

# Agenda



## Governance and Audit Committee

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Date: Thursday, 26 May 2022

Time: 5.00 pm

Venue: Hybrid Meeting- Council Chambers

To: Councillors R Mogford, J Jordan, S. Cocks, J. Harris and G Horton

Mr G. Chapman, Mr D.Reed, Dr N. Barry

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### Item

- 1 Appointment of Chairperson
- 2 Apologies for Absence
- 3 Declarations of Interest
- 4 Minutes of the Last Meeting 27 January 2022 (Pages 3 - 14)
- 5 Audit Committee - Changes to Title and Terms of Reference (Pages 15 - 28)
- 6 Annual Corporate Self Assessment (Pages 29 - 34)
- 7 Corporate Risk Register (Quarter 3) (Pages 35 - 50)
- 8 Treasury Management Year End Report 2021/2022 (Pages 51 - 68)
- 9 Audit Wales Annual Audit Summary 2021 (Pages 69 - 88)
- 10 Audit Wales Annual Audit Plan 2022 (Pages 89 - 104)
- 11 Internal Audit- Progress against Audit Plan 2021/22 Quarter 3 (Pages 105 - 116)
- 12 Internal Audit Charter Revised and Updated (Pages 117 - 138)
- 13 Annual Governance Statement (draft statement) (Pages 139 - 176)
- 14 Internal Audit Annual Plan 2022-2023 (Pages 177 - 198)
- 15 Internal Audit Annual Report 2021-2022 (Pages 199 - 216)

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Date of Issue: Thursday, 19 May 2022

16 Work Programme (*Pages 217 - 220*)

17 Date of Next Meeting  
28 July 2022 at 5pm- Hybrid Meeting in Council Chambers

# Draft Minutes

## Governance and Audit Committee

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Date: 27 January 2022

Time: 5:00pm

Venue: Microsoft Teams Live Event

Present: Mr. J. Baker (Chair), Councillors G. Giles, P. Hourahine, J. Jordan, H. Thomas.

In attendance: Andrew Wathan (Chief Internal Auditor), Dona Palmer (Audit Manager), Gareth Lucey (Audit Wales), Jan Furtek (Acting Audit Manager), Paul Flint (Performance & Risk Business Partner), Ramim Khan (Audit Wales), Robert Green (Assistant Head of Finance), Rhys Cornwall (Strategic Director – Transformation & Corporate Centre), Mark Howcroft (Assistant Head of Finance), Meirion Rushworth (Head of Finance).

Samantha Schanzer (Governance Support Officer), Pamela Tasker (Governance Support Officer)

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### 1. Apologies for Absence

Councillor R. Mogford, Councillor M. Whitcutt and Councillor R. White

### 2. Declarations of Interest

None

### 3. Minutes of the Last Meeting

#### Agreed:

The minutes from the last meeting of 11 November 2021 were confirmed as a true record.

### 4. Corporate Risk Register (Quarter 2)

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

The Chair reiterated to the Committee that it was not their role to query the scoring of the risks but the process around the risks.

The report was presented to the Committee by the Strategic Director – Transformation & Corporate Centre.

## **Main Points:**

The Strategic Director stated that looking back to July to September 2021 there were a few significant potential risks the organisation were dealing with at that time. One of these was the post EU transition period and Brexit and implications associated with that, as well as the Delta variant risk due to the start of the new school term.

- Within the service plans there were 46 specific risks across its eight service areas with some changes, with a closed risk associated with the strategic development plan as a result of corporate committee arrangements. There was a new risk associated with the replacement Local Development Plan.
- For the Corporate Risk Register there were 18 risks, with Covid escalating and deescalating in relation to infection rates etc.
- Pressure on community services also depended on the risks associated with Covid and how that was managed.
- Increased risk with Brexit and the HGV drivers shortage which carried on into Quarter 3.
- Reduction in safeguarding was a risk due to the organisations self-assessment that was undertaken.

## **Questions:**

Councillor Hourahine enquired about the risk against Brexit and whether it was a blunt tool to define where the risks actually were as there was a difficulty in recruiting for care workers for care homes and it was noted that recruitment was sought in the community.

The Strategic Director explained that outside of this period, but due to the Omicron variant and the pressures on social care, there was a range of interventions to manage this ongoing risk. This was not to do with Brexit but within each service plan there were risks and workforce planning where there had been a lot of work in the organisation on this. This looked at the current workforce and future workforce retention, training, and activities, and in each service plan there was a section as to how those problems were tackled.

