Minutes

Audit Committee

Date: 23 January 2018

Time: 5.00 pm

Present: Councillors Mr J Baker (Chair), L Lacey, H Townsend and R White

Mike Dickie (Business Service Development Manager), Rachel Kalahar (Senior Performance Management Officer), Owen James (Assistant Head of Finance - Technical and Development), Jan Furtek (Interim Audit Manager), Robert Squance (Audit Manager), Andrew Wathan (Chief Internal Auditor), Christopher Hughes (Auditor) and Michele Chesterman (Democratic Services Officer)

In Attendance:

Apologies: Councillors D Davies, J Guy, J Jordan, H Thomas and K Thomas

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1 **Minutes of the Meeting held on 30 November 2017**

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

Agreed

To confirm the Minutes of the meeting held on 30 November 2017

2 **Corporate Risk Register Update**

Members considered the latest update of the Corporate Risk Register. There were fourteen risks identified in the register, five high and nine medium. There had been a substantial improvement over the last few months with a better representation of the current risks. It was very important to monitor the risks going forwards. An important summary of risks was included on page 11 of the report.

The Risk Strategy was being revised and would be brought to the next meeting of Audit Committee as a precursor to Cabinet. It was proposed to include a chart in the next report indicating which risks had gone from medium to high in terms of an arrow rating.

Discussions included the following:

- With regards future risks such as Brexit, etc should the Council be concerned with any particular dangers? - It was not anticipated that there were any immediate dangers on the horizon.
- The current position was seen as a massive step forwards from three years ago and The Business Service Development Manager and their team should be congratulated.

- Risk 12 – Increasing risk of cyber attacks – there was concern raised that there was a high risk of a terrorist attack in the city centre and how the Council would manage the risk. What did the Council learn from the cyber attack? – The Business Service Development Manager agreed to examine the specific points about IT risk and why it was classed as a low risk. The figures were re-assessed on a three monthly basis.
- Has the Committee seen copies of the Disaster Recovery Plan? – The Business Service Development Manager agreed to circulate a copy at the next Audit Committee meeting.
- What are the risks associated with flooding? – The risk of flooding was covered in Civil Contingencies and the Community Risk Register which is available on line. Climate change would be included but not targeted as a generic risk.

Agreed

1. To note the contents of the Corporate Risk Register
2. To provide Members with information on the Disaster Recovery Plan
3. To agenda the revised Risk Management Strategy for the next Audit Committee

3 **Regulatory Reports Summary (6 monthly report)**

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

New information contained in this report included:

- CSSIW performance review letter
- WAO Certificate of Compliance 1
- WAO Certificate of Compliance 2
- Audit of Financial Statements (ISA 2600) Report 2016/17
- Audit Opinion on the 2016-17 financial statements

The monitoring of the proposals for improvement made by WAO was reported to Cabinet, whereas the monitoring arrangements for CSSIW and Estyn reports went through Scrutiny. Progress monitoring reports for the WAO Proposals for Improvement were reported to Cabinet on a quarterly basis. These quarterly reports to Cabinet included updates of the open Proposals for Improvement and the recommendations arising from the Corporate Assessment. The latest update on the recommendations and proposals for improvement was included in Appendix 2 page 68/69).

Discussions included the following:

- Most recommendations had been actioned, did a member of the team make sure any actions not carried out are followed up? – Yes, and the Business Services Development Manager added that very few actions were not carried out.

Agreed

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

4 **Treasury Management Report & Revised MRP Policy**

Members considered a report on Treasury Management and the revised Minimum Revenue Provision (MRP) policy. Having been brought to the November Audit Committee, the report updated the detail on the changes to the MRP policy following comments from the Committee. The report informed the Audit Committee of treasury activities undertaken during the period to 30 September 2017 and provided details of the proposal to change the MRP policy for supported borrowing.

The Council continued to be both a short term investor of cash and borrower to manage day-to-day cash flows. Current forecasts indicated that in the future, temporary borrowing would continue to be required to fund normal day to day cash flow activities.

The first half of the year saw the successful sale of Friars Walk development which allowed borrowing which had been undertaken in relation to the loan provided to Queensberry Newport Ltd to be repaid. All borrowing in relation to this development had been fully repaid, and this had meant that net borrowing had fallen from £209.2m to £149.1m during the year. All borrowing and investments undertaken during the first half of the year was as expected and within the Council's agreed limits.

