

# Minutes



## Audit Committee

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Date: 28 January 2016

Time: 5.00 pm

Present: Mr J Baker (Chair), Cllrs J Guy, E Townsend, R White, R Mogford, D Davies and M Spencer

In Attendance: A Wathan (Chief Internal Auditor) D Palmer and R Squance (Audit Managers) M Rushworth (Head of Finance), H Brayford (Project Manager), T Lewis and A Veale (WAO) and J Ellams (Scrutiny Support and Research Officer).

Apologies: Councillors Jeavons

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### 1 Minutes from 8 December 2015 meeting

The Minutes of the meetings held on 8 December 2015 were submitted.

#### Agreed

That the Minutes of the meeting held on 8 December 2015 be confirmed.

### 2 Corporate Risk Register

Members considered the latest update of the Corporate Risk Register. There were seven risks identified in the register, one high risk, five medium risks and one low risk. Since the last update five risks remained unchanged and two had reduced.

Members discussed risk 1, Legislative requirements and asked for the individual Acts associated with this risk? The Project Manager explained that the Welsh Language Act, the Social Services Act and the Future Generations Act were the main areas of concern and these would be included in any future report. The Chair requested that the whole document be updated to reflect this information.

Members were advised that the risk level for the Friars Walk Development (risk 6) had reduced from 4 to 2. Members were concerned that this did not accurately reflect the risk of not being able to sell the development. The Head of Finance explained that it was a theoretical risk but 82% of the development had now been let and only minimal risk remained. Cabinet continued to meet monthly to monitor the saleability of the development.

A concern was raised relating to communication between the Health Board and Social Services. This had implications for risks 2, Increasing Ageing Population and risk 5, Safeguarding. The Member was advised to put his concerns in writing to the Cllr Davies, Cabinet Member for Street Scene and City Services who was currently looking at arrangements for calls between professionals and for child protection etc.

The Chairman asked if there was regular dialogue between officers and the responsible Cabinet Member for the risk appetite to be established. The Project Manager explained that there were a number of risk registers below this one where service plans were considered and risks discussed in more detail. The Corporate Risk Register only picked up the highest level risks. Members suggested the report include more detail regarding the process before the register was compiled, to allow them to fully understand and challenge more effectively.

### **Agreed**

That the contents of the Corporate Risk Register be noted.

## **3 Treasury Management Report and Training**

Members considered a report on the Treasury Management Strategy, Prudential Indicators, Investment Strategy and the Minimum Revenue Provision policy. Both the Prudential Code and Welsh Government required Audit Committee to review and consider the Council's Treasury Management Strategy and Prudential Indicators before they were approved by full Council.

The strategies within the report set the Council's approved borrowing and investment limits, based on planned capital spending. The report was prepared in line with the Council's draft Medium Term Revenue Plan and would be presented to full Council as part of the overall budget report for approval in March 2016.

During 2015/16 the Council had undertaken an additional £48 million of long term borrowing, of which £43 million related to the Friars Walk Development. It was anticipated that new temporary borrowing of approximately £8 million would be required before the end of the 2015/16 financial year, the majority of this relating to the Friars Walk Development.

The Head of Finance gave a presentation to Members outlining the basics of the Treasury Management strategy.

Members raised a number of issues during the presentation:

- Who was ultimately responsible when it came to decisions relating to risk and advice? Members were advised that responsibility fell with the Section 151 Officer who worked within an approved strategy.
- Is it within Audit Committees remit to challenge the strategy and the amount the authority borrows? The Head of Finance explained that borrowing limits related to a programme approved elsewhere. He also referred to using reserves to fund capital borrowing if appropriate. Members were unclear about the role of Audit Committee and requested further training to clarify their position.
- Members raised the issue of the sale of land and the importance of independent valuations although it was confirmed that this was not a treasury management issue.
- WAO confirmed that they would expect the Council to seek specialist advice on these matters.
- Members asked how decisions were made re investments and borrowing. They were advised that the Treasury Team was responsible for "doing the sums" and working out the best plan of action.
- The report made several references to HRA which no longer existed and would be deleted from the report.
- The Head of Finance explained that very few building societies had credit ratings and therefore they wouldn't appear on the list to be considered.
- The spelling of Queensbury Ltd was corrected to Queensberry Ltd.

