

Minutes

Audit Committee

Date: 28 January 2021

Time: 5pm

Venue: Microsoft Teams Live Event

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

In attendance: Andrew Wathan (Chief Internal Auditor), Dona Palmer (Audit Manager), Gareth Lucey (Wales Audit Office), Robert Squance (Audit Manager), Owen James (Assistant Head of Finance), Meirion Rushworth, Head of Finance, Rhys Cornwall (Head of People & Business Change), Paul Flint (Performance & Risk Business Partner), Anne Jenkins (Governance Team Leader), Pam Tasker (Governance Support Officer).

1. Apologies for Absence

Cllrs Whitcutt and White

2. Declarations of Interest

None

3. Minutes of the Last Meeting held on 19 November 2020

The minutes of the meeting held on 19 November 2020 were submitted.

It was noted that R Khan, Audit Lead attended the meeting not G Lucey.

Item 4 - Corporate Risk Register Update under Questions:

Councillor K Thomas referred to the last sentence; in relation to number of redundancies in the Council, this was in relation to the monitoring of numbers in the likelihood of citizens redundancies and not council staff redundancies. This was duly noted by the Committee.

Councillor Hourahine referred to an action for the Head of People and Business Change in relation to the speculation on a raise in capital gains tax and it's potential effect on the private housing rental market. It was confirmed that the Head of People and Business Change would go back to the service area to find provide more detail and it was not an action for the Audit Committee. An update would be provided in writing to the Committee.

Item 8 Call in for the Chief Education Officer, Deputy Chief Education Officer and Head of Gwent Music re Internal Audit Unsatisfactory Opinion:

It was confirmed by the Chief Internal Audit Officer that the above item was moved to Spring 2021 as most of the staff were placed on furlough and would not have the

opportunity to address the issues raised by Audit Committee, including retrieval of musical instruments.

Agreed:

That the Minutes were accepted subject to the above.

4. Corporate Risk Register Update (Quarter 2 July to September)

The Council's Corporate Risk Register monitored those risks that might prevent the Council from achieving its Corporate Plan or delivering services to its communities and service users in Newport.

At the end of Quarter two, the Council monitored 56 risks across its eight service areas; 19 of the 56 risks were recorded in the Council's Corporate Risk Register and considered to have a significant impact on the achievement of the Council's objectives and statutory obligations. At the end of quarter two, there were no new or escalated risks from service area risk registers; and no risks were closed or de-escalated. Overall, there were 11 Severe risks (risk scores 15 to 25); six Major risks (risk scores seven to 14) and two Moderate risks (risk scores four to six) that were outlined in the report.

The role of the Audit Committee was to review and monitor the corporate governance and risk management arrangements in place, with comments and recommendations of the Committee on risk process considered by Cabinet.

A brief introduction on the report looked back in time to the end of the September Risk Register. This monitored risks that might stop the Council achieving its objectives as well as covering escalated Risks in the Register. These risks could be challenged through the Scrutiny process rather than at Audit Committee. An additional paragraph in relation to an all member seminar on the Local Government Elections (Wales) Bill, addressed potential changes around performance management.

The Chair asked for a brief outline regarding any potential changes to Audit Committee due to the forthcoming Act and whether this could be an agenda item for a future meeting. Any responses arising from the consultation would come into force hopefully in April this year. If there were any potential changes to Audit Committee, this would relate to performance management requirements. Following consideration of the consultation from Welsh Government, this could be discussed at Audit Committee later this year and could possibly be considered in the work programme at an October/November meeting.

Discussions included the following:

- Referring to page 15 in the Agenda papers, Councillor Hourahine was disappointed with the table of risks, one risk had been addressed, however it was noted that the rest of the figures were static. Councillor Hourahine expected this to be dealt with as close to the source as possible. The Chair agreed with the observation and referred to the target risk table, which he felt was a tick box exercise and considered the risk appetite was not there unless the scoring was changed from 1-10 to 1-5, therefore it was not sure what was a valid risk or not.

