

Minutes



Audit Committee

Date: 24 May 2018

Time: 5.00 pm

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

Dona Palmer (Audit Manager), Jan Furtek (Principal Auditor), Robert Squance (Audit Manager), Mike Dickie (Business Service Development Manager), Rachel Kalahar (Senior Performance Management Officer), Catherine Davies (Performance Management Officer), Owen James (Assistant Head of Finance - Technical and Development), Rhys Cornwall (Head of People and Business Change), Andrew Wathan (Chief Internal Auditor) and Michele Chesterman (Governance Officer)

Apologies: Councillors J Jordan, L Lacey, H Townsend and D Williams

1 Appointment of Chairperson

Nominations for Chair of Committee were invited.

Agreed:

To appoint Mr John Baker as Chair of Committee.

2 Declarations of Interest

None.

3 Minutes of the Meeting held on 28 March 2018

The minutes of the meeting held on 28 March 2018 were submitted.

It was queried whether the following action had been carried out:-

- Item 3 – Draft Internal Audit Plan 2018/19 – Assistant Head of Finance to raise the issue of double invoices with Newport Norse Client Officer.

Agreed:

1. The Assistant Head of Finance to follow up the issue of double invoices with Newport Norse Client Officer.
2. To confirm the minutes of the meeting held on 28 March 2018

4 Corporate Risk Register Update

Members considered the latest update on the Corporate Risk Register. There were 14 risks identified in the risk register made up of 5 high risk and nine medium risks. There had been some change in risks with an increase in Asset Management – Carriageways and Buildings. This linked to budget challenge and Government changes to financial settlement and grant funding. This referred to the council's ability to maintain assets in the short, medium and long term due to increasing budget pressures.

The Head of People and Business change advised Members that with regards the risk around cyber security additional guidance had been made available.

Discussions included the following:-

Risk 13 – Asset Management – Carriageways and Buildings:-

- With regards highways maintenance, how was the risk balanced against the risk of increased insurance? – Members were advised that this was picked up in mitigation. That judgement had to be made within service areas.
- The score for the top risk was 25. Was this the maximum risk for the department? Was it not related to balancing the budget? – Within risk there was a balance between probability and impact. Not balancing the budget had a catastrophic impact. It was a high risk as there was a high risk of deterioration on the carriage way. It was not possible to equate it on monetary terms.
- With the imminent removal of the Severn Bridge toll and resulting effect on the infrastructure would there be a wider impact? – There were mitigated risks. It would depend on what the Welsh Government decided and also the impact of the M4 Relief Road.
- Is the Council identifying the areas that brought the impact down and was the score 25 the maximum because there were too many unknowns? – It was difficult to say.
- What did the X with the ↑ symbol mean on page 14? – This signified that the risk had increased. It was suggested that it would be useful to have an explanatory box explaining the symbols.

Risk 12 (page 15) Increasing Risk of Cyber Attacks:-

- The increase in the risk of cyber attacks appeared to be something nobody could control, an ever increasing problem? – The Head of People and Business Change replied that there were two elements. There had been no lasting problems from the recent cyber attack. The measures put in place had been pretty effective. Those measures had been enhanced. There was a balance involved of keeping the Council and data safe whilst enabling employees to function when carrying out their roles. On a daily, hourly, minute by minute basis the Authority was under cyber attack. 99.9% did not get through the firewall and the small percentage that did get through was stopped by the secondary firewall. As an organisation the Council was data rich which needed to be protected.

Risk 10 (page 49) – Produce and Implement a Carbon Management and Implementation Plan (Plan to be published April 2018):-

- Had the Carbon Management and Implementation Plan become available yet? – Head of People and Business Change to find out. In the future there would be summary of any risks that had increased and anything new.
- It was commented that the new Corporate Plan Update was more of a living document was looking very good.

