

# Minutes



## Governance and Audit Committee

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Date: 27 May 2021

Time: 5pm

Present: Cllr Richard White, Cllr Mark Whitcutt, Cllr Phil Hourahine, Cllr Herbie Thomas, Cllr Ray Mogford

In Attendance: Mark Bleazard (Digital Services Manager), Gareth Price (Head of Law and Regulation), Rhys Cornwall (Head of People and Business Change), Paul Flint (Performance and Research Business Partner), Dona Palmer (Audit Manager), Mark Howcroft (Interim Assistant Head of Finance), Andrew Wathan (Chief Internal Auditor), Laura Mahoney (Senior Finance Business Partner), Robert Squance (Audit Manager), Anne Jenkins (Governance Team Leader), Ellie Howard (Graduate Trainee), Kathryn Beavan-Seymour (SRS), Matt Lewis (SRS), Gareth Lucey (Audit Wales)

Apologies: Councillor Gail Giles

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### 2 Declarations of Interest

None.

### 3 Minutes of the Last Meeting

Cllr Hourahine wanted to clarify that he had asked how long instruments lasted before they were written off; the answer given at the time was 7 years. Andrew agreed to seek clarification from the manager of Gwent Music whether this answer was correct. This point was noted as needing to be corrected.

Subject to the last comment being amended, the minutes were agreed.

### 4 Appointment of Chairman

The Chair was re-elected for another year of the position.

### 5 Treasury Management Year End Report 2020/21

Laura Mahoney, Senior Finance Business Partner, explained that this paper is to inform the Committee of the treasury management activities undertaken in financial year 2020/21. This is a backwards looking report and confirms that the Council keeps its strategy of maintaining its' investments to a minimum, rather than taking out additional long term borrowing.

A summary of the treasury management activities shows that total borrowing in the year 2020/21 reduced by £13.1 million to £153.2 million, and total investments increased by £12.3 million to £24.8 million. This reduced the net borrowing by £25.4 million to £128.4 million.

The main reasons for the decrease in the net borrowing at the end of 2019/20 was that the Council had undertaken some short term borrowing to support small businesses in March 2020, in response to the pandemic. Welsh Government then reimbursed this, and the borrowing was repaid in June 2020. The increase in investments is due to having higher levels of cash, due to possible unexpected pressures during the pandemic.

The overall borrowing strategy remains the same, the Council has significant long term borrowing requirements. The Council's current strategy of funding capital expenditure utilises internal borrowing rather than undertaking new borrowing when it can. The level of internal borrowing currently stands at £107 million as of the end of 31<sup>st</sup> March 2021. Currently only investing very short term with UK government and local government, meaning there are low interest rates, but this was felt as prudent during the pandemic. The 2020/21 treasury management strategy agreed that the Council would be undertaking longer and larger investment strategies in riskier investments, to generate income. CCLCD stopped new investments following the pandemic. Due to the market volatility at the time, it was decided that it was not prudent to begin investing in more risky instruments.

In terms of the impact of Covid-19 on cash flow, the Council has had to take no further long-term borrowing since January 2021, apart from £94,000 for Salex, for a one off energy project, and this had no interest. This was due to a significant amount of Welsh Government funding during Covid-19. It is expected that additional long term funding may be required over the course of the following year.

The PWLB have released new lending terms after last years' consultation. Interest rates will be reduced, provided that Local Authorities submit detailed capital expenditure plans.

Discussion included the following:

- Members queried what the PWLB stands for
- The Senior Finance Business Partner explained it stands for Public Works Loans Board.
- Members queried if there is a paper on when we can expect payback from Salex, and what is this money being invested in?
  - The Senior Finance Business Partner explained that the project is for the replacement of all lighting in the velodrome so it is energy efficient. The current payback is expected in 8-10 years.
  - Members commented that 10 years is a long payback period
  - The Senior Finance Business Partner replied that the payback period is expected to be 8 years
- The Chair asked how much the capital spend slippage is
  - The Senior Finance Business Partner answered that it is approximately £7 million
  - The Chair asked why this is slipping 25% year on year, and do the treasury take account of this in the strategy?
  - Treasury Management do take account of slippage as part of the forecast, and tend to assume 25-30% for each year. This year lots of the slippage was in relation to grants from Welsh Government, who have given an extension up until the end of April in order to spend some of the allocations. Often, by the time allocations were received, it was difficult to get plans and contractors in place.
  - The Chair queried that, if we have a plan for capital and every year there is slippage, would this not indicate poor project management? We wouldn't want to risk losing grants from Welsh Government if it appears we are not spending this money that we have received.