Councillor Hourahine referred to the matrix numbers and suggested there might be other ways of achieving a better outcome, rather than five by five, which might mean too many equal risks. The Head of People and Business Change advised that the table represented the top risks that the Council was dealing with. Most were incredibly difficult to address in the short or medium term to overcome. Cyber

security for example would have been removed from the risk however, Covid 19 increased the risk in relation to home working. There was also a path out of Ash Die Back Disease.

The Performance and Research Business Partner raised two points; the risk appetite would have been presented to the Audit Committee last year and covered off in risk management policy and agreed by Cabinet in June last year. This would be reviewed again on an annual basis to see whether there was a need for change.

Secondly, the comments regarding the target risks scores were valid; this was introduced as part of the new risk management process last year. The risk owner would determine the level of risk and whether it was an inherent risk. In addition, there was a target risk score to push service areas to mitigate against the risk raise such as cyber security or climate change, which the Council had no power over and would therefore have to accept and receive assurances from SRS in relation to cyber security, to mitigate and prevent it from happening. The Performance and Research Business Partner was always in conversation with Heads of Services to monitor these risks and discuss whether they can be taken off the register. There would be more risks being removed from the register by Quarter Three, this was also raised at Corporate Management Team if risks we raised.

- Councillor Jordan asked if there would be any changes in Quarters Three and Four considering what had happened over the past year. The Performance and Research Business Partner considered that there would be changes and that plans were in place for Heads of Service to look at forthcoming services plans and any emerging risks as a result of new legislation; this was again an ongoing process. An example of this was the red scoring relating to Brexit trade negotiations in Europe, which had now decreased and would change in the next two Quarters.
- Councillor Lacey observed that, with her audit background, the document was easier to read and complimented officers on their layout.
- Councillor K Thomas echoed these comments but had noted that only one risk had closed. In these turbulent times, what would be normal movement on the list in Quarter Two. It was expected that two or three risks would close each Quarter or every six months. More changes would occur in Quarter Three, with more movement in the corporate risk and service area risk.
- Councillor Hourahine referred to page 64 Schools Finance and cost pressures which had shown that figures remained static which was disappointing. School governors were doing their best to bring down finances to the required levels and were other schools doing the best they could.

Agreed:

That Audit Committee considered the contents of the report and assessed the risk management arrangements for the Authority, providing any additional commentary and/or recommendations to Cabinet.

5. Internal Audit Annual Plan Progress (Quarter 3)

The attached report identified that the Internal Audit Section was making progress against the 2020/21 audit plan and internal performance indicators even though the agreed revised plan only took effect from October 2020 due to the impact of the Covid-19 pandemic.

Covid-19 significantly impacted on Internal Audit and its ability to deliver the original full year plan. Corporately the focus was on delivering essential front line services to deal with the pandemic. The Internal Audit team supported the business grants process and undertook extensive counter fraud work whilst the majority of the regularity audits were put on hold for an interim period.

The original audit plan was based on 1208 audit days; the revised audit plan was based on 626 audit days.

The Chief Internal Auditor went through the appendices within the report for the Committee.

Discussions included the following:

- The Chair referred to the number of audit days carried out by staff in Paragraph 8; Audit Plan and the Impact of Covid-19. The Chair observed that if someone were to look at the figures coldly it would imply that during the 626 audit days, staff were not doing their work for 600 days, although as outlined in the report, staff were carrying out other duties. The 1208 days related to a full year audit plan; the 626 days related to the revised plan, which was to be undertaken during Q3 & Q4 of the 2020/21. The Chair was assured that this was in relation to many issues, including with working from home, research work and information gathering. Audit were dealing with front line staff including social workers and the Audit team were respectful of that and gave staff space; making allowance for the circumstances surrounding Covid-19. This meant that it had taken longer for the work to reach the Audit team in some areas but they were working their way through the plan. The Chair felt if the paper was read in isolation, it could give the impression that things were not as active as actually explained by the Chief Internal Auditor. When reviewing the annual governance statement, the Committee could place reassurance on the fact that staff were doing proactive work which helped to control the environment.
- Councillor Jordan asked if the Audit Team were still down one member. This was the case; however their work was being covered with external support.
- Councillor Lacey appreciated that the team were struggling with man-hours and asked if this had an impact on previous months work, would the team be able to catch up with any backlog. The Chief Internal Auditor revised the plan in the first six months of the pandemic and reprioritised work, assessing the risk of audit and putting a plan in place going forward. Work had to be re prioritised with less important jobs being put on hold. In addition, Councillor Lacey asked had lessons been learned from the pandemic on how to deal with work and any challenges carried forward. It was agreed that there would be improvements and that access to information from service areas was progressing but could be improved. In addition the team had struggled to receive information electronically as many services were still paper driven. Everything operated by the Audit Team was digitised but not all services within the Council had gone down that route.

