal is ultimately reached by 31st October.

Financial markets: After rallying early in 2019, financial markets have been adopting a more risk-off approach in the following period as equities saw greater volatility and bonds rallied (prices up, yields down) in a flight to quality and anticipation of more monetary stimulus from central banks. The Dow Jones, FTSE 100 and FTSE 250 are broadly back at the same levels seen in March/April.

Gilt yields remained volatile over the period on the back of ongoing economic and political uncertainty. From a yield of 0.63% at the end of June, the 5-year benchmark gilt yield fell to 0.32% by the end of September. There were falls in the 10-year and 20-year gilts over the same period, with the former dropping from 0.83% to 0.55% and the latter falling from 1.35% to 0.88%. 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.65%, 0.75% and 1.00% respectively over the period.

Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth remains a global risk. The US yield curve remains inverted with 10-year Treasury yields lower than US 3-month bills. History has shown that a recession hasn't been far behind a yield curve inversion. Following the sale of 10-year Bunds at -0.24% in June, yields on German government securities continue to remain negative in the secondary market with 2 and 5-year securities currently both trading around -0.77%.

Credit background: Credit Default Swap (CDS) spreads rose and then fell again during the quarter, continuing to remain low in historical terms. After rising to almost 120bps in May, the spread on non-ringfenced bank NatWest Markets plc fell back to around 80bps by the end of September, while for the ringfenced entity, National Westminster Bank plc, the spread remained around 40bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 34 and 76bps at the end of the period.

There were minimal credit rating changes during the period. Moody's upgraded The Co-operative Bank's long-term rating to B3 and Fitch upgraded Clydesdale Bank and Virgin Money to A-.

Our treasury advisor Arlingclose will henceforth provide ratings which are specific to wholesale deposits including certificates of deposit, rather than provide general issuer credit ratings. Non-preferred senior unsecured debt and senior bonds are at higher risk of bail-in than deposit products, either through contractual terms, national law, or resolution authorities' flexibility during bail-in. Arlingclose's creditworthiness advice will continue to include unsecured bank deposits and CDs but not senior unsecured bonds issued by commercial banks.

## APPENDIX B

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in table 1 below.

Table 1: Balance Sheet Summary

	31.3.19 Actual £m
General Fund CFR	280
Less: *Other debt liabilities	43
<b>Borrowing CFR</b>	<b>237</b>
Less: Usable reserves	(103)
Less: Working capital inc. investments	2.6
<b>Net borrowing</b>	<b>136.6</b>

\* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt

The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

The treasury management position as at 30 September 2019 and the change over the period is show in table 2 below.

Table 2: Treasury Management Summary

	31.3.19 Balance £m	Movement £m	30.9.19 Balance £m	30.9.19 Rate %
Long-term borrowing	149.3	1.5	150.8	11.93
Short-term borrowing	43.5	(43.5)	-	-
<b>Total borrowing</b>	<b>192.8</b>	<b>(42.0)</b>	<b>150.8</b>	<b>3.66</b>
Long-term investments	-	-	-	-
Short-term investments	(10.3)	2.3	(8.0)	0.63
Cash and cash equivalents	(45.9)	36.9	(9.0)	0.53
<b>Total investments</b>	<b>(56.2)</b>	<b>39.2</b>	<b>(17.0)</b>	<b>0.58</b>
<b>Net borrowing</b>	<b>136.6</b>	<b>(2.8)</b>	<b>133.8</b>	<b>N/A</b>

The table above shows significant movement in both the borrowing and investment levels of the Council, however overall the NET borrowing position for the Council has decreased by £2.8m. Borrowing decreased by £42.0m in the year, this is mainly due to undertaking borrowing early in relation to the re-financing of the stock issue, which matured on the 10th April 2019.

This borrowing was placed in very short-term investments, therefore as at the 30<sup>th</sup> March 2019 was classed as cash and cash equivalents in the above table. Following the re-financing on 10th April, the investments reduced by £40m and the borrowing also reduced by £40m.

Excluding the £40m, short-term investments have increased by £0.8m and borrowing has decreased by £2m giving an overall decrease in net borrowing of £2.8m.

