

Agenda



Audit Committee

Date: Thursday, 30 March 2017

Time: 5.00 pm

Venue: Committee Room 1 - Civic Centre

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

Item

- 1 Agenda in Welsh (Pages 3 - 4)
- 2 Apologies for Absence
- 3 Declarations of Interest
- 4 Minutes of the Meeting held on 26 January 2017 (Pages 5 - 12)
- 5 Wales Audit Office Audit Plan 2017 (Pages 13 - 36)
- 6 Wales Audit Office Certification of Grants and Returns 2015-16
(Pages 37 - 48)
- 7 Draft Internal Audit Plan 2017-18 (Pages 49 - 60)
- 8 Internal Audit Progress against Unsatisfactory Audit Opinions (Pages
61 - 70)
- 9 Audit Committee Self Evaluation Exercise
- 10 Work Programme (Pages 71 - 76)
- 11 Date of Next Meeting - 25 May 2017

NB: Would members please ensure no printed copies of the agenda are left in the room at the conclusion of the meeting. Leaving paper copies of reports where they can be accessed by unauthorised persons could present a data breach.

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Date of Issue: 23 March 2017

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Agenda

Pwyllgor Archwilio

Dyddiad: Dydd Iau, 30 Mawrth 2017

Amser: 5 y.p.

Lleoliad: Ystafell Bwyllgora 1

At: Mr J Baker (Cadeirydd), Y Cynghorwyr: R Bright, D Davies, E Garland, J Guy, R Mogford, M Spencer, H Thomas a R White.

Eitem

Rhan 1

1. Agenda yn Gymraeg
2. Ymddiheuriadau am absenoldeb
3. Datganiadau o fuddiant
4. Cofnodion y cyfarfod a gynhaliwyd ar 26 Ionawr 2017
5. Cynllun Archwilio Swyddfa Archwilio Cymru 2017
6. Swyddfa Archwilio Cymru Ardystio Grantiau a Ffurflenni 2015-16
7. Drafft Archwilio Mewnol Blynyddol Cynllun 2017/18
8. Archwiliad Mewnol Cynnydd yn erbyn Barn Archwilio Anfoddhaol
9. Pwyllgor Archwilio Ymarfer Hunanwerthuso
10. Rhaglen Waith
11. Dyddiad y cyfarfod nesaf – 25 Mai 2017

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Minutes



Audit Committee

Date: 26 January 2017

Time: 5.00 pm

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

In Attendance: Rhys Cornwall (Head of People and Business Change), Mike Dickie (Business Service Development Manager), 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), Dona Palmer (Audit Manager) Anthony Veale and Gareth Lucey (WAO) and Michele Chesterman (Democratic Services Support Officer)

Apologies: Councillors R Bright and M Spencer

1 **Declarations of Interest**

None.

2 **Minutes of the Meeting held on 1 December 2016**

The Minutes of the meeting held on 1 December 2016 were submitted.

Agreed

To confirm the Minutes of the meeting held on 1 December 2016.

3 **Corporate Risk Register Update**

Members considered the latest update of the Corporate Risk Register. There were eight risks identified in the register, all medium. Since the last update all risks remain unchanged.

In connection with Risk 7: City Deal, Members were advised that this was heavily reliant on external factors and little action could be taken by the Council to mitigate the risk. The same could be said for Risk 8: Brexit; that the financial implications of leaving the European Union have a negative impact on the Council's financial position.

Discussions included the following:

- Risk 6: Investment in Friars walk Development; the present score of the risk (December 2016) was 12 and it was asked whether this was still a valid score? - The Head of Finance advised members that it was considered that medium was appropriate. If there was not an active buyer it would be high. It is not low as it is in

progress. There were still one or two hurdles to overcome with the buyer but medium looked about right at the current time.

- It was not Audit Committee's role to query the score of the risk but the process around deciding on the score but it was felt that this process was a little bit disjointed and queried whether it was within the current situation? - The Head of Finance explained that the risk was around the developer being unable to sell. From a Council perspective he was confident that if the sale did not go ahead it was nothing to concern the Council.
- How whistleblowing is being picked up in risk? - It was explained that this is picked up through the process in place and would be discussed at SLT level it felt to be serious enough. Members' attention was directed to page 14 of the Risk Register; the Risk Table which highlighted the ongoing process and the wide ranging areas and it was explained that the process is a live one, with Risk officers taking a view on whether the risk is high enough to go on the Corporate Risk Register.
- Whether there was a maximum number in connection with risks and were any higher than 16? - It was clarified that the upper number was 25 and the Council tried to focus on the most important areas. While some risks had been scored at 20 a couple of years ago, at the current time, they were all medium, amber category (16).

Agreed

To note the contents of the Corporate Risk Register.

4 Treasury Management Report

Members considered a report on the Treasury Management Strategy 2017/18, Prudential Indicators, Investment Strategy and the Minimum Revenue Provision (MRP) 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 overarching recommended Treasury Strategy remains unchanged from the current strategy which in summary:

- Limits the need to actually borrow cash by using the positive cash-flow the Council has to fund capital expenditure funded from borrowing, wherever possible;
- Borrow and invest in the short-term to manage the shorter term cash-flow requirements of the Council.

In practice the overarching strategy limits the activities of long term borrowing and investments.

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 Medium Term Revenue Plan and would be presented to full Council as part of the overall budget report for approval in March 2017.

During 2016/17 the Council repaid approximately £4 million of borrowing, mainly relating to activities related to the Friars Walk, which are being kept on short-term periods and reviewed regularly – and therefore did not represent any formal repayment but rather the management of the Council's cash-flow and limiting the external borrowing taken out at any point in time. New temporary borrowing of approximately £20 million was anticipated to be required before the end of 2016/17 financial year.

In December 2013 the Council approved a loan of up to £89.1 million to Queensberry Real Estates (Newport) Ltd (QRE) to fund the building of the Friars Walk Development. The Council's own borrowing to make the onward loan was kept separate from the Council's other borrowing requirements and incurred, as needed, up to a maximum of £89.1 million. Whilst kept separate, the actual borrowing was affected by the Council's overall cash-flow management. If the sale was not successful the Council would need to re-finance the scheme which required the current borrowing, maturing up to the end of July 2017 to be re-financed.

Included in the report was a paragraph on the 'City Deal' project. While no formal decision had been made at this stage, any agreement to enter into the 'City Deal' would have a significant impact on capital expenditure and the minimum revenue provision. Figures for this were not included in this report and a further report would need to be brought to Committee when a decision had been made on the scheme.

The Assistant Head of Finance outlined to the Members the basics of the Treasury Management Strategy.

A review of the MRP policy was currently being undertaken. Currently this was a charge through equal instalments over the life of an asset on a straight line basis. A review was being undertaken to move from this method, to using the annuity method. The annuity method still had asset life as its main basis but took into account the time value of money. Therefore the charge in year one would be less than the charge in say 25 years' time, increasing year on year. The method was prudent and still kept asset life as its main basis and therefore the repayment would be the same over the life of the asset in both the equal instalment and annuity basis. The Council's auditors were being liaised with to obtain assurance that the application of the method was correct and would look to be implemented in the near future. The Assistant Head of Finance stressed this was not a change to the MRP policy but a change to the method of calculation and therefore to be noted by the Audit Committee.

Discussions included the following:

- Was the Council putting off repayment off debt until later? - The Head of Finance explained that the MRP policy keeps the cash within the organisation. Cash can then be used to repay loans. The same cash will be generated to put aside to repay loans in the future, thus fulfilling the Wellbeing of Future Generations requirement and it was prudent. The only difference was the change to the method of calculation.
- Is the Council better off? - The Head of Finance explained that the strategy was the cheaper option of managing borrowing and investments and the policy was about keeping our cash as low as possible to delay taking out new loans. The Assistant Head of Finance added that if the Council is told by the Treasury Advisors that interest rates are going up then it may take that on board and borrow earlier to make sure that interest rate rise is taken into account.
- How long can the Council make forecasts into the future; 10 years? - The Head of Finance replied that the longer the Council forecasts into the future the less certain it is. The Council forecasts long term, weekly and by financial year. Planning is undertaken on different levels. The Treasury Strategy is about longer broad term plans and shows the direction of travel.
- With regards page 48 (Investment Training) – Could opportunities for investment change? - The Head of Finance explained that the Council's Treasury Advisors run a number of free events, meeting with Finance three times a year for a balance sheet review keeping the Council abreast of new opportunities, etc.
- Is there any overnight investing undertaken by the Council? - The Assistant Head of Finance replied that the Council's investments are now minimal, very short term, very safe 1 day, 3 day places, with advice obtained from the Treasury Advisors. He directed Members to page 53 Appendix C of the report 'Counterparty Limits for

Banking – UK Institutions’ and advised that the Council does not undertake any risky investments.

- If the Council borrows money when the interest rates are low, is the loan arranged to use in future or are the funds accessed straight away? - The Assistant Head of Finance explained that this was not a time for the Council to undertake long term borrowing if not needed. If there is an interim period when the funds are not accessed there will be a cost of carry until the loan is needed. Redemption or redeeming early would carry a cost. The Council undertook early redemption in 2015/16 to take advantage of cheaper interest rates. The Head of Finance added that if the Council borrows earlier it would need to find a home for the cash and would have to run the risk that the banks were safe.
- Is the Council vetted on further interest rises? - The Head of Finance explained that the Council’s Treasury Advisors provide advice on interest rates forecasts and that they meet 3 times a year.
- How much do we pay Treasury Management? - The cost was £9,000 a year which includes on call and courses. Members noted this was very cheap for peace of mind. The Head of Finance added that there were two firms in the UK providing this advice to local authorities. The company used by Newport City Council was CAPITA which was used by several Welsh authorities.
- The Council uses Prudential limits but there is no Treasury Management strategy for the bond of £40 million and though we anticipate rolling forward the £40 million, is this good or bad? Should the strategy say the level of detail and whether we carry forward or minimise - The Head of Finance replied that the overall strategy was as per the report: the Council defers the day it needs to borrow cash for as long as possible. When the £40 million bond leaves the Council on the day payable the Council will re-finance the amount needed – whether that be 38 or 40 million. The strategy does not put a limit on the borrowing amount.
- Whether the reason for the method of calculation for the MRP being carried out is for short term gain and if the Council is extending the period is it deferring the inevitable building up a potential liability / mortgage in the future? - The Head of Finance explained that the change to the method of calculation for the MRP would lead to a saving in the short term but greater costs in the future. However, overall, it would be the same costs in total. There would be a permanent but short term impact.
- Whether it was appropriate to do this?
 - The Head of Finance replied that it depended on the reason. If there was a compelling reason to save in the short term to allow time to plan for the long term then it was valid. With regards the new Capital Programme 18/19 over the next four years it would be cheaper to fund that if the MRP policy was changed. It would be for Cabinet and Council to decide if that was a worthwhile way forward. The reason why it was acceptable was that the same total was being charged over the asset life.
 - The Assistant Head of Finance directed Members attention to page 59 (Appendix E – Minimum Revenue Provision (MRP) Statement 2017/18) 2. Option 3: Asset Life Method was the option the Council uses now. The policy has not changed in a number of years. The same policy is being recommended but within that the calculation is being changed.
 - The Head of Finance stated that he would be taking forward the Audit Committee’s comments including the one around the strategy itself in that it deals with the direction of travel but does not deal with the total borrowing of the Council and borrowing limits which are not there and whether they should be considered.
- Whether the Treasury Management Strategy is sufficient for Audit Committee to look at, as it was felt at the moment there was a gap and that the guidance did not advise what to do with the £40 million?
 - The Head of Finance felt the overarching strategy did tell us what will happen to the £40 million but he would look at the wording to make it more explicit on what was happening with the redemption of major loans next year and the year after that. Because of the strategy of holding as little cash as possible and deferring

loans when existing loans are redeemed it will not be cash to redeem them but another loan.