Agreed

1. To note the contents of the Corporate Risk Register

5 **Regulatory Reports**

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:

- WAO Improving wellbeing through housing adaptations (National Study)

To date, the monitoring of the proposals for improvement made by WAO were reported to Cabinet, whereas the monitoring arrangements for CSSIW and Estyn reports were through Scrutiny. Progress monitoring reports for the WAO proposals for improvements were reported to Cabinet on a quarterly basis. Those quarterly reports to Cabinet included updates of the open Proposals for Improvement and the recommendations arising from the Corporate Assessment. The WAO reviewed the Corporate Assessment in 2016; the final report was issued in August 2016, a new action plan had been completed in response. The latest update on the recommendations and proposals for improvement was included in Appendix 2.

It was suggested that this would be the last of such reports and that in future they would be published on the Council's intranet to ensure transparency and openness.

Agreed

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

6 **Treasury Management covering the Financial Year 2017/18**

Members considered a report on treasury activities undertaken during the financial year 2017/18. In line with the agreed Treasury Management Strategy, 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 continued to be required to fund normal day to day cash flow activities.

The first half of the year saw the successful sale of the 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 was now fully repaid and this had meant that loan borrowing for the year had fallen from £209.2m to £147.5m during the year (a decrease of £61.7m on 31/3/17, as part of its strategy for funding previous years' capital programmes. The year-end position was shown in table 3 (page 102).

All borrowing and investments during the year were expected and within the Council's agreed limits for 2017/18. As at 31 March 2018 there was a £21.0m balance of short-term investments.

The Assistant Head of Finance explained that the report highlighted that the Council had met its limits for indicators for treasury management in March 2017. Everything had been compliant. The next report to Audit Committee on Treasury Management Strategy would give Audit Committee set limits and also the capital strategy new requirement of CIPFA policy.

Comments made included:-

- Page 104 refers the upper limit on fixed interest rate exposure. Can you explain what the percentage means? 100% of what? – Having a fixed interest rate meant less risk for the Council. All current borrowing was based on fixed interest rates with none

being on variable interest rates. Looking forward it would be necessary to take advice from the Council's Treasury Advisors. The Council would be re-financing for stock issue re-payable in 2019. 100% was considered to be a very low risk in the current environment. The upper limit was the Council's maturity profile. The Council did not want to be borrowing 100% in one year. The reason it was high was because of Friar's Walk. The Council was currently at 2%. During the year it would have been a lot higher but not above 80%.

- Can you explain why it refers to £126.5m net borrowing in Table 2 (page 101) and then total debt £193m in Table 8 (page 104) as at 31/03/18? – The total borrowing is £148m plus the PFI liability. When Council budgets were set the revenue budgets were set at the set at the same time. The Council had set the capital programme at a level that would not require it to increase its borrowing because that put more pressure on the revenue budget. The Council would increase that borrowing if the business case allowed us to borrow more. The operational boundary was linked to the capital programme. The actual figure would come below that due to slippage. It only looked higher this year due to Friar's Walk.
- When will the Local Government Bonds be paid? – One is due next April £40m (8% interest). This would be re-financed April 2019 probably at about 3% which would be a welcome saving.

Agreed

1. To note the Annual Report on Treasury Management for the Financial Year 2017/18.
2. To note that the 2017/18 Prudential Indicators for Treasury Management were in line with those set by Council in March 2018.

7 Internal Audit Annual Report 2017-18

Members considered a report upon:

- a) The overall opinion on the internal controls of the City Council for 2017/18;
- b) Internal Audit's progress against the agreed audit plan;
- c) Internal Audit's performance against local performance indicators.

The report gave an overall opinion on the adequacy and effectiveness of the City Council's internal controls during 2017/18, which was **Reasonable** – Adequately controlled although risks identified which may compromise the overall control environment; improvements required; reasonable level of assurance.

The second part of the report detailed the performance of the Internal Audit Section and how well its key targets in the year were met. 84% of the approved audit plan was completed in the year against a target of 80%. A big thanks to staff in the team who worked well to achieve this.

During the year, 40 reviews were undertaken, 11 received 'Good' audit opinions, 23 received 'Reasonable', 6 received 'Unsatisfactory'. There were no Unsound opinions.

