

# Minutes

## Audit Committee

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Date: 5 September 2019

Time: 5:00pm

Venue: Committee Room 1

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

In attendance: Owen James (Assistant Head of Finance), Leanne Townsend (Lead Finance Business Partner), Dona Palmer (Audit Manager), Gareth Lucey (WAO Audit Manager), Anthony Veale (WAO Director), Meirion Rushworth (Head of Finance), Laura Campbell (Senior Finance Business Partner), Pamela Tasker (Governance Support Officer)

Apologies: Councillors K Thomas, L. Lacey and J. Guy  
Andrew Wathan (Chief Internal Auditor)

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### 1. Apologies for Absence

Councillors K. Thomas, L. Lacey and J. Guy

### 2. Declarations of Interest

None

### 3. Minutes of the Last Meeting

It was requested by the Audit Manager that on Page 5 of the minutes from 6 June 2019, for paragraph 6 and paragraph 8 to be deleted.

The Chair commented on page 6 of the minutes under the heading of **Internal Audit Unsatisfactory Audit Opinions** in relation to the decision by the Committee to call in the Chief Education Officer on the Internal Audit of School Trips and Visits resulting in a second Unsatisfactory opinion, and also the decision by the committee to call in the Headteacher and Chair of Governors of Caerleon School regarding the Internal Audit Unsatisfactory opinion. It was agreed to delay this until October's Audit Committee as a result of advice provided by the Chief Internal Auditor, that September was a very busy time for schools with the beginning of a new term therefore it was agreed for those individuals to be called in to Octobers Audit Committee.

The Chair also commented on page 9 of the minutes under the heading **Annual Governance Statement Draft 2018/19**, that the Letter response from the Chief Executive following Unsatisfactory Audit Opinions within City Services needed to be referenced in the Annual Governance Statement and this needed to be actioned as soon as possible.

It was questioned as to whether the CIPFA Norse report was due to be discussed during this meeting and was the report available for Committee members to view. It was confirmed that a draft report had been seen by the Chief Executive and the Leader of the Council and that the report would be made available for October's committee.

**Agreed:**

To confirm the Minutes of the 6 June 2019.

**4. Audit Enquiries Letter 2018/19**

The Committee was requested to view the Audit Enquiries Letter 2018/19. It was explained by the WAO Audit Manager that the team was required to consider the risks of material misstatement due to fraud and that they also needed to understand how the Audit Committee exercises oversight of management processes.

There was a standard check list to be completed and responses were compiled from Management and from the Audit Committee.

It was confirmed that no areas were affected.

The Chair commented on page 4 question 2, that it was the same response as question 5 but was the question put to a different audience? The Chair asked whether the team were aware of any incidents (page 19 of the report) and whether they were happy with the response.

The WAO Audit Manager stated that they were happy to confirm verbally and that a response could be added which the Chair requested as that was an oversight.

**5. Statement of Accounts 2018/19**

The Chair commented that a cover note was needed to state what was expected of the Audit committee.

The Committee was shown a presentation by the Senior Finance Business Partner.

**Main points:**

On the 6<sup>th</sup> of June 2019 the draft accounts were presented to the Audit Committee and the accounts went on display for the public from the 26<sup>th</sup> of June to the 23<sup>rd</sup> July 2019.

The intention was to issue an unqualified audit report on the financial statements.

There were two uncorrected misstatements:

- Actuaries have had a look at the impact on the pension fund and there was an understatement of pension liability by £2.562m arising from the McCloud Judgement.
- Accounting treatment of loan modifications under IFRS 9

There was an increase in ear marked reserves and both of these issues were technical in nature and non-cash.

- For 2018/19 the final date on which the accounts had to be signed and dated was brought forward from the 30<sup>th</sup> June to 15<sup>th</sup> June with an audited statement completed by the 15<sup>th</sup> September. This will be the same for 2019/20.
- From 2020/2021 the draft statement of accounts would need to be completed by the 31<sup>st</sup> May to be signed by 31<sup>st</sup> July. This year the Statement of Accounts were signed by the Head of Finance on the 7<sup>th</sup> June so within the deadline however improvements needed to be made.