- The need for the Audit Committee Members to be happy with the strategy as if the strategy was approved, the Council would be minded to go ahead on the basis of what the Audit Committee had said. -The Head of Finance stated that he would find a form of words to make it practical and take the comments of the Audit Committee on board to explain the practical implications of the Strategy.

Minor typing errors were identified on: page 35 paragraph 5, second line (delete has) and; page 39, paragraph 26 ('a' missing), which were noted.

Agreed

1. To recommend to Cabinet for approval the Prudential Indicators, Minimum Revenue Provision Policy, the Treasury Management Strategy and the Annual Investment Strategy as detailed in the report subject to the above Audit Committee comments being included.
2. Head of Finance to amend Treasury Management Report wording to take on board Audit Committee's comments.
3. To note the potential change in calculation method of MRP policy from equal instalment method to annuity method.

5 Internal Audit Plan - Progress Quarter 3

Members considered a report on the Internal Audit Section's progress against the 2016/17 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.

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 in the team during Q1, a Principal Auditor was appointed in Q2 and started in Q3.

The Section had not been involved in so many special investigations but this had now changed and was involved in a special investigation with half the team involved with the audit and half with the special investigation.

The performance for Quarter 3 2016/17 was compared to the same period for the previous year:-

- 50% (43%) of the audit plan had been achieved so far which was better than last year's performance and in line with 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) averages at 14 days (15 days) which was above the target time of 10 days;
- The promptness of report finalisation (comparing timescales from meeting with client to discuss issues raised in the draft report to issue of finalised report to management) averages 3 days (3 days) which was within the target time of 5 days.
- Coverage of the plan at this stage of the year was in line with expectations; the target being 50% for Quarter 3, despite there being a reduced audit resource in the team. The Section had started to get involved with some sensitive and time consuming special investigations. Although performance may have dipped throughout the year, historically things had picked up 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 year end.

- 53 (51) days had been spent finalising 18 (15) 2015/16 audit reviews; 17 of which had been finalised.
- A vacancy/secondment provision was taken into account in the planning stage which related to the Chief Internal Auditor's work with Monmouthshire, a Principal Auditor post and two Auditor posts.
- Inevitably there would be some overruns on reviews undertaken within the team which might result in not as many reviews being undertaken as were planned for the year, but there had been a significant improvement in this over previous years.
- There had been 90% positive feedback from service managers via the evaluation questionnaires and this would continue to be collated throughout the year and fed into the annual audit report for 2016/17.
- 21 jobs completed to at least draft report stage by 31 December 2106 warranted an audit opinion: 4 x Good; 13 x Reasonable, 3 x Unsatisfactory and 1 x Unsound. Of the 2 community centre accounts undertaken, opinions for both were *Unqualified*. Other reports have been completed which did not warrant an audit opinion or related to the Annual Governance Statement, the Council's performance indicators, grant claims and provision of financial advice.

Discussions included the following:

- What is the process if there is a serious issue which could take a lot of time to address? - The Chief Internal Auditor replied that a period of 6-12 months is given to resolve issues, following which they are referred back to Audit.
- On Page 71 Unsatisfactory and Unqualified related to Street Scene – was there a problem? - It was explained that the reviews were up to Q3 and there were opinions that had not yet been issued. It would be reported to senior management and risk areas would inform the 2017/18 plan. If it was felt that an area was more at risk than others, a plan would be put in place.
- Whether there are sufficient numbers of staff in Audit to carry out special investigations? - The Audit section has an allocation of time for special investigations which had not been used up at Quarter 3. Agency staff required additional support and time from the manager and therefore a secondment was in place. It was not known how long the special investigation would take.
- Will the result of the special investigation be fed back to Audit Committee? - Where a special investigation led to a disciplinary outcome this would not be reported to Committee, due to confidentiality issues. If the issues arising from the special investigation affected a service area the Head of Service would be circulated.
- Will the number of grants allocated become a challenge and who has responsibility for them? - Grants depend on terms and conditions, which are not always followed and this sometimes resulted in money being recouped. The funding organisation expects the operational manager to follow the conditions of the grant and sometimes internal or external certification is required.
- What does qualified and unqualified mean? - The term qualified refers to the terms and conditions not being complied with, while unqualified means the terms and conditions have been complied with.
- Page 71 refers to finalised – will there be feedback given? - Finalised refers to reports which had been finalised, while those not finalised are still in draft. The Audit Section meets with the relevant manager and there are timescales for implementation. A further meeting takes place to follow up whether those implementations have taken place. It is the manager's responsibility to make sure it is done and the Audit Team's responsibility to make sure they monitor that the actions have been completed.

Agreed

To note the progress on the delivery of the audit plan opinions given to date.

6 Work Programme

The Internal Audit Unsatisfactory Audit Opinions (6 monthly report) had been deferred until the next meeting 30 March 2017.

Agreed

To note the Work Programme.

7 Any Other Business

Andrew Veale of Wales Audit introduced Gareth Lucey to the Audit Committee and advised that Gareth would be replacing Terry Lewis as the new WAO Audit Manager.

8 Date of Next Meeting - 30 March 2017

The date of the next meeting was confirmed as 30 March 2017.

The meeting terminated at 6.35 pm

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WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

2017 Audit Plan – **Newport City Council**

Audit year: 2016-17

Date issued: March 2017

Document reference: 218A2017

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This document was produced by Anthony Veale, Gareth Lucey, Non Jenkins, Sara-Jane Byrne and Ramim Khan.

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2017 Audit Plan

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2017 Audit Plan

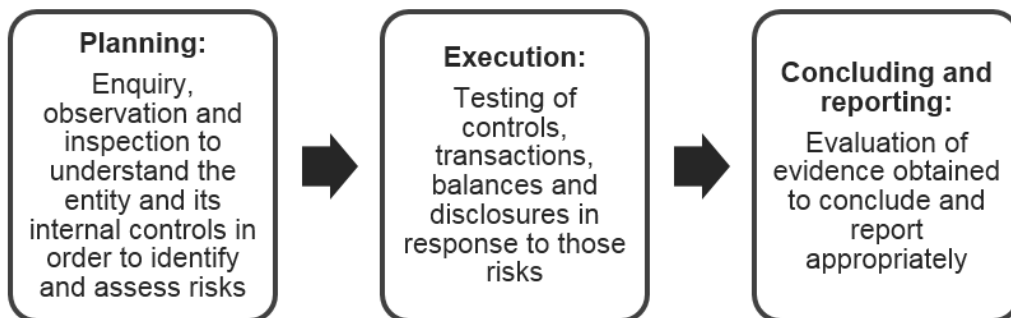
Summary

- 1 As your external auditor, my objective is to carry out an audit which discharges my statutory duties as Auditor General and fulfils my obligations under the Public Audit (Wales) Act 2004, the Local Government (Wales) Measure 2009 (the Measure), the Local Government Act 1999, and the Code of Audit Practice, namely to:
 - examine and certify whether your financial statements are ‘true and fair’;
 - assess whether you have made proper arrangements for securing economy, efficiency and effectiveness in the use of resources;
 - audit and assess whether you have discharged duties and met the requirements of the Measure; and
 - undertake studies to enable me to make recommendations for improving economy, efficiency and effectiveness or for improving financial or other management arrangements.
- 2 The purpose of this plan is to set out my proposed work, when it will be undertaken, how much it will cost and who will undertake it.
- 3 There have been no limitations imposed on me in planning the scope of this audit.
- 4 My responsibilities, along with those of management and those charged with governance, are set out in [Appendix 1](#).

Audit of accounts

- 5 It is my responsibility to issue a certificate and report on the financial statements which includes an opinion on their ‘truth and fairness’.
- 6 I also consider whether or not Newport City Council (the Council) has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and report by exception if the Annual Governance Statement does not comply with requirements.
- 7 [Appendix 1](#) sets out my responsibilities in full.
- 8 The audit work I undertake to fulfil my responsibilities responds to my assessment of risks. This understanding allows me to develop an audit approach which focuses on addressing specific risks whilst providing assurance for the financial statements as a whole. My audit approach consists of three phases as set out in [Exhibit 1](#).

Exhibit 1: my audit approach



9 The risks of material misstatement which I consider to be significant and which therefore require special audit consideration, are set out in [Exhibit 2](#) along with the work I intend to undertake to address them.

Exhibit 2: financial audit risks

Financial audit risk	Proposed audit response
The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [International Standard on Auditing 240 (paragraphs 31 to 33)].	My audit team will: <ul style="list-style-type: none"> test the appropriateness of journal entries and other adjustments made in preparing the financial statements; review accounting estimates for biases; and evaluate the rationale for any significant transactions outside the normal course of business.
The financial statements are prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting (the Code). There are a number of significant changes for 2016-17, including a requirement for a new Expenditure and Funding Analysis in addition to a revised expenditure analysis in the Consolidated Income and Expenditure Account (CIES). A restatement of the previous year's (2015/16) CIES is also required.	My audit team will: <ul style="list-style-type: none"> continue to work with and support the Council and its staff to agree the most appropriate presentation in both sets of financial statements and the group statements; undertake early audit work on proposals to address the new Code requirements; agree improvements to the methodology and working papers supporting the financial statements, where necessary.
The Council has previously taken out a loan of £90 million to finance the building of Friars Walk shopping centre. It expects to repay this loan when the development is	My audit team will:

Financial audit risk	Proposed audit response
<p>sold during 2016-17 and the receipt is accounted for/received by the Council.</p> <p>The Council is currently negotiating the sale of the Friar's Walk development. There is the potential that the development will not be sold before the end of the year ended March 2017, meaning that the loan and corresponding debtor will continue to be recorded on the Council's Balance Sheet.</p>	<ul style="list-style-type: none"> • continue to monitor the Council's activities regarding the Friar's Walk development; • confirm with the Council whether any sale transaction has occurred prior to the year-end; and • ensure that any resulting balances and transactions are appropriately classified and disclosed in the 2016-17 financial statements.
<p>The Council's 2015-16 financial statements included consolidated accounts for the first time, incorporating the results of Newport Transport Ltd. in accordance with Code requirements to account for 'group' operations.</p> <p>These consolidated accounts will also be included in the 2016-17 financial statements.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • perform early audit work to confirm the consolidation process for the 2016-17 financial statements; and • review any disclosures made by the Council in detail to ensure that they are in line with Code requirements.
<p>The Council are currently undertaking a review of their major lease arrangements, to confirm their status as either 'finance' or 'operating' leases in the 2016-17 financial statements.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • perform early audit work to confirm that these lease arrangements have been appropriately classified; and • review resulting disclosures in the financial statements to confirm that they are accurate and in line with Code requirements.
<p>The preparation of the financial statements will involve the estimation of a number of account figures such as provisions for the Council's liabilities.</p> <p>In our 2015-16 Audit of Financial Statements Report we noted that the landfill provision was potentially overstated by £2 million, and that the accumulated absences provision was adjusted by £2.8 million following our audit.</p> <p>The Council is undertaking work to review these provision estimates for 2016-17.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • perform early audit work to review the basis on which these estimates are to be made for 2016-17; • review documentation held to support estimates derived and judgements made; and • ensure that appropriate accounting and disclosure requirements are included within the financial statements.
<p>The Council's 2016-17 financial statements will include a number of disclosures which are material by nature. These include the disclosure of Related Parties and Senior Officers' Remuneration.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • review all notes and disclosures that are material by nature; and • substantively test these disclosures to ensure that they are consistent with supporting evidence and in line with the Code.