There had been significant financial constraints on Authorities to look at MRP. A number of councils had changed their MRP Policy and Newport carried out an assessment of unsupported borrowing. There were four alternative approaches 'Regulatory Method', 'CFR Method' (current methodology/policy), 'Asset Life' and 'Depreciation Method'.

The Council currently charged MRP for supported borrowing at 4% reducing balance. It was proposed that this be changed to a 2.5% straight line charge, which would reduce the revenue charge for the provision by c£2.4m.

The 'Asset Life' method was consistent with reviews undertaken by other Local Authorities when reviewing their supported borrowing MRP policy/methodology. It provided for a lower charge and believed to be prudent as built on asset life, a straight line charge rather than reducing balance.

Wales Audit Office had been consulted on the proposed charge and had reviewed the basis of the charge and was content that it was in line with current guidance. The Council's Treasury Advisors had also advised that all methods reviewed complied with Welsh Government Guidance.

Para 38 Page 92/93 outlined the advantages of the 'Asset Life' method:-

- Met Welsh Government guidance of charging MRP.
- Provided a straight line charge to the revenue account, which would assist in future planning, and did not cause increased budget pressures in future years with the annuity method.
- Provided a number of positives which would be beneficial to the Wellbeing and Future Generations Act, such as:-
    - Linking the MRP charge to the useful life of the asset, therefore applying the charge to the taxpayers who had use of the asset.

    - From this there was a reduction in the time to extinguish the ‘repayment’ of the borrowing undertaken to fund capital expenditure which would be reduced from c 150 years to 40 years.
    - Protected front line services from being cut to for future generations to use, while funding was being cut.
    - Asset life being used was well inside the maximum allowable guidance of 50 years.

However, it was recognised that there were a number of consequences of reducing the MRP charge from the current policy which included:-

- The current method would see (with all other factors remaining equal) a reducing charge in each year. The revised method costing more than the reduced charge. However, in reality the reduced Capital Financing Requirement would be replaced by a further supported capital expenditure, therefore it was unlikely that this reduced charge would be realised as future savings.
- Reduced MRP charge would reduce cash-flow over the short to medium term, which would mean that borrowing may need to be brought forward.
- Reduced headroom for new borrowing without increasing the current ‘borrowing requirement’ compared to current methodology. (Chart 2, Appendix C)

Comments made included:

- What were the implications of the changes in MRP for the future? – The Assistant Head of Finance responded that in 13 years’ time there would be a constantly reducing charge – which would be straight line. The prudency of the charge had been assessed and it was considered that 40 years was a prudent charge. Because it was a straight line charge of £4m it was set so the impact of the spend today and in 40 years’ time would be £4m. The MRP policy would be reviewed on annual basis so if it ever became imprudent it would be reviewed
- The change in MRP policy was bringing forward a benefit but Cabinet should understand that it would have to paid for at some time in the future.
- The report stated the cost was from year 13. Page 92 paragraph 35 stated:
    - ‘*straight line produces a saving of c£2.4m compared to the current budget level and this is then a fixed saving from that point – no future pressures on the budget. Appendix C shows this’*

  According to the Appendix this was a pressure on this budget going forward. The ongoing saving of £2.4m was not tied into what it said in Appendix C.
- The bullet point on page 93 which stated that it ‘*protects front line services from being cut for future generations to use, while funding is being cut’* was felt to be badly worded and should be more rounded. The change in policy protects front line services initially but did it protect them going forwards if there was pressure in the budget. If the policy was to spread it over 40 years one line in isolation was not answering the future generations question. It was protecting services today but not later on.

- The proposal was in line with the code of practice (WAO confirmed). Whilst there was a saving in year 1 all things being equal there would be a pressure point at year 13. It was for the Council to determine who that affected. Overall it could be argued that it was fair among generations but not fair to protect services today at the detriment of future generations. The graph needed to show 150 years and 40 years.
- With the straight line method paying £4m a year, was it a saving as £4m later on would be less? – The Assistant Head of Finance responded that this would not be the case as the Council was paying on an MVP basis. MTFPbasis. If it didn't move for the next 40 years it would be like for like.
- On a like for like basis there was pressure. So on that basis some of the sentences need to be tightened up. The report was saying no pressure but the paper in isolation was not tallying to the Appendix.
- It was recognised that the MRP Policy was being reviewed every year but it should be noted that although rates had not gone up it could be realistically assumed that they could go up.