The Letter of Representation was to be signed by the Chair and Head of Finance to authorise this and the Audit Committee was to authorise the Chair and the Head of Finance to sign the Statement of Accounts.

The published accounts would be on the website on the 15<sup>th</sup> September 2019.

#### **Questions:**

- A Member asked a question regarding pension provisions and whether the pension liability was rising and whether it affected Newport Transport Limited and the Education Achievement Service (EAS).

It was explained that the EAS wouldn't be part of this and that it would have its own deficit as this was not part of Newport Council's. In relation to EAS, the percentages that Newport City Council receives we do not put EAS as part of our joint account, it was the same in nature and would not affect the accounts. EAS were their own body in terms of pension evaluation.

In relation to contingent liabilities it was explained that the Council acted as a guarantor and the liability had not arisen. The Chair commented that this was not quite correct, and the event had been determined by the Supreme Court and if it was a provision then it could be argued and if you knew what the value was providing, then a contingent could be made.

There was a difference of interpretation in the materiality perspective. The Chair also commented on the accounts and the recorded £2.4 million underspend.

The Assistant Head of Finance commented that this would be reversed out through the pension reserve with no impact on the general fund and that IFRS also had not made an impact, so it was not processed.

The Assistant Head of Finance also commented that in relation to the McCloud Judgement, the material nature was a big part and that if it had been material more would have been asked from the actuaries. It was commented that the Gwent authorities were asked what they were doing, and it was all still going through the UK government and it was not known at this stage whether it would be funded or not and WAO had said that it was a provision.

It was also stated by the Assistant Head of Finance that when the actuaries were asked, they had not been very forthcoming in providing a significant cost as to whether we spend a lot of money or do we adjust for one year. The Chair commented that they felt this was not what was written in the report.

The Chair explained that materiality was about £4.5 million and that in the past materiality was used as a gage so what was said was what was written in the accounts. The Chair recommended that the wording needed to be changed but that they were happy to go with what was being said but that it could have been made a lot clearer that the underspend was not affected.

- A Member commented that the Gwent Drainage Board was still being referred to in the accounts on page 99 and that this needed to be updated.

The Chair also commented on page 32 regarding Provisions in relation to the last paragraph that there was still a provision even if the Council had no control over it and if there was an uncertainty as to whether things would happen, if it was 70% likely then you would provide for it.

The Chair commented on page 139 of the accounts and wondered what 179f was under 'Estimated Exposure to Non-payment March 2019' and it was confirmed that it was a typo.

- A Member queried pages 62/64; item 3.50 and as to whether they were repeated on both pages and the Chair confirmed that they looked like the same item. The Head of Finance commented that this was an outstanding issue from the previous year, and therefore it was the same issue. The Chair requested that it could be made clearer.

It was noted that the financial statements could change after they were signed off and that they can be altered by the time they get on the website and that it was the responsibility of Newport City Council for anything published on the website.

- A Member asked what the Newport City Council group was. This was confirmed to be the Newport Transport Group and there were certain criteria present which allowed a company to be in the group accounts or absent from them.

It was discussed that about 3 years ago that the Newport Transport Group was to be included into the group of accounts and the Chair mentioned that maybe this could be brought up again as to how group entities were treated and how companies were treated in different ways. The Chair requested that this item could be reviewed in the draft stage in February 2020.

- A Member asked how contribution worked. It was discussed how a contribution to Norse was normal expenditure, the Council received their accounts and profit share. City Services dealt with it as well as the finance business partners in this area. It was a normal standard income line.

### **Agreed:**

The Audit Committee agreed for the accounts to be signed off by the Chair and the Head of Finance.

The Statement of Accounts were signed by the Chair and the Head of Finance.

## **6. Audit of Financial Statements Report 2018/19**

The Committee were requested to view the Audit of Financial Statements Report 2018/19 which was an opinion on whether the financial statements gave a true and fair view of the financial position of Newport City Council and Newport City Council Group.

### **Main points:**

- It was the intention to issue an unqualified clean audit report on the financial statements once a Letter of Representation was provided.
- The Committee was asked to view page 184; Appendix 3 in relation to the Summary of Corrections made to the draft financial statements and it was noted

that although there were a lot of areas to cover none of the corrections impacted on the general fund balance.

