

Draft Minutes



Audit Committee

Date: 19 November 2020

Time: 2:00pm

Venue: Microsoft Teams Meeting

Present: Mr J Baker (Chair) Councillors J Jordan, L Lacey, H Thomas, P. Hourahine, K Thomas, M. Whitcutt, R White and R. Mogford.

In attendance: Meirion Rushworth (Head of Finance), Andrew Wathan (Chief Internal Auditor), Dona Palmer (Audit Manager) Robert Squance (Audit Manager), Gareth Lucey (WAO Audit Manager), Owen James (Assistant Head of Finance), Rhys Cornwall (Head of People and Business Change), Pamela Tasker (Governance Support Officer), Neil Barnett (Governance Support Officer).

1. Apologies for Absence

None

2. Declarations of Interest

None

3. Minutes of the Meeting

The Minutes of the meeting held on the 28 September 2020 were accepted as a true record.

4. Corporate Risk Register Update (Q1 April to June)

The Chair reiterated for the Members of the Audit Committee that the present Committee was an Audit Committee, not a risk Committee and that the Committee was there to review processes undertaken by Newport City Council.

The Head of People and Business Change presented the report to the Audit Committee stating that the report for Quarter 1 highlighted the key areas that were being worked on such as the Covid 19 pandemic and Brexit preparations, which both featured heavily.

The report highlighted some changes to the previous risk report with 6 new risks which were not all new, some of these risks escalated to become part of the Risk Register.

Key points:

- There were 57 total risks recorded.
- Out of the 57 risks recorded, 19 of these were considered to have a significant impact on the achievement of the Council's objectives.

- Out of the 19 risks, 1 was a completely new risk and 5 escalated risks were from the service areas risk registers which was pressure on Adult Community Services, pressure on the delivery of Children's Services, cyber security, pressure on Homelessness and Housing all primarily driven by Covid 19.
- A new risk emerged which was Ash Die Back Disease.
- Covid 19 was previously at a risk of 20 and was escalated to a risk of 25.
- Balancing the Council's medium term budget also increased as well as In year Financial Management as a result of the Covid 19 pandemic.
- City Centre security and safety also saw a reduction in risk as non-essential retail was closed which minimized the risk.
- There was a change in Newport Council's Property Estate due to remote working and a reduction in the Climate Change risk due to Council staff working remotely which had reduced the environmental impact due to changes in air quality.

The Chair questioned as to whether Capital spend was included in the Financial Management Risk, which had increased from 3 to 9. The Assistant Head of Finance confirmed that the In Year Financial Management looked at the revenue budget, and Capital in the future would have an impact on the medium term financial plan. The Chair questioned as to where Capital was picked up as over the last 5 to 6 years there had been a 20-25% underspend on Capital every year and stated that Covid should not be a reason for Capital spend not to be undertaken.

The Assistant Head of Finance confirmed that Capital spend was constantly monitored alongside MTFP as a risk, MTFP has Capital finance on it and was identified as part of the MTFP on the Corporate Risk Register as a specific risk but not the overall slippage.

The Head of Finance stated that this slippage was individual to individual projects as if a school had to be built by a certain date then this was an individual risk.

Questions:

- Councillor Thomas stated that it was unclear as to the insight on the risks and how officers were mitigating risks. In relation to the Ash Die Back Disease risk, Councillor Thomas stated that it would have been useful to have comments on this regarding how risk was going to be mitigated for example by recanting, which could contribute to environmental aims.
- In relation to the Housing risk, Councillor Thomas stated that furlough had been extended until March 2021 and that there was a risk of a number of redundancies, which National Government have acknowledged by extending furlough, was there an estimate for the Council area of redundancies.

The Head of Business and People Change acknowledged that this was a looming problem and that the Committee could take this back to the Head of Service for more clarification if requested.

- Councillor Thomas stated that in relation to homelessness, all of the positive action that the Council has taken were a question of resources and funding for projects e.g. new accommodation units etc and they were not sure if it was a risk, as a lot of funding had been provided to make homeless people safe during the pandemic. They questioned as to whether the issue of homelessness should be on the Corporate Risk Register.

The Head of People and Business Change confirmed that the pressure was on the homelessness service and that the additional money made available had not changed the Council resource and more staff had not been able to be recruited, therefore the pressure was on the service area.

- Councillor Thomas stated that it was disappointing to see that the example used for climate change was electric vehicles and that there had been a lot done in this area but

that there was still a lot more to be done, and that it was not certain if there were things that were significant that were not being reported in the risk register.