Financial audit risk	Proposed audit response
<p>The Council will participate in the Cardiff Capital Region City Deal (the City Deal) along with nine other South Wales local authorities. The City Deal was ratified by all participating authorities on 1 March 2017. The authorities have established a joint committee (the Regional Cabinet) to oversee delivery of a range of programmes over the next 20 years. The City Deal includes significant funding from the Welsh Government and the UK Government, with the ten local authorities also committing to borrow a combined total of £120 million as part of the Wider Investment Fund.</p>	<p>Liaising closely with the external auditors of the other nine Local Authorities, my audit team will:</p> <ul style="list-style-type: none"> • monitor progress with the City Deal project and carry out early work as necessary to assess the existing and proposed financial and governance arrangements; and • take into account the work undertaken by HM Treasury to scrutinise the effectiveness of the region's governance arrangements.

- 10 I do not seek to obtain absolute assurance on the truth and fairness of the financial statements and related notes, but adopt a concept of materiality. My aim is to identify material misstatements, that is, those that might result in a reader of the accounts being misled. The levels at which I judge such misstatements to be material will be reported to the Audit Committee prior to completion of the audit.
- 11 For reporting purposes, I will treat any misstatements below a 'trivial' level (ie 5% of materiality) as not requiring consideration by those charged with governance and therefore I will not report them.
- 12 My fees are based on the following assumptions:
- information provided to support the financial statements is timely, to the quality expected and has been subject to quality assurance review;
 - appropriate accommodation and facilities are provided to enable my audit team to deliver the audit in an efficient manner;
 - all appropriate officials will be available during the audit;
 - you have all the necessary controls and checks in place to enable the Responsible Financial Officer to provide all the assurances that I require in the Letter of Representation addressed to me;
 - Internal Audit's planned programme of work is complete and management has responded to issues that may have affected the financial statements.
- 13 In addition to my responsibilities in respect of the audit of the Council's statutory financial statements set out above, I am also required to certify a return to the Welsh Government which provides information about the Council to support the preparation of Whole of Government Accounts.

Certification of grant claims and returns

- 14 I have been requested to undertake certification work on the Council's grant claims and returns. A total of 16 grant claims were audited in 2015-16 and whilst the final programme of grants and returns requiring certification for 2016-17 is yet to be finalised, I anticipate the number of claims requiring audit to be of a similar number.
- 15 My audit fee for this work is set out in [Exhibit 6](#).
- 16 A separate report, Certification of Grants and Returns 2015-16, has been issued which summarises the more significant and/or recurring issues I identified when undertaking grant certification work in 2015-16.

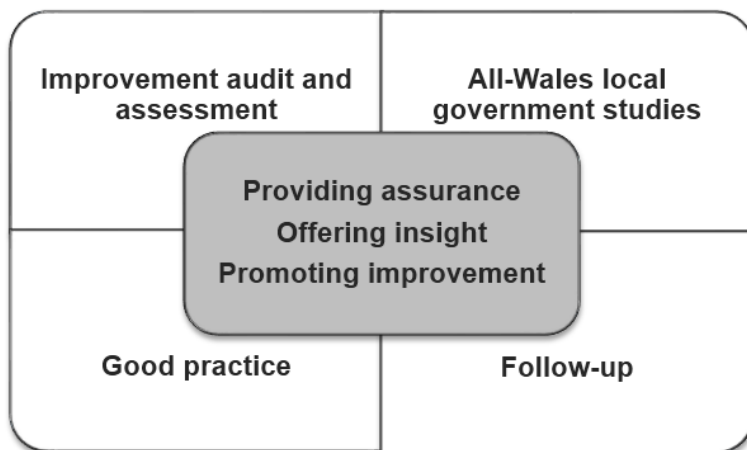
Other work undertaken

- 17 In addition to my responsibilities in respect of the audit of the statutory financial statements set out above, I am also responsible for the audit of the Gwent Cremation Joint Committee Annual Return. This involves an independent examination rather than a full audit. My team will undertake the examination of these accounts on my behalf in accordance with the timescales agreed with the Council.
- 18 My audit fee for this work is set out in [Exhibit 6](#).
- 19 You will be aware that the CIPFA/LASAAC Local Authority Accounting Code Board (Code Board) has deferred the planned move to measuring the local authority highways network asset at depreciated replacement cost. The Code Board will consider whether the central gross replacement cost (GRC) rates and central assurance processes will be delivered in a timely manner to enable successful implementation in 2017-18 at its meeting in March 2017. The requirements will be introduced in the 2017-18 Code.
- 20 Any required additional audit work in relation to the highways network asset cannot be contained within existing fees. The additional audit cost will be agreed based on the quality of the Council's systems and records and the availability of central assurances. I anticipate that the additional fees related to the highways network asset will be reflected in the audit fee for 2017-18.
- 21 It will, however, be important for authorities to maintain their momentum in preparing for this significant change and may wish to engage with their external auditor as they make progress. I will discuss with you the scope of any additional preparatory work required in 2017 and any additional audit fee for such work.

Performance audit

22 The components of my performance audit work are shown in [Exhibit 3](#).

Exhibit 3: components of my performance audit work



- 23 Local government in Wales is going through an unprecedented period of change. Austerity continues to bite, audited bodies are required to adopt the principle of sustainable development from April 2016, and local government reform remains under consideration.
- 24 For 2017-18, the Measure will still be in place, and I will still need to examine whether authorities will meet their duty to make arrangements for continuous improvement. The challenge for me in these uncertain times is to balance my existing, new and proposed statutory duties with the need to continue to undertake meaningful, risk-based and proportionate audits and assessments.
- 25 During 2016 I consulted with public service bodies on how I can best discharge my various duties while striking the most appropriate balance and adding value by:
- providing assurance on the governance and stewardship of public money and assets;
 - offering insight on the extent to which resources are used wisely in meeting people's needs; and
 - identifying and promoting ways by which the provision of public services may be improved.
- 26 In addition to the annual programme of audit and assessment work, the Wales Audit Office also undertakes a programme of local government studies. This work is included within the Wales Audit Office estimates for funding from the Welsh Consolidated Fund and not local fees. [Exhibit 4](#) summarises the present position on the current programme of studies. These studies primarily lead to a national report augmented by good practice and shared learning outputs rather than by local reports. Local findings, where relevant, will be captured in improvement

assessment work and reported in annual improvement reports depending on the timing and the focus of conclusions.

Exhibit 4: local government studies

Study	Status
2015-16 studies	
Community safety	Published October 2016
Income generation and charging	Published November 2016
Council funding of third-sector services	Published January 2017
2016-17 studies	
How local government manages demand	Fieldwork
Strategic commissioning	Fieldwork
Improving wellbeing through housing adaptations	Fieldwork

27 Taking all these factors into consideration, my 2017-18 programme of work will comprise:

Exhibit 5: performance audit programme

Performance audit programme	Brief description
Improvement audit and assessment work including: <ul style="list-style-type: none"> improvement planning and reporting audit local risk-based work for 2017-18 has yet to be agreed with the Council. We will provide an update to the Audit Committee once this work has been agreed. 	Audit of discharge of duty to publish an improvement plan. To be arranged.
Well-being of Future Generations (WFG) baseline assessment	The Year One Commentary: We will gather evidence on how the 44 bodies are beginning to respond to the requirements of the WFG Act and identify examples of notable emerging practice. The work will be designed to support improvement and inform future audit work under the Act.

Performance audit programme	Brief description
WFG scrutiny review	This review will examine the impact of the WFG Act on the work of scrutiny committees, including public service board (PSB) scrutiny, facilitating improvement and the sharing of good practice.
Service-user perspective review	A user-focussed review. Specific area to be agreed with the Council.

- 28 The performance audit projects included in last year's Audit Plan, which are either still underway or which have been substituted for alternative projects in agreement with you, are set out in [Appendix 2](#).

Fee, audit team and timetable

Fee

- 29 The Wales Audit Office does not generate profits on fees. Legislation requires that the fees charged may not exceed the full cost of exercising the function to which the fee relates. The fee rates are set at a level to recover that full cost. My fee rates have been held static for 2017 and my audit teams will continue to look for efficiencies in their audits and welcome working with you constructively on this.
- 30 Your estimated fee for 2017 is set out in [Exhibit 6](#). The audit fee has been kept at the same level as last year in line with the Wales Audit Office fee setting policy. It should be noted there was an additional charge of £3,500 to last year's fee. This was to recover increased costs associated with the delay in providing us with complete accounts working papers and additional work required in respect of the Whole of Government Accounts and the consolidation of Newport Transport Ltd.

Exhibit 6: audit fee

Audit area	Proposed fee (£) ¹	Actual fee last year (£)
Audit of accounts ²	191,900	191,900
Performance audit work: ³	104,700	104,700
Grant certification work ⁴	82,000	82,000
Other financial audit work ⁵	1,244	2,104
Total fee	379,844	380,704

Notes:

¹ The fees shown in this document are exclusive of VAT, which is no longer charged to you.

² Payable November 2016 to October 2017.

³ Payable April 2017 to March 2018.

⁴ Payable as work is undertaken.

⁵ Payable as work is undertaken on the Greater Gwent Cremation Joint Committee.

- 31 Planning will be ongoing, and changes to my programme of audit work and therefore my fee, may be required if any key new risks emerge. I shall make no changes without first discussing them with the Council.
- 32 Further information on my [fee scales and fee setting](#) can be found on the Wales Audit Office website.

Audit team

- 33 The main members of my team, together with their contact details, are summarised in [Exhibit 7](#).

Exhibit 7: my team

Name	Role	Contact number	E-mail address
Anthony Veale	Engagement Director and Financial Audit Engagement Lead	029 0232 0585	anthony.veale@audit.wales
Huw Rees	Engagement Lead – Performance Audit	029 2032 0599	huw.rees@audit.wales
Gareth Lucey	Financial Audit Manager	029 2032 0500	gareth.lucey@audit.wales
Non Jenkins	Performance Audit Manager	029 2032 0595	non.jenkins@audit.wales

Name	Role	Contact number	E-mail address
Ramim Khan	Financial Audit Team Leader	029 2032 0632	ramim.khan@audit.wales
Sara-Jane Byrne	Performance Audit Lead	029 2032 4085	sara-jane.byrne@audit.wales

- 34 I can confirm that my team members are all independent of the Council and your officers. In addition, I am not aware of any potential conflicts of interest that I need to bring to your attention.

Timetable

- 35 I will provide reports, or other outputs as agreed, to the Council covering the areas of work identified in this document. My key milestones are set out in [Exhibit 8](#).