### Borrowing Strategy during the half year

At 30<sup>th</sup> September 2019 the Authority held £150.8m of loans, (a decrease of £2m on 31<sup>st</sup> March 2019, excluding the £40m borrowing for the re-financing of the stock issue), as part of its strategy for funding previous years' capital programmes. The 30<sup>th</sup> September 2019 borrowing position is show in table 3 below.

Table 3: Borrowing Position

	<b>31.3.18</b>	<b>Net</b>	<b>31.3.19</b>	<b>31.3.19</b>	<b>31.3.19</b>
	<b>Balance</b>	<b>Movement</b>	<b>Balance</b>	<b>Weighted</b>	<b>Weighted</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>Average</b>	<b>Average</b>
				<b>Rate</b>	<b>Maturity</b>
				<b>%</b>	<b>(years)</b>
Public Works Loan Board	107.9	(0.8)	107.1	3.7	20.1
Banks (LOBO)	30.6	(0.6)	30.0	3.8	34.7
Stock Issue	40.0	(40.0)	-	-	-
Banks (fixed-term)	5.0	-	5.0	3.8	58.4
Local Authority (short-term)	-	-	-	-	-
Other inc. WG loans	6.0	2.6	8.6	-	-
Accrued interest	3.3	(3.3)	-	-	-
<b>Total borrowing</b>	<b>192.8</b>	<b>(42.0)</b>	<b>150.8</b>	<b>3.7</b>	<b>23.7</b>

The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

In keeping with these objectives, new borrowing was kept to a minimum of £1.5m. This strategy enabled the Authority to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

With short-term interest rates remaining much lower than long-term rates, the Authority considered it to be more cost effective in the near term to use internal resources or borrowed rolling temporary / short-term loans instead. The net movement in temporary / short-term loans is shown in table 2 above.

The "cost of carry" analysis performed by the Authority's treasury management advisor Arlingclose did not indicate any value in borrowing in advance for future years' planned expenditure and therefore none was taken.

The Authority continues to hold £30m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the first half of 2019/20.

### Investment Activity

The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the first half of 2019/20 the Authority's investment balance ranged between £17m and £69m due to timing differences between income and expenditure. The investment position during the half year is shown in table 4 below.

**Table 4: Investment Position**

	<b>31.3.19</b>		<b>30.9.19</b>	<b>30.9.19</b>	<b>30.9.19</b>
	<b>Balance</b>	<b>Movement</b>	<b>Balance</b>	<b>Weighted</b>	<b>Weighted</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>average rate</b>	<b>average</b>
				<b>%</b>	<b>maturity</b>
					<b>Years</b>
Banks & building societies (unsecured)	7.7	1.3	9.0	0.53	0
Government (incl. local authorities)	48.5	(40.5)	8.0	0.63	0.03
<b>Total investments</b>	<b>56.2</b>	<b>(39.2)</b>	<b>17.0</b>	<b>1.16</b>	<b>0.03</b>

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority’s objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. However, we expect to begin to invest in long term financial instruments in the near future which is in line with the Treasury Management Strategy which was approved in February 2019

**Compliance Report**

The Head of Finance is pleased to report that all treasury management activities undertaken during the first half of 2019/20 complied fully with the CIPFA Code of Practice and the Authority’s approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 5 below.

**Table 5: Investment Limits**

	<b>Cash limit</b>
Any single organisation, except the UK Central Government	£10m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£10m per group
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker’s nominee account	£5m per broker
Foreign countries	£2m per country
Registered providers and registered social landlords	£5m in total
Unsecured investments with building societies	£5m in total
Money market funds	£10m in total
Real estate investment trusts	£10m in total

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 6 below.

