

Minutes



Audit Committee

Date: 25 September 2017

Time: 2.00 pm

Present: Mr J Baker (Chair), Councillors J Guy, J Jordan, H Thomas and R White

In attendance: Rachel Kalahar (Senior Performance Management Officer), Mike Dickie (Business Service Development Manager), Meirion Rushworth (Head of Finance), Owen James (Assistant Head of Finance - Technical and Development), Andrew Wathan (Chief Internal Auditor), Robert Squance (Audit Manager), Vimal Upadhyay (Senior Finance Business Partner), Laura Campbell (Senior Finance Business Partner) and Michele Chesterman (Democratic Services Officer)

Apologies: Councillors D Davies, L Lacey, W Routley, K Thomas and H Townsend

1 **Declarations of Interest**

None.

2 **Minutes of the Meeting held on 26 June 2017**

The Minutes of the meeting held on 26 June 2017 were submitted.

Agreed

To confirm the minutes of the meeting held on 26 June 2017.

3 **Corporate Risk Register Update**

Members considered an updated version of the Corporate Risk Register which identified 14 risks; 4 remained from the previous update, 2 had been closed and 2 updated. In addition to this 8 new risks had been identified. There were 5 high risks and 9 medium risks.

Discussion included the following:

- Risk 8: Risk of Stability of External Suppliers

Present risk score should be 20 and not 4 – to be amended.

Agreed

To note the contents of the Corporate Risk Register

4 **Statement of Accounts and Audit of Financial Statements Report 2016-17**

Members considered a report on the results of the external audit of the 2016-17 Statement of Accounts, which highlighted the changes since they were initially published at the end of June 2017 and sought their formal adoption in accordance with the Accounts and Audit (Wales) regulations 2014.

The Accounts were published at the end of June 2017 by the Head of Finance and added to the Council's website at that time. The Accounts were available for public scrutiny, as required by the Accounts and Audit (Wales) regulations 2014, for a 20 working day period ending 2 August 2017. The Council received no requests to review the Accounts from the public during the public scrutiny period.

Auditors have reviewed the 2016/17 Statement of Accounts in detail, and a number of required changes had been identified. The Wales Audit Office's (WAO) accompanying report showed a summary of the agreed changes. Appendix A presented the revised Accounts which members were invited to review and subsequently approve in accordance with the Council's standing orders.

The Assistant Head of Finance introduced the report and advised that the accounts had been completely audited and the Wales Audit Office ISA260 report was included in the reports pack. Whilst there were a number of amendments made to the accounts following audit, no changes were made to the reported outturn or reserves held by the Council.

There has also been a quality assurance exercise of the financial statements prior to presentation at the Audit Committee. It was acknowledged that WAO had highlighted a number of issues within their ISA260 report, which would be reviewed by the Council and actions put in place to ensure that procedures and processes were in place to address the issues raised.

The report detailed the agreed changes applied to the Statement of Accounts from the original publication through to completion of the audit review. The majority of these related to presentational changes, disclosure notes, some amendments to lines across the comprehensive income and expenditure account and items relating to Property, Plant and Equipment, all of which had no impact on the bottom line.

Although some of the figures included in the corrected misstatements appendix were large in value, these largely related to the classification of internal recharges as external income rather than netting off against expenditure. The effect of these on the net position on both the accounts and the service areas were nil.

There was only one uncorrected misstatement included in the ISA260 report - the value of Newport Transport Ltd. Depot being understated by £376,000. The reason was related to the accounting treatment used by Newport Transport Ltd and those required to be used as per the accounting policy for the group. Due to the small value and complex nature of the transactions that would need to be put through the accounts it had been decided an adjustment would not be made for this.

Discussions included the following:

- Some wording, formatting issues and spelling mistakes were referred to.
- On the Balance Sheet (Page 108) – it was queried whether there should be a total at the bottom of the page – A total figure to be added.
- It was suggested rewording the paragraph on Page 125 'Any outstanding rolled up interest has been written off, but has been replaced by a new debtor' to be replaced with 'The outstanding interest has been written off replaced by a debtor to the new owner'. In addition it was felt to be helpful if the amount of the debt was included.

- It was clarified that the last two paragraphs on page 125 referred to separate transactions in relation to Friars Walk. One was part of the sale and sales price and the second was part of protecting the investment the Council had. The £125,000 per quarter was based on turnover in terms of rental. There was a need to make an assessment of how much there would be over the long term. The Council did have Friar's Walk reserves to set up as a provision. The expectation was that the Council would not have to pay as much as this. However, the wording 'there will be no detrimental revenue impact in 2017/18' to be amended as although there had not been a detrimental impact on accounts in 2016/17 it was not known what the impact would be in 2017/18.
- It was clarified that the wording on the last line of page 70 'At the time of preparing the initial Statement of Accounts, performance information was available up to Quarter 3 as reported to Cabinet on 20 March 2016' would be updated.
- On page 30 the wording to be changed from 'Surplus or (Deficit) on the Provisions of Services' to 'Deficit or (Surplus)' as both figures were deficits.
- The question was asked whether there was a linkage between the tables on page 62 and page 105 – there was none but there would be an attempt to link these tables in the future.

