

# Minutes



## Audit Committee

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Date: 22 September 2016

Time: 5.00 pm

Present: Mr J Baker (Chair), Councillors D Davies, E Garland, R Mogford, M Spencer, H Thomas and R White

In Attendance: Mike Dickie (Business Service Development Manager), Rachel Kalahar (Senior Performance Management Officer), Andrew Wathan (Chief Internal Auditor), Dona Palmer (Audit Manager), Robert Squance (Audit Manager), Meirion Rushworth (Head of Finance), Owen James (Assistant Head of Finance - Technical and Development), Meryl Lawrence (Overview and Scrutiny Officer), Paul Symonds (Head of Streetscene & City Services) and Martin Coombes (Senior Operations Manager)

Apologies: Councillors J Guy

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### 1 Declarations of Interest

None

### 2 Minutes of the Meeting held on 23 June 2016

The Minutes of the meeting held on 23 June 2016 were submitted.

#### Agreed:

To confirm the minutes of the meeting held on 23 June 2016.

### 3 Corporate Risk Register Update

Members considered an updated version of the Corporate Risk Register which identified eight risks, which are all medium risks. Since the last update, five risks remained unchanged, one has increased, one has reduced and one; the risk of Brexit is new.

Discussions included the following:

- Risk 8: Brexit
  - A Member asked would it be appropriate that the Regeneration Team be involved in this economic issue? - The Business Service Development Manager advised that opinions will be taken from more than one area of the Council.
  - A typographical error was identified: *"It is unclear at this time both when the **EU** will formally exit the EU and how these regulations may change."*
- Risk 5: Safeguarding

It was queried whether the risk should fall due to the new Safeguarding Role in Education? – It was explained that the risk is assessed by the Head of Service, taking all issues on board.
- Risk 3: Capacity and capability to meet the Council's objectives

The Present Risk score of 12 is consistent and it was queried whether there was a need to include detail in internal control frameworks to sign off? – It was clarified that this is not confined to one area and is implicit but can make them explicit. It was suggested that the Annual Governance Statement ties this together.

### **Agreed**

To note the contents of the Corporate Risk Register.

## **4 Regulatory Reports Summary**

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 Certificate of Compliance, Audit of Newport City Council's Improvement Plan. A certificate was issued to confirm that the Authority has complied with the requirements of the Local Government Measure 2009 with regards to its Audit of the Improvement Plan 2016-17.

The monitoring of the proposals for improvement made by WAO were 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 proposals for improvement was included in Appendix 2.

Discussions included the following:

- With the Medium Term Financial Plan (MTFP) embedded across Wales, the value of the Wales Audit Office report was questioned and also less money spent on reports could be spent elsewhere? - The WAO were commissioned by the Auditor General to undertake the report across Wales, and an outcome was that MTFP processes need to be strengthened. It was clarified that following the Financial Resilience Report, actions were already in place to address the recommendations.
- Has the number of staff changes over the last few years impacted upon ability to ensure things are done right in compliance with regulation? – The Performance Team comprises two Officers, but knowledge of regulation is dotted around the Council in various services, e.g. Assistant Head of Finance, etc.
- Whether something could be missed when people leave and handover? - The responsibility rests with the Chief Executive and Directors. The Monitoring Officer, Chief Financial Officer and Head of Human Resources provide comments upon all reports to ensure they are compliant with Legal, Finance and HR requirements.

### **Agreed**

1. To note the details of the regulatory reports contained in the report.
2. To receive a further update in March 2017.
3. To note the update on Wales Office Proposals for Improvement and Recommendations.

## **5 Internal Audit Plan-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 9 audit staff. At the start of the year there were 5 audit staff with 4 vacancies in the team. An Auditor was appointed and started with the team during quarter 1. The remaining vacant posts were recently advertised and interviews held during September.

In order to take account of the budget savings contribution and the delayering exercise required by senior management following the job evaluation exercise, the Internal Audit Team was restructured during Quarter 1. The previous and revised organisation charts were included in Appendix 1

The performance for Quarter 1 2016/17 was compared to the same period of the previous year (shown in brackets):

- a. 16% (16%) of the audit plan has been achieved so far which is the same as last year's performance and higher than the profiled target of 10%;
- b. The promptness of issue of draft report (comparing timescale between finalising all fieldwork and issuing the draft report to management) averages at 1 day (2 days) which is well within the target time of 10 days;
- c. 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) averages 4.5 days (1 day) which is within the target time of 5 days.