Table 6: Debt Limits

	H1 Maximum (£m)	30.9.19 Actual (£m)	2019/20 Operational Boundary (£m)	2019/20 Authorised Limit (£m)	Complied
Borrowing	193	151	220	230	✓
PFI & finance leases	43	43	44	44	✓
<b>Total debt</b>	<b>205</b>	<b>194</b>	<b>264</b>	<b>274</b>	✓

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

### Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

**Interest Rate Exposures:** This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed was:

	30.9.19 Actual	2019/20 Limit	Complied
Upper limit on fixed interest rate exposure	100%	100%	✓
Upper limit on variable interest rate exposure	0	50%	✓

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

**Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	30.9.19 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	0%	70%	0%	✓
12 months and within 24 months	1%	60%	0%	✓
24 months and within 5 years	7%	60%	0%	✓
5 years and within 10 years	20%	50%	0%	✓
10 years and within 20 years	21%	30%	0%	✓
20 years and within 30 years	15%	20%	0%	✓
30 years and within 40 years	20%	20%	0%	✓
40 years and within 50 years	9%	20%	0%	✓
50 years and above	7%	20%	0%	✓

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

**Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2019/20	2020/21	2021/22
Actual principal invested beyond year end	0	0	0
Limit on principal invested beyond year end	10	10	10
Complied	✓	✓	✓

### Outlook for the remainder of 2019/20

The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased dramatically.

There appears no near-term resolution to the trade dispute between China and the US, a dispute that the US appears comfortable exacerbating further. With the 2020 presidential election a year away, Donald Trump is unlikely to change his stance.

Parliament appears to have frustrated UK Prime Minister Boris Johnson's desire to exit the EU on 31st October. The probability of a no-deal EU exit in the immediate term has decreased, although a no-deal Brexit cannot be entirely ruled out for 2019 and the risk of this event remains for 2020. The risk of a general election in the near term has, however, increased.

Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.

Our treasury advisor Arlingclose expects Bank Rate to remain at 0.75% for the foreseeable future but there remain substantial risks to this forecast, dependant on Brexit outcomes and the evolution of the global economy. Arlingclose also expects gilt yields to remain at low levels for the foreseeable future and judge the risks to be weighted to the downside and that volatility will continue to offer longer-term borrowing opportunities

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
<b>Official Bank Rate</b>													
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Cas	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Downside risk	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

Mae'r dudalen hon yn wag yn



# Report

## Audit Committee

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### Part 1

**Date:** 05 November 2019

**Item No:** 7

**Subject** **Lessons Learned – 2018/19 Accounts Closedown and Financial Statements Preparation**

**Purpose** This report presents the findings of an initial lessons learned review carried out by finance officers following the 2018/19 accounts closedown. It gives an assessment on the findings of the lessons learned review and the plans in place to implement for 2019/20 and the key risks to the closedown process for 2019/20.

**Author** Assistant Head of Finance

**Ward** General

**Summary** Following the closedown of the 2018/19 accounts, a lessons learned review was undertaken to put into place further improvements for the closedown of the accounts process. This lessons learned review is taken as a matter of course, and with the issues that arose from the audit of the 2018/19 accounts, this review is of high importance to ensure improvements are delivered for 2019/20.

A meeting has already taken place with Wales Audit Office (WAO) to discuss what additional processes needs to be put in place to ensure the earlier closing deadline is met and to confirm which areas of the accounts can be audited early for the 2019/20.

**Proposal** **Committee is recommended:**

To note the lessons learned process that has been carried out to date and agree the proposed plan for 2019/20 closedown.

**Action by** Head of Finance/Assistant Head of Finance – implement proposals and processes highlighted in the report.

**Timetable** Immediate

This report was prepared after consultation with:

Finance Teams  
Wales Audit Office

**Signed**

## **Background**

The 2018/19 year end was the first year where the final date on which the accounts had to be signed and published was brought forward from 30th June to 15th June with an audited statement completed by 15th September.

This year end saw further improvements from previous years and a number of the actions from the lessons learned reported to Audit Committee in November 2018 were implemented.

These included:

- Draft accounts came to Audit committee on the 6<sup>th</sup> June signed by the Head of Finance
- Final accounts and ISA260 went out for briefing end of August.
- A number of notes and other work were completed early and given to WAO before 31<sup>st</sup> March to allow early testing to be carried out and reduce some of the work that had to be completed at year end, allowing us to meet the tighter timeframes which were brought in during 2018/19.