Agreed:

The report be noted by the Council's Audit Committee.

6. Code of Corporate Governance – Update (2020)

It was important for the Council to have an up to date and relevant Code of Corporate Governance. The Council's Annual Governance Statement was based on the Code of

Corporate Governance. The Code was last revised in 2014 and approved by Cabinet. Newport City Council's Code of Corporate Governance was updated and revised to comply with the published good practice of Chartered Institute of Public Finance & Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE). This was "Delivering Good Governance in Local Government Framework 2016" and "Delivering Good Governance in Local Government Guidance Notes for Welsh Authorities 2016", which embraced the elements of internal financial control required by the "Code of Practice on Local Authority Accounting in the United Kingdom".

The Chief Internal Auditor went through the Appendices, outlining the intention to reduce the size of the Annual Governance Statement by referring to the Code of Governance. The report had been considered by the performance team and Heads of Service for comment. Members of the Committee were therefore given the opportunity comment on the report, to shape the governance before it went to Cabinet for approval.

The Chair observed that there were similarities in the Code with the AGS-this would remove a lot of duplication.

Discussion included the following:

- Cllr Hourahine referred to page 85, Item 7 in the report which stated there were no financial issues relating to the report. Councillor Hourahine considered that any changes to a process within Local Government usually meant that there would be financial implications, such as in the officer's time. With this in mind, would there be more or less officer's time to comply with the code, as it was rarely a static situation. The Chief Internal Chief Auditor Officer advised that there were no additional financial implications to bring this Code together. It was generally the role of the Chief Internal Auditor to prepare the AGS and this input had remained fairly static over the past couple of years; any impact on finances was therefore minimal.

Agreed:

That the Audit Committee endorsed the Code of Corporate Governance before being presented to Cabinet for formal approval.

7. Financial Memorandum of the 2019-20 Financial Audit

This report was an addendum to the Audit of Accounts Report that was presented to the Audit Committee on 28 September 2020. The report set out the recommendations arising from an audit of the 2019-20 accounts for Newport City Council and Newport City Council Group.

This report was a summary of the work carried forward from September with three principle recommendations. There were fewer incidences last year where items were accrued and no material impact. The Audit Team would work with management for the next planned audit.

Recommendations referred to version control and classification of accounts such as cash equivalents.

The Chair took the opportunity to once again thank all the staff who contributed to the work throughout the audit.

Discussions included the following:

- Cllr Hourahine asked whether Audit Wales gave reasonable notice to Council staff that an audit would take place, as services would be stretched to provide figures on time. In addition, were staff cooperating with the audit? The Wales Audit representative assured the Councillor on both counts that there were no issues and that there was a good working relationship with Newport City Council staff.

Agreed:

That the Audit Committee noted the Audit of Accounts Memorandum arising from the 2019/20 Audit.

8. Capital and Treasury Management Strategy

The Council had ambitious plans for the city as set out in its Corporate Plan and the promises set out within it. A key enabler to deliver on this ambition was the capital programme. This report included both the Capital and Treasury Management Strategies which, at their core (i) confirmed the capital programme, as part of the Capital Strategy and (ii) the various borrowing limits and other indicators which governed the management of the Councils borrowing and investing activities, as part of the Treasury Management Strategy.