Exhibit 8: timetable

Planned output	Work undertaken	Report finalised
2017 Audit Plan	December 2016 to February 2017	March 2017
Financial accounts work: <ul style="list-style-type: none"> Audit of Financial Statements Report Opinion on Financial Statements Financial Accounts Memorandum 	February to September 2017	September 2017 September 2017 October 2017
Performance work: <ul style="list-style-type: none"> Improvement Plan Audit Assessment of Performance Audit WFG Scrutiny review Service user perspective review Local risk-based work 	(Estimated) April to May 2017 November 2017 To be arranged To be arranged To be arranged	(Estimated)* May 2017 December 2017 To be arranged To be arranged To be arranged
Annual Improvement Report	April to May 2018	June 2018
2018 Audit Plan	October to December 2018	January 2018
WFG: Year One commentary	To be arranged	N/A

* Subject to timely clearance of draft findings with the Council.

Future developments to my audit work

Well-being of Future Generations (Wales) Act 2015

- 36 The Well-being of Future Generations (Wales) Act 2015 (the Act) became law in April 2015. The Act requires me to report before the next National Assembly election on how public bodies are acting in accordance with the sustainable development principle when setting their wellbeing objectives and taking steps to meet them. In 2017 I will conduct my first work under the Act – the Year One Commentary – to understand how bodies are beginning to respond to the requirements. I will also work collaboratively with a small number of public bodies, including the central government sector, to develop an audit approach that is meaningful and proportionate and can be adopted in subsequent years.

Other

- 37 Details of other future developments including changes to key IFRS and of the Wales Audit Office's Good Practice Exchange (GPX) seminars are set out in [Appendix 5](#).
- 38 The Wales Audit Office's GPX programme seeks to support the improvement of public services across Wales by identifying and sharing good practice. The GPX seminars bring a range of public sector bodies together to share their practical experiences and learning in areas we consider would benefit from sharing good practice. The seminars are provided free of charge to delegates. Forthcoming events include:
- the challenges posed by indirectly provided, publicly funded services in Wales;
 - how you manage risk around organisation change, service transformation and innovation; and
 - measuring outcomes: who is doing it and how (linked to the WFG Act).

Appendix 1

Respective responsibilities

Audit of accounts

As amended by the Public Audit (Wales) Act 2013, the Public Audit (Wales) Act 2004 sets out my powers and duties to undertake your financial audit. It is my responsibility to issue a certificate and report on the financial statements which includes an opinion on:

- their 'truth and fairness', providing assurance that they:
 - are free from material misstatement, whether caused by fraud or error;
 - comply with the statutory and other applicable requirements; and
 - comply with all relevant requirements for accounting presentation and disclosure.
- the consistency of information in the Annual Report with the financial statements.

I must also state by exception if the Annual Governance Statement does not comply with requirements, if proper accounting records have not been kept, if disclosures required for remuneration and other transactions have not been made or if I have not received all the information and explanations I require.

The Public Audit (Wales) Act 2004 requires me to assess whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in the use of resources. To achieve this, I consider:

- the results of the audit work undertaken on the financial statements;
- the Council's system of internal control, as reported in the Annual Governance Statement and my report thereon;
- the results of other work carried out including work carried out under the Local Government (Wales) Measure 2009 (the Measure), certification of claims and returns, and data-matching exercises;
- the results of the work of other external review bodies where relevant to my responsibilities; and
- any other work that addresses matters not covered by the above, and which I consider necessary to discharge my responsibilities.

The Public Audit (Wales) Act 2004 sets out the rights of the public and electors to inspect the Council's financial statements and related documents, to ask me, as the Appointed Auditor questions about the accounts and, where appropriate, to challenge items in the accounts. I must also consider whether in the public interest, I should make a report on any matter which comes to my notice in the course of the audit.

My audit work does not relieve management and those charged with governance of their responsibilities which include:

- the preparation of the financial statements and Annual Report in accordance with applicable accounting standards and guidance;

- the keeping of proper accounting records;
- ensuring the regularity of financial transactions; and
- securing value for money in the use of resources.

Management agrees to provide me with:

- access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- additional information that I may request from management for the purpose of the audit; and
- unrestricted access to persons within the Council from whom I determine it necessary to obtain audit evidence.

Management will need to provide me with written representations to confirm:

- that it has fulfilled its responsibilities for the preparation of the financial statements;
- that all transactions have been recorded and are reflected in the financial statements;
- the completeness of the information provided to me for the purposes of the audit; and
- to support other audit evidence relevant to the financial statements or specific assertions in the financial statements if I deem it necessary or if required by ISAs.

Performance audit

The Public Audit (Wales) Act 2004 requires auditors, by examination of the accounts or otherwise, to satisfy himself that the body has made proper arrangements for:

- securing economy, efficiency and effectiveness in its use of resources; and
- that the body, if required to publish information in pursuance of a direction under section 47 (performance information) has made such arrangements for collecting and recording the information and for publishing it as are required for the performance of its duties under that section.

The Measure places a general duty on improvement authorities to 'make arrangements to secure continuous improvement in the exercise of [their] functions'. It also places specific requirements on authorities to set improvement objectives, and to publish annual improvement plans and assessments of performance. Improvement authorities are defined as county and county borough councils, national park authorities, and fire and rescue authorities.

The Measure also requires me to carry out an improvement assessment for each improvement authority every year, to determine whether the authority is likely to comply with its general duty and requirements of the Measure. The Auditor General must also carry out an audit of whether the authority has discharged its improvement planning and reporting duties.

The Auditor General may also in some circumstances carry out special inspections (under section 21), in respect of which he will provide a report to the relevant authorities and Ministers, and which he may publish (under section 22). The Auditor General will summarise audit and assessment reports in his published Annual Improvement Report (under section 24). This will also summarise any reports of special inspection.

Appendix 2

Performance work in last year's audit outline still in progress

Exhibit 9: performance work in last year's audit outline still in progress

Performance audit project	Status	Comment
Transformation	Scoping. This baseline review will examine how councils are approaching transformation.	This baseline review will examine how councils are approaching transformation.
Follow-up review of Data Quality Assurance Arrangements	Reporting.	Draft output will be issued to the Council in March 2017.
Local risk-based work	Scoping.	The scope of the remaining local risk based work is being discussed with the Council.
Annual Improvement Report (AIR)	Scheduled for June 2017.	Annual report summarising the audit work undertaken in the last year which also includes a summary of the key findings from reports issued by 'relevant regulators'.

Appendix 3

National value-for-money studies

The Council may also be interested in the national value-for-money examinations which I undertake, some of which will be of particular relevance to, and may involve evidence gathering across, local government. These studies are supported by funds approved by the National Assembly. Reports are presented to the National Assembly's Public Accounts Committee to support its scrutiny of public expenditure and potentially support scrutiny by other National Assembly committees.

Exhibit 11 covers all of the value-for-money studies work currently programmed.

The programme includes all-Wales summaries of audit work undertaken locally in the NHS and reactive examinations into specific issues of public concern that have been raised with me. In addition to the work outlined below, I may decide during the year to prepare other national reports summarising local audit work or based on the findings of reactive examinations.

I am also currently consulting with the Public Accounts Committee and other stakeholders about the inclusion in my programme of a number of new value-for-money studies to be rolled out during 2017-18. For example, I have already indicated to the committee that, following my July 2016 report on the Welsh Government's funding of Kancoat Ltd, I am considering a broader examination of the Welsh Government's support for business.

Further updates on my programme of value-for-money studies will be provided to you within the regular progress reports prepared by my team.

Exhibit 10: national value-for-money studies

Topic	Anticipated publication (as at 3 January 2017)
Outpatient follow-up appointments	February 2017
Governance and oversight of arms-length bodies (discussion paper)	February 2017
Welsh Government oversight of further education institutions' finances and delivery	March 2017
Circuit of Wales	February 2017
Emergency ambulance services commissioning	February 2017
21st century schools and education programme	March 2017
Public procurement landscape review	April to July 2017
Waste management (waste prevention)	April to July 2017
Waste management (municipal recycling) ²	April to July 2017

² In addition to the work on waste prevention and municipal recycling, I will be taking forward a review of waste treatment infrastructure in early 2017.

Topic	Anticipated publication (as at 3 January 2017)
Implementation of the NHS Finances (Wales) Act 2014 (integrated medium-term planning)	April to July 2017
Supporting People programme	April to July 2017
NHS Wales informatics services	April to July 2017
Access to public services with the support of specialist interpretation and translation	August to October 2017
Preparations for the implementation of fiscal devolution in Wales (follow-on report)	August to October 2017
Early intervention and behaviour change	TBC ³

³ My programme of good practice work has included a project exploring behaviour change work across Welsh public services and opportunities to improve practice, deliver better outcomes for citizens, and achieve better value for money. I still anticipate that the information and evidence gathered through this work will support the production of a report on this topic, although this is unlikely to be a traditional audit report and plans for its production are still to be confirmed.

Appendix 4

Other future developments

Forthcoming key IFRS changes

Exhibit 11: forthcoming key IFRS changes

Standard	Effective date	Further details
IFRS 9 Financial instruments	2018-19	IFRS 9 financial instruments will replace IAS 39 and includes a new principles-based approach for the classification and measurement of financial assets. It also introduces a new impairment methodology for financial assets based on expected losses rather than incurred losses. This will result in earlier and more timely recognition of expected credit losses. The accounting requirements for financial liabilities are almost all carried forward unchanged from IAS 39.
IFRS 15 Revenue from contracts with customers	2018-19	IFRS 15 revenue from contracts with customers introduces a principles-based five-step model for recognising revenue arising from contracts with customers. It is based on a core principle requiring revenue recognition to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration the body expects to be entitled to, in exchange for those goods or services. It will also require more extensive disclosures than are currently required.
IFRS 16 Leases	2019-20	IFRS 16 will replace the current leases standard IAS 17. The key change is that it largely removes the distinction between operating and finance leases for lessees by introducing a single lessee accounting model that requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. It will lead to all leases being recognised on the balance sheet as an asset based on a 'right of use' principle with a corresponding liability for future rentals. This is a significant change in lessee accounting.

Good Practice Exchange

The Wales Audit Office's Good Practice Exchange (GPX) helps public services improve by sharing knowledge and practices that work. Events are held where knowledge can be exchanged face-to-face and resources shared online.

The focus of GPX events includes financial management, public sector staff and governance.

Further information, including details of forthcoming GPX events and outputs from past seminars, can be found on the [GPX section of the Wales Audit Office website](#).

Registration for all events will open two months prior to the event.

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WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Certification of Grants and Returns 2015-16 – **Newport City Council**

Audit year: 2015-16

Date issued: March 2017

Document reference: 224A2017

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Agenda Item 6

This document has been prepared as part of work performed in accordance with statutory functions.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at info.officer@audit.wales.

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

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Summary

- 1 Under Paragraph 20 of Schedule 8 to the Government of Wales Act 2006 the Auditor General shall, if required by a local government or other grant-receiving body, make arrangements for certifying claims and returns (referred to as grant claims, hereafter).
- 2 We have completed the certification of claims and returns and conclude that the Authority had generally good arrangements in place for the production and submission of its 2015-16 grant claims. The Authority worked closely with us to ensure that an accurate and up-to-date schedule of grants was in place throughout the year.
- 3 For 2015-16 we certified 16 grant claims (total value of £149.8 million) compared to 18 grant claims (total value of £154.7 million) in 2014-15. This decrease relates to (1) Sustainable Waste Management Grant - Welsh Government removed the requirement for certification of this grant; (2) EU Project, Pillgwenlly Regeneration Initiative - 2014-15 was the final claim for this EU project.
- 4 One claim was submitted to us late by seven calendar days (Free Concessionary Travel). This is an improvement from 2014-15, when three claims were submitted late. The final cost of auditing all claims is £71,000 (2014-15 £82,000).
- 5 Two of the claims were qualified; this compares well against 2014-15 where ten claims were qualified.