- Wording in paragraph 45 line 2 to be amended to remove the words 'that it is prudent' as it was not for the WAO to assess whether it was prudent.

- Page 93, paragraph 41 '*This underspend will continue, until a saving is taken in relation to this'* did not make sense.

- The £10m balance was queried – The Assistant Head of Finance responded that the Council currently had a significant investment balance because of Friars Walk. In 2019/20 the investment balance would go down. Council taking different view on whether there should be a permanent £10m balance or not.

Agreed

1. To note the report on treasury management activities for the period up to 30 September 2017.
2. To note the proposed change to the Minimum Revenue Provision (MRP) policy for supported borrowing.

5 **Treasury Management Strategy 2018/19**

Members considered a report on the Treasury Management Strategy 2018/19, 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 remained unchanged from the current strategy which in summary:

- Limited the need to actually borrow cash by using the positive cash-flow the Council had to fund capital expenditure funded from borrowing, wherever possible, known as ‘internal borrowing’.
- Borrow and invest in the short-term to manage the shorter term cash-flow requirements of the Council.

In practice the overarching strategy limited the activities of long term borrowing and investments, however, to satisfy the requirements of the second Markets in Financial Instruments Directive (MiFIDII) it was expected that the Authority would maintain a minimum investment balance of £10m at all times – thus limiting the Authority’s capacity to be internally borrowed.

The strategies within the report set the Council’s approved borrowing and investment limits, based on planned capital spending. The report was prepared in line with the Council’s draft Medium Term Financial Plan, and would be presented to full Council as part of the overall budget report for approval in February 2018.

The Assistant Head of Finance informed Members that paragraphs 11-14 (page 110) summarised the Authority’s borrowing strategy. A paper on the future capital programme had been taken to Senior Management and a framework for future capital expenditure had been agreed to, which sought to limit capital expenditure funded by borrowing to the current funding envelope the Authority had for capital financing within the MTFP. This meant that no pressure would be put on new borrowing in the future, other than that shown in Table 1 (page 111) which showed the need to borrow for replacing maturing loans and pressure on cash from reducing earmarked reserves, reducing the ability to be internally borrowed.

The General Fund CFR (Table 1) showed the level of capital borrowing through funding – 2018/19 – £281.8m – £292m, the difference being a loan for a development in Mill Street sorting office. The figure would drop when the loan is repaid back to £282m. The timing of Friars Walk means the Authority has an investment balance of £35m. The Authority will be required to maintain a minimum investment balance of £10m.

Agreed

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.

6 Internal Audit Plan - Progress (Quarter 3)

Members considered a report on the Internal Audit Section’s progress against the 2017/18 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 8 audit staff. At the start of the year there were 7 audit staff with 1 vacancy. One Auditor left and one Auditor was appointed and started in the team during quarter 1. The remaining vacant post was recently back filled and the Auditor started in October. Although the Audit Manager’s maternity was being back filled by one of the Principal Auditors in the team, the team had not yet back filled cover for the Principal Auditor so was not running on full capacity.

The performance for Quarter 3 2017/18 was compared to the same period for the previous year:-

    - 54% (50%) of the audit plan had been achieved so far which was above last year's performance and higher than the profiled target of %50%;
    - The promptness of issue of draft report (comparing timescale between finalising all fieldwork and issuing the draft report to management) averaged at 16 days which was above the target time of 10 days;
    - The promptness of report finalisation (comparing timescale from meeting with client to discuss issues raised in the draft report to issue of finalised report to management) averaged 4 days (1 day) which was within the target time of 5 days.
    - Coverage of the plan at this stage of the year was above expectations; the target being 50% for Quarter 3. Although there had been a reduced audit resource in the team there had been very little involvement with special investigations. Although performance may have dipped throughout the year, historically things had picked up in the final quarter; this year would depend on sufficient audit resources being available to complete the audit plan. All key financial systems would be reviewed by the year end.
    - 16 (40) days had been spent finalising 14 (18) 2016/17 audit reviews; all of which had now 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, 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.
    - From time to time the team got involved with non-planned audit work which often resulted in special investigations. The team had been involved with one such issue for a number of months relating to an allegation of a senior manager colluding with a contractor; this matter had subsequently been referred to the police.
- Generally, there had been positive feedback from service managers via the evaluation questionnaire and this would continue to be collated throughout the year and fed into the annual report for 2017/18.
- The Financial Training programmes would continue throughout the year; 6 sessions had been delivered up to the end of Q3 to 89 delegates.
- 27 jobs completed to at least draft report stage by 31 December 2017 warranted an audit opinion: 5x Good; 16 x Reasonable, 6 x Unsatisfactory and no Unsounds. 5 grant claims had been undertaken during the year; 3 opinions were Unqualified, 2 were Qualified. Other reports had been completed which did not warrant an audit opinion or related to audit certification work. Other work completed related to the Annual Governance Statements, the Council's performance indicators, provision of financial advice and external clients.

