

# Minutes



## Audit Committee

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Date: 30 May 2017

Time: 5.00 pm

Present: Mr J Baker (Chair), Councillors D Davies, J Guy, J Jordan, L Lacey, W Routley, K Thomas, H Townsend and R White

In Attendance: Rhys Cornwall (Head of People and Business Change), Rachel Kalahar (Senior Performance Management Officer), Meirion Rushworth (Head of Finance), Owen James (Assistant Head of Finance - Technical and Development), Andrew Wathan (Chief Internal Auditor), Robert Squance (Audit Manager), Gareth Lucey (WAO) and Michele Chesterman (Democratic Services Support Officer).

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### 1 Appointment of Chairperson

Nominations for Chair of Committee were invited.

#### Agreed:

To appoint Mr John Baker as Chair of the Committee.

### 2 Declarations of Interest

None.

### 3 Minutes of the Meeting held on 30 March 2017

The Minutes of the meeting held on 30 March 2017 were submitted.

#### Agreed

To confirm the minutes of the meeting held on 30 March 2017.

### 4 Corporate Risk Register Update

Members considered the latest update on the Corporate Risk Register. There were eight risks identified in the register, one high risk and seven medium risks. Since the last update the risk score for risk 2 'Increasing Aging Population' had increased from 12 to 16 which meant it is now a high risk. Risk 5 Safeguarding was expected to be closed in the risk register review that would take place in the next quarter.

Discussions included the following:

- Risk 2: Increasing Ageing Population - What is the mitigation at present and the links to Risk 4: Budget Challenge, which hadn't changed? Would the Budget Challenge risk also increase? – Members were advised that more clarity around mitigation is probably needed and this would be taken back to service areas.

- Mention had been made of other agencies but what about joint working? Did the risks represent internal work or were other partners included, for example, preventative measures nationally? There is a need to be working with other people to make an impact – Members were advised that more detail on this matter was included in the Adult Social Services Plan. It would be noted to take back to look at specific links. A copy of a departmental risk register to be circulated at next Audit Committee.
- What about business continuity and cyber issues? – Members were advised that this was currently not one of our high risks. In 2016 the Council had suffered a cyber-attack and disaster recovery was implemented to duplicate systems in order to offset any impact. The Council recently became a partner in Shared Resource Service with IT. Cyber issues are their No 1 risk and within the People and Business Change Plans it will be identified as such. A copy of a departmental risk register to be circulated at next Audit Committee.
- Risk 8: Brexit  
The statement: “It is unclear at this time both when the EU will formally exit the EU...” was queried. - Members were advised this was a typo and would be corrected.
- Risk 6: Investment in Friars Walk Development  
85% let by income – has it moved since last time? – Members were advised that this would be fed back to Members.

### Agreed

1. To note the contents of the Corporate Risk Register.
2. To circulate a copy of a departmental risk register for Members’ information.
3. To provide Members with Information on Disaster Recovery for Service areas.
4. To provide Members with examples of additional work around high level risks.

## 5 Regulatory Reports

Members considered a report detailing all of the regulatory reports that had been received by the authority from our main regulators, Wales Audit Office (WAO), Care and Social Services Inspectorate Wales (CSSIW) and Estyn.

New information contained in this report included:

- WAO Data Quality Assurance Arrangements. A draft presentation had been issued following an audit of Newport City Council’s data quality assurance arrangements.
- CSSIW Inspection Report Newport City Council Fostering Service.
- WAO Waste Review.
- WAO Financial Resilience 2016/17.
- WAO Corporate Assessment Follow up Review.
- WAO Certificate of Compliance. A certificate was issued to confirm that the authority had complied with the requirements of the Local Government Measure 2009 with regards to its Audit of the Improvement Plan performance measures.
- Annual Improvement Report.

The monitoring of the proposals for improvement made by WAO was reported to Cabinet, whereas the monitoring arrangements for CSSIW and Estyn reports were through Scrutiny. Progress monitoring reports for the WAO Proposals for Improvement were reported to Cabinet on a quarterly basis. These quarterly reports to Cabinet included updates of the open Proposals for Improvement and the recommendations arising from the Corporate Assessment. The latest update on the recommendations and proposals for improvement was included in Appendix 2.

