

Minutes



Audit Committee

Date: 6 June 2019

Time: 5.00 pm

Present: Councillors J Guy, R White, P Hourahine and Mr J Baker (Chair)

Apologies: Councillors L Lacey, J Jordan, D Williams, H. Thomas, K. . Thomas

1 Declarations of Interest

None

2 Minutes of the Last Meeting

It was noted by the Chair that on page 5 (item 2) in relation to the paragraph regarding the comment from the Chief Executive on City Services, that this was to be covered in item 13 later on and it had been actioned.

Also on Page 5 the Chair confirmed that in the sentence: 'the Audit Committee could be renamed the Audit and Risk Committee in another sector not forum.'

Also it was noted by the Chair that the sentence; 'change in constitution would have to occur' should read 'for this to be altered a change to the constitution and Welsh regulations should occur.'

Agreed: To confirm the minutes of the 28th March 2019.

3 Appointment of Chairman

It was requested that Committee Members put forward their nominations for the appointment of a Chairperson.

Agreed:

To appoint Mr John Baker as Chair of the Audit Committee.

4 Quarter 4 Corporate Risk Register Update

The Committee were requested to view the Corporate Risk Register and Appendix 2. The Performance and Research Business Partner explained that the purpose of the risk register was to manage risk and to evidence that processes were in place to manage those risks.

Main points to consider:

- At the end of Quarter 4 there were 14 corporate risks registered made up of 5 high risks, 8 medium risks and 1 low risk.
- The 'Legislation' risk decreased from 16 to 12 in the last quarter which reflected the work that was undertaken with the Well Being for Future Generations Act.
- The Brexit risk was decreased in the previous Quarter from 16 to 12 which reflected the postponement of Brexit from March to October 2019 with the threat of a 'no-deal' Brexit from the EU. The Brexit Risk would continue to be closely monitored and the Council would liaise with Welsh Government to monitor any changes.
- Risk 5 (In Year Financial Management) - This risk decreased from 8 to 4 in the last quarter which reported an overall underspend in the Council's budget. This risk will need to be monitored and re-evaluated due to ongoing pressures on Council services for 2019/2020

Questions

A Member of the Committee referred to page 14 of the Corporate Risk Report and questioned the term 'corporate risks' and what it meant when risks were escalated to a corporate level? It was confirmed that risks were escalated to service level management and the Senior leadership team.

A question was asked in relation to a 'no-deal' scenario in relation to Brexit, as the scoring of the Brexit risk had come down, did this mean that the Council was supporting a no-deal Brexit? It was confirmed that the risk had been reduced since the 29th March 2019 as there had been lots of preparation, working with counterparts etc. Should there be a no deal scenario again, preparation would come into place straight away. The Chair commented that good work had been put in place and it was unsure as to whether the Brexit risk would go up or down in October.

The task group would continue to monitor and adjust the risk accordingly and whatever decision the Government made, could be managed over a long period of time. This tied in with the Annual Governance Statement.

Another Member questioned as to whether a risk could affect the Council that we do not already know about, considering the current global and political situation.

The Performance and Research Business Partner confirmed that this could not be predicted. It was commented that a risk review was compiled every year. The Corporate Risk review considered the service plan and service areas to look at the risk landscape. What were the possible risks now and in 10 years? For example what would be the impact of climate change on the city of Newport in another 20-30 years and how would that risk affect Newport Council's ability to deliver its services. Assessing risk meant identifying current and future risks.

A Member commented that a lot of organisations were not working together and this could be a nightmare and were there mechanisms in place for us to manage this? It was explained that the risk process was there to identify any risk that emerged and to manage the risk, it was monitored constantly.

Another Member had a question regarding Programme/Project risk Management and how it was managed. It was confirmed that this involved a work partnership between Torfaen Council, Gwent Police and in the longer term the Gwent Futures, Local Resilience forum.

The Chief Internal Auditor confirmed that anything that needed to be on the risk register was fed through service plans. Issues that were identifiable in Audit were then brought to management.

Members were informed that this was a 6 month update and Members were assured that improvements had been made. Members of the Committee were advised that

-During 2016/17 **5** audit opinions were *Unsatisfactory* and the Head of Streetscene and City Services had been called into the Audit Committee to respond to concerns.

-During 2017/18 **40** audit opinions were issued and 6 were *Unsatisfactory*. A follow up on the audit of **Agency/Overtime –Refuse** which resulted in a second unfavourable audit opinion.

-During 2018/19 **48** audit opinions had been issued, 10 were *Unsatisfactory* and 1 was *Unsound*. A further follow up of **Agency/Overtime-Refuse** in March 2019 resulted in a Good Audit opinion.

