Minutes

NEWPORT CITY COUNCIL
CYNGOR DINAS CASNEWYDD

Audit Committee

Date: 28 September 2020

Time: 2.00 pm

Present: Mr J Baker (Chair) Councillors H Thomas, M Whitcutt, K Thomas, L Lacey, P Hourahine, R White, J Jordan and R Mogford

Anne Jenkins (Governance Team Leader) and Neil Barnett (Scrutiny Adviser)

In Attendance:

Apologies: Councillors

---

1 **Declarations of Interest**

None

2 **Minutes of the Last Meeting**

The minutes of the meeting held on 29 January 2020 were submitted.

Item 5: Corporate Risk Register Update (Quarter 2) and Risk Management Policy
The Policy Partnership and Involvement Manager advised that a paper was being prepared for Cabinet in October on Brexit, along with an update on COVID recovery, as these were both reflected in the corporate risk register. The Committee would be sent a copy of both reports as soon as they were finished, by the end of this week.

The Chair also requested an update on the finances of Caerleon Comprehensive School from the Head of Finance. The Head of Finance confirmed for the Committee that the challenge was still significant but that the school had developed a recovery plan, which significantly improved their position and reduction in year overspending. A deficit remained but that work was still on going.

3 **Corporate Risk Register Report Q4**

The Council's Corporate Risk Register monitored risks that might prevent the Council from achieving its Corporate Plan or delivering services to its communities and service users in Newport.

In Quarter 4, the Corporate Risk Register had 13 risks, which were considered to have a significant impact on the achievement of the Council's objectives and warrant monitoring by the Council's Senior Leadership Team and Corporate Management Team. At the end of quarter 4, eight high level risks were identified (risk scores 15 to 25); 3 medium risks (risk scores 10 to 14) and 2 low risk (0-9) as outlined in the report. The Corporate Risk Register also saw the inclusion of the Covid 19 related risk.

The role of Audit Committee was to review and monitor the corporate governance and risk management arrangements in place, with comments and recommendations of the Committee on risk process considered by Cabinet.

As mentioned previously, Brexit information and updates were being closely monitored as well as Covid-19, there would be a report sent to Committee on both matters.

The Performance and Research Business Partner outlined that the risks going forward into 2021 had been reviewed as part of the service planning process and council had reviewed the risk within the service plan and corporate risk register in light of Covid-19 and Brexit.

Discussions included the following:

- Was the risk register in line with the Aneurin Bevan Local Health Board with regard to the pandemic. As part of a local resilience forum, Newport City Council was part of the Pan Wales pandemic plan from the outset and the response was therefore based on the joint plan.
- The Head of Finance advised there could be risks to the Internal Audit Plan for 2021 if the Council's internal audit was not fulfilling their role due to lockdown. With this in mind, would it need to be added to the risk register in its own right, as the Council would want to avoid audit staff not covering their usual work, when being placed elsewhere such as Track and Trace during lockdown. The Chair considered there might be a small interruption but this would not have a massive impact. The Head of Finance therefore advised that the plan would be completed to the best of Internal Audit's ability but reiterated that there was a lack of auditing due to deployment of staff during lockdown. The Chair was looking at the way risks were being managed and for reassurance in the risk strategy, that Covid was being looked at and if not addressed, it would be flagged up as a problem. This could therefore be a financial issue going forward.
- It was reiterated that Newport City Council was part of the Gwent Local Resilience Forum, there was a plan in place and we were part of it. Secondly, it was stated that the council took action a month before lockdown and the emergency response was put into place as part of Civil Contingency planning on Saturday 22 February 2020 to address and cancel the schools travel arrangements for pupils going abroad. Covid Gold arrangements were in place from that point forward. The Council also made a series of decisions regarding redeployment of resources. Finance made regular reports to the Corporate Management Team regarding funding and loss of income.
- There was the same balance on points regarding the Medium Term budget, the Committee asked why the risks had not been reduced throughout the course of the year. It was advised that revenue and capital were carefully monitored and it was unlikely that the Medium Term Revenue would alter over the next couple of years.
- The Committee asked, why have a target rate if this was not reached. There was a Change programme in place to address this, as it was always a challenge.
- There was a significant risk of flooding in Newport during the summer, it was questioned as to how this would be addressed; would global warming affect Newport. The Committee were informed that the report was security classified and not addressed in the corporate risk register and although this was a separate report, the Council was aware and prepared for the risks.

