

Minutes



Audit Committee

Date: 28 March 2019

Time: 5.00 pm

Present: Mr J Baker (Chair) Councillors J Guy, J Jordan, L Lacey, H Thomas, K Thomas, R White and D Williams

In attendance: Andrew Watham (Chief Internal Auditor), Rhys Cornwall (Head of People and Business Change), Dona Palmer (Audit Manager), Robert Squance (Audit Manager), Gareth Lucey (WAO Audit Manager), Owen James (Assistant Head of Finance), Anthony Veale (Director WAO), Paul Flint (Performance & Risk Business Partner), Pamela Tasker (Governance Support Officer)

Apologies: Councillors D Davies, H. Townsend

1 **Declarations of Interest**

None

2 **Minutes of the Last Meeting held on 24 January 2019**

The minutes of the meeting held on the 24 January 2019 were submitted. It was agreed at the last meeting for the Annual Governance Statement to be updated. The Chief Internal Auditor confirmed this would be completed for the next Audit Committee Meeting on 6 June 2019. In relation to the requested comment from the Chief Executive concerning City Services as stated on page 10 of the minutes, a letter was in the process of being drafted by the Chief Internal Auditor to be approved by the Chair.

It was noted on page 10; paragraph five that the correct term was Streetscene and not street cleansing.

~~Llanwern High School~~ on page 10, paragraph 3 were requested to be amended to 'Llanwern'

3 **Quarter 3 Corporate Risk Register Update**

In relation to the Corporate Risk Register, the Chair confirmed that the Committee was not there to question scoring but to look at the process only. It was commented by a Member that auditors from the Wales Audit Office make observations, but members of the Committee were not allowed to also make observations. The Chair confirmed that the Audit Committee could be renamed the Audit and Risk Committee in another forum, but this Committee was not part of risk. For this to be altered a change to the constitution would have to occur but this could not be done.

Members considered an updated version of the Corporate Risk Register for the end of Quarter 3 (31st December 2018).

- Head of People and Business Change commented that recent recommendations had been taken on board and any issues that could not be raised here could be taken up with Heads of Service and Corporate Directors.
- The Head of People and Business Change stated that the Risk Management Strategy detailed how the Council managed its risk assessment processes and detailed how the Council assesses and mitigates risk and that it was a robust process.
- It was stated that the Risk Report discussed project risk and how there were escalation processes in place for potential corporate wide risks to be escalated into the Corporate Risk Register and these included Civil Contingencies, the Newport Well-Being Plan, Information Governance Risk etc.

It was noted that at the end of Quarter 3 (31st December 2018) there were 14 corporate risks consisting of 6 high risks and 8 medium risks. At the previous Audit Committee in November 2018, recommendations were made in relation to the Councils Brexit Risk, asset management and partnerships work.

Summary of Risks

- It was noted that a highlight was Brexit (Risk 4). Following guidance from the Welsh Local Government Association (WLGA) and using the WLGA tool kit the Council were able to assess the impact of Brexit on services. However, the Risk score had increased from 9 to 16 due to a potential 'No Deal' scenario. There is to be a vote on Brexit in the House of Commons on the 29th March 2019 and the Risk Register will be affected depending on what occurs on that date.
- Risk 8 (Stability of External Suppliers)- The risk score had increased due to the ongoing uncertainty of a potential 'No Deal' Brexit and the impact it could have on private and third sector services.
- Risk 9 (Pressure and Infrastructure) - The risk was focused on the recent removal of the Bridge Tolls on the M4 and the impact on the Councils highway infrastructure.
- Risk 11 and 12 involved IT Modernisation and Cyber Attack, which involved modernisation and its pressures and how this was funded. Cyber Attack was another separate risk and has been previously discussed.
- Risk 13 (Maintaining the Highways Network) was reduced to 20 and Risk 16 (Council buildings and Assets) was scored at 12.
- Risk 15 (Newport City Centre Security and Safety) was focused on improving the city centre and its regeneration, an attack that occurred last year on two young people showed a real tangible risk.

Questions and Discussions:

- A Member commented that the way that the Risk Register was reported, could be construed to be a complacency; a risk was mentioned so all we know is that it was a risk.
- The Member commented that it should be reported how the Council were covering risks. The Member stated that children with complex care needs were living longer. It was noted that there was a new school at Maes Ebbw but it was questioned how much this costs the Council in terms of austerity. What was the cost to the Council as they are very vulnerable children and it is very costly? It

was commented by the Member that this was not just the case of a school place. Schools were reporting concerns regarding cuts being made to services.