In addition to planned work the team also undertook 'special investigation' reviews. 3 special investigations were undertaken during 2017/18. These arose for a number of different reasons, including information passed straight to the Section regarding allegations against members of the Council staff, potential fraud, theft or non-compliance with Council policy/procedures for example. These reviews were typically time intensive and on occasions difficult to prove.

Internal Audit ran seminars on what Financial Regulations and Contract Standing Orders mean, why they were in place, what they were about and to whom they related. 9 (9 in 2016/17) sessions were delivered to 175 delegates during 2017/18 (95 in 2016/17).

Despite not having a full complement of staff for the whole year, 84% of the approved audit plan was completed against a target of 80%; (89% completed in 2016/17). A total of 81 (80) audit reviews were planned during the year with 68 (63) being completed to at least draft stage by the end of the year. (The total number of jobs in the plan was adjusted from 82 to 81 to reflect the fact that managers were not able to accommodate the audit during the year).

Although 200 days were planned for special investigations during the year, 70 productive days were actually spent auditing specials and unplanned work, which meant more planned audit work could be undertaken.

Getting draft reports out this year took 14 days against a target of 10. Final reports were sent out within 4 days of receiving agreed management comments.

In 2017/18 the Audit Section continued to send out evaluation questionnaires to managers after an audit review had been undertaken in their area, which gave them an opportunity to feedback on performance, professionalism and the audit process in general. Following the finalisation of reviews, 32% of questionnaires were returned (35% in 2016/17) with 100% of managers stating they were satisfied with the audit process and that it added value to service provision, which was reassuring.

The Audit Team had an establishment of 8 staff (including the Chief Internal Auditor). The section was split into two teams which covered the whole of the Council's systems, establishments and staff, each managed by an Audit Manager. During the year the team was supported by an apprentice to help achieve the plan.

The Policy Finance Committee (1998) requested that on-going consideration be given to the sufficiency of internal audit resources. Audit staff resources had been reduced over the last few years which meant that fewer audit jobs could be undertaken in the audit plan which resulted in the provision of less assurance across all service areas. With a full complement of staff the audit resource was only just about sufficient to provide assurance on the Council's internal control environment, but given the experiences of staff changes in the last couple of years, the Chief Internal Auditor would have to monitor the situation closely and use a range of options to ensure appropriate audit coverage was provided. The Chief Internal Auditor would endeavour to provide adequate and appropriate audit coverage throughout the Council although prioritisation was required, given the reduced resources within the team. The current level of resources was just about adequate to meet the continuing needs of the service led demands. However, the level of resources needed to be assessed in line with Internal Audit's on-going involvement with The Measure, performance indicators, the changing risk profile of the Council and auditing grant claims not reviewed by the external auditor.

Discussions included the following:-

- Although there was a 100% satisfaction rate, this was only out of the 32% who returned the audit evaluation questionnaires, Is there more that can be done to encourage them to return them? – The Audit team send out the questionnaire, finalise reports but the onus is on the service manager to respond. It was recommended that the minutes be forwarded to the Chief Executive to progress the issue with the number of non-returned audit evaluation questionnaires by service managers.
- Concerns were raised over the current level of internal audit resources and it started to look worrying that the department did not have enough resources – Over 100 days had been offset by an unplanned vacancy. The Chief Internal

Auditor commented that the team had not been involved so much in specials recently which had given more opportunity to do planned work and helped to achieve results.