Agreed:
Audit Committee considered the contents of this report and assessed the risk management arrangements for the Authority, providing any additional commentary/ recommendations to Cabinet.

4 **Revised Internal Audit Plan 2020/21**

Internal auditing was an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helped 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 examined, evaluated and reported 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 is the Revised Operational Internal Audit Plan for 2020/21 based on an assessment of risk and available audit resources for the remaining 6 months of this financial year. The plan was based on delivering 626 audit days.
Covid19 had significantly impacted on Internal Audit and its ability to deliver the original full year plan. Corporately the focus was on delivering essential front line services to deal with the pandemic. The Internal Audit team supported the business grants process and undertook extensive counter fraud work whilst the regularity audits were put on hold for an interim period.

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

Discussions included the following:

- Have you found new ways of working and carrying out auditing differently? Yes and will progress from next week onwards. Greater use of Teams meetings, problems with sharing information however i.e. hard copies and sampling would be different. Would need access to more systems within the council to carry out audits more efficiently i.e. access to HR's recruitment system, found their strengths and weaknesses and reported accordingly.
- What is the impact going forward in terms of capacity? Planning process on cyclical basis and every year, we re-prioritise and have discussions with Head of service. The focus was now on key areas of risk and by Jan 2021 the focus would be on planning for 2021/22 audits. Work will be carried forward where appropriate
- Councillor White asked how can you get the resources for audit work? The Chief of Internal Audit advised of the current arrangement in place with an external audit provider and discussions with HR in filling the audit vacancy.
- The Chair commented that Covid has had a massive impact and would there be assurance concerns for next year, as there was a limitation of scope re the amount of access to get to a system and there could be a possible risk there. The Chief Internal Auditor stated that they would try to give as much assurance based on work carried out in the past year and there was a hope to get into schools early next spring term but there would be some services that would fall off the radar in 2020/21 but would be picked up in 2021/22.

Agreed:
That the report be noted and approved by the Council's Audit Committee

5 **Internal Audit - Progress against Unfavourable Audit Opinions**

The attached report identified current progress of systems or establishments, which had previously been given an unsatisfactory or unsound audit opinion. 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 **2017/18** 40 audit opinions had been issued; 6 were *Unsatisfactory,* none were *Unsound*.

During **2018/19**, 48 audit opinions had been issued; 10 were *Unsatisfactory*, 1 was *Unsound*.

During **2019/20**, 32 audit opinions had been issued; 6 were *Unsatisfactory*, none were *Unsound*.

Discussions included the following:

- The school catering contract process was Unsatisfactory in the way the contract was tendered. This however could not be assessed properly until a new contract had been entered into.
- Street Cleansing in City Services moved from Unsatisfactory to Reasonable, which was positive news.
- The Bridge Achievement Centre was reviewed in 2018/19 and the report was finalised in February 2019. They had an opportunity to put things right and subsequently have improved; this would be reported back to the committee in due course.
- The Chair referred to the SGO/Kinship Payments (1.05) "*There was a lack of central coordination of the SGO financial assessment process as roles and responsibilities were not clearly defined. No one manager had overall responsibility for this function despite the budget being over £950k"* And was of the opinion that the Head of Service should take responsibility for their own service area budget sign off. The Head of Finance explained that there would be a named individual against the budget and the Head of Service would ensure that the person responsible would be held to account. The Internal Audit issue was well made. The Head of Finance would look into this in more detail and get back to the Chair. The Chair however considered that the Head of Service and relevant officers be invited to the next committee to discuss the Unsatisfactory audit opinion and responsibility of the budget.