Summary of certification work outcomes

- 6 Detailed on the following page is a summary of the key outcomes from our grants certification work on the 2015-16 claims and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate.
- 7 A qualification means that issues were identified concerning compliance with a scheme's requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant-paying body will require further information from the Council to satisfy itself that the full amounts of grant claimed are appropriate.

Exhibit 1: key information for 2015-16

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Key information for 2015-16
<p>Overall, we certified 16 grants and returns:</p> <ul style="list-style-type: none">One was qualified with no amendmentOne was qualified and required some amendmentFive were unqualified but required some amendmentNine were unqualified with no amendment

Exhibit 2: Summary of the key outcomes from our grants certification work

	Grants and returns	Certification Status	Amendment Value	Reason for Qualification / Amendment	Value of Grant/ Return	Other Comments
1	Substance Misuse Action Fund	Qualified	£0	Insufficient information to support expenditure of £70,000 incurred by a third party - Aneurin Bevan University Health Board.	£4,380,510	No further comments
2	Teachers' Pension Return	Qualified & Amended	£0	<p>Qualified on the following items:</p> <p>(a) the contributions paid' in the return is £321 lower than that notified by Teachers' Pension End of Year Certificate;</p> <p>(b) for one teacher, the teachers' contribution was incorrectly not deducted for the period April 2015 for the amount of £39; and</p> <p>(c) for a limited number of individuals, the contributory salary and teachers' contribution are not correctly classified in Section 3 of the return.</p> <p>Amendment The return was required to be re-signed by the appropriate signatory.</p>	£12,561,602	No further comments

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	Grants and returns	Certification Status	Amendment Value	Reason for Qualification / Amendment	Value of Grant/ Return	Other Comments
3	Housing Benefit Subsidy	Unqualified & Amended	£373	Number of adjustments resulting in an overall increase in subsidy claimed by the Authority of £373.	£58,614,120	No further comments
4	Communities First – Central Cluster	Unqualified & Amended	£0	The return was required to be re-signed by the appropriate signatory.	£573,498	Testing identified that the 'management recharges' had exceeded the cap by £8. As this was below the £10,000 threshold required for adjustments (as set by Welsh Government) no amendment was made to the claim.
5	Communities First – East Cluster	Unqualified & Amended	£0	The return was required to be re-signed by the appropriate signatory.	£608,313	No further comments
6	Communities First – West Cluster	Unqualified & Amended	£0	The return was required to be re-signed by the appropriate signatory.	£593,510	No further comments

	Grants and returns	Certification Status	Amendment Value	Reason for Qualification / Amendment	Value of Grant/ Return	Other Comments
7	Communities First – North Cluster	Unqualified & Amended	£0	The return was required to be re-signed by the appropriate signatory.	£607,091	Testing identified: (a) An over claim of £644, where the salary claimed exceeded the limited for a particular post. When extrapolated, the value of the error was £1,516. (b) An over claim of £52 for an accrual. As the total errors were below the £10,000 threshold required for adjustments (as set by Welsh Government) no amendment was made to the claim.
8	Families First	Unqualified	£0	Not applicable	£2,722,379	No further comments
9	National Non Domestic Rates	Unqualified	£0	Not applicable	£57,241,037	No further comments
10	21 st Century Schools	Unqualified	£0	Not applicable	£472,296	No further comments
11	Section 28A Annual Voucher	Unqualified	£0	Not applicable	£2,094,508	No further comments

	Grants and returns	Certification Status	Amendment Value	Reason for Qualification / Amendment	Value of Grant/ Return	Other Comments
12	Social Care Workforce Development Programme	Unqualified	£0	Not applicable	£357,872	No further comments
13	Flying Start Revenue	Unqualified	£0	Not applicable	£5,268,761	Testing identified errors totalling £5,261 in relation to over accruals (over claim). When extrapolated, the value of the error was £7,599. As this was below the £10,000 threshold required for adjustments (as set by Welsh Government) no amendment was made to the claim.
14	Flying Start Capital	Unqualified	£0	Not applicable	£594,088	Testing identified errors totalling £6,024 in relation to over accruals (over claim). When extrapolated, the value of the error was £9,687. As this was below the £10,000 threshold required for adjustments (as set by Welsh Government) no amendment was made to the claim.

	Grants and returns	Certification Status	Amendment Value	Reason for Qualification / Amendment	Value of Grant/ Return	Other Comments
15	Local Transport Fund	Unqualified	£0	Not applicable	£318,000	No further comments
16	Free Concessionary Travel	Unqualified	£0	Not applicable	£2,754,096	No further comments
				Total	£149,761,681	

Fees

- 8 Our overall fee for the certification of grants and returns has been contained within the original estimate of £82,000 within the 2016 Audit Plan.

Exhibit 3: Fees

Breakdown of fee by grant/return	2015-16	2014-15	2013-14
Substance Misuse Action Fund	£2,842	£2,863	£2,141
Teachers' Pension Return	£4,820	£4,125	£3,935
Housing Benefit Subsidy	£20,626	£15,179	£28,335
Communities First – All Four Clusters	£9,429	£9,708	£9,575
Families First	£3,822	£5,863	£3,258
National Non Domestic Rates	£2,989	£3,217	£4,641
21 st Century Schools	£2,037	£3,103	Not applicable
Section 28A Annual Voucher	£1,729	£2,954	£1,813
Social Care Workforce Development Programme	£2,093	£3,148	£3,436
Flying Start Revenue	£3,633	£4,163	£5,236
Flying Start Capital	£2,093	£2,070	£4,564
Local Transport Fund	£1,385	£2,903	Not applicable
Free Concessionary Travel	£2,899	£3,505	£2,467
Grant Planning, Management and Review	£10,523	£14,348	£7,037
Total Fee	£70,919	£77,149	£76,438

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Report

Audit Committee

Part 1

Date: 30th March 2017

Subject **Draft Internal Audit Annual Plan 2017/18**

Purpose To inform Members of the Council's Audit Committee of the Internal Audit Section's Draft Operational Audit Plan for 2017/18.

For the Audit Committee to comment on and endorse the Draft 2017/18 Operational Internal Audit Plan and provide comments as appropriate.

Author Chief Internal Auditor

Ward General

Summary Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, effective and efficient use of the Council's resources.

The attached report identifies a draft operational Internal Audit plan for 2017/18 based on an assessment of risk and available audit resources. It outlines where Internal Audit resources will be focused over the next year, covering systems and establishments in all service areas of the Council. 1150 productive audit days have been planned for 2017/18 [1187 days 16/17]. This is very much a draft plan as work on 2016/17 is not yet complete.

The Council's Section 151 Officer has the legal responsibility for the provision of Internal Audit.

Proposal **That the report be noted and endorsed by the Council's Audit Committee**

Action by The Audit Committee

Timetable Immediate

This report was prepared after consultation with:

- Chief Financial Officer
- Monitoring Officer
- Head of People and Business Change

Background

1. This report aims to inform Members of the Audit Committee of the work to be undertaken by the Internal Audit Section at an operational level for 2017/18. It identifies why the Council operates an Internal Audit function, the resources currently available and how they will be applied across the services of Newport City Council to give management assurance that systems are working as intended.
2. The draft plan has been compiled from cumulative audit knowledge and experience, with reference to the Corporate Plan, Improvement Plan, Service Improvement Plans, Newport's Corporate Risk Register, Budget and Medium Term Revenue Plan and external audit reports along with previous history of known problems or issues. The views and concerns of service area management teams have also been incorporated into prioritising workloads for the audit planning process. Heads of Service have been afforded the opportunity to contribute to the drafting of the plan.
3. The report refers to options considered, preferred choice and consultation undertaken. The report lists all background papers relevant to scrutiny of this issue.
4. The Head of Finance is, for the purposes of Section 151 of the 1972 Local Government Act, responsible for the proper administration of the Council's financial affairs. More specifically, The Accounts and Audit (Wales) Regulations 2014 require that the relevant body maintains an adequate and effective internal audit function. Under the direction of the Chief Internal Auditor, the Internal Audit Section at Newport City Council undertakes this provision on behalf of the Head of Finance.
5. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. It provides assurance or otherwise to management.
6. An organisation as diverse as the City Council has many internal systems which require appropriate controls. Each of these systems can be considered appropriate for internal audit review along with the Council's establishments. However, it is not considered appropriate to review all systems every year so they are undertaken on a cyclical basis, prioritised by way of a risk assessment approach (high, medium or low priority). The attached audit plan (Appendix 1) shows how the systems operated and services provided within all service areas will be covered.
7. The draft operational plan (2017/18) is as realistic as possible taking account of available audit resources and an allowance for financial training and advice; special investigations have also been included. Allowances for post entry training, general training, holidays, sickness and professional studies have been made in arriving at the number of available audit days for 2017/18.
8. The timing of each review in the 5 year cycle depends on an assessment of the risk that each system poses for the Council, Service Area and Section. A number of factors are taken into account when assessing risk, but it should be stressed that management are responsible for managing that risk, and are best placed to identify the risk in the first place. Accordingly the views of the management teams within each service area have been sought when compiling this plan and incorporated where appropriate. An update of the strategic audit plan will be provided to the Audit Committee by the end of the first quarter of 2017/18.
9. Although Internal Audit have limited resources (currently 8 staff including the Chief Internal Auditor), the aim is to provide as much coverage of the Council's systems and establishments as possible. The audit resources have been significantly reduced over the last few years which leads to less coverage across service areas which will have an impact on the level of assurance

the audit team can give to senior management on the adequacy of sound financial management / internal control / governance / risk management across the Council.

10. The initial draft Internal Audit plan has been discussed with service group management teams to ensure the risk profile determined by the audit management team is right. Comments from some management teams suggest that greater coverage should be given to their specific service areas to provide even more assurance, which would be achievable given greater audit resources. Heads of Service have welcomed the opportunity to contribute to the audit planning process and view it as a positive move forward. Some are seeking audit advice in system implementation stages more so, moving away from the traditional audit opinion work, which is encouraging from the audit perspective.
11. The initial plan for the year always starts off as a “long-list” of what work we should be covering in that particular year. We then have to balance that with the resources we have available and the risk profile of the individual audit job. The 2017/18 operational plan aims to cover the areas stated within the given time allocations but professionally I feel that it will provide assurance to managers on the effectiveness of their internal controls and safeguard the assets of the Authority whilst covering the key risks. Time allocations per review are also tight but have been set to provide as much coverage as possible within service areas.
12. Agreed management actions of previous audit reports will be followed up during 2017/18; this will identify the progress managers have made on addressing weaknesses in internal control; i.e. have the agreed management actions been implemented? This could impact on the coverage planned for other systems within service areas. This will be reported back to the Audit Committee.
13. From time to time the risk profile or priority of audit workload or service area may change so the planning process needs to be flexible enough to accommodate this. Where significant changes to the operational plan are required, the matter will be reported to the Head of Finance for approval; this will subsequently be reported to the Audit Committee. Internal Audit’s performance against this plan will continue to be reported to the Audit Committee on a regular basis.
14. Ultimately, the audit team has to undertake sufficient work across the whole Authority to enable the Chief Internal Auditor to give an overall annual audit opinion, and hence assurance, on the adequacy of the internal control environment of the systems operated within the Council.
15. With collaboration, change and efficiency reviews on the horizon, across the whole Council, the audit team will need to be flexible enough and adaptable to respond to changing priorities within the Council in order to provide the assurances required. The Chief Internal Auditor will continue to provide the same service to Monmouthshire CC, in collaboration.