The Wales Audit Office introduced the ISA 260 report. The proposed audit report was scheduled to be signed off by the Auditor General.

Discussions included the following:

- *The uncorrected misstatement relating to the value of Newport Transport Limited Bus Depot being understated by £376,000* – It was clarified that Newport Transport had raised concerns around timing and that this year they were much quicker and better consolidated. Wales Audit Office confirmed that this year much work had been undertaken to enhance the process of consolidation. The difference arose from two different accounting policies. Single entity value cost and all Council assets need to be revalued on a five year cycle. It was important to ensure that all the relevant accounting policies were aligned as far as possible. It was correct to report it but also to put it in context. In fairness to the Transport Company they are entitled to include it as costs. The Assistant Head of Finance informed Members that the issue would be included in lessons learned. For simplicity it might be best to continue with what was included in the draft accounts, but it was not intended to include it in the ISA 260 report every year.
- *Appendix 3 Page 226 - £5.2 million decrease in income and expenditure within the Comprehensive Income and Expenditure Statement (CIES). Newport Live staff costs for 2016-17 had been incorrectly charged to expenditure, with recharges recorded as income.* How was the figure included in the Accounts and why wasn't it picked up in the monthly accounts – It was clarified that there was a separate entity for payroll. The issue was in connection with how it was coded. It was coded as employee expenditure when in reality it should have been an internal recharge code. The Assistant Head of Finance noted that there was a net nil impact.
- *Appendix 3 Page 226 - £3.7 million decrease in income and expenditure within the CIES. Internal recharges incurred by schools had been incorrectly included in the CIES. Why had this happened?* – The Assistant Head of Finance clarified that this internal recharge and the Newport Live staff cost recharges should have been improved and would be addressed in the future.

The auditors confirmed they had given full information to the Audit Committee. A standard letter had been raised with the Chair of Audit Committee, Head of Finance and Assistant Head of Finance in terms of fraud, risk and regulations and related party transactions. None of the responses had indicated any concerns. Next year it was intended that a similar process would be carried out and a request was made to include it on the work programme for May/June 2018.

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

Agreed

1. To note the content of the 2016/17 Accounts and the Wales Audit Office's Financial Statements (ISA260) report on the 2016/17 Accounts and comments.
2. To authorise the Chairman to adopt the Accounts 2016-17 (subject to amendments), in accordance with the Accounts and Audit (Wales) Regulations 2014 and to sign the letter of recommendation.

5 Internal Audit Plan 2017-18 Progress Quarter 1

Members considered a report on the Internal Audit Section's progress against the 2017/18 agreed audit plan for the first three months of the year and for information on audit opinions given to date and progress against key performance targets.

The team currently operated with an establishment of 8 audit staff. At the start of the year there were 7 audit staff with 1 vacancy in the team. One Auditor left and one Auditor was appointed and started with the team during quarter 1. The remaining vacant post was recently advertised and interviews held during September.

In order to take account of the budget savings contribution and the delayering exercise required by senior management following the job evaluation exercise, the Internal Audit team was restructured.

The performance for Quarter 1 2017/18 was compared to the same period of the previous year (shown in brackets):

- a. 21% (16%) of the audit plan had been achieved so far which was above last year's performance and higher than the profiled target of 12%;
- b. The promptness of issue of draft reports (comparing timescale between finalising all fieldwork and issuing the draft report to management) averages at 4 days which is well within the target time of 10 days;
- c. The promptness of report finalisation (comparing timescale from meeting with client to discuss issues raised in the draft report to issue to finalised report to management) averages 8 days (1 day) which is above the target time of 5 days.

Coverage of the plan at that stage of the year was above expectations; the target being 12% for Quarter 1. Although there had been a reduced audit resource in the team there had been very little involvement with special investigations. Although performance may dip throughout the year, historically things had picked up in the final quarter; this year would depend on sufficient audit resources being available to complete the audit plan. All key financial systems would be reviewed by the year end.

Page 233 – Paragraph 12 – 'All key financial systems to be reviewed by year end' – The question was raised whether ISA 260 observations were tied in? – The Auditors confirmed that the frequency would be considered depending on the level of risk.

Agreed

To note the progress against the 2017-18 Audit Plan for the first three months of the year.

6 **Work Programme**

The Head of Finance drew Members' attention to the Treasury Management training scheduled to take place on 11 October 2017. It was recommended that Members attend. The Chair gave apologies.

The Audit Training session had been successful. Members found the session interesting and well presented.

Agreed

To note the Work Programme.

The meeting terminated at 3.00 pm