The 'Capital Strategy' also set out the long-term context (10 years) in which capital decisions were made and demonstrated how the Local Authority took capital / investments decisions in line with service objectives, giving consideration to both risk/reward and impact; as well as properly taking account of stewardship, value for money, prudence, sustainability and affordability.

The capital plans of the Authority was inherently linked with the treasury management activities it undertook and therefore the 'Treasury Management Strategy' was included alongside the 'Capital Strategy'.

The main recommendations arising from the two strategies were summarised in the report and were also appended.

It was highlighted that the borrowing would increase over the next three to four years, therefore a sustainable limit was needed. This limit would be set in order that Council could not go over the capital programme. The Audit Committee were asked to provide their recommendations to Council.

Discussions included the following:

- Councillor Jordan referred to Page 124, Table 1: Prudential Indicator Estimates of Capital Expenditure and Capital Financing for the year 2021/22 £62.3M and 2022/23 £71.6M. Councillor Jordan noted a dramatic increase over the period from 2020/21 where figures showed as £33.1M. The Assistant Head of Finance advised that this was due to slippage in the previous years, however as we came to the back end of programme there were a few schemes that needed to be completed. A lot of this referred to the Band B school project, along with other up and coming big schemes in those years. The City Deal cost had accelerated its programme forward into largely 2021/22 and 2022/23 and in addition, grant funded schemes were also being carried into the next two year period. The Capital Programme was shown further down

within the appendix in further details but essential it was finishing off the current Capital Programme.

- Councillor Lacey referred to the medium to long term Capital Investment and taking into consideration the past 12 months, how much was wiped off our investment as a result of this and was the Council into medium risk investment and what would happen next. The Assistant Head of Finance advised that no investment into a risk category prior to the pandemic, therefore from an investment balance had not lost any money at all. Interest rates however, on cash balances were very low, e.g. 0% and on some days were placed with the Government DMO who gave negative interest rates at the moment, which was why it was important to securely move the £10M into higher yielding investments going into 2021/22. The Council were planning to do this this year but have not due to the pandemic, however, things have stabilised, which is what we were being told by our investors and have not lost capital value. The hit on the kind of investments that local authorities had been carrying out had not been that big.

Secondly, Page 147 bullet point regarding latest demands on the Capital Programme and if investment in relation to the Transporter Bridge and the recent £8.5M from HLF, had that changed this bullet point. The Assistant Head of Finance was aware of HLF coming through and included Phase 1 and more recently Phase 2 of the lottery funding, this was therefore pre-empted and was incorporated within the report.

- Councillor Hourahine referred to the Assistant Head of Finance's introduction where it was mentioned that we received a good principal grant from the Welsh Government this year. Councillor Hourahine, however considered the grant as adequate/better than expected grant based on Newport's population rather than giving the Council a higher grant this year. The Assistant Head of Finance agreed that the plans were much lower. The Head of Finance added that it was considered a good settlement by comparison to what was planned and there was a retrospective adjustment made as well. We were now being funded on an updated population base, which meant we were receiving what we were due.
- Councillor K Thomas referred to the development of Llanwern, which was 4,000 and Cothill was over 2,000 properties and therefore asked when did the Welsh Government normally consider population figures to pass on money; would this be 12 months in advance, if so, it could have a significant impact for Newport, considering the size of the development currently taking place. The Head of Finance was not aware of this detail but the Census undertaken every 10 years, which probably took up to 18 months to collate, therefore this was based on real collected data. Within the 10 years leading to each Census a population estimate was used by the Office of National Statistics. This was a good point raised by the Councillor; how was the inward migration included. Whilst the Head of Finance was not able to answer this, he would contact his colleagues at the Welsh Government to provide an answer to report back to the Committee regarding general population numbers.

Incidentally, Councillor Jordan mentioned that this was the last National Census to be carried out as the Office of National Statistics had the ability to progress their research and provide a wealth of data relating to populous.

