

Minutes



Audit Committee

Date: 21 June 2018

Time: 5.00 pm

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

In attendance Robert Squance (Audit Manager), Dona Palmer (Audit Manager), Laura Campbell (Senior Finance Business Partner), Keir Duffin (Head of Regeneration, Investment and Housing), Matt Tribbeck, Meirion Rushworth (Head of Finance), Owen James (Assistant Head of Finance - Technical and Development) and Michele Chesterman (Governance Officer)

Apologies: Councillors D Davies and H Thomas

1 Declarations of Interest

None.

2 Minutes of the Meeting held on 24 May 2018

The minutes of the meeting held on 24 May 2018 were submitted.

The Housing and Assets Manager informed the Committee that he had raised the issue of double invoices from Norse with the Client Manager to raise at the next board meeting in September 2018.

Agreed:

To confirm the minutes of the meeting held on 24 May 2018.

3 Call in Head of Regeneration, Investment and Housing - SO24: Quarterly report reviewing Cabinet / CM urgent decisions Quarter 4 (January to March 2018)

Members were reminded that following the presentation of the Chief Internal Auditor on the SO24 quarterly report reviewing Cabinet/CM urgent decisions quarter 4 (January to March 2018) in May 2018, the Audit Committee had agreed to call in the Head of Regeneration, Investment and Housing.

Three urgent reports were submitted:-

1. Living Levels Landscape Partnership Heritage Lottery Fund Offer – Partnership Agreement – 2 February 2018
2. Michaelstone y Fedw Village Hall – 22 March 2018
3. Town Centre Repayable Scheme – 28 March 2018

The Chief Internal Auditor comments on all three reports were that there was no clear justification for the urgency of the decisions recorded in the papers presented.

The Head of Regeneration, Investment and Housing informed the Committee that the Living Levels Landscape Partnership Heritage Lottery Fund Offer did not fall under his remit but sat with the Head of Law and Regulation and Tourism.

With regards the Michaelstone y Fedw Village Hall the Chief Internal Auditor had commented that there was no clear justification for the urgency of the decision recorded in the papers. The Head of Regeneration, Investment and Housing reported that his Department had undertaken the work in connection with the lease but not the installation of the high speed broadband which was undertaken by IT. He agreed to investigate and report back to the next meeting of Audit Committee on 20 September 2018.

A discussion took place on the urgent decision in relation to the Town Centre Repayable Scheme:-

- The Chief Internal Auditor had commented that there was no clear justification for the urgency of the decision recorded in the papers presented. Although comments including 'pressure on timescales to allocate the limited funding available', 'due to the restricted timescale, the first cycle', the funding is available for a limited window, had been stated within the supporting papers, no actual dates or timelines had been included stating when communications were had or decisions taken within the process.
- The Team Manager, Regeneration explained to Committee that the decision needed to be taken urgently because of a condition of the fund. The fund was allocated to unlock problem, derelict urban buildings in order to redevelop properties. The original request for funding was for £1.5m but when the award was made the set allocation was £750k meaning it was not possible to proceed with two indicative projects. With the first project the Council became aware the developer failed on conditions and the second project needed key data which could not be supplied in time. The Welsh Government was flexible allowing the Council to find a similar project rather than lose the investment. A new development was found but it was late in the financial year and the conditions were clear that the funding had to be allocated or returned.
- The Committee noted it was ultimately it was down to timelines. The comments seemed to be indicating a tight time scale but there was no evidence to support that in the report.
- The report was presented on 28 March 2018 just before the year end. Why wasn't it presented earlier? When did the Council receive the approach from the new developer? – The Team Leader, Regeneration explained that the Cabinet Member was approached but had to take advice from the Head of Law and Regulation whether there was a conflict of interests and so it was decided to pass to the Leader. Issue after issue was encountered resulting in it slipping towards the end of the year.
- It was necessary to put that information into the report to say why the decision was taken urgently. If it had been necessary to go outside the usual call-in procedure the Audit Committee needed to know why. It was about documenting the decision rather than a particular basis for the decision. Evidence needed to be contained within the report to explain the timeline with regards the urgency.
- If there was no documentary evidence to say the Cabinet Member had been briefed it was not in accordance with Standing Orders. It was vital to keep minutes of briefings with Cabinet Members and the minutes clearly shown. If internal audit was saying there wasn't an accurate audit trail there would be concern around that - The Head of

Regeneration, Investment and Housing replied that the Department did them very irregularly. Regeneration was a moving feast and there would be new schemes coming on board, developing new individuals. By its nature there would be scheme falling away and new ones being taken on board. It was not detailed but due to the fact that they were done so irregularly.