-It was proposed for the report to be noted by the Audit Committee and for the Committee to be advised that the follow up of **Trips and Visits** within Education Services resulted in a second consecutive *Unsatisfactory* Audit opinion. As a result the agreed protocol was for the Chief Education Officer and Education management team to be called in to provide assurances that improvements would be made.

The Committee were informed that a Summary overview was on page 47 of the report.

-Point 15-16 on page 47 gave updates on **10 ‘Good’** audit opinions and **27 ‘Reasonable’** audit opinions.

However as noted in point 17, Highways have had 2 consecutive unsatisfactory audit opinions so an improvement was needed. SRS was also required to do additional work and significant improvement was needed.

-It was noted that where Llanwern previously had an unsatisfactory Audit opinion it was now reasonable.

-SGO and Kinships were now reasonable.

Point 18 showed that the Bridge Achievement Centre (PRU) received an Unsound Audit opinion and Point 19 listed the main reasons for giving unsatisfactory and unsound opinions. A summary of the issues identified in the unsatisfactory reports have not been previously reported and so would be reported to the Committee separately.

The **Key Areas** that warranted an **Unsatisfactory Audit Opinion** were as follows:

-Adoptions Allowances were given an unsatisfactory audit opinion.

-Highways received an unsatisfactory audit opinion due to a number of issues. In relation to Street Cleansing it was suggested that the relevant managers needed to be called in to explain what action would be taken to give assurances regarding the level of improvement needed.

-Caerleon Comprehensive received an unsatisfactory audit opinion due to significant issues.

-Bridge Achievement Centre received an unsound audit opinion.

Questions:

An update was requested on the Norse report status and it was confirmed that a Draft report was available now, with the final version being reviewed by officers and Cabinet. Hopefully it would be finalised by the next Audit Committee.

Caerleon Comprehensive School was discussed and it was considered as to whether the Head of Education was to be called in to discuss the Unsatisfactory Audit Opinions as it was commented that the £1.6 m budget deficit seemed drastically wrong. It was also commented that it was the Head teacher of the school and Governors who were responsible, not the Head of Education.

The Chair stated that it was now a decision for members as to whether the Committee should call in the Head Teacher and Governors and Head of Education would also have an opinion.

A question was asked by a Member as to what impact this large deficit had on other schools as Bassaleg Comprehensive School had to contribute £30,000 to bail Caerleon School out previously and it was a concern that this would happen again.

The Head of Finance explained that schools have surplus and deficit budgets and that there were schools that do have negative reserves. It had been reported to Cabinet. The Head of Finance also confirmed that another secondary school apart from Caerleon Comprehensive was currently struggling.

It was then discussed how Human Resources and Finance support would be put in place as resources needed to be put in place to work with the school to reverse the situation over the medium term. It was not going to be sorted out over a single year.

The Head of Finance also clarified for the Committee that no school had never been requested to bail out another. Another school could not be asked to bail out Caerleon Comprehensive and Caerleon Comprehensive would be expected to engage in plans to reverse their financial position.

It was also confirmed that financial assistance was not being provided directly to the school, but assistance would be in the form of resources; extra people to support the school. Bailing out the school was not an appropriate message.

The Chair commented on whether the Audit Committee should call in the Head Teacher and Governors as Caerleon Comprehensive had received one unsatisfactory audit opinion so far. It was noted that the school wanted to work towards reversing the current situation which was positive.

The Chief Internal Auditor stipulated that there were significant issues present apart from the financial issues and the Chair enquired as to whether an earlier call into the Audit Committee was appropriate in this case and was there enough to warrant investigation.

The Chief Internal Auditor confirmed that the unsatisfactory audit opinion needed to be followed up and it was justifiable to call in management of the school at present. .

A Member commented that the report showed that things were not being done and it was agreed that a management action plan was in place that addressed the weaknesses but could not be addressed until the 2019/2020 quarter.

The Member stated that there were significant concerns such as no minutes recorded from the clerk which were not available at the school as required and should be available at all times.

Agreed:

- For the Head Teacher and Governors of Caerleon Comprehensive School to be called in to the next Audit Committee regarding the Unsatisfactory Audit opinion.
- In relation to the follow up of Trips and Visits within Education Services which resulted in a second consecutive Unsatisfactory Audit opinion, it was agreed for the Chief Education Officer and Education management team to be called in to provide assurances that improvements would be made.
- The Chief Internal Auditor to make the appropriate actions for the above agreed points.

