

# Minutes



## Audit Committee

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Date: 24 September 2015

Time: 5.00 pm

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

In Attendance: S Davies (Strategic Director – Place) M Neilson (Interim Head of Street Scene) A Wathan (Chief Internal Auditor) M Rushworth (Head of Finance), O James (Assistant Head of Finance (Accountancy), M Dickie (Business Service Development Manager) H Brayford (Project Manager), R Davies (Senior HR Business Partner) J Sweet and A Barrett (WAO) and J Ellams (Scrutiny Support and Research Officer)

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### 1 Apologies for Absence

Cllr Mogford

### 2 Declarations of Interest

No declarations of interest.

### 3 Minutes from 16 July 2015

The Minutes of the meetings held on 16 July 2015 were submitted.

Re Minute 6, Draft Financial Accounts, the title was corrected from 2013/14 to 2014/15.

#### Agreed

That subject to the above, the Minutes of the meeting held on 16 July 2015 be confirmed.

### 4 Presentation on Whistle Blowing Policy

Members received a presentation on the Whistleblowing Policy and WAO recommendations on how the policy could be strengthened. The presentation included information on who was covered by the policy, protection and anonymity, the process and how it was monitored. The Policy had been in place since April 2015 and was due to be reviewed in April 2016.

Members discussed the policy and felt that it was helpful but difficult to change if the culture was not right and people still felt threatened. R Davies, the Senior HR Business Partner explained that following support and coaching from officers, individuals were more likely to get involved in the scheme and to put their name to their concern. Employees who made disclosures were entitled to receive independent advice and this together with trade union support gave protection to individuals.

## **Agreed**

That the information be noted.

### **5 Statement of Accounts 2014-15 and Audit of Financial Statements Report 2014-15**

Members considered a report on the results of the external audit of the 2014-15 Statement of Accounts, which highlighted the changes since they were initially published at the end of June 2015 and the WAO report which set out for consideration the matters arising from the audit of the financial statements of the Council for 2014-15.

Auditors reviewed the 2014/15 Statement of Accounts in detail, and a number of required changes were identified. Appendix A presented the revised Accounts which Members were invited to review and subsequently approve in accordance with the Council's standing orders.

The Accounts were published at the end of June 2014 by the Head of Finance and added to the Council's website at that time. The Accounts were available for public scrutiny, as required by the Accounts and Audit (Wales) regulations 2014, for a 20 working day period ending 21 August 2015.

The Chair of Audit Committee reported that in addition to the two proposals listed in the report, there was also a third, "to sign a Letter of Representation".

The Assistant Head of Finance explained that account preparation up to the end of June did suffer because of the number of staff leaving the authority. As a result there were a number of amendments but none of these affected the general reserve balances. WAO had highlighted a number of issues including an "Emphasis of Matter" paragraph drawing the readers' attention to the fact that the Council had not prepared Group accounts for Newport Transport Limited. There were a number of reasons for this as previously reported to Audit Committee in June. He also explained the other uncorrected misstatements and the impact of each one. Some of these were due to the processes in place and timing and he was already looking to improve the process in place for 2015/16.

The way small bodies were dealt with was an ongoing issue and he planned to present a report to Audit Committee listing all the bodies the authority had an interest in and proposed treatment of those bodies for Audit Committee to agree.

The Head of Finance explained that the "emphasis of matter" was disappointing but did not relate to any financial transactions of the single entity Newport City Council's accounts in-itself and recommended that the accounts be signed.

The Chairman reported that he had met with the Chief Executive and expressed his concern re the "absence of matter" which was a basic accountancy/audit issue.

Members raised a number of issues:

- A number of typing errors were identified and corrected.
- Members queried the reduction in salary between 2013/14 and 2014/15 for some senior employees and they were advised that this was due to adjustments following a change to the person in post. Some figures were incorrect and amended during the meeting. Members suggested a footnote be added to explain this.
- The "absence of matter" was a serious concern. Officers should have consolidated to the single entity accounts and then audit opinion would be on a group set of accounts. Consistency was fundamental and there was a need to review how things were done and decide whether or not to

consolidate. This should be picked up in the planning process. Members were advised that concerns had been raised at earlier meetings with officers. The Council needed to complete an assessment and in the absence of this, WAO undertook their own assessment and concluded that the council had control of Newport Transport Ltd and needed to produce group accounts.

- There were also concerns around pensions which indicated that there was a lack of attention to detail.
- Members were concerned that they had not been told about the lack of resources which had been an issue between late autumn and May/June this year.
- Members felt that the process had not been as good as in previous years and that an in depth learning lessons document was required. Members discussed the benefits of Audit Committee chairing such a review and the independent constructive challenge they could bring. The Assistant Head of Finance explained that he had already started to talk to everyone involved in the process and that he would share his plans with external audit and bring a detailed assessment to the November meeting.