- The Chair referred to the important sums, which was slightly confusing, in so far as on the one hand there was unsustainable debts potentially going forward, high levels of financing costs compared to other authorities, the question there would be how high was high. Making reference ahead of finance recommendation and the Head of

Finance Summary replicated what was already in the paper and therefore could not tease out the recommendations clearly. Therefore was not sure what the paper was trying to achieve. The level of borrowing was basically based on what the Capital Programme was and could be more clearly summarised, regarding borrowing and investments, e.g. operational boundaries if these were created by the capital financing requirement the true level that you could go up to was the authorised limits. If one was therefore saying that some of the debt levels were potentially too high, then the operation be amended or clarified in the paper to highlight that this was causing a problem and at what level should it be not to cause a problem. The Chair advised that reading the report 'cold' might not help councillors and considered more clarity in relation to the debts from an operational level and whether the capital programme was too ambitious for the Council's funds. The Head of Finance explained that because we were funding the capital financing revenue costs of the current programme to the end of 2023/24, then that was affordable. It took us to a position which was a fairly high level of revenue cost that had to be spent on outstanding debts compared to our peers. However, it was no more than it was currently as a percentage of our budget and the risk that funding slows down in the future although this budget was locked in, was no different and therefore not a new risk. For the next four years, the actual advice to the Council was, this was affordable and it took us to a reasonably high level of revenue cost and debts but as a percentage of our budget, it was not much. The key recommendation was beyond the four year period. That line was too steep to sustain and exemplified what that would look like at the two levels mentioned previously by the Assistant Head of Finance and this would be considered as a warning to Council that we could not continue at this level. It would therefore be for the Cabinet of the day to manage the capital programme within the borrowing limits. One half of the capital programme was funded from grants, so even with a £7M annual borrowing over a period of five years, £35M, we would probably be looking at a Capital Programme of well into £78M, with the grant funding element included. The Head of Finance would therefore reflect on the Chair's point about being clearer and sharpen up that element. The Assistant Head of Finance advised that the operational boundary limit was set at a level which was affordable and what the current programme stated which was the low level that the Head of Service was recommending to Council and that would deliver the current capital programme.

- Councillor Jordan asked if the Council had saved more money this year than was expected due to the pandemic and whether this could be added towards this year's budget. The Head of Finance advised that this was a mixed picture. There was pressure on revenue to deliver savings however, on the other side there were opportunities to make savings such as office/travelling expenses were lower, school closures etc. Cabinet had shown a £3M underspend but this was offset in other areas. Also reduction of people in the social care system had also made savings, covered by the Welsh Government hardship fund. It would not impact on next year's budget but would go into the Council's reserves. In response to Councillor Jordan's final question however, this would not go towards reducing the council tax fund.

Finally, the Head of Finance mentioned that the Assistant Head of Finance was leaving Newport City Council and thanked his colleague, who would be missed, for his hard work over the years. The Audit Committee congratulated the Assistant Head of Finance and echoed comments from the Head of Finance.

Agreed:

- That Audit Committee provided comment on the Capital Strategy (Appendix 2), including the current capital programme within it (shown separately in Appendix 1)

and the borrowing requirements/limits needed to deliver the current capital programme.

- That Audit Committee provided comment on the Treasury Management Strategy and Treasury Management Indicators, the Investment Strategy and the Minimum Revenue Provision (MRP) for 2021/22. (Appendix 3)

Also as part of the above:

- Noted and commented, as needed, on the increased debt and corresponding revenue cost of this in delivering the current capital programme, and the implications of this over both the short and medium-long term in terms of affordability, prudence and sustainability.
- Noted and commented on the Head of Finance recommendation to Cabinet and Council, that borrowing needs to be limited to that included in the current capital programme and,
- That future debt funded expenditure should be limited and managed within the agreed limits to ensure external borrowing remains within a sustainable level over the long term.

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

The Audit Committee took this item first to allow for all members present to have their say.

The report informed the Audit Committee of the action taken by management in the Service Area to date and its progress against the agreed action plan in respect of the Unsatisfactory audit opinion for Special Guardianship Orders (SGO) / Kinship Payments.