On Page 48 the Committee were asked to view paragraph 23-24 regarding the National Fraud Initiative (NFI) where numerous data had been gathered and investigated.

The Internal Audit Department was responsible for coordinating the process for the Council and this provided assurance as to whether the data was a correct match or was fraudulent. It was noted that for the 2016/17 exercise a total of 5,123 matches were returned to the Council for investigation which was a significant financial result.

In relation to Housing Benefit, Council Tax Reduction Scheme and Private Residential Care Homes further errors were discovered and investigations found that fees of almost £70,000 had been paid to a residential care placement after the client had died. This overpayment was subsequently recovered.

6 Internal Audit Annual Report 2018/19

The Committee Members were requested to view the Internal Audit Annual Report 2018/2019 which noted all the work completed in the year. The report gave an overall opinion on the effectiveness of the Council's internal controls during 2018/19 which was *Reasonable*: Adequately controlled although risks identified which may compromise the overall control environment; reasonable level of assurance.

The report also referred to the performance of the team and how well the audit plan had been achieved.

Main Points to Note:

- The Chief Internal Auditor brought the Committee's attention to 'The Overall Audit Opinion' which was on page 45; paragraph 6 which stated that the level of assurance placed on internal controls was *Reasonable*.
- Paragraph 9 indicated that Unsatisfactory Opinions had increased with a total of 48 unsatisfactory opinions which showed a balance of strength and weaknesses.
- 10 audit opinions were reported to be Unsatisfactory which had been discussed previously.
- The team also carried out 'special investigation reviews' which were confidential and time intensive.
- 27 *Reasonable* Audit Opinions were issued.
- Across all service areas, 90% of actions agreed by management had been implemented. However insufficient resources within the team to follow up all audit reports issued existed, therefore the Audit Team had to rely on the integrity of managers to provide feedback on any actions implemented.
- National Fraud Initiative (NFI) - The Internal Audit Team was responsible for coordinating the NFI process for the Council. This was a biennial data matching exercise to detect and prevent fraud. A total of over 5,000 matches were returned where overpayments were identified and recovered as previously discussed.
- The performance of the Audit team was shown in **Appendix A** where the opinions were listed on the right hand side. **Appendix B** provided a definition of 'Opinions Used'. **Appendix C** showed non opinion audit work 2018/2019 completed. **Appendix D** showed a graph depicting the Implementation of Agreed Management Actions.
- **Appendix E** showed that Draft reports were issued within 11 days and finalised within 3 days.

Questions:

A Member asked whether in relation to the NFI there was a possibility of payments being made to a fictitious company and how this was prevented. It was confirmed that matches were done by creditors and payroll where addresses were matched with bank accounts and procurement fraud was identified in this way.

The Chair commented on paragraphs 43- 46 regarding the sufficiency of internal audit resources and questioned whether there was a sufficient level of staff and whether more prioritisation in the team was needed. The Chief Internal Auditor confirmed that reports required a long time to compile but it was agreed that prioritisation was required but that having more resources etc provided more assurances. This would also be revisited in the next agenda item.

The Chair commented on paragraph 52- 53 regarding how there were no specific options and that paragraph 54 could be deleted.

There was a comment made on Council tax and whether there was a fall off of council tax being collected. The Chief Internal Auditor stated that it was a successful process but that the changes that came in on the 1 April 2019 provided challenges and that Welsh Government were looking at other options on collecting council tax and the options were very interesting and these were being trialled.

The Finance team were commended on their work.

Agreed:

The Internal Audit Annual Report was formally noted and endorsed.

7 **Internal Audit Annual Plan 2019/20**

The Draft Internal Audit Annual Plan was presented to the Committee. The main difference was that the amount of productive days had gone down, **1155** productive days have been planned for 2019/20 to undertake audit. In 2018/19 it was **1214** days. It was noted that the appendix was quite detailed and that it covered everything.

Main points to note:

- The appendix provided was quite detailed and it provided all sufficient information.
- It was noted that the amount of special investigations received were less, which helped to achieve the audit plan.
- Paragraph 21 showed that there were **1155** productive audit days incorporated into the audit plan.
- It was commented that Social Services and Education Services required a lot more audit coverage than the team was resourced to deal with.
- In relation to paragraph 13 the Chair confirmed that they could not accept the proposal and stated that it needed to be added to. There should be consideration for the Audit team not to carry out the Annual Governance Statement. It was commented that Senior Management needed to consider this so Audit have more resources to carry out more audit which tied in with the Audit Committee opinion.