## Agreed

1. That a recommendation for approval be made to Cabinet for the Prudential Indicators, Minimum Revenue Provision Policy, the Treasury Management Strategy and the Annual Investment Strategy.
2. That a further training session on Treasury Management be arranged.

## 4 Internal Audit Plan 2015/16 Progress Quarter 3

Members considered a report on the Internal Audit Section's progress against the 2015/16 agreed audit plan for the first nine months of the year and information on audit opinions given to date and progress against key performance targets.

At the start of the year there were 8 audit staff with two vacancies in the team. A Senior Auditor also left during the quarter who hadn't yet been replaced. One Principal Auditor and one Auditor left the team during Quarter 3.

The section had already been involved with 9 special investigations which could have an impact on this year's achievement of the audit plan; so far there had been no unplanned reviews,

The performance for Qtr 3 2015/16 was compared to the same period of the previous year.

- 43% (51%) of the audit plan had been achieved so far which was below last year's performance and the profiled target of 50%;
- The promptness of issue of draft report (comparing timescale between finalising all fieldwork and issuing the draft report to management) averaged at 15 days (13 days) which was outside the target time of 10 days;
- The promptness of report finalisation (comparing timescale from meeting with client to discuss issues raised in the draft report to issue of finalised report to management) averaged at 3 days (2 days) which was within the target time of 5 days.
- Coverage of the plan at this stage of the year was just below expectations; the target being 50%. This was mainly due to insufficient audit resource in the team available to undertake planned audit work, although this was better than expected given the team had not been as involved with special investigations as planned.
- 52 (34) days had been spent finalising 15 (20) 2014/15 audit reviews; 13 of which had been finalised. 132 days had already been spent on 9 special investigations.
- A vacancy / secondment provision was taken into account in the planning stage which related to the Chief Internal Auditor's work with Monmouthshire and the senior auditor vacancy.
- Generally, there had been positive feedback from service managers via the evaluation questionnaires and these would continue to be collated throughout the year and fed into the annual audit report for 2015/16.
- 19 jobs completed to at least draft report stage by 31 December 2015 warranted an audit opinion: 4 x Good, 12 x Reasonable and 3 Unsatisfactory but no Unsound. Of the 6 community centre accounts undertaken, 3 were *Qualified*. Other reports had been completed which did not warrant an audit opinion or related to audit certification work. Other work completed related to the Annual Governance Statement, the Council's performance indicators, grant claims, provision of financial advice and external clients.

Members asked if there were underlying reasons for the number of vacancies in the team? The Chief Internal Auditor explained that he had tried to recruit but had been unsuccessful. The section had then been restructured and a Principal Auditor had been appointed recently

and shortlisting for the other post was about to take place. Concerns were raised that issues could be missed as a result of the section not being adequately staffed. The Chief Internal Auditor explained that the Audit Plan was adjusted to reflect resources and there were regular talks with the Heads of Service to reprioritise.

### **Agreed**

That progress on delivery of the audit plan and audit opinions given to date be noted.

## **5 Internal Audit Unsatisfactory Audit Opinions**

Members considered a report on the up to date position of audit reviews previously given an unsatisfactory/unsound audit opinion.

In 2013/14, 41 audit opinions were issued of which there were no unsatisfactory or unsound opinions.

In 2014/15 five audit reviews were given an unsatisfactory audit opinion: Amenity Funds, Flexible Working and Travel and Subsistence Procedures, CCTV/Security, Discretionary Charging and SEN Assessments/Out of County Placements. These reviews were due to be followed up during 2015/16 but to date no follow ups have been undertaken.