Agreed

1. The Head of Regeneration, Investment and Housing to attend the Audit Committee meeting on 20 September 2018 to discuss the Michaelstone y Fedw Village Hall urgent Report
2. Head of Finance to raise awareness with Heads of Service in relation to the necessary guidance with regards criteria for urgent reports and decisions

4 Internal Audit Unsatisfactory Audit Opinions (6 monthly report)

Members considered a report identifying the current progress of systems or establishments which had previously been given an unsatisfactory or unsound audit opinion and bringing their attention to any areas which had not demonstrated improvements within the financial control environment. Although there would always be concerns over reviews given an unsatisfactory or unsound audit opinion, managers were allowed sufficient time to address the issues identified and improve the financial internal controls within their areas of responsibility.

During 2016/17 35 audit opinions had been issued; 5 were Unsatisfactory, 1 was Unsound. The new Head of Streetscene & City Services was called into Audit Committee in June 2017 to respond to concerns raised by Members of the Audit Committee regarding further unfavourable audit opinions in that service area. This was reported, in part, to Audit Committee in March 2017.

As at 31 March 2018, during 2017/18 40 audit opinions had been issued; 6 were Unsatisfactory, none were Unsound.

As the audit of the Agency/Overtime – Refuse resulted in a second consecutive Unsatisfactory audit opinion, members were asked to consider calling in the Head of Streetscene and his Cabinet Member in order to gain assurance that appropriate improvements would be made.

Discussions included the following:-

- How were Audit opinions categorised – was it the severity or number of elements which were incurred making them unsound? - There was an audit opinion calculator that balanced off strengths and weaknesses and severity of weaknesses and risk incurred if happened. Audit looked at the proportion of strength and weakness risk in a control environment of those being present. When branding them the aim was to ensure that they fell broadly within the same level of risk.
- Was that process accepted across the board by Audit professionals and should the Council be sharing this as best practice? - Every Audit department would have its own ways of giving opinions but the methodology would be varied. All audits also go through a peer review.
- In each Audit report there would be further information on how the decision was made and an action plan agreed by the Service Manager. Audit worked with them to put appropriate controls in place to address that weakness.

Agreed

1. To note and endorse the report.
2. To call in the Head of Streetscene and City Services – to respond to the Unsatisfactory Audit Opinions within Street Scene at the meeting scheduled for 20 September 2018.

5 Draft Financial Accounts 2017/18

The Senior Finance Business Partner introduced the report on the draft financial accounts for the period 1 April 2017 to 31 March 2018 to Members of the Committee. The report outlined the key statements within the accounts, and issues of interest to provide members with an understanding of the information presented.

The draft accounts along with supporting working papers had already been provided to the Wales Audit Office w/c 18 June 2018, to facilitate early engagement where possible. The Section 151 Officer would be signing the Council's Draft Accounts by the statutory deadline of 30 June 2018. The accounts would be on public display 16 July 2018 to 10 August 2018. Any information and comments from Committee members could, where appropriate, be incorporated into the final signed draft version. If members noticed any errors they were asked to bring them to the attention of Finance. A deadline for comments was requested by 5 September 2018.

The accounts were subject to audit and would be re-presented to the Committee in September 2018 for formal approval and signing following completion of this work. Next year the deadline would be two weeks forward and a further two weeks forward after that. This would require some changes to meet.

Members were informed of the four key statements together with supporting notes detailing the financial performance as follows:-

- **The Comprehensive Income and Expenditure Statement (CIES):** showing the accounting cost year of providing services in accordance with generally accepted accounting practices.
- **The Movement in Reserve Statement:** summarising the Authority's income and expenditure activity and showing how this was adjusted to arrive at the Authority's funding, or council tax position, and how surpluses/deficits had been distributed to reserves.
- **The Balance Sheet:** showing the value as at 31 March 2018 of the assets and liabilities held and recognised by the Authority.
- **The Cash Flow Statement:** showing the movements in cash and cash equivalents of the Authority during the reporting period.

The CIES showed a financial position which looked different to the underspend reported to Cabinet. This was because the Financial Statements were required to make a number of adjustments under the Code. Note 28 provided a reconciliation back to the surplus reported to Cabinet. The Head of Finance's foreword to the account explained this point and the key adjustments/differences.