  Discussions included the following:

- What data analytics are used? - Internal Audit use IDEA data interrogation tool. Various tools are used within the audit systems.

- Given the amount of staff issues, the Internal Audit Team were ahead of schedule and should be congratulated on doing so well. Reference to which should be added to the Annual Governance Statement.

Agreed

To note the Internal Audit Plan

7 **Internal Audit Unsatisfactory Audit Opinions (6 monthly report)**

Members considered a report on the current status of audit reviews previously given an unsatisfactory or unsound audit opinion and bringing their attention to any areas which had not demonstrated improvements within the financial control environment.

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 30 September 2017, during 2017/18 22 audit opinions had been issues; 2 were Unsatisfactory, none were Unsound.

Agreed

To note and endorse the report.

8 **Anti-Fraud, Bribery & Corruption Policy Statement**

Members considered a report on an anti-fraud, bribery & corruption policy statement. It was important for the Council to have an up to date and relevant anti-fraud, bribery and corruption policy statement in order to deter such activity within the organisation and with our partner organisations, to deal with any allegations appropriately and to strengthen overall governance arrangements. This was the final revision of the statement for a number of years.

The policy incorporated The Fraud Act 2006 which defined fraud through three key offences, provided a definition of corruption and also outlined The Bribery Act 2010, where there were four key offences. Good corporate governance required that the Authority must demonstrate clearly that it was firmly committed to dealing with fraud and corruption and would deal equally with perpetrators from inside and outside the Council. As an organisation controlling millions of pounds it was vital for the Council to take the high expectations of the public seriously and also the degree of public scrutiny to which the Council's affairs were subjected.

The policy statement gave a background on why such a policy should be in place and the responsibilities of officers, managers and councillors. It covered fraud, corruption and an outline of what that entailed, culture and core values. Ideally the goal was to prevent as much as possible, minimise and deal with appropriately if brought to the Council's attention – deter, detect and investigate. In addition to raise awareness by training and to ensure that the Council had high standards and open.

Discussions included the following:

- Does the Council track levels of fraud and margins against revenue and report savings against fraud? – The Chief Internal Auditor replied that records are kept of fraud issues but it is often difficult to place a monetary value on them.
- Does the Council have a Fraud Section? – With the Council Tax Reduction Scheme the investigator sits in Streetscene. In addition Internal Audit co-ordinator National Fraud investigations to ensure they are checked and verified. Council tax fraud is referred to the Department of Work and Pensions.
- What about internal fraud? – this is dealt with Internal Audit through whistleblowing etc. The Whistleblowing Document will outline a list of people to report to, ie Line Manager, Head of Service, Chief Officer. If it is believed the Line Manager is involved that individual can be skipped or the report could go to an alternative Head of Service.
- Does the Anti-Fraud, Bribery and Corruption Policy Statement apply to Newport NORSE and Newport LIVE? – No, just Newport City Council. Newport NORSE and Newport LIVE have to have their own policies and procedures but can adopt the Council's policies.

Agreed

To note and endorse the Anti-fraud, Bribery and Corruption Policy Statement and recommend to be formally approved by Cabinet.

9 **Audit Committee Self Evaluation Exercise**

Members were asked for their evaluation of the Audit Committee process. To date only 4 responses had been received and they were asked to complete the questionnaire if not already done so.

10 **Work Programme**

Agreed

To note the Work Programme

11 **Any Other Business**

Members were asked if it was possible to have the Audit Committee Agenda/Papers posted instead of being placed in the Members'Pigeon Holes.

Agreed

The Democratic Services Officer (MC) to investigate and report back to the next Committee

12 **Date of Next Meeting - 28 March 2018**

Agreed

To confirm the date of the next meeting as 28 March 2018