- The Member also remarked on the refurbishment of Oaklands. Oaklands was only able to provide respite for one child and their particular need. The Member stated that the report implied that this was prepared and it was covered. Brynglas Bungalow was provided but this was tiny and was not suitable. It was commented on how the Council chose to report and what the specifics are.
- The Head of People and Business Change confirmed that they were not able to comment on specifics as not everything could go into the report as it was so detailed. They confirmed that it was a case of managing the mitigated risk. It was commented that there was now a far greater linkage between performance, risk and finance.
- The Chair commented that the Corporate Risk Register was a summarised version of what has occurred, and the Risk was seen from an authority wide point of view and not to the individual.
- A Member questioned whether certain items could be left out? The Chair confirmed that the Committee would want the risk to be considered. All aspects needed to be considered, and Members were encouraged to ask questions, so all bases were covered.
- A member questioned as to whether the Council was ready for a cyber-attack if it occurred and that they were questioning where the risk was as some of the risks could build up, but the cyber-attack risk could happen suddenly.

The Head of People and Business Change confirmed that Cyber threats would always be present that the Council may not be ready for. It was commented that other organisations spend far more on cyber prevention and may still receive cyber threats. There has been a lot of communication to staff regarding Office 365 which was cloud based and not on a server so it was accessed securely. There has been a significant update to cyber security where more money has been provided for this. The Council has been constantly kept up to date from other companies and Local Government. Emails also come through to users in the Council stating what emails are quarantined which has been far more proactive.

Risk Score Profile

Members of the Committee were requested to view page 17 on the Risk Score Profile, which displayed the table of risks summary:

- It was commented that the **RO6- Balancing the Councils Medium Term Budget** was expected to drop off.
- The risk was increased due to budgets and financial pressures.
- The Assistant Head of Finance confirmed that it was not about balancing risk going forward as it was more difficult to deliver savings that were being put forward. They suggested that it was more long term, looking over the next 4 years and the £30 million gap. This was reflected in the scores on the risk register.
- It was commented that the Risk Register was viewed on an ongoing basis. It was a change of view rather than a change in the environment and that it was subjective.
- The Chair commented that management should be mitigating this, as risk was a living thing, an issue that needed to be reduced.
- The Assistant Head of Finance confirmed that external factors such as Brexit and external funding for example affect this so we cannot guarantee.
- In relation to **R4-Decision to Leave the European Union (Brexit)** the risk went up in Quarter 3. It was confirmed that Brexit was something that may happen and

the risk could be different tomorrow. There has been a Members seminar regarding Brexit covering a range of issues and options. The risk would be reviewed on a fortnight basis.

- It was commented that it was crucial to understand the arrangements behind the risk at service level and the role of scrutiny etc that underpins the overall Corporate Risk Register.
- The Chair commented that about four years ago there was a big debate concerning the Audit Committee and a lot of work was completed on risk and the reports that were now published were very good compared to that time. It was advised by Democratic Services to look at the process as it comes to us. Boundaries are pushed but all comments are taken on board and actioned.
- In relation to the Audit side, the risk management of Audit was being completed at present. Opinions will be brought to the Committee soon.
- A member questioned whether Councillors really scrutinise and stated that people do not trust Councillors to scrutinise properly. Scrutiny has improved greatly but it was mentioned that Cabinet Members etc do not like to come and be challenged. The member stated that there was an underlying feeling that councillors do not know enough to be seen.
- It was remarked that the Brexit seminar did not include everyone that needed to be there. However, it was noted that Newport does very well in scrutiny compared to other authorities.
- A Member stated that there were three different scrutiny committees and it can get frustrating when they tell members that certain information was incorrect.
- The Chair commented that a lot of time was now spent on risk compared to previous years; the present Committee scrutinises and asks questions which was very beneficial.
- It was questioned by a Member as to who audits the auditor? It was commented that there was a lot of accountability due to external scrutiny.

4 **Annual Audit outline for the 2018/19 Financial Audit**

The WAO Audit Manager introduced the 2019 Audit Plan which was presented each year and was standard.

The key highlights were as follows:

- The Financial audit plan on page 51 of the Annual Audit Plan report showed the audit risks as part of the planning process.
- It was noted that the risk of management override was a mandated significant risk and was required for every audit completed by the WAO.
- In relation to other areas of audit attention, the Council's 2018-2019 financial statements was to include consolidated financial statements.
- In relation to accounting entries, the Friars Walk- Revenue Subsidy needed to be reviewed.

Accounting Standards:

Issues here included the concept of materiality which has been adopted. On page 54 of the report it was noted that there was also an examination of the Greater Gwent Crematorium Joint Committee Annual Return which was an independent examination.

- In relation to Performance audit, on page 10 of the Audit Plan: Exhibit 3 performance audit programme showed the main areas:

An assurance and risk assessment carried out by performance audit with discussions with the various service areas etc.

- The Well Being of Future Generations Act (Wales) 2015 and how it was being implemented.
- Appendix 2 on page 17 showed four performance audit projects still to be finalised.
- On page 57 of the report presented the proposed audit fee which displayed a slight decrease compared to 2018. The proposed fee was an estimated fee.
- Details of the Audit team itself were noted as well as timelines and deadlines.
- The closing report was to be reported to the Committee in September 2019.