Coverage of the plan at that stage of the year was above expectations; the target being 10% for Quarter 1. Although there had been a reduced audit resource in the team there had been very little involvement with special investigations. Although performance may dip throughout the year, historically things had picked up in the final quarter; this year would depend on sufficient audit resources being available to complete the audit plan. All key financial systems would be reviewed by the year end.

Discussions included the following:

- Whether staffing issues were due to the salary offered? – Job Evaluation had impacted upon the grading of the posts and three staff had left as a result.
- Could a responsibility allowance be offered? – The process requires a vacancy to be advertised externally twice, before a panel could consider whether an allowance can be given for an individual post.
- Is the salary offered at Newport City Council less than in other Local Authorities? – It's less enough to affect recruitment, plus there aren't much career progression prospects in the structure.
- With regard to staffing, at what point would you not be able to give an opinion? – There are 90 jobs in the plan, if half of the jobs are achieved, it will affect the level of assurance that can be given by the end of the Plan. Will try to address this at the 6 month point and if unable will report to the Audit Committee and the Head of Finance.

## **Agreed**

To note the progress against the 2016-17 Audit Plan for the first three months of the year.

## **6 Standing Order 24 / Waiving of Contract Standing Orders: Quarterly report reviewing Cabinet / Cabinet Member Urgent decisions or waiving Contract Standing Orders (Quarter 1, April to June 2016)**

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 decisions:

- a) The Cabinet Member for Education and Young People took an urgent decision on 26 April 2016 relating to Ysgol Gyfun Is Coed, Newport which meant the decision was not subject to the “call in” process.
- b) The Cabinet took an urgent decision on 24 May 2016 relating to Ysgol Gyfun Is Coed, Newport, which meant the decision was not subject to the “call in” process.

The comments of the Chief Internal Auditor stated that:

- a) This decision is linked to the previous report regarding this school presented to Audit Committee in May 2016. Due to the statutory obligations stated in the report, the need for urgency is justified.
- b) Justification for staff giving adequate notice to existing employees is not specifically covered within the body of this report; there are other statutory requirements included with the setting up of this new school which do justify the urgent decision made in order for it to progress and be up and running from September 2016.

A Member commented that it does seem like there had been a lack of forward planning for the setting up of the school far enough in advance . The Chair asked whether if Members thought they hadn't had enough opportunity to comment, then the lack of consultation could be a risk to the control framework. The Chief Internal Officer advised he could take that back to Officers. Members requested that the question be asked why there was a lack of planning? - The Chief Internal Officer advised he would take that back to Officers and report back.

### **Agreed**

The report contained justification for the urgent decisions.

## **7 Statement of Accounts and Audit of Financial Statements Report 2015-16**

Members considered a report on the results of the external audit of the 2015-16 Statement of Accounts, which highlighted the changes since they were initially published at the end of June 2016, and the Wales Audit Office report which set out for consideration the matters arising from the audit of the financial statements of the Council for 2015-16. The report sought formal adoption of the 2015-16 Accounts, as required by the Accounts and Audit (Wales) regulations 2014

The Accounts were published at the end of June 2016 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 5 August 2016.

Auditors had reviewed the 2015/16 Statement of Accounts in detail, and a number of required changes had been identified. The Wales Audit Office's (WAO) accompanying report showed a summary of the agreed changes. Appendix A presented the revised Accounts which members were invited to review and subsequently approve in accordance with the Council's standing orders.

The Head of Finance introduced the report and advised that the accounts had been completely audited the Wales Audit Office ISA260 report was included in the reports pack and it had been a good process this year with the Assistant Head of Service providing experience and management.

The Assistant Head of Finance advised that there were no significant changes to the accounts in the audit process and the corrected statements in the Wales Audit Office's ISA260 report were mainly corrections and not changes to the reported outturn of reserves. The ISA 260 showed an improvement in the accounts, which were 20 days early and with Audit Committee by 30 June. There had been teething issues with getting Group Accounts in from Newport Transport which will try to improve upon next year.