The Head of People and Business Change that there were lots of work going on in the background in relation to climate change. The Chair also commented that the report was a summary and that the committee were not here to audit the process.

- Councillor Thomas requested for consideration on the speculation on a raise in capital gains tax, which may lead to an exodus from the private housing rental market, and whether the Council had considered the pressures this would have on the provision for housing for people in the city.

The Head of Business and People Change confirmed that this point could be referred back to the service area for consideration, which was agreed by the Chair.

- Councillor Hourahine commented on the Ash Die Back risk, that the problem was well known for some time and asked for clarification on how any risk was identified and what was the lag time of the risk appearing on the risk register and the process in general.

The Head of Business and People Change explained that risks were being identified constantly, identified through service delivery, new legislation, intelligence gathering, and information from Welsh Government, all gathered on a daily basis.

They also explained that risks and mitigations were put in place very quickly and although there had been a bit more of a lag because of Covid they shouldn't take much time at all as the risks were dealt with in real time.

In relation to the Ash Die Back Disease, there had been an assessment of the trees and then the risk ended up on the Corporate Risk Register when the scale was understood. The Head of Business and People Change advised the Committee that they could go back to the service area to find out more detail.

- Councillor Hourahine commented that they felt that many risks were appearing on the Register that maybe could have been dealt with at the point of decision.

The Head of Business and People Change stated that the Council provided over 800 services and that only 57 risks on the register showed that other risks were being dealt with. They commented that some of the larger risks were not resolved easily and there was a reasonably good balance of things resolved at the point of source, and the bigger issues that were in the Risk Register that come to the Audit Committee.

Agreed:

That the report be noted and approved by the Council's Audit Committee.

5. Internal Audit Plan 2020/21 (Quarter 2 Progress against Plan)

The Chief Internal Auditor presented the report to the Committee and explained that this was a report that was a regular item on the agenda intended to provide the appropriate level of assurance. In September 2020, Committee Members approved the revised audit plan for the remaining 6 months of the financial year starting in October.

The Chief Internal Auditor stated that he wanted to make Members aware of the work that the Internal Audit team had been involved with in the first 6 months of the year due to the impact of Covid 19, as it was not possible to complete much of the audit work on the original audit plan for 2020/21, due to many service areas having more pressing priorities. The team was involved with extensive counter fraud work in relation to the business grants issued by Welsh Government

along with supporting business grants administration and Track Trace & Prevent (TTP). Some audit opinion related work was undertaken where possible and this was shown in the Appendix.

The Chief Internal Auditor referred the Committee to Appendix A which contained information on the proportion of the original audit plan that had been achieved.

Key Points:

- Based on the original plan 24% of planned audits had been completed.
- There was a quarter-by-quarter comparison and a year on year comparison. Progress as at Quarter 2 had been affected significantly by Covid 19 in 2020/2021.
- Appendix B identified the individual Audit jobs undertaken and the corresponding opinions issued as a result of the audit work: the table showed 1 Good Opinion, 3 Reasonable, 1 Unsatisfactory and no Unsound opinions during the first 6 months of the year.
- The non-opinion work, which included providing financial advice to all service areas of the organisation, completion of the Annual Governance Statement and extensive counter fraud work as a result of Covid 19 business grants.

Questions:

- Councillor Whitcutt referred to paragraphs 9 and 10 on page 48 of the report, which referred to the pandemic and the audit team being unable to complete all planned work and had to change the way they operated. They referred to paragraph 14, which dealt with the knock on effect and paragraph 27 where it stated Heads of Service and service managers were responsible for addressing any weaknesses identified and demonstrated this by incorporating their agreed actions into the audit reports. Councillor Whitcutt questioned as to whether there was an effect on the Committee's monitoring function and does it affect the ability of service managers to review operational issues with reference to Audit.

The Chief Internal Auditor stated that this would have an impact on the Audit Committee as Internal Audit could only complete a certain number of audits in a year, given the resources, which had been reported in the plan. The Chief Internal Auditor stated that it was his role to also provide assurance to the Committee in terms of control environment, risk management and governance across the whole organisation. A revised plan was created on that basis to give as much coverage as possible.

The Chief Internal Auditor also reiterated that there were 75 opinion related jobs in the original plan and in the revised plan, there were 50 audit opinions related jobs. It was explained that there were no site visits allowed at present so no school audits could be undertaken. It was also difficult at present to get information from service areas who had paper related records.