Discussions included the following:

- **Appendix 2: Recommendation 2 – The Council should address with more urgency the weaknesses in its governance arrangements that underpin its decision making to support improvement** - Concern was raised around the detail of the recommendation which would enable the Council to action it. Members needed to understand it to

challenge it and it was felt there was a lot of wording that was difficult to understand. – Members were advised that it had been a learning process to be more challenging around the wording of recommendations since the first Newport City Council Corporate Assessment in 2014. Some had been more difficult to close down than others. However, the process has been managed to make sure it is robust, the experience has been learnt from and the wording in WAO recommendations is clearer.

## **Agreed**

To note the details of the regulatory reports contained in the report.

## **6 Treasury Management Report 2016-17**

Members considered a report on treasury activities undertaken during the financial year 2016/17. During the year to 31 March 2017, the Council continued to invest surplus funds with its own bankers (Santander) and institutions with long-term credit ratings in at least the 'A-' Category.

As at 31 March 2017, the Council had short-term investments of £2.30m, this was to invest surplus funds that had come into the Council on over a minimal timescale. Temporary borrowing had continued to be required to fund normal day to day activities. All borrowing undertaken was as expected, and within the Council's agreed time limits.

The report presented the following information:

- Details of capital financing, borrowing, debt rescheduling and investment transactions
- Reports on the risk implications of treasury decisions and transactions
- Details of the outturn position on treasury management transactions in 2016/17
- Confirms compliance with treasury limits set and Prudential code

In recent years the Council's strategy had been to fund capital expenditure from reducing investments rather than undertaking more expensive new long term borrowing. Total temporary borrowing of £185.8 million was raised during the year, of which with the exception of borrowing related to Queensbury, nil remained outstanding at the 31 March 2017.

Local Authorities measure their underlying need for long-term borrowing through their 'Capital Financing Requirement' (CFR) shown in Table 2 (Page 66). Members were advised of the importance of Table 2 as it takes into account the amount of planned capital expenditure that needs to be funded through borrowing, (as opposed to external funding) irrespective of whether the borrowing itself is undertaken externally or through dis-investing. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

Comments made included:

- At what point is borrowing non-sustainable? – Members were advised that when the loan in connection with Friar's Walk is repaid the Authority will use the cash to pay off existing debt. CFR shows borrowing dropping off showing a need to borrow an addition £50m in future.
- Where is the £50m in the table? – Members were advised this was the borrowing dropping off being replaced with new borrowing.
- Is this something to be worried about? – Members were advised that the concern was over the reserve falling. The cost, if the reserve is replaced with borrowing will be £3 – £3.5m which has a revenue implication. The revenue budget is around £11m. The important element is where the authority wants gross CFR to be. If it stays stable there might not be much of a concern. 2017/18 marks the end of the capital programme. The new strategy for 2018/19 will need to be more sophisticated. It would not be possible to give an answer to members today on the new strategy. This was a conversation which

was currently active in the council and would have to go to Cabinet. Treasury matters would feature and also the direction of interest rates.

- Can the Audit Committee be assured that the new strategy come to the Committee well before January 2018 so that Audit can add its comments and not put through without Audit input? – Members were advised changes suggested by Audit will be reflected in a new presentation to Management teams and would be brought to Audit Committee. The Head of Finance advised Members that Treasury Management Training was proposed for all Council Members in September 2017 where the Treasury Management Strategy would become much clearer to Members. He stressed the importance for Audit Committee Members to attend the training.
- Will there be a hard copy as well as a verbal assurance that any recommendations have taken place? – Members were advised that the Head of Finance would bring contextual notes to the next Audit Committee.

### **Agreed**

1. To note the Annual Report on Treasury Management for the Financial Year 2016/17.
2. To note that 2016-17 Prudential Indicators for Treasury Management were in line with those set by Council in February 2016.

## **7 Internal Audit Annual Report 2016-17**

Members considered a report upon:

- a) The overall opinion on the internal controls of the City Council for 2016/17;
- b) Internal Audit's progress against the agreed audit plan;
- c) Internal Audit's performance against local performance indicators.