He advised that there were 3 uncorrected statements in the ISA 260, relating to:

1. Capping of waste station and review of aftercare costs, which will be reviewed next year and won't impact on accounting.
2. Revenue expenditure incorrectly being treated as capital expenditure for two grants:
  - a) one agreed to treat as capital for this instance;
  - b) the second relates to Disabled Facilities Grants and is ongoing, all Councils capitalise a proportion of their grants.

The decision had been taken not to make the changes in the letter of representation that hopefully the Chair and the Head of Finance will sign at the close of the meeting.

Discussions included the following:

- Some wording, formatting issues and spelling mistakes were referred to.
- Landcapping
  - The process for reviewing the Landcapping provision and the need for the Engineer to review the provision;
  - The percentage 60% the calculations were out by, how could reassure that this will be right in the future? – This year this will be reviewed by external audit early on in the year to get sign off before the draft accounts as in year review is important in this case. This work will be done in year and not in the pressured accounts period;
  - In the control framework, what is stopping people from challenging;
  - Why hadn't the provision been picked up by external audit previously.
- Capitalisation
  - It was clarified that some of the task is assisting applicants to fill in form, which auditors say is not a reasonable task for capitalisation. The Head of Finance will be emailing Officers to advise that Auditors have picked this up, reminding them what is eligible for capital funding;
  - Why has this come up now, what training is ongoing with service areas.
- Contingent Liability regarding Friars Walk and the related wording in the accounts and the related comment in the Head of Finance note.
- Contingent Liability MMI Insurance – not a provision the Council sets aside but has the reserves to cover.
- Pension liabilities for Newport Live and Newport Norse

Anthony Veale, Wales Audit Office introduced the ISA 260 report. Terry Lewis, WAO advised that the proposed audit report was scheduled to be signed off by the Auditor General. He added that the corrections had been covered earlier and there had been an improvement in the working papers. However there would need to be more work done earlier in the year in future to meet earlier deadlines for closing of the accounts.

Anthony Veale advised that as a culmination of this work he intended to provide an unqualified statement on the accounts in the statutory deadline.

At the request of the Chair, Officers and Auditors confirmed that they had given full information to the Audit Committee

At the request of the Chair, Members of the Audit Committee confirmed that they were happy for the Chair to sign the accounts.

## **Agreed**

1. To note the content of the 2015/16 Accounts and the Wales Audit Office's Financial Statements (ISA260) report on the 2015/16 Accounts and comments.
2. To authorise the Chairman to adopt the Accounts 2015-16, in accordance with the Accounts and Audit (Wales) Regulations 2014 and to sign the letter of recommendation.

## **8 Work Programme**

Members agreed that:

- The Self Assessment Exercise Update be added to the Agenda for the November meeting;
- The Wales Audit Office Financial Memorandum on the 2015-16 Financial Audit be rescheduled from the January 2017 meeting to the November 2016 meeting;

## **Agreed**

To note the Work Programme, subject to the above amendments.

## **9 Date of Next Meeting - 24 November 2016**

The date of the next meeting was confirmed as 24 November 2016.

## **10 Part 2 Exempt or Confidential Items - Exclusion of the Press and Public**

To exclude the press and public from the meeting during the consideration of the following item on the grounds that exempt or confidential information as defined in Schedule 12A of the Local Government Act 1972 (as amended) would be disclosed.

## **11 Internal Audit 2 Unsatisfactory Audit Opinions**

Following 2 consecutive Unsatisfactory Internal Audit report opinions, Members of the Audit Committee agreed to call in the Head of Streetscene & City Services and Senior Operational Manager responsible for the provision of CCTV & Security at Telford Depot within the Council to account for the limited action taken to address the issues identified in the audit reports.

Members of the Audit Committee questioned the Head of Streetscene & City Services and Senior Operational Manager and were satisfied that the assurance provided would address the issues identified in the unsatisfactory audit opinion reports.

The Chair added that it was open to Officers to challenge individual recommendations of audit reports or propose more realistic timescales that were supported by evidence and reasoning.

## **Agreed**

That Members of the Audit Committee are satisfied that the assurances provided would address the issues identified in the Unsatisfactory Audit Opinion reports and that the agreed action plan had now been implemented. A further follow up Internal Audit review would be undertaken during 2016/17 with the outcome reported back to Audit Committee.