- Members commented that shortfall in education projects was cited as the reason for slippage for year before. Has all the slippage attributable to Education projects been closed out?
  - The Senior Finance Business Partner explained that there has been some slippage in Education projects, but the main areas of slippage last year have been managed more effectively this year
- The Chair asked that, as our borrowing is now £128 million, are we now down to relatively low levels of net debt
  - The Senior Finance Business Partner said she would need to go back and confirm that.

**Action:**

The Senior Finance Business Partner (Laura Mahoney) to clarify the last query regarding debt levels.

**Agreed:**

The paper was duly noted and approved by the Committee.

6 Audit Committee - Changes to Terms of Reference

The Head of Law and Regulation presented this item. The purpose of this item is to note the contents of the report and endorse the recommendations to make the constitutional changes, which reflect the new legislation affecting the Governance and Audit Committee.

The Local Government and Elections Wales Act will bring changes to the Councils' internal governance.

The changes in terms of audit have come into effect on 1 April 2021. The first change is the change of name to 'Governance and Audit Committee' to reflect enhanced terms of reference and expanded responsibility. The second change is to add to the statutory terms of reference to include additional responsibilities in terms of complaints handling, as well as a role relating to performance assessment going forwards, under the legislation.

In appendix 2, the new terms of reference have been set out to incorporate the statutory changes. Council will be asked to make those constitutional changes at the next meeting at the end of June.

The opportunity has also been taken to update the role descriptions for the chair and members due to these constitutional changes. The change to the complaints handling procedure will start immediately, and that will be in the forward work programme from now. Regarding the performance assessment aspect, we are awaiting further guidance from WG.

It aims to provide a self-assessment process for service delivery, which will replace the previous annual report system in place. This is a more flexible self-assessment process and will include a peer review by an independent panel. Democratic Services are currently unclear about how this will work in detail. The Committee will need to produce the first assessment report by 2022/23, so it is likely to be deferred to September 2022, after the next elections. Flintshire have volunteered to be a pilot council, and the Committee can learn from their experience. Once this new process is in force, Governance and Audit Committee will play a role in overseeing the self-assessment process in terms of improving service delivery.

Another change to come is the composition and membership of the Committee. As from next May (2022), there will be a legal requirement to ensure that at least a third of the committee members are independent. That is intended to strengthen the external scrutiny of the Council's audit process. Between now and next May, we will need to go through a recruitment process to recruit new lay members. In addition, as the chair has served two successive terms of office, a new independent chair will also need to be recruited.

Democratic Services are recommending to start this process now, as there is a long and rigorous procedure of recruitment and interviews.

Discussion including the following:

- The Chair remarked that, currently, the Audit Committee oversees the risk process. Can we confirm that this new Act does not bring any new powers regarding risk for the Audit Committee?
  - The Head of Law and Regulation replied that there is no change to risk. Under the 2011 Act, there are statutory roles and responsibilities for audit, but the Council has discretion to provide additional roles. It is already in the terms of reference that Audit Committee has oversight of the Council's risk processes, and the Committee need to be satisfied that the Council has robust measures in place to deal with risk. However, the identification of corporate risks and dealing with these remains an issue for Cabinet Members.
- Members asked how the recruitment process will happen in a politically balanced way, and who will oversee this?
  - The Head of Law and Regulation explained that the first element is the role description, which sets out what we are looking for; this is the basis on which applications are being assessed. This will be put out for external advertisement. Officers will then create a shortlist of applicants. We would then look to set up a politically balanced panel to interview the applicants, supported by officers who regularly advise this Committee. These recommendations would then go to Full Council for appointment.

The Head of People and Business Change commented that, regarding performance, the intention is to work with the Committee to determine what this will look like for the Council, rather than presenting Committee with the finished article. Over the next few months, the plan is to bring forward some ideas with help of WLGA.

**Agreed:**

The Committee endorse the recommendations of the Democratic Services Committee.