In 2015/16, up to December 2015, 19 audit opinions had been issued; 3 were unsatisfactory and there were no unsound opinions.

Members discussed the issues raised regarding a Newport Nursery and it was suggested that these examples be circulated to other schools/nurseries for staff to check to make sure the process was being followed correctly. The Audit Manager explained that she held training sessions with the schools where best practice was shared and such issues discussed.

Members asked what arrangements were in place for training Community Centre volunteers? They were advised that no formal training was provided but efforts were made to make them aware of their responsibilities and packs were provided with gaps to fill in to help the process.

### **Agreed**

That the report be noted and endorsed by Audit Committee.

## **6 Financial Memorandum on the 2014-15 Financial Audit**

Members considered the WAO report on whether the financial statements of Newport City Council gave a true and fair view of the financial position of the Council as at 31 March 2015 and its income and expenditure for the year.

Overall WAO found that the information provided to support the Financial Statements to be relevant, reliable, comparable and easy to understand. However despite improvements in some areas, there were still issues that needed to be addressed for the 2015-16 statements.

The problems encountered were:

- All the working papers requested were not made available at the scheduled start of the audit which delayed its commencement. The outstanding working papers were provided during the course of the audit work.
- Officers were sometimes slow to respond to queries and to make available some of the missing working papers

- The supporting information to verify existence and ownership of some of the Council's assets was not sufficient so required additional time for verification.

The Audit Team and the Assistant Head of Finance discussed the key themes for improvement and presented them in a report to the December Audit Committee meeting. Arrangements had been put in place and progress made in an effort to deliver significant improvement.

Members raised a number of issues:

- Were there still regular interviews between WAO and Cabinet Members? Cllr Davies confirmed these meetings still took place and were mainly to do with performance.
- Recommendation 5, provide more information on capital assets, wasn't this information available in the Asset Register? WAO explained that there was not enough information available to answer their questions.
- Recommendation 6, accounting arrangements for Port Health Authority, this had been flagged for a few years but legal advice was there was no need to incorporate it. WAO opinion was that it should be reflected in the accounts.

The Head of Finance confirmed that he had received a response to his letter to WAO regarding the treatment of smaller bodies. The response was open but also clarified intentions.

### **Agreed**

That the Financial Memorandum on the 2014-15 Financial Audit be noted.

## **7 Work Programme**

Members agreed that:

- a) "Referrals to Audit Committee" should be listed in the work programme for each month.
- b) A further Treasury Management training course should be arranged.

### **Agreed**

That subject to the above, the Work Programme be noted.

## **8 Referrals to Audit Committee**

Cllr Townsend referred to a WAO report to Cabinet which commented on weaknesses in scrutiny. In the July 2014 Council meeting, there was a Notion of Motion where it was resolved that the Caerleon Campus issue be referred to Scrutiny, to invite submissions, to consider relevant issues and the Council's response. This had not yet been considered at any scrutiny meeting and the Campus was now closing. Cllr Townsend had already received an explanation from officers that there had been discussions as to how best to move this on, bearing in mind we had no power to dictate how the USW made use of its buildings. Scrutiny Officers were advised that the consultant's report on the future of the Caerleon site was due imminently and the University would then go out to consultation on its plans for the site and a decision was made that March/April 2016 would be the right time for the debate and to take part in the consultation.

Part of the role of Audit Committee was to act as a post box to make sure reports and referrals were forwarded to the right body and actioned appropriately. The fact that the referral had not been discussed at a scrutiny meeting indicated that the process had failed

and Members were keen to receive further information regarding this matter and to establish if there had been any other failures.

**Agreed**

That the Senior Overview and Scrutiny Officer be invited to attend the next Audit Committee meeting to explain the background to the matter.

9 **Date of Next Meeting - 24 March 2016**