A Barrett, WAO explained that that following a number of errors in the previous years accounts, interim arrangements were made which had not been as effective as they could have been. There had been improvements recently and he was confident that next year would go more smoothly following the recent Assistant Head of Finance appointment.

## **Agreed**

1. That the content of the 2014/15 Accounts and the Wales Audit Offices Financial Statements (ISA260) report on the 2014/15 Accounts and comment be noted.
2. That the Chairman be authorised to adopt the Accounts 2014/15, in accordance with the Accounts and Audit (Wales) (Amendment) regulations 2010.
3. That the Chairman be authorised to sign a “Letter of Representation”.
4. That the Assistant Head of Finance presents a report to the November Audit Committee meeting:
  - listing all the bodies the authority had an interest in and proposed treatment of those bodies for Audit Committee to agree and
  - a detailed assessment of the process and plans for 2015/16.

## **6 Overspend on Market Square Bus Scheme**

Members received the final outturn report on the Market Square Bus Station Project. The original bus station project awarded to Encon Construction Ltd was forecast to be completed for the sum of £1.7 million. The final certificated outturn recorded an excess cost of £163,000 following extensive negotiations on the substantial elements of contractual claims submitted by Encon. This overspend was a considerable reduction on the liability reported at the previous meeting.

Streetscene Management had already instigated a lessons learnt investigation seeking to understand what happened and how to mitigate the risk of such future issues.

Members discussed a number of issues:

- There were still concerns about the matter not being referred to Audit Committee immediately due to negotiations to try to reduce the loss. Members were reassured that a referral would happen automatically.
- There was confusion over the final overspend and the reduction of just £18000. S Davies (Strategic Director) explained that there was confusion because the project consisted of three contracts over a two year period commissioned by different bodies that no longer existed. There had also been staff redundancies and different Heads of Service involved in the project. The Strategic Director confirmed that in future projects would be dealt with in a different way and that she was satisfied there had been probity throughout.
- Concerns were raised about the length of time it had taken to bring the final report to Audit Committee and problems pulling together the final financial position. The Strategic Director explained that there had been problems for the reasons already given but there were very good relationships now in place with the finance department providing more timely reports on a regular basis.

### **Agreed**

That details of the final outturn report, the reasons for the overspend and lessons learned from the project, be noted.

## **7 Corporate Risk Register Update and Risk Assessments contained within reports**

Members considered a report on the latest updates to the Corporate Risk Register. The register identified seven risks, 2 high, 4 medium and 1 low risk. Since the last update 4 risks were new, 2 unchanged and 1 was reduced.

Members discussed risk 1, Legislative Requirements, and how it was important to comply with the Welsh Language Act, Future Generations Act and the Social Services Act. Officers explained that there could be a considerable financial and reputational impact from non-compliance with any of this new and emerging legislation.

Members discussed the risk table included within all reports and the number of times the risk related to not taking a decision rather than the risk of taking the decision. Not taking a decision was part of the decision making process rather than risk analysis. Members agreed that the process by which risk was analysed was in some cases inadequate and it felt like a tick box exercise rather than a considered view. Members recommended that the appropriate person give guidance to staff on risk, including the risk of taking a decision rather than not taking a decision.

### **Agreed**

That a recommendation from Audit Committee be made to the appropriate person that guidance be given to staff on risk, including the risk of taking a decision rather than not taking a decision.

## **8 Internal Audit Plan 2015/16 - Progress Quarter 1**

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

The team currently operated with an establishment of 10 audit staff. 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. A new Auditor started with the team. The relationship with Monmouthshire County Council (for sharing of the Chief Internal Auditor) continued.

The section had already been involved with 6 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 1 2015/16 was compared to the same period of the previous year.

- 16% (19%) of the audit plan had been achieved so far which was just below last year's performance but above the profiled target of 10%;
- The promptness of issue of draft report (comparing timescale between finalising all fieldwork and issuing the draft report to management) averaged at 2 days (8 days) which was within 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 1 day (2 days) which was within the target of 5 days.
- Coverage of the plan at this stage of the year was above expectations; the target being 10%.
- 39 (34) days had been spent finalising 15 (20) 2014/15 audit reviews; 1 of which had been finalised. 53 days had already been spent on 6 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.
- Only 2 jobs completed to at least draft report stage by 30 June 2015 warranted an audit opinion: 2 x *Reasonable* with no *Unsatisfactories* or *Unsound*s. Of the 5 community centre accounts undertaken, 2 were *Qualified*. Other reports have 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.

## **Agreed**

That the Internal Audit Section's progress against the 2015/16 agreed audit plan for the first three months of the year, be noted.

**Agreed**

That this item be deferred to the 26 November 2015 meeting.

10 **Work Programme**

**Agreed**

That this item be deferred to the 26 November 2015 meeting.

11 **Referrals to Audit Committee**

There were no referrals

12 **Date of Next Meeting - 26 November 2015**

**The date of the next meeting was confirmed as 26 November 2015**