Risk Analysis

16. The risks that the Council face are many and varied. A number of factors have been taken into consideration in compiling both the operational one year plan and the strategic plan; financial budgets, previous audit work, The Measure, history of fraud, theft, misappropriation or non-compliance, changes in systems, changes in key personnel, along with concerns of management. A risk assessment exercise is undertaken in compiling the audit plan. An assessment is made of the likelihood and impact of an event happening, taking into account any mitigation.
17. The audit workload needs to be prioritised to ensure appropriate coverage is given in all service areas and that assurance can be given that Council and service area objectives are being achieved. This is helped with Heads of Service and their senior managers being involved with the process and contributing to the risk profile assessment as a collaborative exercise with Internal Audit.

18. Grant income and external funding is becoming more prominent within the finances of the Council; generally these will be audited externally by the external auditor who provides assurances to the grant paying body. Internal Audit may be requested to audit some grants, therefore, a limited number of days have been included in the Internal Audit planning process.
19. In the Audit Section's continual efforts to ensure that Council assets are safeguarded and to provide assurance to management that their internal controls are robust, further training specifically on Financial Regulations and Contract Standing Orders has been incorporated in the audit plan. Heads of Service have noted that this is a positive step and encourage their staff to attend. Some of these sessions will be targeted to managers who have previously received unfavourable audit opinions. The Internal Audit team will also be working with the Senior Finance Business Partner during 2017/18 to further develop a training package to specifically support schools with their financial management.
20. A requirement of the Accounts and Audit (Wales) Regulations 2014 is that an Annual Governance Statement needs to be included with the Statement of Accounts; this covers corporate governance, performance measurement and risk management as well as internal financial control. The Chief Internal Auditor will continue to be involved with collating and co-ordinating the relevant information to support this statement, although the preparation of the statement should be a corporate responsibility.
21. The audit team will continue to be more involved with the verification of the Council's performance indicators in 2016/17 before they are externally scrutinised, to ensure accuracy and completeness. This will be at the expense of covering other services within the People and Business Change Service Area.
22. 1150 productive audit days have been incorporated into the 2017/18 draft audit plan. The total resource available for the beginning of the year was 2080 days; annual leave, public holidays, sickness, training, known vacancies, management and administration time is then deducted to determine the available audit days to undertake audit reviews, deal with special investigations, provide advice and deliver training. On average an auditor has 180 available days to undertake audit work during the year.
23. An allocation of time has been included in the plan for special investigations which members of the team may get involved with during the year. These could range from allegations of fraud or theft to non-compliance with Contract Standing Orders. The allocation has been fairly consistent over the last few years; for 2017/18 the allocation will be 200 days:

	Allocation of days	Actual days
2013/2014	300	158
2014/2015	240	279
2015/2016	240	140
2016/2017	200	o/s
2017/2018	200	

Risks to the Provision of Internal Audit

24. There is a potential change to the way audit services are delivered across South Wales with shared services on the agenda following the Williams Report. This could be seen as an opportunity for Newport Internal Audit team especially as the Chief Internal Auditor currently provides the same service to a neighbouring local authority. This will continue into 2017/18.

Independence

25. Independence is achieved through the organisational status of internal audit and the objectivity of internal auditors. In order to ensure the objective nature of audit reviews is not compromised, Internal Audit must be seen to be demonstrably independent of all managerial influence. Within Newport City Council this is achieved as follows:

- the Chief Internal Auditor is responsible for the control and direction of Internal Audit;
- the Chief Internal Auditor has a duty to report direct to the Chief Executive and the Leader of the Council on any matter which he feels appropriate, in particular where the Head of Finance appears to be personally involved;
- individual audit reports are sent to service managers and heads of service as appropriate in the name of the Chief Internal Auditor; and
- the Chief Internal Auditor submits an annual report to the Audit Committee giving an overall opinion on the adequacy of internal controls operated within the Council.

Audit Opinion

26. At the end of each audit review an audit opinion is given on the adequacy of the internal controls operated within that system or establishment. Taking into account strengths and weaknesses, the current suite of opinions range from good through to unsound:

	GOOD	Well controlled with no critical risks identified which require addressing; substantial level of assurance.
	REASONABLE	Adequately controlled although risks identified which may compromise the overall control environment; improvements required; reasonable level of assurance.
	UNSATISFACTORY	Not well controlled; unacceptable level of risk; changes required urgently; poor level of assurance.
	UNSOUND	Poorly controlled; major risks exists; fundamental improvements required with immediate effect.

Structure

27. The Internal Audit Section comprises of two teams each led by an Audit Manager both reporting directly to the Chief Internal Auditor. The section has an establishment of 8 and is responsible for auditing all of the Council's systems and establishments including the payroll functions for 6,000+ staff.

Resources

28. Consideration has been given to the appropriate level of resources for Internal Audit at Newport City Council. The current establishment of 8 staff remains just about adequate for the current level of assessed risk as outlined above; a greater audit resource could provide a greater assurance to management and allow the section to be even more responsive to changing priorities and risk profiles throughout the year. Any unplanned absences such as long term sickness, secondments or prolonged special investigations could significantly affect the audit plan as cover is limited.

29. If the risk profile of the Council significantly changes or if more investigations into allegations of Council staff are required than were planned for, then consideration will need to be given to increasing the resources of the Internal Audit team in order to maintain the current level of service provided.
30. It has been difficult to prioritise workload for 2017/18; after discussions with senior management teams in the service areas, in particular Social Services and Education Services, it was evident that a lot more audit coverage was required than the team is resourced up to deal with.

Staffing & Training

31. The Section is supported by staff on a range of grades with appropriate professional qualifications including part qualified and fully qualified accountants and auditors. The staff have considerable experience of working within the local authority and audit environment. The Chief Internal Auditor, Andrew Wathan, is a qualified CIPFA accountant (Chartered Institute of Public Finance and Accountancy) and has extensive working knowledge of external and internal audit practices within the public sector. Andrew's management team consists of two professionally qualified Audit Managers, one CIPFA qualified and one ACCA qualified. Two members of staff are PIIA qualified (Institute of Internal Auditors) and others in the team are part qualified, either ACCA or AAT.
32. Audit management will continue to support professional and work related training in order to enhance the Section's effectiveness in service delivery in line with the Council's management expectations and the Public Sector Internal Audit Standards. This will ensure that all staff are kept up to date with developments in auditing techniques and changes within local government which may impact on the provision of the service.
33. There are a number of active audit benchmarking clubs operating within South Wales under the auspices of the Welsh Chief Auditors' Group, which are attended by members of the Audit Section. These are a useful way for staff to network with colleagues and share good practice.
34. The team will continue to arrange technical audit training on behalf of the South Wales Chief Auditors' Group throughout the year which Newport's Internal Audit staff have the opportunity of attending. These sessions are run on a breakeven basis although Newport's Internal Audit team benefit from one free place for managing the administration.

External Auditor / Relations

35. The Council's external auditor is the Wales Audit Office. The Internal Audit team has developed a good working relationship with the team and will continue to do so to work jointly, share good practice and avoid duplication. The external auditor places reliance on work undertaken by Internal Audit on what they consider to be the Council's fundamental systems. They will also continue to assess Internal Audit against the standards to ensure that a professional and effective service is being provided.
36. The Chief Internal Auditor will continue to ensure compliance with the Public Sector Internal Audit Standards.

Service Areas

37. Many of the managers within the Council call upon the Audit Section for financial advice which is incorporated within the plan. Audit staff are more than willing to offer any help and assistance they can to ensure that operations are undertaken properly but this also has an impact on planned audit reviews where time allocations are exceeded.

38. As a service to all levels of management, it is important that internal audit is seen as contributing positively to managers undertaking their responsibilities. These are wide ranging but include the prevention of fraud and corruption and securing the efficient and effective delivery of services; part of management obligations under the Council's Financial Regulations.

Financial Summary

39. There are no financial issues related to this report.

Risks

40. If members are not involved in the process of endorsing the draft annual audit plan then this weakens the governance arrangements and would be non-compliant with the Public Sector Internal Audit Standards, which could then be subject to adverse criticism from the external auditor, currently WAO.

Links to Council Policies and Priorities

41. The work of Internal Audit supports all of the Council's priorities and plans.

Options Available

42. (1) That the Annual Audit Plan for 2017/18 be endorsed, subject to any amendments suggested by the Audit Committee.

Preferred Option and Why

43. Option (1) as it is requirement of the Public Sector Internal Audit Standards.

Comments of Chief Financial Officer

44. I can confirm that I have been consulted on Annual Audit Plan 2017/18 and have no additional comments.

Comments of Monitoring Officer

45. I can confirm that I have been consulted on this operational internal audit plan and I agree that this reflects the current risk profile of the service.

Staffing Implications: Comments of Head of People and Business Change

46. The audit plan details how the resources available to the Chief Internal Auditor are allocated based on organisational risk and priority. I confirm that I have been consulted upon about this plan and agree with the allocation or resource within it.

Comments of Cabinet Member

47. Not applicable.

Local issues

48. No local issues.

Scrutiny Committees

49. Not appropriate

Equalities Impact Assessment

50. Not required.

Children and Families (Wales) Measure

51. Not appropriate.

Consultation

52. Not appropriate:

Background Papers

53. 2016/17 Internal Audit quarterly reports, Corporate Plan, Improvement Plan, Corporate Risk Register, Service Improvement Plans.

APPENDIX 1

Internal Audit Services		
Operational Audit Plan for 2017/18		
Service Area	Number of days	Percentage of plan
Finance	191	17%
People & Business Change	122	11%
Law & Regulation	76	7%
Children & Young People Services	76	7%
Adult Services	85	7%
Streetscene & City Services	90	8%
Regeneration, Investment & Housing	97	8%
Education Services	203	18%
External Audits	10	1%
Special Investigations	200	17%
Total Days for Operational Plan	1150	100.0%

Service Grouping	Number of days	Percentage of plan
Chief Executive		
Corporate Services	389	34%
People		
Social Services	161	14%
Education Services	203	18%
Place		
Streetscene & Regeneration	187	16%
Other	210	18%
Total Days for Operational Plan	1150	100.0%

The above table is a general indication of where audit resources will be allocated as the audit of the 2016/17 plan is not yet complete.

DRAFT INTERNAL AUDIT SERVICES – 2017/18

The table below is a general indication of where audit resources will be allocated as the Internal Audit team are still in discussions with Heads of Service regarding the prioritisation of work to be undertaken. The draft plan will be finalised by the end of the first quarter of 2017/18.