- The Chair referred to the Gwent Music Support Services "*An up to date inventory of assets was not in place detailing all items held as Gwent Music Headquarters or other locations. Assets held in the storage unit were not insured"* in addition to this, there was a lack of control surrounding the instrument loan scheme. The Council owned the musical instruments, however, most of these were kept by members of the Gwent Music Support Service. The Chair suggested that the committee invite the Chief Education Officer to the next committee in relation to the Unsatisfactory audit opinion and the above issues around the lack of inventory.
- Audit Committee felt they required further assurance that improvements would be made to the control environment following unfavourable audit opinions.

Agreed:
The Committee noted the report, along with the following:

- The Head of Social Services (Adults) and relevant officers would be invited to the next committee to discuss the two consecutive Unsatisfactory audit opinions, paying particular attention to the responsibility of the budget in respect of SGO/Kinship Payments.
- The Committee would invite the Chief Education Officer and relevant officers to the next committee to discuss the Unsatisfactory audit opinion, paying particular attention to the inventory of Council owned musical instruments loaned by Gwent Music Service.

6 **Audit of Financial Statements ISA260 report**

The Committee considered the Audit of Accounts Report – Newport City Council and Newport City Council Group for the year 2019-20.

The Wales Audit Officers thanked Finance for their hard work and co-operation with the report.

The Head of Finance also was incredibly proud of the finance team under the circumstances and also mentioned in turn, the hard work of Audit Wales team.

The Chair invited the Director of Audit Wales to introduce the report.

The main issues arising from the ISA260 finding were discussed with focus on the non-adjusted misstatements highlighted by Audit Wales.

Discussions included the following:

- Why was soft loan and loan modification not adjusted for as per the CIPFA practice. It was explained that the Council had accounted for the soft loan borrowings using their cash value rather than discounting them as required by the CIPFA Code. The reason being that the accounting entries in both cases required to correct these values in the final accounts would be onerously complex considering the immaterial value involved. The Audit Wales Officer explained that it was also very technical in nature, the explanation would also be alluded to in the following report on the agenda item but was happy to have a dialogue with Newport City Council Finance Officers regarding the ongoing reporting of the misstatement. The officers would have to form a view but this could be adjusted and put through the accounts as part of next years accounting process.
- The Committee needed clarity on the information and asked who would sign off the decision in line with company practices. The Head of Finance confirmed that they would sign off the accounts as well as Audit Wales. Audit Wales reiterated that this was not a material issue and in order to provide a statement of accounts Audit Wales needed to bring it to the Committee's attention and that was all. The accounts could therefore be signed off.
- Discussion on the corrected misstatements followed and the Chair flagged that there was a number of high value errors, especially regarding the cash and cash equivalents, borrowings and investments figures. The Assistant Head of Finance gave an explanation on a number of the corrected misstatements including the fact that a number of the errors were of a human nature and working in a remote scenario due to Covid, did hamper an environment of collaboration and simple checks. This would form part of a lessons learned and processes put in place.
- The Head of Finance mentioned that there were benefits with working closer together with Audit Wales; person to person when dealing with statement of accounts from an auditing point of view and during lockdown this was not possible.
- The Chair, after seeking clarification on the timescale in relation to 'Short Term' for cash and cash equivalent classification was advised that the time period was deemed as under three months, however this would be subject to looking at each item on a case by case basis.

Agreed:
The Committee noted the actions and issues were within the ISA 260 and authorised the Head of Finance and Chair to approve and sign the Financial Statements as well as the letter of representation under Appendix 2.

7 **Final Statement of Accounts 2019/20**

The Accounts were published on 6 July 2020 by the Head of Finance and added to the Council's website at that time. This was just over three weeks after the statutory deadline of 15 June 2020, however this was due to carrying out the closing of accounts and preparation of the financial statements during lockdown due to the Covid-19 pandemic, which caused increased complications and difficulties. The Accounts were available for public scrutiny, as required by the Accounts and Audit (Wales) Regulations 2014 (as amended), for a 20 working day period ending 28 August 2020.

Although the current situation of working remotely was not ideal for both ourselves and Audit Wales, our auditors had reviewed the draft 2019/20 Statement of Accounts in detail, and a number of required changes were identified. Audit Wales' 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. Representatives from Audit Wales and finance staff would be available to clarify any points arising from the audit changes and the content of the Accounts as required.