Discussions have been on going with service managers regarding draft audit reports and the finalisation of audit reports. Most have these have subsequently been agreed with managers agreeing to be implement the agreed management actions within the audit reports

The Chief Internal Auditor also commented that the issue might be timeliness as there might be a lag where service managers found it difficult to implement the action plan. The action plan always contains who was responsible for implementing the action plan and the timescale. If there was an unfavourable audit opinion, the audit team could go back and revisit that in 6-12 months. If the opinion was favourable, then the audit team would generally not go back for 5-6 years to revisit the audit area for a number of years.

- Councillor Hourahine commented on Newport City Dogs Home and the unsatisfactory opinion and questioned as to when they would be reaudited.

The Chief Internal Auditor confirmed that the report was being finalised and then the audit team would re-visit that area within 6-12 months in order to complete the follow up audit. That particular report was being finalised and the follow up review would be in the audit plan for 2021/22 to give management ample time to implement the action plan.

- Councillor Hourahine asked how an audit was carried out and whether there was sensitivity ratings.

The Chief Internal Auditor explained that in relation to the opinions, which were Good, Reasonable, Unsatisfactory, Unsound. There was a colour code for the categorisation of weaknesses identified so if there was a critical / significant weakness the audit team could then prioritise the issues identified. Within the action plan in the individual report there were red, amber and yellow weaknesses. There was no particular sensitivity used.

- Councillor Thomas commented on point 12 of the report where the Audit Team took on extra work and commended the Audit team on their hard work. Councillor Thomas also questioned how many special investigations had been carried out.

The Chief Internal Auditor confirmed that there had been a handful of these, mainly completing ones that had been ongoing pre March 2020. Issues identified through the counter fraud work on the business grants would be classed as one job; there had been less special investigations carried out than in previous years.

- Councillor White commented on paragraph 11 where a lot of the Audit team had been seconded and enquired on whether there was a now a full team back out working.

The Chief Internal Auditor confirmed that the secondments had ended and that the team was engaging with an external provider to assist in catching up on the backlog.

Agreed:

That the report be noted and approved by the Council's Audit Committee.

6. Treasury Management Report

The Assistant Head of Finance presented the report to the Audit Committee and explained that the report informed the Committee of Treasury activities undertaken during the period for the first half of the year to the 30 September 2020. The report confirmed that the Council was following its strategy of maintaining investments to a minimum value rather than taking out new long-term borrowing. The Council was also minimising its cash holding as interest rates were very low during this period so investments were being kept to a minimum.

The Assistant Head of Finance requested Committee Members to view Table 2 on page 68, which contained a good summary of the borrowing and investment position of the authority. It showed that borrowing since the end of the financial year 31 March 2020 had reduced by £17.1 million and investments had increased by £15.7 million meaning that there was quite a big decrease in net borrowing from £153.8 million to £121.1 million in the first half of the year.

It was explained that at the end of the financial year there was some extra borrowing to assist with business grants going out to businesses prior to Welsh Government providing financial assistance. Welsh Government subsequently reimbursed this and the borrowing was repaid.

In terms of the investments levels increase this was due to the revenue support grant provided by Welsh Government, which was front-loaded in the first couple of months to help local authorities with their cash flow.

The main priority for investments was security so investments were on a very short term to minimise risk so the income returns were very low due to the current situation.

The Assistant Head of Finance also mentioned cash flow as Welsh Government was able to assist in the increase of costs as they assisted with hardship claims and reimbursement on any additional business grants so there was no big increase in borrowing. Welsh Government had largely supported authorities so there was no big increase in borrowing.

Cash would now decrease and investments would drop so borrowing may need to occur in line with the Treasury management strategy.

The Chair questioned that in January 2021; would the strategy document be presented to the Audit Committee for comments and asked whether it would provide a guidance as to what the level of borrowing should be rather than what it is. This was confirmed by the Assistant Head of Finance.

The Head of Finance confirmed that this was not the first time the Committee had commented on the Councils level of borrowing which was reaching a high level and the current capital programme would increase which involved borrowing over the next 2 to 3 years. In conjunction with this, internal borrowing had reached capacity and this was not for new expenditure so there was a pressure there. In addition, it was explained that Councils funding was low and there was uncertainty over future funding as the UK was currently in a lot of debt at present.

The Head of Finance explained that they were currently engaging with senior management colleagues and the Leader of the Council by providing information on the impact of the revenue budget and the level of borrowing. It would be favourable if the situation were restricted however, colleagues wanted more flexibility. The more borrowing that occurred meant that there was also less money to spend on front line services as the budget was spent on servicing the debt so there was some difficult trade-offs in the current situation.