Again, whilst progress was made again within 2018/19 there are still a number of improvements that can be implemented to ensure a better process and completion of accounts by the further earlier closing deadline in the 2020/21. These are discussed further in the report.

Early discussions have taken place with Wales Audit Office, and a meeting has already taken place to discuss lessons learned with Finance Officers, as well as reviewing work that could be undertaken early by both the Accountancy Teams and WAO to ensure that the revised deadlines can be met.

## **Outcome – Certification of the Accounts**

The opinion from the Independent Auditors report was that the accounts gave a true and fair view and have been properly prepared in accordance with the Code of Practice. This was in relation to both the single entity accounts and group accounts.

## **Process for improvement**

The process for challenge and improvement for 2019/20 accounts closedown and financial statements has already begun and key officers involved in the accounts closedown have been asked to provide their thoughts of:

- What went well?
- What didn't go well?
- What can be improved on?
- Key risks.

These have been completed and the next stage of this process is now to review these findings and timetable the improvements that can be implemented prior to planning the preparation of 2019/20 year end accounts. Some of the key themes that have come from the initial review are as follows:

- A number of the notes and tasks were again completed earlier in the closedown process/during the financial year, such as income and expenditure testing for the first 11 months of the year, accumulative absence provision, sections of the Officer Remuneration note, depreciation, a number of areas of Property, Plant and Equipment note and review on certain leases.
- Norse provided revaluation information earlier than previous years which allowed additional work within the Statement of Accounts to be done earlier. We are working closely with Norse again to ensure that the same process is followed in 2019/20 and information has already been provided

to us which will enable us to continue to look at Property, Plant and Equipment notes before March 2020. By completing this exercise in 2018/19, it showed us areas that could be improved which will be implemented for 2019/20.

- There were again significant amount of queries following asset revaluations, which took some time to resolve, so we are also looking at the ways that this can be improved from 2018/19. Completing this area of work early will mean that WAO can undertake early testing and reduce the number of queries that will be raised after the draft accounts.
- Coding of expenditure and income were improved from 2017/18, but work still needs to continue. Newport Live payroll, which the Council processes were included in the 2018/19 figures, however work has done to ensure that this will not happen again.
- Continued improvement of working papers
- Weekly meetings with External Auditors meant that there was good, open engagement from both sides. Issues were raised early which enabled review and discussion with Key Finance staff. Early testing will also mean that any issues raised can be corrected for the publication of the draft accounts.
- Reconciliations on transactions with other public bodies for Whole of Government Accounts were completed throughout the year
- Some notes were condensed or merged together in order to try and streamline the accounts
- Collection of third party data required for completion of accounts improved in 2018/19 and deadlines will be communicated at the start of 2020 so this can continue for the 2019/20
- WAO were also given access to iTrent (the HR payroll system) in addition to the other IT systems they have already given access to which again meant that they could undertake a significant amount of testing themselves.
- There were some changes to wording, in particular to the Head of Finance narrative which were only noted when the draft statement of accounts were presented to Audit Committee following review by the members.
- There was two uncorrected misstatement on the ISA260, these were
  - Understatement of Pension liability by £2.562m arising from the McCloud Judgement
  - Accounting treatment of loan modifications under IFRS 9Both of these were technical in nature and non-cash and had no impact on the general fund

The next stage is to look at each of these in detail and assign the delivery of these improvements with individual officers/teams to ensure delivery where applicable.

## **Key Risks**

There are also a number of key risk areas that need to be focussed on and agreed with WAO at an early stage which will need to be discussed with WAO in the immediate future, these are:

- Continued early review of provisions, leases and PPE valuations
- Notes/accounts that can be reviewed by WAO prior to year end
- Changes in accounting policies - IFRS 16 Leases, whilst this standard does not come in until 2020/21, we will have to include the potential impact this will have within the 2019/20 statement of accounts.
- Information required from third parties to complete statement of accounts (especially group)

- Further review of the Statement of Accounts with a look to removing some notes from the accounts to further streamline the accounts
- QA undertaken by Members as part of the draft and final accounts timetable
- Declaration of Interest for members

#### I. Review of provisions and leases

A review of certain provisions such as accumulated absence was undertaken by finance staff during early 2019 to enable WAO to review early prior to the end of the year. Building on the work that was completed early, the same work and early review is planned for early 2020. All other provisions and lease reviews will also be completed within the same timescales.