7 Corporate Risk Register Quarter 4

The Head of People and Business Change presented this item.

In Q4, the Council is dealing with 46 risks including those in the corporate risk register across all service areas. All detail of these risks is contained within the report. There were 6 service areas where risks were closed within this quarter.

There is also some change in direction of corporate risks also within report. The Brexit risk has reduced. In year financial management reduced risk due to year end closing. Covid-19 pandemic risk receding by end of March due to vaccination programme; this continues to be monitored carefully. NCC property estate risk has increased due to St Andrew's Junior School, and there are mitigations in place for this. Out of County Placements for Special Educational Needs risk has also increased at the end of Q4.

The Performance and Research Business Partner explained that at the end of Q4, we have identified a number of risks that have remained at the same score over the last year. In light of this, corporate management team (CMT) will be taking a more proactive approach looking at performance and risk over the coming year. They will be undertaking deep dive reviews to understand why certain risks remain high, and what can be done to mitigate and reduce these risks in order to achieve the target risk scores. As part of good practice, the CMT and Cabinet will be looking at the current risk appetite statement, and consider whether the risk appetite statement needs to change to reflect what risks are being faced internally and

externally. In due course, the committee will receive this risk appetite statement for comments and consideration, and this will be taken to Cabinet.

Discussion included the following:

- Members commented that they were pleased a number of risks had fallen. It was queried why has the risk gone up for out of county placements, despite more places being opened up for children in care.
  - The Performance and Research Business Partner explained that Out of County placements are due to the change in legislation regarding additional learning needs, which has placed additional demands on the service. We need to utilise Out of County placements due to the increase in demand.
  - Members commented that the report could be clearer in explaining that the risk had gone up due to increased demands placed on the service.
- Members asked regarding the property estate risk and wanting to achieve carbon neutral by 2030, how would this affect that risk due to significant investment needed?
  - The Head of People and Business Change replied that becoming carbon neutral by 2030 is a huge challenge. Carbon is spread across a range of activities, partly property related, but also a lot of this footprint comes from procurement of services, as well as transport activities. That risk is associated across our entire estate, and when issues arise such as the St Andrews property, they do have an impact on risk. The carbon reduction plan will have an impact on that.
- The Chair commented that CMT are taking more ownership of risk than perhaps they previously were. On page 49, we have 10 red risks that aren't moving, which implies that not much is being done to mitigate these risks. Will CMT look to mitigate these risks?
  - The Head of People and Business Change replied that there is a lot going on to mitigate these risks, but some of them are very challenging. It is necessary to bring in different views, ideas and resources to approach these risks. Risks are taken very seriously, and there is lots of work going on. Moving forward, need to consider how we consider performance management and risk together, and would be useful to do a deep dive approach. Some of these risks are beyond the control of CMT. We need to address how we determine what our target risk score is. We may need to accept that sometimes our target risk scores are perhaps too high.
  - The Performance and Research Business Partner explained that having a more mature approach is what we're aiming to do, in relation to risk management. CMT are taking more ownership and responsibility. We would be happy to undertake deep dives and call in any owners of risks to explain the standing of various issues.

**Agreed:**

This paper was duly noted and approved.

8 Annual Governance Statement (draft statement)

The Chief Internal Auditor presented this item. The purpose of this Statement is to give assurance to the Committee that the appropriate controls are in place across the Council, and ensure that all business is appropriate. There is a requirement to put an annual governance statement together, and this is an early sight for members of the Governance and Audit Committee to comment and shape this annual statement. It is based on the code of corporate governance, which has come through the Governance and Audit Committee previously. That is the framework as set out by CIPFA / Solace for good governance in the public sector. This framework details all governance frameworks we have in the Council. The 7 governance principles are outlined in the report given to Members. The report hopefully gives Members assurance that we have appropriate internal controls in place for 2021.

The intention of the statement is to capture what has gone through Scrutiny, Cabinet, Audit Committee and Council through the year demonstrating good governance. We would say we have effective governance processes in place. As stated this is in draft form, and will be sent to all Heads of Service once thoroughly checked and completed.