The report gave an overall opinion on the adequacy and effectiveness of the City Council's internal controls during 2016/17 which was '**Reasonable** – Adequately controlled although risks identified which may compromise the overall control environment; improvements required; reasonable level of assurance'.

The second part of the report detailed the performance of the Internal Audit Section and how well its key targets in the year were met. 89% of the approved audit plan was completed in the year against a target of 77%. A big thanks to staff in the team who worked well to achieve this.

During the year, 35 reviews were undertaken, 7 received 'Good' audit opinions, 22 received 'Reasonable', 5 received 'Unsatisfactory' and 1 received 'Unsound' opinions. 2 Community Centre accounts were audited, both of which were unqualified.

In addition to planned work, the team undertook 'special investigation' reviews. 2 special investigations were undertaken during 2016/17. These arose for a number of different reasons, including information passed straight to the Section regarding allegations against members of Council staff, potential fraud, theft or non-compliance with Council Policy/procedures.

Internal Audit runs seminars on what Financial Regulations and Contract Standing Orders mean, why they are in place, what they are about and to whom they relate. 9 sessions were delivered to 95 delegates during 2016/17.

Despite not having a full complement of staff for the whole year, 89% of the approved audit plan was completed against a target of 77%; (77% completed in 2015/16). A total of 80 audit reviews were planned during the year with 63 being completed to at least draft stage by the

end of the year. (The total number of jobs in the plan was adjusted from 80 to 71 to reflect the fact that managers were not able to accommodate the audit during the year).

Although 200 days were planned for special investigations during the year, 95 productive days were actually spent auditing specials and unpaid work, 105 days less than allocated within the plan which mean more planned audit work could be undertaken.

Getting draft reports out this year took 13 days against a target of 10. Final reports were sent out within 3 days of receiving agreed management comments.

In 2016/17 the Audit Section continued to send out evaluation questionnaires to managers after an audit review had been undertaken in their area, which gave them an opportunity to feedback on the performance, professionalism and the audit process in general. Following the finalisation of reviews, 35% of questionnaires were returned (35% in 2015/16) with 100% of managers stating they were satisfied with the audit process and that it added value to service provision, which is reassuring.

The Audit Team had an establishment of 9 staff (including the Chief Internal Auditor). The section is split into two teams which cover the whole of the Council's systems, establishments and staff, each managed by an Audit Manager. During the year the team was supported by a secondment from Grant Thornton to help achieve the plan.

The Policy Finance Committee (1998) requested that on-going consideration be given to the sufficiency of internal audit resources. With a full complement of staff the audit resource is only just about sufficient to provide assurance on the Council's internal control environment, but given the experiences of staff changes in the last couple of years, the Chief Internal Auditor will have to monitor the situation closely and use a range of options to ensure appropriate audit coverage is provided. The Chief Internal Auditor will endeavour to provide adequate and appropriate audit coverage throughout the Council although prioritisation is required, given the reduced resources within the team. The current level of resources is just about adequate to meet the continuing needs of service led demands. However, the level of resources needs to be assessed in line with Internal Audit's on-going involvement with The Measure, performance indicators, the changing risk profile of the Council and auditing grant claims not reviewed by the external auditor.

Members raised a number of issues:

- Concerns were raised over the current level of internal audit resources and should we record that if anything happened (sickness, etc.) the team may not have sufficient resources? - Members were informed that with more audit staff the team could do more and a couple of posts had been lost. The current level of resources in the Team was just about adequate to provide assurance.
- Does the team use consultant auditors? – This has not been explored in great detail, however, last year a resource in another local authority had been utilised and during the year the team was supported by a secondment from Grant Thornton to help achieve the plan, which had been a positive experience.
- In terms of unsatisfactory opinions in relation to audit reviews (5 in 2014/15 and in 2016/17) - are these the same 5 and are we consistently underperforming? – Members were advised that generally different work is carried out each year. If it is necessary to go back and carry out a follow up review and if it hasn't changed the Service Manager is invited in to explain.