	<u>Days</u>	<u>Risk</u>	<u>Total</u>	
Finance				
Social Services Financial Assessment & Charging	23	H		
Taxation (VAT)	12	M		
Income Returns	20	M		
Sundry Debtors	23	H		
Corporate Procurement	23	H		
Purchasing Cards (System)	20	H		
Purchasing Cards (Transactions)	8	H		
Annual Governance Statement	10			
Highways Network Assets Valuation Follow-Up	13	H		
National Fraud Initiative (NFI)	25			
Financial Advice	6			
Follow up of 2016/17 Agreed Management Actions	2			
Finalisation of 2016/17 Audits	6		191	17%
People & Business Change				
Performance Indicators	15	M		
Agency Staff	23	H		
HR/Payroll	18	H		
Social Services Training Unit	23	M		
Freedom of Information (FOI) & Subject Access Requests	15	M		
Payment Card Industry Data Security Standards (PCI DSS) Follow-Up	3	H		
Financial Advice	9			
Financial Regulations Training	10			
Follow up of 2016/17 Agreed Management Actions	2			
Finalisation of 2016/17 Audits	4		122	11%
Children & Young People Services				
Operations	23	H		
Kinship Payments	18	H		
Safeguarding	23	H		
Financial Advice	6			
Follow up of 2016/17 Agreed Management Actions	2			
Finalisation of 2016/17 Audits	4		76	7%

Adult & Community Services				
First Contact	23	H		
Direct Payments	20	H		
Supporting People Programme Grant (SPPG) Certification	12			
Spring Gardens	15	M		
Financial Advice	6			
Follow up of 2016/17 Agreed Management Actions	2			
Finalisation of 2016/17 Audits	7		85	7%
Law & Regulation				
Democratic Administration / Scrutiny	15	H		
Electoral Registration	15	H		
Marketing & Communications	15	M		
Trading Standards	15	M		
Scambusters Grant Claim 2016/17	8	M		
Financial Advice	3			
Financial Regulations Training	1			
Follow up of 2016/17 Agreed Management Actions	2			
Finalisation of 2016/17 Audits	2		76	7%
Education Services				
Trips & Visits (Evolve System)	12	M		
Education Improvement Grant 2016/17	5	M		
Pupil Deprivation Grant 2016/17	5	M		
Primary School Audits x6	60	M		
School Follow up Audits x2	16	H		
Secondary School Audits x2	24	M		
CRSA's / Healthcheck - Primary/Secondary/Nursery	14	M		
Outside Preferred Catering Contractor (Schools)	10	M		
Gwent Education Multi-Ethnic Service	15	M		
Financial Regulations Training	10			
Financial Advice	20			
Follow up of 2016/17 Agreed Management Actions	4			
Finalisation of 2016/17 Audits	8		203	18%
Regeneration, Investment & Housing				
Developers Contributions (Section 106)	17	H		
Business Support Unit	12	M		
ERDF - Pill Regeneration Programme	15	H		
Rehousing Services	17	M		
Youth Service	17	M		
Newport Norse - Joint Venture Follow Up	8	H		
Financial Regulations Training	1			
Financial Advice	5			
Follow up of 2016/17 Agreed Management Actions	2			
Finalisation of 2016/17 Audits	3		97	8%

Streetscene & City Services				
HIC Follow Up - Project Management	17	H		
Parking Services	17	H		
CCTV / Security - Telford Depot Follow up #2	6	H		
Bus Services Support Grant 2016/17	5	M		
Cemeteries	15	M		
Overtime & On-call Payments – Highways Follow up	8	H		
Agency / Overtime - Refuse Follow Up	8	H		
Financial Advice	7			
Financial Regulations Training	1			
Follow Up of 2016/17 Agreed Management Actions	2			
Finalisation of 2016/17 Audits	4		90	8%
Ext Audits				
WCAG Training Co-ordinator	10		10	1%
	950			
Special Investigations	200			17%
Total Audit Days	1150			100%



Report

Audit Committee

Part 1

Date: 30 March 2017

Subject Internal Audit – Progress against Unsatisfactory Audit Opinions Previously Issued [to December 2016]

Purpose To inform Members of the Audit Committee of the up to date position of audit reviews previously given an unsatisfactory / unsound audit opinion.

Author Chief Internal Auditor

Ward General

Summary The attached report identifies current progress of systems or establishments which have previously been given an unsatisfactory or unsound audit opinion. Although there will always be concerns over reviews given an unsatisfactory or unsound audit opinion, managers are allowed sufficient time to address the issues identified and improve the financial internal controls within their areas of responsibility.

In July 2015 it was reported that 5 audit reviews had been given an Unsatisfactory audit opinion during **2014/15**:

In **2015/16**, 34 audit opinions had been issued; 8 were *Unsatisfactory*, no *Unsound* opinions were issued. This was reported to Audit Committee in June 2016. The Head of Streetscene & City Services was called into Audit Committee in September 2016 to respond to two consecutive Unsatisfactory Audit Opinions relating to CCTV / Security (Telford Depot).

As at 31st December 2016, during **2016/17** 23 audit opinions had been issued; 3 were *Unsatisfactory*, 1 was *Unsound*.

Proposal 1) The report be noted and endorsed by the Council's Audit Committee

Action by Audit Committee

Timetable Immediate

Background

1. This report aims to inform Members of the Audit Committee of the current status of audit reviews previously given an *unsatisfactory* or *unsound* audit opinion and to bring to their attention any areas which have **not** demonstrated improvements within the financial control environment.
2. Since bringing this report to the Audit Committee there have been 13 reviews which had been given two consecutive *unsatisfactory* or *unsound* audit opinions and these have previously been brought to the attention of the Audit Committee by the Chief Internal Auditor; in each case the relevant Head of Service and Cabinet Member attended a meeting of the Audit Committee. The latest referrals are shown at Appendix A.
3. It is pleasing to report that improvements were made in all 13 areas. These reviews will now be picked up as part of the audit planning cyclical review and will be audited as part of that process.
4. Follow up audit work for the 5 2014/15 Unsatisfactory reviews has now been undertaken with the updated opinions shown in the table in paragraph 9. 3 opinions have subsequently improved.
5. Although follow up audit work had been planned for the 8 unsatisfactory opinions issued in 2015/16, only 2 have actually been followed up. These are shown in the table in paragraph 10. Significant improvements have been made in the 2 areas followed up with 'Good' opinions issued. 3 areas are currently being reviewed and 3 will be carried forward to 2017/18.
6. Where the team come across obstacles in undertaking follow up work, for example managers stating that the issues will be addressed by the implementation of a new system, the Chief Internal Auditor will take a view as to the usefulness of a follow up review at the time and report back to the Audit Committee.
7. The 4 areas given an unfavourable audit opinion in 2016/17 will be included in the 2017/18 audit plan and followed up within that year.
8. Definitions of the audit opinions are shown at Appendix B.

History of unfavourable audit opinions

9. In **2014/15**, 34 audit opinions were issued; 5 of which were deemed to be *Unsatisfactory* as shown in the following table. 2 of these have not been followed up for the reasons noted in the table so we are not yet in a position to provide an update on the current audit opinion for all 5 yet.

	Revised Opinion / Date of follow up	Current Status
Amenity Funds (Adult Services)	2016/17	Reasonable (Draft - February 2017)
Flexible Working and Travel and Subsistence Procedures (Adult Services)	2016/17	Not followed up - Changes to flexi administration - T&S inc in Corporate review of T&S
CCTV / Security (Telford Depot) (Street Scene)	2015/16	Unsatisfactory Final issued 29/06/16 No further follow up to date due to absence of Head of Service and Operational Manager. Planned for 2017/18
Discretionary Charging (Public Protection – Environmental Health)	2015/16	Reasonable Finalised
SEN Assessments and Out of County Assessments (Education Services) Final	2016/17	Reasonable Finalised

10. In **2015/16**, 34 audit opinions had been issued; 8 of which were deemed to be *Unsatisfactory*; a summary of the significant issues has previously been reported:

	Revised Opinion / Date of follow up	Current Status
Partnerships & Planning - Re: Grants to Voluntary Sector Organisations	2016/17 Q4	In progress
Looked After Children 16+	2016/17 Q4	In progress
Kimberley Nursery	2016/17 Q4	In progress
Ysgol Gymraeg Casnewydd	2016/17	Good (Draft - March 2017)
Malpas Court Primary - Special	2015/16	Good
Joint Venture – Newport Norse	2017/18	Delay in finalising original report
Highways Improvements Contracts – Project Management	2017/18	Not yet followed up
CCTV / Security Telford Depot – Follow Up	2014/15 – Unsatisfactory 2015/16 - Unsatisfactory	Unsatisfactory Follow up planned for 2017/18 due to absence of Head of Service and Operational Manager

11. In **2016/17**, up to 31st December 2016, 23 audit opinions had been issued; 3 were deemed to be *Unsatisfactory*, 1 was *Unsound*; a summary of the significant issues follows the table:

	Revised Opinion / Date of follow up	Current Status
Payment Card Industry Data Security Standards	Unsatisfactory	Final (July 2016)
Highways Network Assets Valuation	Unsatisfactory	Final (February 2017)
Overtime & On Call Payments - Highways	Unsatisfactory	Draft (December 2016)
Agency / Overtime - Refuse (incl. Follow-up)	Unsound	Final (November 2016)

a) Payment Card Industry Data Security Standards

- The Council cannot easily demonstrate compliance with SAQ C because there is a lack of PCI documentation such as the original assessment and scope of PCI work, relevant payment location information, details of the flow of cardholder data through the network and any detail about the solutions in place for specific control requirements in the SAQ.
- There is no network segmentation between the cardholder data environment (CDE) and the corporate network so the scope of PCI-DSS is increased by requirements potentially relating to the whole network rather than just a smaller (CDE) segment. This is a theme that runs through the audit review, especially within Objective 6.2 where identifying components to test is challenging.
- Several specific requirements reviewed within the audit were found to not be compliant at that point in time. PCI-DSS requires compliance at all times so the Council cannot be deemed compliant while some controls are deficient.

b) Highways Network Assets Valuation

Ref.	SIGNIFICANT
1.03	The Highway Asset Management Plan 2009-12 was out of date and not aligned with the Corporate Asset Management Plan and Corporate Plan. Additionally there was no strategic overview to identify the key actions / requirements to ensure compliance with the CIPFA standards.
1.04	There was insufficient knowledge and understanding about the purpose and impact which the highways network asset valuation has on the financial accounts.
1.05	There was no guidance or working instructions to ensure officers were consistently providing accurate data and evidence to demonstrate compliance with the CIPFA Code of Practice.
2.02	Issues were identified with the accuracy of carriageway dimensions and rates used with insufficient evidence to support the carriageway additions.

2.03	There was no system in place to accurately record the inventory (including surface type), condition, rates and adoptions of footways and cycle tracks .
2.04	Issues were identified with the accuracy of the structures access database to record the structure dimensions and condition with further investigation required for the valuation and ownership of assets.
2.05	No evidence was retained to support the street lighting inventory (incl. additions / disposals) with discrepancies identified between the replacement rates in the valuation and contract.
2.06	The original reports from Mayrise were not retained to support the illuminated signs inventory (incl. additions / disposals) with discrepancies identified between the valuation rates and contract rates.
2.07	Issues were identified with the accuracy and quality of the estimated and actual inventory data, rates and additions / disposals of street furniture used in the valuation.
2.08	There was no effective inventory system to record and manage the traffic signals and other traffic management systems (TMS) valuations with insufficient documentary evidence to support the rates used in the valuation.
2.09	No land valuation figure was provided for the 2015/16 Highways Network Asset Valuation resulting in the overall valuation being understated.
2.10	The Highways Network Asset Valuation was not subject to any peer review or verification prior to and after its submission to Accountancy to ensure the valuation is accurate and evidentially supported.

c) Overtime & On Call Payments – Highways (Draft)

Ref.	CRITICAL
1.04	For the period examined it was identified that employees were working in excess of the hours as prescribed by the EU Working Time Directive without formally opting out.