Discussion included the following:

- The Chair mentioned that perhaps this statement is too long. There are also some formatting issues, which the Chair will send through to the Chief Internal Auditor. There is a diagram on page 107, which doesn't add much value and is too complicated; this could be taken out. On page 116, 'role' is spelt wrong as 'roll'. On page 131, the conclusion is not clear enough to say how effective the controls are. We need a statement that makes clear whether our controls are effective or not, not just in relation to Covid-19.
  - The Chief Internal Auditor explained that the purpose of the diagram is to link the Council values with the Wellbeing of Future Generations Act. However if this is unclear it can be removed.

**Agreed:**

The report was duly noted and The Chief Internal Auditor noted the comments made.

9 Audit Wales Annual Report on Grants Works 2020-21- Draft

A representative from Audit Wales, Gareth Lucey, presented this item. This is the standard annual report for grants which Audit Wales are responsible for certifying. The full details are contained within the report. Audit Wales certified far fewer audits this year, due to WG removing the requirement for Audit Wales to externally certify some types of grants; the number of grants certified was reduced from 10 to 4.

There have been no new issues or matters of focus arising from the findings this year. However, a number of issues raised related to the Housing Benefit subsidy return. Audit Wales have raised a number of recommendations, particularly concerning the relationship between the housing benefit team and the housing needs team. If these recommendations are successfully implemented, this will reduce the cost of certifying this item, and reduce the risk relating to this issue.

Discussion included the following:

- The Chair queried regarding housing benefit and the teachers' pension. Have asked for clarification from finance as to what actions are being taken, but it seems that each year the answer is the same but nothing seems to be done. This new report emphasises that this is a continuous problem. What are the accountancy team and audit team going to do about this?
  - Gareth Lucey replied from the Audit Wales perspective. The aim is to escalate this set of recommendations to hold the housing benefit team to account. In future years, we need to ensure that these are actioned in the coming years. Actions can still be taken at this stage to correct any issues in the 2020/21 return.
  - The Interim Assistant Head of Finance (Mark Howcroft) explained that this is a common feature in the housing benefit claim across local authorities, as it is a large claim and has significant movements in it. But this is not to say that the Council can't get better at improving the communication between the housing benefit team and housing needs team.
- The Chair commented that the fact it happens elsewhere doesn't make it right
  - The Interim Assistant Head of Finance (Mark Howcroft) explained that this is just context to recognising that this is a complex claim that involves large amounts of money.

- The Chair replied that the same things come up year on year. E.g., the form not being signed off by relevant finance officer, this seems like a basic check that needs to be done. If there are certain areas that are complicated that people need training on, this can happen. However there is also information just not being obtained. Some of this is basic stuff, like people not getting the right information that is expected. We need to minimise human error regarding this.
- The Chair also enquired regarding the teachers' pensions element
  - The Head of People and Business Change explained that this can become complex due to teachers changing their hours etc. The Council have invested in an HR system which is now totally online, which will help to better calculate pensions.
  - The Chair requested that the audit team look at both of these items.
- Members enquired that the report seems to suggest an error in systems has saved £400,000. What is being done to check this?
  - Gareth Lucey (Audit Wales) explained that this is an isolated issue, however it reduced the amount the Council needed to pay. It was merely due to an error within the spreadsheet (a row was deleted).

**Action:**

Request that the audit team look into the housing benefit teams' actions

**Agreed:**

The Committee duly noted the report, and note that finance will work with housing benefits to resolve some of these issues.

10 Internal Audit Annual Report 2020/21

The Chief Internal Auditor presented this report. The annual report is based on two elements- assurance that we have effective internal controls, governance arrangements and risk management process in place and also the performance of the team. This report is looking back over 2020/21.

The overall opinion is set out in the report as **Reasonable**. This means we have adequate controls, although there are risks present requiring improvement. The 2020/21 opinion was based on 6 months of audit work due to Covid-19 impacting on the ability to carry out audit work. Although Audit Committee previously agreed a plan for 1200 days of audit work, the revised plan was 600 days' worth of audit work. The team did a fantastic job of getting as many opinion ratings out as possible. For 2020/21, it has also been necessary to rely on previous years' audit work, as there have been very few changes regarding systems or staff, meaning we have assurance that we can rely on this opinion.

The other aspect of the report is the performance of the team, which has completed 78% of the agreed plan, and this was revised based on a half year of work. It was hoped that the team would get back out to schools and other site visits, but due to Covid-19 this was not possible.