Questions and Discussion:

- It was questioned as to how much time the Wales Audit Office spent in Newport? It was reported that the WAO were in Newport quite frequently. Planning is from Dec to March/April and the summer period is when the accounts were audited. It was commented that grants and returns were steady. The WAO also complete work with the NHS. Colleagues in the WAO also complete work with other Councils in Wales.
- The Chair referred to group accounts under 'Other areas of audit attention' on page 51 in relation to consolidation and whether any issues were anticipated as the non-alignment of policies was an issue previously.
- It was confirmed that as the WAO were carrying out the work there were not too many issues last year. The alignment on accounting policies and fixed assets were issues last time.
- The Assistant Head of Finance confirmed that timing was an issue rather than accounting policy. Discussions with audit team take place, estimations were used etc and there were mitigations in place.

5 WAO Annual Report on Grants Works 2017-2018

Members were requested to view the WAO Annual Report on Grants Works 2017/18.

- It was noted that external auditors must certify certain grants, this was detailed on page 4 of the report summary.

Key highlights were as follows:

- There were fewer grant claims certified, with 10 grants this year rather than 16 grant claims in 2016-2017.
- A good working relationship was in place with Newport City Council ensuring an accurate and up to date schedule of grant claims were in place.
- The housing benefit subsidy as detailed on page 72 showed its certification status as qualified this year.
- It was noted that costs were slightly down this year and there was a slight reduction expected again next year.

Questions and Discussion:

- A member questioned the £54.5 million housing subsidiary grant and it was confirmed that this was the subsidy that the council received from the DWP.
- The Chair commented on the errors noted and whether these were routine and regular errors and whether staff were trained further following the report? It was confirmed that the report was discussed with service area managers, so they were aware of it.

- The Chair also commented on the management responses and whether service areas agreed?

The Assistant Head of Finance confirmed that the service area received a copy of the qualifying letter, so they go back to finance areas.

The WAO will also provide their own response to the DWP and respond to Welsh Government and what they're doing about it and will speak to the service area. In relation to Housing benefit a lot of transactions go through this department at any one time so it depends on individual circumstances at any one time.

The number of transactions did have errors and so work needed to be carried out on how they could be prevented. The audit cost went up as the service area wanted to look at certain transactions etc.

6 Internal Audit Annual Plan 2019/2020

Members were requested to view the Internal Audit Section's Draft Operational Audit Plan for 2019/20.

Key Points:

- It was noted that internal auditing improved the effectiveness of processes in governance arrangements.
- The drafting of the plan was discussed with Heads of Services and has also been sent to SRS for their commentary.
- There was a lot of background in the report as to how the audit plan was compiled.
- The 2019/20 operational plan aims to cover the areas stated within the given time allocations, to prioritise and to look at the key risks and provide assurance.
- It was noted that there were 1258 productive audit days that have been incorporated into the plan with training, annual leave, professional exams etc affecting the overall available audit days.
- A special allocation was given to special investigations which members of the team may get involved with during the year.
- It was commented that more of the audit plan would be reported to the Committee in due course.
- Page 87 showed the Operational Audit Draft Plan for all service areas with details on specific areas on page 88. Not all areas have been allocated a risk.
- It was noted that the current draft plan was over allocated so there were not enough resources to cover it at present.

Questions and Discussions:

- A Member questioned as to whether the Audit Team were ever fully staffed? It was noted that the current situation was not ideal but set targets for 2018/19 at 82% to be achieved was currently on target.
- It was discussed how the plan could be reprioritised and that higher risks could potentially be chosen. Lower risks could then be moved to next year. Conversations with Heads of Service confirmed things have changed and sometimes it was not effective for an audit to be completed.
- Another Member had a question in relation to internet banking and the last review on page 88 as to how internet banking was audited?

- It was discussed how audit were looking at the process of how Newport City Council makes payments, what should be made and how much. It was confirmed that a small number of payments go through internet banking and there were robust procedures in place for this.
- Audit staff numbers were also questioned and whether all the targets would be met due to staff levels? It was discussed how 151 days were allocated for finance but there were no days allocated for Streetscene? It was observed that that at times auditors in the team had to cover many services and often there were 2 auditors to audit a school etc. It was also commented how there were 180 productive audit days in total for each auditor.

The Chair commented on whether there were enough days allocated for audit. It was discussed that follow ups that were planned would not take as much time. In relation to external audit regulatory reviews were already taking place so don't want to replicate.

It was also discussed how there maybe could be scope for Audit to take on more extra work at some point. It was pointed out that social services were a very large area and there may be budget constraints. Streetscene also needed to be covered in greater depth where specific areas could be looked at.

It was questioned whether there were any new areas on the radar. It was confirmed that there was a review on an annual basis. The audit plan showed a medium risk for Museum and Galleries and that in 2004 it was not audited which was taken into consideration for the risk assessment.

7 **Work Programme**

The Work Programme was noted. Dates for the work programme to be updated in due course.

8 **Date of Next Meeting**

6th June 2019 at 5pm

The meeting terminated at Time Not Specified

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