Ref.	SIGNIFICANT
1.05	Signing in / out records were not completed by the Service. Compensatory rest days / TOIL taken by employees was not being recorded. When compensatory rest days / TOIL was taken, this was not deducted from the employee's salary.
1.06	For the sample examined, hours claimed and paid to employees via timesheets were not always supported by appropriate documentation e.g. Call out reports.
1.07	For the sample examined, where available, call out reports were not completed in full meaning the additional hours claimed by employees could not be verified.
1.08	For the period examined, some call outs had been completed without corresponding Duty Officer Work Instructions.
1.09	For the period examined, a standard call out time of 2hrs was being claimed rather than the employee's actual working time.
1.10	For the period examined, where multiple call outs appeared to be of a continuous nature, these had not been aggregated and were claimed and paid as separate call outs.
1.11	For the period examined, on call payments had not been reviewed on an annual basis in line with the Out of Hours policy and employees who worked in excess of 187 hours overtime in a 17 week period were not removed from the on call rota.
1.12	No meaningful authorisation was being given to employees' timesheets by management prior to payment. Hours claimed on timesheets were sometimes in excess of the maximum hours which could be claimed within the period.

d) Agency / Overtime - Refuse (incl. Follow-up)

Ref.	CRITICAL
1.01	For the period examined, members of refuse staff (both permanent employees and agency employees) were not working their contracted hours even though they were being paid for these. For agency staff alone, this is costing NCC approx. £1,600 per week; the equivalent of £83,000 per annum.

Ref.	SIGNIFICANT
1.02	For the period reviewed, weekday overtime was being claimed by and paid to members of staff (both NCC and agency employees) even though they had not completed their contracted working hours for the week.
1.03	For the period examined, regular weekend overtime was being paid despite employees not working their contracted hours.
1.04	At the time of the review, office based staff such as Supervisors and the Assistant Manager (Refuse) did not deduct lunch breaks from their daily working hours as required. There was also no evidence to confirm that drivers and loaders deducted any lunch / breaks from their daily working hours.
1.05	The signing in / out records at the site continued to be inadequate with no arrival times recorded. The records were not always fully completed.
1.06	For the period examined, high levels of overtime continued to be paid to the Refuse Supervisors (Grade 6) and the Assistant Manager (Grade 8).
1.07	From a review of the 'Manning Book' and the signing in / out records a number of unreported sickness absences were identified.
1.08	The hours worked by employees detailed in the 'Manning Book' were not always consistent with those recorded on the paid timesheets.
1.09	For the period reviewed, agency staff were being paid but not always being recorded on the 'Manning Book'.
1.10	For the period reviewed, the use of agency staff by the refuse service was high and some agency had worked for the service for over 2 years.

12. Internal Audit will continue to cover the service areas and specific sections identified in the 2016/17 operational plan and will endeavour to revisit any areas which have been given an unsatisfactory or unsound audit opinion within a twelve month timescale.
13. Heads of Service and service managers are responsible for addressing any weaknesses identified in internal systems and have agreed to do this by incorporating their comments within the audit reports and taking on board the agreed management actions.
14. Internal Audit are continuing to raise the awareness of financial regulations and contract standing orders within the Council by delivering seminars to all service areas; during recent years this training has been further targeted towards areas that have had unsatisfactory audit opinions.
15. Where managers are compliant with Council policies and procedures and sound financial management can be demonstrated then audit reviews should result in an improved audit opinion being given. If, as a result, improvements are made to internal controls then greater assurance can be given by Internal Audit to the Audit Committee, the Leader and the Chief Executive on the overall effectiveness of all the Council's internal controls.

Financial Summary, Risks and Links to Council Policies and Priorities

16. No direct financial implications for this report.
17. One of the key objectives of an audit report is to outline compliance against expected controls within a system, an establishment or the duration of a project or contract. The report should give management assurance that there are adequate controls in place to enable the system to run effectively, efficiently and economically. If adequate controls are not in place then there is greater exposure to the risk of fraud, theft, corruption or even waste.
18. Newport Internal Audit reports outline strengths of the system under review along with any weaknesses in internal control. The reports are discussed with operational management where the issues identified are agreed. The operational manager will then add his / her action plans to the report which will address the agreed issue and mitigate any further risk.
19. Reduced audit staff reduces the audit coverage across service areas which provides reduced assurance to management.
20. Risk table – N/A for this report
21. Giving management assurance on systems in operation gives them confidence that there is sound financial management in place, that more effective services can be provided and the risk of theft, fraud and corruption is minimised. Better service provision, looking after the public pound makes our City a better place to live for all our citizens
 - To make our city a better place to live for all our citizens
 - To be good at what we do
 - To work hard to provide what our citizens tell us they need

Options Considered / Available. Preferred choice and reasons

22. Not applicable

Comments of Chief Financial Officer

23. This report is compiled on behalf of the Head of Finance. Areas of unsatisfactory / unsound audit opinions are a concern and in particular for 2016/17, those affecting significant amount of money in overtime/on-call arrangements. But having highlighted issues, it is expected that local managers implement appropriate improvements as soon as they can. Further on-going unsatisfactory / unsound opinions are then of even more concern and the Committee will need to come to a view, having made enquiries of the Chief Internal Auditor, what, if any further action may be required. For example, they may request that the relevant Head of Service and service manager come to a future meeting to explain the lack of progress and what changes they have planned and timescales.

Comments of Monitoring Officer / Head of Law & Regulation

24. There are no legal implications. The report has been prepared in accordance with the Council's internal audit procedures and the Performance Management framework.

Comments of Head of People and Business Change

25. There are no direct Human Resources issues arising from this report. Internal Audit provide a critical function within the Council to provide assurance on financial systems and monitoring and to highlight weaknesses so that issues can be identified and addressed.

Local Issues and Consultation

26. Not applicable

INTERNAL AUDIT SERVICES


Progress of reports following call-in to Audit Committee as a result of 2 consecutive unfavourable audit opinions:

Review	Service Area	Status since Head of Service and Cabinet Member attended Audit Committee
Ysgol Gymraeg Casnewydd (Nov 2011)	Education Services	Reasonable (March 2013) Unsatisfactory (April 2016) Good (March 2017) - Draft
Recruitment & Selection (July 2012)	People & Transformation	Good (Feb 2014)

INTERNAL AUDIT SERVICES – OPINIONS

- The Internal Audit team has revised the audit opinions in line with the level of assurance obtained from undertaking the audit work, that appropriate controls, governance arrangements and risk management are in place.
- The Internal Audit team introduced a new report format during 2015/16 where the Audit Opinion has been colour coded based on a traffic light system and the report only contains key issues which need to be addressed.

AUDIT OPINIONS 2016/17:

	GOOD	Well controlled with no critical risks identified which require addressing; substantial level of assurance.	Green
	REASONABLE	Adequately controlled although risks identified which may compromise the overall control environment; improvements required; reasonable level of assurance.	Yellow
	UNSATISFACTORY	Not well controlled; unacceptable level of risk; changes required urgently; poor level of assurance.	Amber
	UNSOUND	Poorly controlled; major risks exists; fundamental improvements required with immediate effect.	Red

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Report

Audit Committee

Part 1

Date: 30 March 2017

Subject Work Programme

Purpose To report the details of this Committee's work programme.

Author Overview and Scrutiny Officer

Ward General

Summary The purpose of a forward work programme is to help ensure Councillors achieve organisation and focus in the undertaking of enquiries through the Audit Committee function.

This report presents the current work programme to the Committee for information and details the items due to be considered at the Committee's next two meetings.

Proposal **The Committee is asked to endorse the proposed schedule for future meetings, confirm the list of people it would like to invite for each item, and indicate whether any additional information or research is required.**

Action by Audit Committee

Timetable Immediate

This report was prepared after consultation with:

- Head of Law and Regulation
- Head of Finance
- Head of Human People and Business Change

Background

The purpose of a forward work programme is to help ensure Councillors achieve organisation and focus in the undertaking of enquiries through the Audit Committee function.

Attached at Appendix 1 is the forward work programme for this Committee. Below are the items scheduled to be presented at the Committee's next two meetings. Committee Members are asked to endorse this schedule, confirm the list of people they would like to invite for each item, and indicate whether any additional information or research is required.

25 May 2017

Appointment of Chairman
Internal Audit Annual Report 2016/17
Internal Audit Annual Plan 2017/18
Annual Governance Statement
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 4, Jan to March)
Corporate Risk Register Update (considered by Cabinet in April)
Regulatory Reports
Referrals to Audit Committee

22 June 2017

Internal Audit Unsatisfactory Audit Opinions (6 monthly report)
Treasury Management Report
Draft Financial Accounts 2016/17
Referrals to Audit Committee

Financial Summary

Please see comments from Chief Financial Officer below.

Risks

If proper work programming procedures are not put in place, the organisation and prioritisation of the work programme is put at risk. The work of the Audit Committee could become disjointed from the work of the rest of the Council, which could undermine the positive contribution Audit Committee makes to service improvement.

This report is presented to each Committee every month in order to mitigate that risk. The specific risks associated with individual topics on the work programme will need to be addressed as part of the Committee's investigations.

Comments of Chief Financial Officer

There will be financial consequences for some of the reviews undertaken. These will be commented upon as the reports are presented. The preparing and monitoring of the work programme is done by existing staff for which budget provision is available.

Comments of Monitoring Officer

I have no comments, as there are no legal implications.

Staffing Implications: Comments of Head of People and Business Change

There are no staffing implications within this report. Any staffing implications of the reviews in the work programme will need to be addressed in individual reports.

Background Papers

None.

(Audit Committee to meet every other month unless circumstances dictate otherwise)

25 May 2017
Appointment of Chairman
Internal Audit Annual Report 2016/17
Internal Audit Annual Plan 2017/18
Annual Governance Statement
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 4, Jan to March)
Corporate Risk Register Update (considered by Cabinet in April)
Regulatory Reports
Referrals to Audit Committee

22 June 2017
Internal Audit Unsatisfactory Audit Opinions (6 monthly report)
Treasury Management Report
Draft Financial Accounts 2016/17
Referrals to Audit Committee

21 September 2017
Internal Audit Plan 2017/18 – Progress (Quarter 1)
Statement of Accounts 2016-17
Audit of Financial Statements Report 2016-17
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 1, April to June)
Corporate Risk Register Update (Considered by Cabinet in September)
Report on Audit Committee Self Evaluation Exercise
Referrals to Audit Committee

30 November 2017
Internal Audit Plan 2017/18 – Progress (Quarter 2)
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 2, July to September)
Treasury Management Report
Lessons Learned 2016/17
Corporate Risk Register (Considered by Cabinet in October)
Regulatory Reports Summary (every 6 months - May and November)
Referrals to Audit Committee

25 January 2018
Internal Audit Plan – Progress (Quarter 3)
Financial Memorandum on the 2016-17 Financial Audit
Treasury Management Report
Corporate Risk Register (Considered by Cabinet in Jan)
Internal Audit Unsatisfactory Audit Opinions (6 monthly report)
Referrals to Audit Committee

29 March 2018
Annual Audit outline for the 2017/18 Financial Audit
WAO Annual Report on Grants Works 2016-17
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 3, October to December)
Annual Governance Statement (draft statement)
Member Development Self Evaluation Exercise
Referrals to Audit Committee

Unallocated work (Dates to be agreed)
Report on Risks associated with Hosting (IT)
Treasury Management Training
Issues Outstanding – Member Development Self Evaluation Exercise

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