The overall opinion is based on 6 months work, and the team identified 29 opinions to give an overall **Reasonable** level of assurance, also relying on previous knowledge and audit work, to identify that there are no significant issues.

Comparing year on year, paragraph 6 outlines the number of opinions given in the past 4 years.

2020/21: similar number of opinions issued in 19/20 which was for a full year. This shows the team really focused on the opinion work.

It was pleasing to note there were 5 good opinions. There were 23 reasonable opinions, and 1 unsatisfactory opinion (Newport City Dogs Home).

The team have also taken on an additional resource, taken on an external internal audit expert provided by South West Audit Partnership. This report would normally report on the implementation of the 2019/20 agreed management actions, but due to the covid pandemic, this information has not been fully received. This will be reported back to the Committee later on in the year.

The team are in another 2-year cycle of the National Fraud Initiative, and they are currently working through the data matches from the Cabinet Office.

The team are getting draft reports out within 8 days, and final reports out within 3 days, which is commendable.

The Chief Internal Auditor then outlined the appendices of the report, which summarised the items being reported on; this was regarding internal controls and the performance of the team.

Discussion included the following:

- Members commented that the dogs' home has come up a number of times in audit. Do we need to address this as a committee?
  - The Chief Internal Auditor explained that there has only been one unsatisfactory report, so it doesn't seem necessary to call them in yet. If there is a second unsatisfactory opinion, his advice would then be to call them in.

**Agreed:**

The report is duly noted and endorsed.

11 Internal Audit Annual Plan 2021/22

The Chief Internal Auditor presented this item. This report looks forwards to 2021/22, and is being brought to the Governance and Audit Committee for comment and approval. This report relates to work, Internal Audit are planning to undertake across all service areas. The objective is to provide assurance on the adequacy of the internal control environment, governance arrangements and risk management processes. The plan aims to cover as many service areas as possible and is based on a full 12 month financial year. This is based on 1084 productive audit days.

There is some background information in the report about the structure of the team and the independence of their work. They are planning to cover some of the higher risk rated areas.

The team will have to prioritise any work which couldn't be done in 2020/21. The plan also incorporates schools, which seems possible having spoken to the Chief Education Officer.

The Chief Internal Auditor has spoken to all heads of service regarding risk in their service areas, in addition to known audit issues as a team, which has helped shape this year's plan.

The Audit Team has prioritised the long list of the audit universe into a more reasonable audit programme and then balanced it to the resources available, to result in an audit plan which has been presented to the Committee.

The Chief Internal Auditor then outlined the appendices of the report, which explained the details of the audit processes and individual jobs.



There are 82 jobs in the plan, of which 59 are opinion related. 23 non-opinion related works where the team can add value to the organisation.

There are currently 6.5 full time staff. The total number of working days in the year is 2072, deducting leave, sickness, training, management, admin etc. leads to a net figure of 1084 productive audit days- (934 operational audit days & 150 allocated to special investigations)

Discussion included the following:

- The Chair mentioned that there is capital programme slippage every year. Is there a possibility to review project management around capital plans and capital budgeting, as this appears to be a weakness?
  - The Chief Internal Auditor explained that the plan is flexible, and needs to be flexible to respond to need. This is something that can be included, but will need to be adjusted within the plan. Will need to discuss this with lead officers to ensure we can accommodate this.
- Members queried the 7 items which have never been audited. Can these items be prioritised for audit as a matter of urgency?
  - The Chief Internal Auditor replied that the team will endeavour to do these first, but will need to work with service areas to agree an appropriate time for these audits to take place.

**Agreed:**

Report is duly noted and approved.

12 SO24/Waiving of CSO's: Quarterly report reviewing, Cabinet/CM urgent decisions or waiving CSO's (Quarter 4, Jan to March)

The Chief Internal Auditor presented this item. This is a quarterly report related to waiving of contract standing orders (CSOs) and urgent decisions which have been taken that don't have the opportunity for call in by other members. In the last Quarter, there were 2 reports relating to the NNDR for discretionary relief, as a result of the pandemic. One report relates to hospitality, one to enhanced hospitality. The Leader of the Council in both cases has taken an urgent decision.