- On page 173 the McCloud judgement was nonmaterial and didn't affect them but needed to be brought to attention.
- There was also one other issue on page 174, during a review of related party transactions this year it was found that Council staff did not receive declarations of interest from the majority of Council Members as part of the work over related party disclosures of cases and there was nothing disclosed on party accounts.

The Chair asked whether Members should be contacted. The Assistant Head of Finance confirmed that Finance would be liaising with the Democratic Services Team. The Chair enquired as to whether there was anything the Audit Committee could do, and it was noted that this was an opportunity to nudge the process along.

**Agreed:**

- For the Head of Finance to draft a letter to all Members of the Council that improvements were needed in that respect and that Finance would work with Democratic Services department and for all Members to engage with this.
- It was confirmed by the Head of Finance that the letter would set out what the problem was and what Members should do and what was required.

The Chair commented on the £6.2million value of correction on page 184 and queried whether this was above the threshold level and why it was not picked up over the year. The Senior Finance Business Partner confirmed that this would be changed as to how it was accounted for in the ledger and that this was an oversight that would not occur again.

It was commented that Capital had been resolved as it seemed to always have been an issue and that there was nothing wrong with the figures but the problem was that there were a lot of errors and the Chair enquired as to whether there was not enough attention to detail as it was a continuing issue.

The Head of Finance stated that there was a problem with resources and commented that there was a lot of information to get through and with the current climate, a reasonable job was being done in the time available but things did slip in the capital area but that there was a need to be pragmatic.

The Chair commented that maybe a lot more assurance could be given during the year and that maybe corrections could be made earlier in the draft area of the accounts.

A Member asked whether there was an accounting glitch and the Chair commented that it looked like a slip on the budget spend from an Audit Committee point of view and that the Cabinet had already agreed to the money being spent.

The Head of Finance commented that they were looking to phase in budgets in a more realistic way and that there was more work to do, for example in relation to Education projects which were not stopping.

It was confirmed that officers had not spent the money as the money came from Welsh Government late in the year.

The Chair requested that if this was in the accounts then it gave the reader more information.

The Head of Finance confirmed that in relation to capital, only what was spent was reported and what was spent which was capital monitoring. It was confirmed that this was a factual document on what was spent in the last year.

If £10 million had been not spent Cabinet would approve the funding to be carried over into next year and then the budget would go up.

It was commented that if Welsh Government gave us £5million and it was not spent then it just remained in the bank account.

It was noted that the Letter of Representation had to be signed by the Chair and the Head of Finance.

**Agreed:**

The Committee agreed for the Chair and the Head of Finance to sign the Letter of Representation.

The Letter of Representation was signed by the Chair and the Head of Finance.

The Chair questioned as to whether Learning lessons was completed, and it was agreed that this would come back to the Audit Committee in the future.

## **7. Progress Against Internal Audit Plan 2019/20 Quarter 1**

The Committee was requested to view the progress against the Internal Audit Plan 2019/20. The report was 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 3 months of the year. The Audit Manager confirmed that the team currently operated with 8 audit staff and at the start of the year there were 7 audit staff.

The main points were as follows:

- The Internal Audit Team was externally assessed a couple of years ago in 2017/18 and was found to be generally compliant with the Public Sector Internal Audit Standards (PSIAS).
- The Audit Sections performance was measured against planned work and in the 1<sup>st</sup> quarter 2019/20; **18%** of the audit plan was completed, as shown in Appendix A. The Audit Manager confirmed that the team were well on target in relation to performance indicators.
- 41 days had been spent finalising twenty two 2018/19 audit reviews; 12 of which have now been finalised.
- In relation to Quality Control service managers were sent an evaluation questionnaire and generally there had been positive feedback from service managers.
- Appendix B provided details of audit opinions issued so far for Quarter 1 and Appendix D provided a definition of audit opinions currently given.
- Two jobs completed to at least draft report stage by 30 June 2019 merited an audit opinion where 1 was *Reasonable* and 1 was *Unsatisfactory*. Other work completed related to the Annual Governance Statement, National Fraud Initiative (NFI),