- Was everyone in the Audit team qualified? – Unqualified members of the team would generally be enrolled on AAT. Professionally and fully qualified members of the team included the Chief Internal Auditor (CIPFA), 2 managers (CIPFA & ACCA), 2 Principal Auditors (IIA). One of the Principal Auditors is part qualified (ACCA). Qualities required were good professional etiquette and being willing and able to learn. The team also ran a programme which delivered internal audit training to around 40 plus organisations. The team supported individuals to achieve their qualifications and once achieved they were required to work for the Council for a minimum of three years.
- Page 111, paragraph 10 – in the past external audit has relied on the work of internal audit. Is this line incorrect, do they rely on the work of internal audit? Due to the changes in accounting standards external audit cannot request work from internal audit but if there is work already being carried out it can be dovetailed in. Lately external audit has taken more of a substantive audit approach but they continued to liaise.
- This was the fourth year running that there had been a reasonable opinion, what would make it a good opinion? - This was difficult to answer as the team did not audit the same things every year. With a population of over 600 services being audited there was a requirement to check to ensure compliance with policy and sound financial management across the board. Training was developed with the Assistant Head of Finance across the schools and also corporate training was carried out. There was an attempt to influence operational managers but this was not in the team's remit.

Agreed

1. Minutes of the Audit Committee to be forwarded to Chief Executive to progress the issues raised regarding returns of audit evaluation questionnaires by Service Managers.
2. To note and endorse the Annual Audit Report 2017/18 and overall Audit Opinion

8 Internal Audit Annual Plan 2018-19

The Chief Internal Audit introduced his Internal Audit Plan 2018/19 which set out the work to be undertaken by the Internal Audit Section at an operational level for 2018/19. It identified why the Council operated an Internal Audit function, the resources available and how they would be applied across the services of Newport City Council to give management assurance that systems were working as intended. It outlined where Internal Audit resources would be focussed over the next year, covering systems and establishments in all service areas of the Council. 1214 productive audit days had been planned for 2018/19 [1150 days in 2017/18].

The Chief Internal Auditor explained how the plan is compiled from a long list of all areas which could be audited, by discussion with Heads of Service, risks identified, identified resources which is then developed into a shorter prioritised list based on the audit resources available, with the aim to give the Audit Committee appropriate and adequate assurance.

Since the last audit a column had been added on Appendix 2 - Page 136. There had been concern around when the last review was audited so a Last Review date column had been added. Everything would be reviewed on an annual basis. All service areas had been given good coverage.

Agreed

To note and endorse the 2018/19 Operational Internal Audit Plan

9 **Annual Governance Statement**

Members considered the first draft of the Annual Governance Statement 2017/18. This gave them the opportunity to comment early in the process and to contribute to the Council's Annual Governance Statement which would accompany the Annual Statement of Accounts for 2017/18. The principles of CIPFA/Solace Framework 'Delivering Good Governance in Local Government', Wellbeing of Future Generations Plan and examples of good governance had been taken on board.

Members of Audit Committee had a deadline of September 2018 to respond with any comments.

Members raised the following:

- A number of typographical errors were identified – Chief Internal Auditor to ensure document was proof read and amended as necessary.
- It was a long document which flowed well with a better format than previous versions. But it was noted there were too many diagrams. Next year perhaps it could be reduced.
- There was still no feeling of how effective the governance statement was – what was the output? Could something be included earlier in the document to explain this? – The Chief Internal Auditor to take this into consideration.

Agreed

1. That progress on delivery of the Annual Governance Statement be noted.
2. Members to feedback any comments on the Annual Governance Statement by September 2018.

10 **SO24 / Waiving of Contract SO's: Quarterly report reviewing Cabinet / CM urgent decisions or waiving Contract SO's (Quarter [4], [January] to [March] 2018)**

Members considered a report on the use of Standing Order 24 and the Waiving of Contract Standing Orders in three recent decisions taken by Cabinet Members. Members were asked to consider whether the reasons for the urgency/waiving of contract standing orders was properly reflected in the documentation supporting the decisions.

In all three reports the Chief Internal Auditor commented that there was no clear justification for the urgency of the decisions recorded in the papers presented.

Agreed

To call in the Head of Regeneration, Investment and Housing to Audit Committee

11 **Work Programme**

Members attention was drawn to the Work Programme.

Agreed

To note the Work Programme.

12 **Date of Next Meeting - 21 June 2018**

The date of the next meeting was confirmed as 21 June 2018.

The meeting terminated at 6.35 pm