The first report didn't specifically say why an urgent decision was made, but within the appendix of that report, the information came through from WG that the government minister made the decision on the 3<sup>rd</sup> March 2021 for council tax papers which go out before the 1<sup>st</sup> April. Therefore this urgent decision was due to WG making a late decision, as an email was sent to NCC on 16<sup>th</sup> March with paperwork needed by 1<sup>st</sup> April. It was therefore deemed as an appropriate justification.

Although it was not specifically stated in the report for the second item, the Chief Internal Auditor subsequently identified that the justification for the urgent decision was the same as the first item, a late decision by WG being communicated to NCC in mid March. Therefore, there was appropriate justification for the second item, as an urgent decision needed to be made regarding the NNDR discretionary relief. It would appear there is no cause for concern there.

**Agreed:**

The Committee duly note the comments and recognise there is no cause for concern.

13 Draft Work Programme

The Chair observed that there were some lines within the report for the forward work programme which had been repeated.

**Action:**

The Democratic Services Team will work in the background to iron out any issues with the work programme.

**14 Date of Next Meeting**

29 July 2021 at 5pm

**Part 2 Exempt or Confidential Items****16 Audit Wales Cyber Security Report**

Gareth Lucey from Audit Wales presented this report. This report has been issued to all audited bodies in Wales confidentially. Putting this report into the public domain could lead to an increase in cyber-attacks against public sector bodies, which is undesirable. This is being seen as the beginning of discussion, to inform and educate any further actions. Cyber-attacks are becoming a growing and common threat; there were around 1 million unsuccessful cyber-attacks in the last year alone.

This report is largely survey based. What it shows is a variable picture across the public sector. What we are doing is to consider, from this national report, what can be done locally to take this forward.

The Head of People and Business Change emphasised the confidentiality on this agenda item. He assured the committee that there is no complacency on the part of NCC. As a Council we are in a good position, particularly with SRS as our strategic partners. This is something of daily concern to himself and SRS. This is with regards both to digital services as well as counter-terrorism. The risk is very high to public bodies, both from criminals, organised crime, and terrorism. This is from a digital point of view, as well as a physical location.

The Digital Services Manager explained that this is a significant report. The threat level has increased over the past few years. This is very much a business as usual activity for NCC. There are measures currently in place to mitigate these risks. The team work on significant solutions to prevent the spread of ransom-wear, and further solutions for worst case scenario. There had been a significant incident previously with a travel company, which had a huge impact on their services. In the public sector, Redcar in Cleveland was hit with ransom-wear. The threat is out there and having an impact. The Irish health service has also recently been attacked. NCC is taking specific steps to boost its own protection. There are technical and non-technical measures in place to reduce risk. We are now in the process of compiling the 9<sup>th</sup> report regarding information risk. We are aware that this is a real risk, but there are a number of measures to ensure that these risks are mitigated.

Kathryn Beavan-Seymour from SRS explained that 30% of SRS activity is related to preventing risks. Penetration tests are provided by external companies, which provide reports on partner organisations to ensure everything is working properly. There are full anti-virus capabilities, email detection etc. Web-proxy is in place which monitors all internet access to protect against threats. Schools have WG specific process in place to ensure only age specific content is available. SRS have put a tender process together to monitor against defence throughout the organisation- this went out to tender in Feb/March, currently compiling the business case for this to go out to all partners. Recently carried out an internal audit as well.

The Head of People and Business Change reported that a group had recently attended an All-Wales cyber-resilience event, considering business continuity and cyber-attack issues.

This is being kept in everyone's consciousness across Wales. If the attack is of the nature that it can't be defended against, then recovery is the critical aspect.

Discussion included the following:

- The Chair commented that it is very reassuring that all of these measures are in place. Is there a plan for a local audit in Newport?
  - Gareth Lucey from Audit Wales explained that it is currently up for discussion, deciding how best to take this forward.
- Members emphasised that what Kathryn outlined could act as a type of audit. What is the reporting line back to NCC?
  - Kathryn Beavan-Seymour explained that SRS report back on a monthly basis to the Newport group.
- Members commented that it is essential to take this seriously. There is no complacency in the officers in this Council.
- Important to note that the Council response is very comprehensive and this issue is taken very seriously by all involved. The Committee appreciate the work being done to achieve this.