## **Agreed**

To note and endorse the Annual Internal Audit Report 2016/17 and overall Audit Opinion.

## 8 Internal Audit Annual Plan 2017-18

The Chief Internal Auditor introduced his Internal Audit Annual Plan 2017/18 which set out the work to be undertaken by the Internal Audit Section at an operational level for 2017/18. It identified why the Council operated an Internal Audit function, the resources available and how they would be applied across the services of Newport City Council to give management assurance that systems were working as intended. It outlined where Internal Audit resources would be focussed over the next year, covering systems and establishments in all service areas of the Council. 1152 productive audit days had been planned for 2017/18 by 8 staff, balancing adequacy of controls with limited resources.

The Chief Internal Auditor explained how the plan is compiled from a long list of all areas which could be audited, by discussion with Heads of Service, Risks identified, identified resources which is then developed into a shorter prioritised list based on the audit resources available, with the aim to give the Audit Committee appropriate and adequate assurance.

Discussions included the following:

- In relation to Page 102 - Appendix 2 – Internal Audit Services 2017/18 - it appeared that all work is backward looking. Is there a need to look at budgeting to give a forward look? – Members were advised that budgetary control forms part of the strategic plan. Budget reports have commitment accounting and forecasting as well. CATS analysis is also carried out. The new emphasis for the Scrutiny Committees will be on performance which will feature more heavily.
- Could we have commitment accounting information for the June accounts as it would be useful in terms of accuracy of the outturn – Members were advised that this is routinely picked up by the Procurement Team and that information could be provided.
- In terms of Risk Analysis (page 95) is there any exchange of information with other local authorities? – Yes, as part of the Welsh Chief Auditors Group there are sub groups with Social Services, Education, IT, etc. to share that information among our own audit teams.

### Agreed

To note and endorse the 2017/18 Operational Internal Audit Plan.

## 9 Standing Order 24 / Waiving of Contract Standing Orders: Quarterly report reviewing Cabinet / Cabinet Member Urgent Decisions or waiving Contract Standing Orders (Quarter 4, Jan to March 2017)

Members considered a report on the use of Standing Order 24 and the Waiving of Contract Standing Orders in recent decisions taken by Cabinet and Cabinet Members. Members were asked to consider whether the reasons for the urgency/waiving of contract standing orders were properly reflected in the documentation supporting the following three decisions:

**New Primary School (Jubilee Park) – Decision of the Cabinet Member for Education and Young People 7 February 2017** – move to Statutory Notice – The urgency was due to statutory timescales and to allow sufficient time for a new head teacher to be appointed to start when the school opens in September 2017. This had been justified within the content of the report.

**Town Centre Repayable Funding Scheme – Decision of the Cabinet Member for Regeneration and Investment 8 March 2017** Although the report stated that there were delays with Welsh Government and there were subsequent due diligence and briefing requirements, it did not specifically justify the need for the urgency of this decision. A timeline of key events would have been useful.

A member stated that with regards the Town Centre Repayable Funding Scheme there was an issue with late funding, but it should have been made clear in the report.

**New Primary School (Jubilee Park) – Final Determination – Decision of the Cabinet Member for Education and Young People 9 March 2017** - The urgency was due to original delays in the process, statutory timescales and to allow sufficient time for a new head teacher to be appointed to start when the school opens in September 2017. This had been justified within the content of the report.

**Agreed**

To confirm that there was reasonable justification for the above urgent decisions.

**10 Audit Committee Self Evaluation Exercise**

The previous self- evaluation exercise had been carried out 12-18 months ago. It had demonstrated effective audit and good practice helping to ensure governance moved forwards. It was suggested another Audit Committee Self Evaluation Exercise be carried out around 6 months into the new Council.

**Agreed**

To defer a report upon the Audit Committee Self Evaluation Exercise until 6 months into the new Council.

**11 Work Programme**

Members' attention was drawn to the proposed work programme for the Audit Committee for 2017-18.

**Agreed**

To note the Work Programme.

**12 Date of Next Meeting - 22 June 2017**

**Agreed**

To confirm the date of the next meeting as 22 June 2017.