The Assistant Head of Finance thanked the team and Audit Wales for their hard work putting together the statement of accounts.

The Chair also thanked all those involved for their hard work and effort.

Discussions included the following:

- In response to the Chair's query, it was confirmed that the Audit Committee was authorised under the Terms of reference to approve the Statement of Accounts. Therefore, the Committee was requested to receive and approve the Council's Annual Statement of Accounts in accordance with the Accounts and Audit Regulations.
- Consistency with the style of the narrative report was raised by the Chair and recommended that a house-style should be used. The Finance team had forwarded the narrative report to colleagues with non-financial background for feedback and updated accordingly prior to the draft accounts being published.

The Chair referred to the capital slippage in the capital programme, for example in 2019, there was a total slippage of £8.5M, this had been slipping year on year, the Chair asked how could this be managed. The Head of Finance advised the Committee that they had recently completed a re-profile of the capital programme as Finance also brought up the same issues and the organisation had to be realistic on the level of spend. The Finance team were continuously re-phasing the programme spending the profile correctly. There was a challenge in the service areas as well as with Norse and again the re-profile was undertaken to prevent the re-slippage as shown in previous years.

- The Chair referred to p122 of the pack advising that the explanation for usable reserves borrowing for Friars Walk could have been made clearer.
  The Chair also referred to p117 Financial Performance, the narrative report gave a better picture for readers to understand the content and how did this link with the core statements including the Comprehensive Income & Expenditure Statement (CIES)

- The Assistant Head of Finance advised that the accounting statements were complex in nature and there were a number of technical accounting adjustments

made within the core statements. The Expenditure Funding Analysis looked to provide a reconciliation between the impact on the general fund and the CIES. It was however a useful view point on comparatives year on year, and to challenge specific points.

- The Chair mentioned the funding analysis surplus of £1.8M and how did this link to the overall general fund being balanced. It was advised that there was not a direct link from this surplus to the general fund balance as the £1.8m was agreed by Cabinet to be taken to a specific earmarked reserve, therefore no change in the general fund balance.
- Clarification was provided by officers to the Chair on whether the uncleared payments balance within the cash flow note.
- Finally, the Chair was of the opinion that there was too much information in wording below the provisions note and suggested that the Finance team put a clearer working table layout in future. Audit Wales pointed out that this was a requirement by the Code, and Council officers agreed but the wording would be reviewed next financial year.

Agreed:

- The Committee reviewed the content of the 2019/20 Accounts and Audit Wales' Financial Statements (ISA260) report on the 2019/20 Accounts and commented as appropriate.
- The Committee authorised the Head of Finance to adopt and sign the Accounts 2019/20, in accordance with the Accounts and Audit (Wales) Regulations 2014 (as amended).
- The Committee authorised the Head of Finance and Chair of Audit Committee to sign the letter of representation.

8 **Audit Wales Financial Sustainability Report**

As part of the programme of regulatory activity, and in accordance with the Well-being for Future Generations Act 2015, Audit Wales (AW) undertook a programme of work to ensure the Council was discharging its duties under the Act. The report outlined AW findings from the review and concluded that: "The Council had a relatively strong financial position, but had recently recognised the need to develop a more strategic and sustainable approach to consolidate its position".

Discussions included the following:

- The Director of Audit Wales advised that the financial landscape had changed and thanked the Head of Finance for their work on the report.
- Report covered main findings and in summary, the report had done well to meet the budget in the past.
- The issues remained consistent and Covid could possibly add to the difficulties.

Agreed:
The Committee noted the outcome of the review, the Council's response and implementing the necessary actions raised.

9 **Forward Work Programme**

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

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

Agreed:
The Committee to endorse the proposed schedule for future meetings, confirmed the list of people it would like to invite for each item, and indicated whether there was any additional information or research is required, as indicated below:

- Head of Social Services (Adults) and relevant officers would be invited to the next committee to discuss SGO/Kinship Payments consecutive Unsatisfactory audit opinions.
- The Chief Education Officer and relevant officers would be invited to the next committee to discuss the Unsatisfactory audit opinion of Gwent Music Service.
- Code of Corporate Governance Update Report.

The meeting terminated at Time Not Specified