The Head of Finance stated that they would bring to the council a position in February 2021 that beyond this programme that ends in 2 years' time annual new borrowing limits should be set. The borrowing capacity should drive the prioritisation of what is affordable. This could be achieved by setting out some borrowing limits to keep it updated as and when the situation progresses over the next 5 years. The new programme would not start for another 2 years.

Questions:

- Councillor Jordan questioned the treasury management summary table on page 68 as to whether the total borrowing figure of £17.1 million and total investment of £15.7 million added together should be £32.8 million instead of £32.7 million and the balance section of £149.2 million with a minus of £28.2million should this £21.0 million.

The Assistant Head of Finance confirmed that this was correct as a rounded figure in round millions and when rounded up would be higher.

The Chair commented that, as this report was a public document it was imperative that the figures added up and could that be taken back to the finance team, which was agreed.

- Councillor Whitcutt asked the Head of Finance about paragraph 12 on page 62 of the report in particular the sentence, "aside from the beginning of the year when the additional short-term borrowing was required, WG have mitigated the impact by reimbursing increased expenditure through the hardship fund and through loss of income claims." It was also pointed out how cash flow was improved and Councillor Whitcutt asked how this fitted into the overall legacy that the legacy of austerity in terms of

restraints on the Council was the Head of Finance satisfied that Welsh Government had covered the impact of Corona virus on the Council.

The Head of Finance stated that the hardship fund does cover the vast majority of additional costs incurred. If councils make their own decision to make something free e.g. free parking in the city of Newport in December and January, this was a council decision, this was not reimbursable through the hardship fund. The biggest gap was council tax and there was no support for that loss of income. However, support for Homelessness etc councils in Wales have had good support from Welsh Government.

Agreed:

That the report be noted and approved by the Council's Audit Committee.

7. SO24 / Waiving of Contract SO's: Quarterly report reviewing Cabinet / CM urgent decisions or waiving Contract SO's (Quarter 1, April to June 2020)

The Chief Internal Auditor explained that Cabinet Members could put through reports urgently and the purpose of this report was to provide assurances to members that these decisions had been fully justified and were therefore appropriate.

There are two reports relating to School Admissions and NNDR have been identified as being urgent through the democratic process in quarter 1 of 2020/21. The NNDR report was in relation to Welsh Government's decision on business rates due to Covid -19.

The Chief Internal Auditor stated that they viewed the reports were reviewed to make sure that there was an appropriate justification given to the decision making for the urgency and was documented within the report. Often urgent decisions were taken this way as if there was no time for consultation with other members of the Council and therefore there would need to be an appropriate justification for doing so.

The Chief Internal Auditor requested members to view the table on page 77 and in particular, the Chief Internal Auditor comments on the right hand side. The first report on the table was in relation to School Admissions in relation to the change of catchment. It was an urgent decision but there was no justification for the need of urgency stated in the report. Normally there were timelines would be provided but this was not the case with this report. However, the report had gone out to stakeholders and all members as it related to a school admissions issue. Although there was no justification provided, the Chief Internal Auditor explained that they he deemed the decision as satisfactory as members saw the original report and had an opportunity to commented on it. Therefore they felt no call-in was needed.

The Chair agreed that this was satisfactory and there were no comments from any members of the committee.

In relation to the NNDR report, the Chief Internal Auditor stated that there was appropriate justification for this clearly stated in the report, guidance from Welsh Government came through on the 18th March 2020 and the scheme had to be implemented as close to 1st April 2020 as possible. Papers were also attached for members to look at in detail. The Chief Internal Auditor also deemed the report as justified and no call-in was required.

Agreed:

The Audit Committee were satisfied with the content of the report.

8. Call in the Chief Education Officer, Deputy Chief Education Officer & Head of Gwent Music re the Internal Audit Unsatisfactory Opinion on Gwent Music.

The Chair stated that the Audit Committee had requested for a call in for Gwent Music and there had been an email response provided rather than an attendance at Committee as parties in question could not attend until January 2021.

The Chair expressed their disappointment that there was no attendance from the Head of Service as the meeting had been moved to accommodate attendance.

The Chief Internal Auditor stated that one Head of Service had stated that they could not attend the changed committee date and the other had requested their attendance be delayed until Spring 2021.

Therefore, the Audit Team had put together a template, which was a briefing note format so assurances could be provided to members so they could be reassured that issues were being addressed.

Within Gwent Music there was a response received stating that most of the staff were furloughed from March 2020 so could not respond to all issues raised in the audit report. The key issue was the stock control of musical instruments. This was not a second unsatisfactory audit opinion but members asked the question due to concerns.