The Head of Children and Young People Services presented her case to the Audit Committee. This was a challenging period with a depleted management team from five to two managers and the service area was awaiting new guidance from Welsh Government along with further work, hence the delay. There was also a national piece of work to change parameters in relation to this matter, which also added to the delay in implementing the agreed management actions.

In the meantime, the Head of Children and Young People Services was pleased to report a full complement of staff in the management team and the recently appointed Service Manager (Resources) had taken a proactive step towards approaching financial support and had care funding from Welsh Government. The team supported special guardian kinship and child care. Work had grown exponentially and there was a positive change in culture.

It was hoped that the Chief Internal Auditor would agree that the service area was in a better place in light of all the recent changes.

The Chair thanked officers for their presentation.

Discussions included the following:

- Councillor Hourahine queried the high turnover of management staff. It was advised that there had been changes, however going forward there was only one agency social worker out of 340 staff. There were still vacancies however the working relationship with staff was good, most of which came to the Council as students and

stayed with us. The service area was in a very different place to where it was in 2013. This would always be a watching brief but the Head of Service felt much more confident. In addition, there would always be vacancies but staff more recently had left for good reasons such as promotions. Councillor Hourahine added that social workers did a wonderful job and worked hard for the Council.

- Councillor K Thomas asked if most of the payments had gone through. Fortunately, the Head of Service advised that they had, however, the problem was with the process and procedures, although families were not left without financial support. Additionally, Councillor K Thomas asked was Internal Audit part of the process at the time. It was confirmed that Internal Audit were not at that time, and a number of assessments were linked to the Courts and financial assessment. There were two yearly reviews on a finance and needs basis, which was part of the regulations. The Director of Social Services Annual Report to Council highlighted that the preventative side of social work was paramount. Councillor K Thomas also asked if the amalgamation of teams had strengthened this. The Head of Service advised that the challenge was that children/families were already vulnerable but it was clear that this type of support was working for families. The service areas was working hard to ensure that the support plans in place were tailor made for each family and it was recognised that some families would dip in and out whereas some would need constant support. In relation to preventative work, yearly reviews were undertaken to check any issues to prevent escalation, the duty desk and newsletter provided support for carers in Newport; this was one of best the practices in Wales.
- The Chair considered the shortage of staff and was concerned that money was not going to families. During this period, therefore could the control be altered slightly to ease burden with the shortage of staff as a lot could be done to streamline control from a financial point of view. The Head of Service advised that this was not the case as the system was automated and was therefore confident that control measures meant that the service area was in a much better place and the bureaucracy had diminished.

The Chair also looked at the action plan reasons relating to two unsatisfactory opinions and asked was this due to lack of staff. It was advised the service area had not grasped the need to remedy this however it had now risen up the agenda for social workers and teams are now in place to address the processes.

- The Chief Internal Auditor was concerned that the overall practice was inconsistent; however the value was considerable and would build back into the audit planning process a follow up review to update the Audit Committee in due course. Internal Audit had a good working relationship with the Service Manager at an operational level and were happy to work with managers going forward.

Agreed:

That the Audit Committee were informed of the action taken by management in the Service Area to date as well as progress against the agreed action plan in respect of the Unsatisfactory Audit Opinion for Special Guardianship Orders/Kinships.

10. Draft Work Programme

The purpose of the forward work programme was to help ensure Councillors achieved organisation and focus in the undertaking of enquiries through the Audit Committee function.

The report presented the current work programme to the Committee for information and detailed the items due to be considered at the Committee's next two meetings.

It was noted that Councillor Jordan would not be at the next Audit Committee.

The Chief Internal Auditor would liaise with the Governance Team Leader to make any changes.

The Audit Wales Officer asked for the March Annual Audit plan to be added to the work programme.

Agreed:

That the Audit Committee endorsed the proposed schedule for future meetings, confirming the list of people it would like to invite for each item, and indicated whether any additional information or research was required.

11. Date of Next Meeting

Thursday 25 March 2021