Councillor Giles stated that ALN and SEN issues along with school budgets were ongoing but were not as serious as once thought which was impressive. Councillor Giles gave thanks to the Authority and all the schools for their hard work. Councillor Giles requested an update on schools and ALN and SEN issues and commented on the post covid picture and what this would look like as some financial issues of schools were somewhat alleviated.

The Strategic Director stated that the schools finance cost pressures were an ongoing issue, and this was a huge piece of work led by Finance colleagues and Education who were working with schools to alleviate budget pressures which was very successful so far. This was a huge effort from officers and schools. In relation to the SEN and ALN challenges this was around the new legislation with new requirements and operational challenges.

The overall budget position for schools was interesting due to increasing pressures in schools and Welsh Government had provided a hardship fund in place to support this. The biggest impact has been through collaboration between Finance colleagues and Education.

Councillor Giles asked as to whether there were concerns regarding the loss of the additional payment this year and what would happen as a result of this.

The Head of Finance stated that the ending of the hardship fund on the 31 March 2022 was a concern but was mitigated by the settlements being good for local governments. Work was ongoing with Cabinet and the Leader to put together a risk mitigation plan to manage the inevitable cost that was in the system as well as loss of income as normality won't return on 1<sup>st</sup> April. It would need to be sufficient and robust and maybe next year there may be some permanent changes, but it was too early to say at present.

The Chair noted that on page 32 of the pack in relation to Ash Die Back Disease, this showed 20 as an inherent risk score. The Chair stated that they did not want to query the score but with so many trees cut down should there be a change of direction in the score.

The Performance & Risk Business Partner confirmed that the score would be coming down over the next couple of quarters and this would be monitored.

The Chair commented on page 42 and the inherent risk score showed score of 25 but the matrix showed a score of 20 and whether the dot was in the right place.

The Performance & Risk Business Partner confirmed that the score confirmed the direction of travel was coming down.

**Agreed:**

The Governance and Audit Committee noted the report.

## **5. Capital & Treasury Management Strategy**

The purpose of this report was to gather the Committee's views and responses to the Council's draft Capital and Treasury Management Strategies. These views and responses would then be reported to both Cabinet and Council, to inform their respective considerations of these documents.

The report was presented to the committee by the Assistant Head of Finance, and it was explained that this was the last year of the Capital Strategy Programme and there would be a more fundamental review next year as the new programme was developed.

## Main Points:

- There were 2 additional years added to cover schemes that extended beyond 2023 such as the 21st century schools Band B programme which was a multi-year programme that extended beyond the next financial year.
- The report was brought to the Governance & Audit Committee for consideration and comment and then Cabinet and full Council for sign off which was the process followed.
- This was a long-term document covering a 10-year period and beyond in some cases and it was required of the team to underpin all considerations with the 3 main objectives of affordability, prudence, and sustainability, and they were critical within the decisions that were taken in conjunction with this report.
- In the Head of Finance comments, it was noted that one of the main aims was to limit the growth and debt funded Capital Expenditure e.g., expenditure funded by borrowing. Internal borrowing capacity would reduce over time and the way that the MRP policy worked, the charges would increase over time.
- On page 3 there were two sections that gave an overview of the two strategies, what their main purpose was and how they were set out within the prudential code.
- In terms of the main highlights, the 7 years in total was £288 million which included £2.4 million of currently uncommitted borrowing headroom and in 2022-2023 we were looking at a spend in excess of £100 million which was a significant challenge for the Council to achieve.
- £77.5 million was anticipated to be funded through borrowing with £43.1 million was still to be incurred.
- Within the report, the prudential indicators- the two critical ones were the external borrowing limits and the authorised limit in the operational boundary. They were derived from the Capital Programme and at £271 million and £192 million respectively, excluding PFI's and leases. This reflected an increase on the limits that were currently in place in this financial year and that just underlies our position as a net borrower going forward.
- Table 3 contained the capital financing costs that we have budgeted for within the Council's revenue budget which were still relatively high and were reduced in proportion of the Council's overall revenue budget going forward. This was mainly due to the positive settlement that's being received this year, and the indicative settlements that we've had from the next two years, but it ultimately showed the ultimate impact debt funded Capital Expenditure had on an authority's finances.
- The Council needed to develop a new Capital programme where the CFR did not grow overall.
- There were two scenarios as part of this work, one with an annual borrow debt fund expenditure of **£5.5 million** a year and one scenario of **£7.5 million** a year and these both showed that they either reduce or stabilised the CFR.
- However even with these two scenarios the capital financing cost would continue to rise for reasons already noted.
- Part of developing the new programme would be to review the governance structure around how schemes get added to the programmes, making it more robust and limit the amount of slippage being reported.