A Member stated that it was felt that the Audit team were understaffed and that lots of departments have seen cuts and instead of good management practice, some departments were dependant on the Audit team to settle things for them.

Agreed:

-The Internal Audit Plan was noted and approved.

-Consideration for the Audit Team to no longer carry out the preparation of the Annual Governance Statement in future.

-Services need more audit coverage and Senior Management needed to consider staff resources.

-These issues would be fed back to the next Audit Committee as it was commented that best practice should be in place rather than audit dealing with these issues.

-It was commented by the Chief Internal Auditor that critical and severe get reported to the audit committee.

8 **Annual Governance Statement Draft 2018/19**

The Committee were requested to view the Draft Annual Governance Statement which presented arrangements for governance across the board.

It was noted that improvement was needed.

Questions:

The Chair commented that 51 pages in total for the Annual Governance Statement was too large and needed to be reduced. The Chair also commented that the organisational framework was very busy and complex and was great for internal use but was a bit repetitive. The Chair referred to page 106; 3.11 and asked how the Courageous values linked into the corporate risk register and that there was nothing wrong with risk and did the authority adapt a zero risk approach.

The Chair commented that the Risk appetite for 2019/20 showed the level of risk the authority was willing to take to deliver services and to deliver statutory duties.

It was confirmed that Cabinet would receive a presentation on the Risk Register and that information would be fed back to the Committee and collectively this would form a formal risk appetite for 2019/20.

The Chair commented that due to the number of staff let go was there a reliance on the IT system. It was also commented that controls were maybe accepted within the system, would something get miscoded and would less cost override this.

In relation to the Audit office, if there was a saving being made on staff levels and no errors were wanted from officers, were the Cabinet thinking of these issues and considering how Audit considered risk.

At present policies were silent, and maybe the risk strategy should have discussions on looking at the risk appetite. Was it possible to relax financial controls?

The Chair stated that the Committee would look to review the risk appetite that would come back to the Committee and the issue was raised before but comments were not considered previously. Cabinet had been informed that the Audit Committee would be made aware and it was clear that more work needed to be done on risk appetite and this was overdue.

On page 117 of the report the Chair questioned whether it was worth putting in the Head of Internal Auditor as the author of the Annual Governance Statement.

On page 120; 5.6 the Chair referred to the two disclosures made in 2018/19 under the whistle blowing policy and whether it was effectively used? Chief Internal Auditor confirmed that internal audit did not get involved in this.

Also on page 120; 5.10 the Chair commented on the number of complaints regarding Newport that had increased and did this infer Newport City Council rather than the city itself and this needed to be clarified. It was confirmed as 'city' by the Chief Internal Auditor. It was noted that the Audit Committee had the power to call in Heads of Services as the Head of Streetscene was called in 2018.

The Chair commented that the Letter response from the Chief Executive later on in the agenda needed to be referenced in the Annual Governance Statement.

The Chair made reference to paragraph 10.7 there were two bullet points in relation to Newport performing 1.9 percentage points above Welsh average and the Chair questioned whether this average was good or bad and this needed to be clarified.

A Member of the Committee commented on the excellent performance by Newport Primary schools. It was confirmed that the information was taken from the website Data Cymru which enabled people to compare performances with other local authorities.

9 Treasury Management Year End Report 2018/19

The Chair requested that this agenda item would be discussed at the end of the Committee. The following was discussed:

The Committee was requested to view the report on Treasury Management. The report confirmed borrowing investment credentials.

Main Points:

The net borrowing of the Council had increased by £5.1m

In March 2019 the Council undertook £40m of borrowing in advance of the re-financing of the £40m stock issue to be repaid on 10 April 2019. This action was taken in line with advice from the Authority's treasury advisors and this decision was taken due to the imminent Brexit deadline and so it was secured on the 14 March to avoid risk.

Questions

It was commented on whether the borrowing was a good decision as it avoided the risk but there was uncertainty as interest rates could have gone either way.

It was commented that it was known that the budget was there and the sign of saving was there to an average amount so there was a refinance for a mix, a mix of maturity dates to 16 years to 28 years which was a long period.

It was all on a repayment basis, £16m and then £4m every 2 years.

A Member referred to paragraph 7 on page 144 and questioned who the main authority was and it confirmed that it was Thurrock Council.

Appendix A & B was between briefing and the final report and the treasury management report covered the major things. The Appendixes would be emailed out to members and comments would also be welcomed.

A question was asked regarding paragraph 9 about the Council not holding any long term investments and what we require? It was confirmed that there was an inherent need to borrow and it was required to borrow and this decision was taken in line with strategy.