A template was set up to give an overview of the situation to provide assurance that action would be taken against the agreed action plan. It identified the weaknesses identified as part of the audit report and it identified what the manager agreed to implement to make the improvement along with timescales. The Audit team would be going back to review this to make sure changes had been made and this would be reported back to the Audit Committee in due course.

The Chair requested that the Committee receive an update in January 2021 as there was still an issue around tracing musical instruments and in particular what would happen to the lost item.

Action:

For the agenda item to be reviewed at January's 2021 Audit Committee.

9. Call in the Head of Children & Young Peoples Services and Service Manager of Resources re the Internal Audit Unsatisfactory Opinion on SGO/Kinship Payments.

The Chief Internal Auditor presented the report to the committee stating that this was an audit on SGO/Kinship payments carried out some time ago which was unsatisfactory in its opinion. The Audit team had gone back and followed up the original audit, which resulted in a second Unsatisfactory opinion; this was the reason it was brought to Audit committee. Members then decided to call in the Head of Service and the manager to give assurances that issues would improve as a third audit visit would be required.

Information had been provided for the Committee with a background on the situation. This was a team that should have been set up but this did not happen effectively and issues identified previously were not addressed. The Chief Internal Auditor explained that the audit team could not therefore go back to that team and re-audit the situation as no progress had been made since the previous audit. An action plan was in place with timescales and management responsibilities to address the situation.

Questions:

- Councillor Thomas asked had there been national guidance on SGO payments and when did NCC implement it.

The Audit Manager confirmed that there was national guidance and there were issues about calculation of payments identified locally. The broader issue was how things were structured within the service to deal with payments.

- Councillor Thomas expressed concern around the payments situation, and explained that the background circumstances in these cases were very often tragic as often grandparents have the SGO role and it was not easy. Financial support was then needed as those children often had special needs and Councillor Thomas stated that they were pleased audit would look further at this.

The Audit Manager confirmed that it was in the audit plan to go back again and that some progress had been made following the original audit. There had been a big change in the structure of the service area in terms of delivering support to families. There was new management in place and this would feed through into the subsequent audit.

Councillor Thomas questioned the agreed management action on page 165 as the 'By When' action stated immediate and was this immediate from 2018 or immediate from now.

The Chief Internal Auditor confirmed that this action was immediate from date of discussion so it would be the date of the report and not 2018. Councillor Thomas stated that it would be useful to have that explained on the report for future reference, which was agreed by the Chief Internal Auditor.

Councillor Whitcutt stated that it was fair to the Head of Service that it was a difficult time at present in that service area and that the service manager was a conscientious person and would have attended if they would have been able to.

The Chair stated that taking the impact of Covid 19 into account the papers were fine to be left as they were at this point as issues were also moving in a positive direction.

Councillor Thomas stated that stresses should be recognised however, there were now two unsatisfactory audits of SGO payments and there was stress on families in relation to the family situation and therefore a clear system was needed and that it was being implemented properly and fully.

The Chair asked the Committee whether they would want the Head of Service to be called in to the Audit Committee.

Agreed:

The Audit Committee agreed for the Head of Service to be called in to the Audit Committee on the 29 January 2021.

10. Lessons Learned 2019/20

The Assistant Head of Finance stated that the statement of accounts had been brought to Audit Committee for sign off in September and they were now published on the Councils website and were signed off by Audit Wales. A review had also been completed on what could be learned from the previous process. This year was even more of a challenge as it was the first year that the team had to work remotely so ideas were put forward to improve that process. Meetings have been held with Audit Wales on improving the process, as there was technology like Microsoft Teams that could be utilised to share data etc.

It was confirmed by the Assistant Head of Finance that the audit dates would be brought forward next year and the draft deadline would be the 31st May 2021 and the audit deadline would be the 31st July 2021. 2021 would also become the first year that the deadlines would become statutory and the 31st July would become the final date for the accounts to be prepared.

The ISA 260 report was also taken on board in relation to the statements and misstatements from Audit Wales and the team would be putting in robust quality control and some assurance measures.

The IFRS 16, which was a change in the leases accounting policies, was a resource issue in that there was a change in the leasing policy across all the authorities. The implementation of that would probably take some time. The team were working alongside Audit Wales on delivering the implementation, which was due in 2021/2022 and would coincide with the teams work.

Agreed:

That the report be noted and approved by the Council's Audit Committee.

11. Forward Work Programme

The Work Programme was approved by the Council's Audit Committee.

12. Date of Next Meeting

29 January 2021 5pm