- In relation to Service Management Responsibility there had been some training undertaken with managers as they were responsible for addressing any weaknesses identified in the systems.
- It was reiterated that the Appendices on page 200 summarised the performance indicators which showed that the team were ahead of profile targets.
- On page 201 under Management Information for 2019/20 Q1, 2 audit opinions were given, with 1 *Reasonable* and 1 *Unsatisfactory* with 3 Unqualified which related to Grants.
- Page 202 summarised Non-Opinion work 2019/20 Q1 where Civil Parking Enforcement had a High-Risk Rating/Priority.
- Appendix D summarised the Opinion Definitions from Good to Unsound.

#### Questions:

- A Member of the Committee commented on Civil Enforcement Parking and why the risk rating was high. It was confirmed that this project was very important and had very tight timescales with the initial start date of the 1<sup>st</sup> July 2019 and it also had a few teething problems.
- In relation to the unsatisfactory opinion a Member questioned as to whether the Committee would be informed of the outcome. It was confirmed that the follow up would appear in next year's audit plan and would be brought to the Audit Committee in 6 months in January's Committee. It was commented that it was a long period of time for an unsatisfactory opinion.

Confirmation was given that the follow up by the Audit team would not be for 6 months or so to get an update, as timescales were sought as well as management actions as managers needed that time to implement changes etc. If issues were still present, then the next process would be to call in management or the Head of Service Area.

- It was questioned by a Member that the number of sessions provided to train staff in all areas was 0 and it was explained that there was a session that was meant to take place in May but no one signed up for this and also more sessions took place in July.

Comments were made on the fact that City Services were still coming up as Unsatisfactory. Reference was made to the Letter from the Chief Executive and that more time was needed for the service to resolve the matter, but it was a regular occurrence and Internal Audit needed to guide the Committee to ascertain how much time should be given. It was commented that the Head of Service was new and that this occurred 2 years ago and that the Head of Service was using reports given to them and was encouraging Audit to come in and were using the process to see what needed to be looked at and it was a positive approach.

The Chief Executive has said the above in the letter provided to the Committee and that the process would take time. It was commented by the Head of Finance that the new Head of City Services was working hard but that it was a long way away from where it needed to be.

The Chair gave thanks to the Finance and Audit departments for their hard work.

#### **8. SO24/Waiving of Contract SO's: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SO's (Quarter 1, April to June)**

Members were requested to view Standing Order 24. The Audit Manager confirmed that there had been one urgent decision taken by the Cabinet Member for Regeneration and Housing.

- The reason for urgency was that the Repayable Funding awarded by Welsh Government needed to be claimed in full by the 21 March 2019 and if it had not been claimed then it would have ceased to have been available to Newport City Council after this time.
- Appendix A on page 210 contained a timeline of events which stated that confirmation of the funding was not received until the 5<sup>th</sup> March 2019.
- The Chief Internal Auditor had provided comments which stated that appropriate justification for the urgency of the decision was confirmed and was included within the report.

The Chair requested for the Audit committee to confirm as to whether they were happy to accept this.

The funding was made available by Welsh Government to regenerate the town centre to give to businesses etc and Welsh Government provided funding to the service area late in March, so the report was urgent.

A Member asked as to who carried the liability of a non-repayment and it was confirmed that charges were held by Newport City Council, so it was a risk if nothing was repaid. It was also questioned as to whether there was a maximum to the loan, and it was confirmed that Welsh Government did not put a maximum on it but the Council would, in terms of looking at each application and it was a case by case basis.

A member asked that historically would the Council know how many companies would not pay back and was this an opportunity for fraud.

The Chair commented that if for example £50,000 was loaned but the return was only £20,000 then this was subject to risk. It was confirmed by the Assistant Head of Finance that the risk would be assessed and so far, the risk was quite low and so far, none had defaulted. If the Council only take out a certain amount of money and do not pay back the loans are open ended.

Admin fees on the loans were questioned by a Member and it was confirmed that some schemes do charge these fees, and some do not, and the Regeneration team would have to assess this.

**Agreed:** The Committee noted and endorsed the report.

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

17 October 2019