#### II. Notes/accounts that can be reviewed by WAO prior to year end

Discussions have already taken place with WAO about which testing can be undertaken prior to the sign off of the draft accounts, which is in line with what was agreed to be completed in 2018/19. This will include notes such as capital disposals/additions/impairments, provisions, leases, creditors and early income/expenditure testing.

As stated previously, Officers have also had a meeting with Newport Norse to agree what information can be provided earlier in respect of revaluation of assets. As this information will be provided before year end, estimates will have to be used, but the processes and the data which will be used as the basis has been discussed with WAO. Allowing an early review will mean that a number of issues can be resolved before the draft statement is produced.

#### III. Changes in accounting policies – IFRS 16 Leases

The early work and review will be especially important in regards to leases due to the new IFRS 16 standard which replaces the earlier leasing standard IAS 17. Whilst the new standard does not come into force until the 2020/21 financial year, IFRS 16 could lead to major changes in the way local authorities account for assets used under lease arrangements and the obligations under those leases. The Authority will also be required to state what the likely impact of adopting IFRS 16 will be within the 2019/20 Statement of Accounts..

#### IV. Information required from third parties to complete statement of accounts

There is a significant amount of information required from third parties in order to complete the statement of accounts. In 2018/19, information was received in a timely manner in order for us to complete single entity and group accounts by the end of May. However, this remains a risk, especially in 2020/21 when the deadlines are brought forward by a further two weeks. Dates for any required information will be sent to the parties concerned imminently to parties concerned and reminders will be sent throughout the year leading up to year end.

#### V. Review of Statement of Accounts

Some work has already been undertaken to try and streamline the accounts and we have merged some notes where it was appropriate. We will also undertake a further review of the accounts and notes within to assess whether the accounts can be “streamlined” further by removing other notes to the accounts altogether. This will look at materiality and also whether the information provided adds value to the reader of the accounts and is required by the Code of Practice. This may save on both the time to prepare the accounts and also the auditing of the accounts.

#### VI. QA undertaken by Members as part of the draft and final accounts timetable

Members’ involvement as part of the QA done during both the draft and final statement of accounts would ensure that the number of audit queries raised at audit committee would be minimal. This will also help with early closure of the accounts. This would be especially relevant for the Head of Finance narrative,

this will be planned to be completed earlier in the process and time for QA will be built into the accounts timetable.

## VII. Declaration of Interests

Within the ISA 260 it was noted that there were a number of declaration of interests from Council members which were not received, which meant that External Audit had to undertake other audit work to provide assurance. There will be a meeting arranged with Democratic Admin in the new year to discuss how this can be improved.

## Communication

Communication will be essential throughout this process, and we will need to engage the appropriate officers to take these improvements forward. Liaison with Wales Audit Office during the lessons learned and planning stages is also key to a smooth closedown and audit process. Following the initial lessons learned meeting discussions which need to take place with WAO include:

- Agreement to transactions and proposed methodologies/processes that can be completed earlier in the year (clarification of estimations and judgements used)
- Communication and agreement on upcoming policy changes
- Early review of provisions, leases and other relevant notes
- Agreement on level of working papers and timings - review of deliverables document
- Early discussions on earlier closing and working together to succeed