10 **Draft Financial Accounts 2018/19**

It was confirmed that Committee members received a copy of the Draft Financial Accounts and the Head of Finance was hoping to get more comments and feedback from the Committee. It was planned to have it signed off by Monday 10 June 2019 at the latest.

It was commented that in a couple of areas there were formatting issues.

The Committee was then shown a presentation which informed the Committee of the main aspects of the accounts.

Main points:

-The Group accounts were prepared in addition to the single entity accounts

-The Council finished the year with a £2.4m underspend.

-The Social Care and Special Education Needs budgets overspent significantly at almost £5m.

-The Council's total usable reserves decreased by £1.7m in year from £104.3m to £103.0m total usable reserves.

- In relation to Capital reserves, General reserves had been maintained at £6.5m which was the minimum required.

-The Movements in Reserves statement summarises the Council's reserves in the CIES (Comprehensive Income and Expenditure Statement) held by the Council.

-The Cash Flow statement shows the movements in cash and cash equivalents of the Council. For 2018/19 there was a deficit on provision of services of £53.5m which was quite different to the £21.4m surplus for 2017/18 which was reported to Cabinet.

There were a number of Contingent Liabilities identified as at 31 March 2019; MMI Insurances, Newport City Homes etc.

Questions:

Members of the Committee were invited to make comments on the Statement.

The Chair recommended that the Annual Governance Statement needed to be shortened which was noted.

A Member asked how it compared to the previous financial year and the Head of Finance confirmed that the process had gone well and was completed a week faster than last year and Finance completed their work quickly.

A Member commented on the accounts that needed to be signed off by 31st March at year end and whether anything could be done to speed up delivery. It was commented that Audit would have to change processes, like the risk conversation earlier. It was stated that it could be delivered if the timescale was 12 months.

It was commented on the implementations of cash flow for contractors and that it would not impact on finance work but would impact on invoices etc.

The Chair commented on page 80 of the accounts report for the figure of 755; the drainage board did not exist anymore and also page 90 of the report used the terms 'hardcore' and 'topslice' and the meaning of this was questioned. Plainer English in reports was requested by the Chair.

The Chair commented that consistency was required all the way through the report as there were formatting issues where the gains and losses bracket was inverse and surplus was shown as a bracketed term, as a gain could be a positive number.

The Chair also stated that it felt like the report was written as though a person was talking rather than it being a factual document. On page 8 the Chair commented on the diagram and that it should have short abbreviations and it was felt there was a lack of information.

Head of Finance agreed that a more factual report was needed and the Chair recommended that a sentence should be taken out or an explanation was needed instead

The Funding of the Net Expenditure budget on page 49 of the report was referred to and the £2.4 m underspend was commented on and how this was filtering through needed clarity. The Head of Finance stated that the underspend would be transferred to reserves. It was hoped that the report was accessible to any reader of the narrative that was not from an accounting perspective.

In relation to Contingent liabilities on section 43, in relation to MMI insurances the Chair questioned the 15% levy in March 2016 and it was agreed that this paragraph needed to be reworked and that the Provisions note also needed to be looked at.

The Chair questioned the £29m capital spend and whether this amounted to a 50% slippage and whether there was a problem there. The Head of Finance confirmed there was a 50% slippage and that the Capital Programme needed to be looked at and some realism needed to be put into budgeting and this comment was appropriate and correct by the Chair. Work with managers needed to continue and the programmes phasing needed to be updated as it could not be correct if there was slippage. Was it that the resources were not delivering or was it bad management?

It was commented that Newport City Council was not unique in this, the main areas such as Schools were on Band B and the big individual projects eg new schools would be raised with colleagues.

IFRS 9 has had an impact which meant a reinstated balance sheet.

IFRS 15 had no material impact.

The Chair gave thanks to everyone in the accounts department for their hard work.

No specific actions were identified, and Audit Committee members were requested to come back to the Finance team with any comments.

The Assistant Head of Finance confirmed other colleagues had been spoken to and on the 31 May deadline the draft accounts were brought to Audit for information and was signed off by Head of Service.

11 Response from the Chief Executive following Unsatisfactory Audit Opinions within City Services

The Chief Internal Auditor stated that improvements have been made which was now sufficient to deal with problems such as the restructure and service provision, but matters would maybe get worse before they got better.

The Chair stated that this was to be included in the Audit plan.

The Annual Governance Statement mentioned previously, questioned the Chief Executive and Head of Service and it showed that we were asking the right questions from the correct area.

12 Date of Next Meeting

5 September 2019

The meeting terminated at Time Not Specified

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