Discussions included the following issues:

- Members identified a number of typographical errors. There was not a consistent, house style as yet. Sometimes Council had a capital c and sometimes lowercase. Sometimes it was Newport City Council and other times NCC. It was necessary to be consistent with abbreviations. In terms of writing it was too complex in certain areas with sentences taking up whole paragraphs.
- Page 6 (34 of pack) of the accounts, third bullet point 'Newport Council are one of ten local authorities that have committed to the Joint Working Agreement for the 'City Deal'...' There are several numbers and it is possible to get lost in the detail.
- Section 2.8 says £2.4m capital revenue – do we need to clarify that?
- HMT – does this mean Treasury – it could mean different things in different contexts.
- Page 6 – Review of the Year – 'During the year, there were many achievements for the Council ...' then at the end of the paragraph 'the proposals for the significant development of Chartist Tower' – Is a proposal an achievement success from a financial reporting point of view?
- Page 6 bullet point 5 – '... including fro redevelopment of Market'. Need to amend 'fro' to 'for' and insert hyphen in re-development.
- Page 7 – top line 'Cabinet Approved £1299 underspend ...' – is it supposed to be £1299k.
- Page 7 column in top table 'returns to be agreed by Cabinet' – this has already been agreed so needs to be changed.
- Page 7 table – Is it to reserves, not from reserves.
- With regards the capital underspend of £16m, there seems to be a lot of slippage out of £50m. If spending £50m leads reader to think the Council is borrowing to spend. If this is not the case a line needs to explain that.
- Page 13 – Level of reserves – seems to imply something different to the presentation. The paragraph implies there were concerns. The levels of reserves decreased for the first time for a number of years. It was not a worry as reserves will go down. Half way down 'while decreased this still provides the Council with a level of certainty' ... what point is being made here?
- Some diagrams were felt to be not essential.
- Page 43 Table – Suggested might want to look at this again, looks like a working paper table 'Balance - @ - 1.0% WG reduction 2019/20 onwards'.
- Page 77 (Page 105 of pack) – Note 8 Expenditure and Income Analysed by Nature – Expenditure and Income analysed by nature £451,373, likewise income should not be different – Assistant Head of Finance to amend.
- Page 126 (page 154 of pack) – Contingent Liabilities – two insurance contingent liabilities are mentioned with a provision of £150k and a reserve of £602k. In total the money put aside £725k, so therefore saying the balance is contingency. Will more of the £725k be needed going forwards? – This line would be taken out and there was no provision for MMI.
- Page 154 – 'Claims totalling £1.5m have been included as a provision in Note 23' 'A reserve of £1.6m has been established to manage this risk'. Is £1.6m is managing the contingency liability element? – This was about the accounting treatment of what the provision was. Uncertainty or certainty of liability – it was prescribed to put the provision aside.
- Although the Council don't consider the reserve validated the reserve is still put aside? Of the reserve, is there a useable reserve? – Within insurance as soon as a case is known of a reserve is put aside for it. As those claims go through the reserve may be used to top up the provision.

- Why is the figure being put in about the reserve? Surely it is better to say there is a contingent liability of £1.5m? – Head of Finance to look at that and find a form of words that works. Might take out all reference to the reserve. A number of that balance are new claims.
- Page 11 and 12 Pie Charts – it was difficult to understand what they meant – the labelling was insufficient and it was not known what the sectors meant - The narrative report in England was prescribed by the DCLG. Four measures were used – Performance of Newport City Council, Performance Against Target, Performance Against Wales Average, Performance Compared to Last Year. Shows green – good against the rest of Wales.
- Against a challenging background a 1.3m underspend sounded quite good. But could argue if underspent by £1.3m and capital £60m could argue why wasn't more spent. For example £1.3m could be used for front line services – when take rest of narrative £1.3m in background service areas significantly overspent.
- When saying some departments overspent say normal spending pattern for those departments. If say that then fine but then consistent with message coming out.
- First draft good. Audit Committee have to understand that there are going to be amendments with a first draft.
- Finance team to be congratulated on the Accounts also key to acronyms at the back.
- The Head of Finance explained that three new people were doing the accounts this year and he was really proud of the team.

Agreed

To note the draft accounts subject to the comments above

6 Audit Enquiries Checklist

The primary responsibility to prevent and detect fraud rested with both management and 'those charged with governance', which for the Council was the Audit Committee. Management, with the oversight of the Audit Committee, should ensure there was a strong emphasis on fraud prevention and deterrence and create a culture of honest and ethical behaviour, reinforced by active oversight by those charged with governance.

As external auditors, there was a responsibility for obtaining reasonable assurance that the financial statements were free from material misstatement due to fraud or error.

Auditing standards set out a list of questions to be asked and these were distributed to the Head of Finance and Assistant Head of Finance to complete. There was a responsibility to consult sending to Audit for information.

Agreed

To note and forward any further comments to the Head and Assistant Head of Finance

7 Work Programme

Members' attention was drawn to the current work programme for items to be considered at the next two meetings in September and November 2018.

Members to note that at the meeting on 20 September 2018 the Head of Regeneration, Investment and Housing would be called in to discuss the Michaelstone y Fedw urgent report

and Head of Streetscene and City Services to be called in to respond to the Unsatisfactory Audit Opinions within Street Scene.

Agreed

To note the Work Programme.

8 Date of Next Meeting - 20 September 2018

The meeting terminated at 6.40 pm