## Timetable for improvement

<b>October 2019</b>	Carry out lessons learned review with relevant officers on accounts closedown 2017/18 – <b>Completed</b>
<b>October 2019</b>	Meeting with Norse to agreed required information and deadlines – <b>completed</b>
<b>November 2019</b>	Communication with third parties to provide them with the requirements for earlier closing
<b>November 2019</b>	Meeting with Wales Audit Office to agree lessons learned and action plan – <b>completed</b>
<b>November - December 2019</b>	Review of Oracle system to review coding structure, classification of expenditure and balances on accounts. Update word document and excel tables in preparation for 2018/19. Review of income and ensure that internal recharges are being dealt with correctly and consistently.
<b>Early December 2019</b>	First “closing” meeting set up with relevant officers to discuss lessons learned log, assign responsibilities, and discuss closing timetable.
<b>December 2019 – January 2020</b>	Provisions, leases and PPE valuations reviewed. Highways Network Asset systems reviewed by internal audit. Revaluations received from Newport Norse
<b>January 2020</b>	Review deliverables document with WAO with WAO undertaking early review of relevant notes where agreed.
<b>Early February 2020</b>	FINAL timetable and memo to be agreed with responsible officers and HoF
<b>February 2020</b>	Final timetable and memo sent out to appropriate officers
<b>February/March 2020</b>	Completion of earlier closedown tasks to take pressure off closedown periods
<b>3<sup>rd</sup> week April 2020</b>	<b>ALL</b> transactions relating to Outturn to have been completed
<b>4<sup>th</sup> week April 2020</b>	All “technical” transactions to be complete

<b>Continuous</b>	Working Papers to be completed at earliest opportunity rather than waiting for Outturn to be closed off – if not changing complete – checks to be made.
<b>Throughout May</b>	Put financial statements together as per agreed timetable.
<b>Third week May</b>	Completed draft SOA ready for QA and review QA undertaken by members
<b>Last week of May</b>	Approval of SOA by HoF – dates of Audit Committee to be confirmed

## Financial Summary

There are no direct financial implications arising from this report.

## Risks

There are a number of key risks to the closedown process that need to be mitigated against. The following table highlights these.

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Delayed accounts due to reliance on third parties	M	L	Estimations/judgements may be required where the information isn't available from third parties i.e. accruals Ensure third parties are aware of timetable deadlines	Finance
New policies/treatments	L	L	Knowledge of changes to the 'Code' and impact on the Authority's financial statements. Attendance at relevant year end courses. Discussions with auditors at early stage of process.	Finance
Failure to approve and publish the accounts before the 15 Sept deadline increases the risk of qualification, and increases reputational external perception risks.	M	L	The Council works with its Auditors to ensure the Accounts are prepared and suitably reflect the financial position of the authority	Assistant/Head of Finance

\* Taking account of proposed mitigation measures

## Links to Council Policies and Priorities

Effective financial management is essential if an organisation is to achieve its stated objectives.

## **Options Available and considered**

Note and agree process of planned improvement following lessons learned review.

## **Preferred Option and Why**

As above

## **Comments of Chief Financial Officer**

Comments of the Chief Finance Officer are included in the above report.

## **Comments of Monitoring Officer**

There are no specific legal issues arising from the Report. Under the Public Audit (Wales) Act and the Accounts and Audit Regulations, the Council is required to prepare their draft statement of accounts for the previous financial year by 15th June and publish the final statement of Accounts by 15th September. The closure of the accounts for 17/18 was completed earlier than previous years as a result of lessons learned and improvements identified and were certified as a true record by the WAO in accordance with the CIPFA Code of Practice. This Report sets out further lessons and recommended improvements for the 18/19 accounts closure and financial statements process, for approval by Audit Committee.

## **Comments of Head of People and Business Change**

There are no HR or People and Business Change related matters arising directly from this report.

## **Comments of Cabinet Member**

N/A

## **Local issues**

There are no local issues arising from this report.

## **Scrutiny Committees**

N/A

## **Equalities Impact Assessment and the Equalities Act 2010**

N/A

## **Children and Families (Wales) Measure**

N/A

## **Wellbeing of Future Generations (Wales) Act 2015**

The report is mindful of the Act, especially in terms of the principles of transparency. The report sets out the development made to date in the Authority's year end work and the particularly how we can continue making progress and securing financial resilience and managing risk.

## **Crime and Disorder Act 1998**

N/A

## **Consultation**

N/A

## **Background Papers**

Statement of Accounts 2018/19 - available to public.

ISA 260 Audit of Financial Statements 2018-19 – available to public

Dated: 05/11/2019