- In terms of the Capital Strategy there have been changes to the prudential code and the Treasury Management code, both of which were being finalized and published at the moment. There was one specific requirement in relation to the Prudential Code, which is that local authorities would now be precluded from undertaking borrowing where the sole aim of that borrowing is to yield from that. There was no real impact on Newport and there were no plans of that nature at the moment but if there were plans, they would not be able to be taken forward.
- There were sections in the report on the borrowing strategy and investment strategy where net borrowing requirement over the medium-term was the preferred strategy to maximize internal borrowing, deferring the need to undertake actual borrowing for as long as possible, but where relevant, borrowing in advance of need would be considered, with the aim to secure low interest rates and balance that against the risk of borrowing too early and incurring unnecessary interest costs. We also needed to consider the current interest rates on short term borrowing, which were low at the moment, to ensure a balanced portfolio.
- In terms of investments, it was needed to maintain an investment balance of £10 million to retain our professional client status, with the overall aim to strike a balance between risk and reward with consideration given to a diversification of investments to try and ensure that balance was achieved.

The Head of Finance mentioned that next year a local indicator was being introduced which was debt funded capital expenditure which was set at £2.4 million to take us to the end of the Capital Programme. This would mean a limit next year on new borrowing commitments. In terms of the new programme the intention was to set commitments next year where two scenarios were modelled which stabilised borrowing revenues. However, they did not stabilise revenue costs which would continue to increase. Limits would be set to stabilise the CFR. As previously indicated, there were two scenarios of £5.5 million a year and £7.5 million a year and the Head of Finance stated that it was their intention to recommend that a limit was set for the programme period somewhere in that area.

### **Questions:**

Councillor Hourahine asked about the extension of 2 years on the Capital Expenditure Programme and was this brought about because this was planned or had it happened due to underperformance within the Council of these programmes.

The Head of Finance explained that the 21st Century schools programme ran in a slightly different period than the Council's own Capital Programme but there had been slippage as well.

Councillor Hourahine felt that this needed to be addressed by tighter programme management.

The Chair referred to the budgeted spend of £100 million and that there was a risk that this would not be spent and that over the last 5-7 years we always underspend our Capital Programme by about 20-30% every year. The Chair noted that following on from the last statement, if we were struggling to hit our expected spend again this

year what was happening with programme management around capital cost as it was a continuous problem and it was affecting what the strategy would be for this document.

The Chair asked what the Council was doing to get better project management in this area.

The Assistant Head of Finance (RG) stated that there was a recognition that there needed to be a review of the governance arrangements and that in some cases there were capacity challenges, staff numbers etc and this was a challenge that was given consideration and was discussed recently. With the senior management restructure that's being undertaken and the Executive Board now being in place there were stronger structures around the management and the oversight of the Capital Programme. It was therefore anticipated that the risk would be reduced going forward with a more robust process in place to try to avoid a placeholder approach to putting schemes into the programme, so the schemes were ready and deliverable, and the profile was accurate and realistic.

The Head of Finance added that the governance arrangements were being reviewed over the whole piece and across the Authority as management structures were being filled. The Capital Programme and delivery were part of this review and would need to be strengthened.

The Chair suggested that if there was slippage, the capacity issue would need to be referred to in the accounts at that stage as the slippage was being recorded again and from the readers point of view it gave more context.

The Chair commented that the paper was a reactive rather than a proactive document where it was a strategy and method of funding. The Chair stated that they felt that a strategy should be how much debt do we want to carry. For example, the authorised limit was around the £300 million mark which was our maximum borrowing. The Chair stated that it seemed to imply that we wanted to be below £220 million but on the other hand our Capital Programme was £100 million so the strategy should be saying we could go up to £220 million but as a Council we don't want to exceed whatever the appropriate level was. Therefore, the Chair stated that we should be driving what the capital plan should be set at and not the other way around.

The Chair commented that in the report itself that on page 73-paragraph 12 they questioned the first sentence and what it meant; "It should be noted that the two limits described above only place a theoretical limit on borrowing that can be undertaken to fund new capital expenditure, if there is evidence of slippage occurring across the programme."

The Assistant Head of Finance stated that they were trying to say that the way that we currently calculate both the authorised limit, and the operational boundary was based on the Capital Programme that they were looking to deliver but slippage was a common occurrence, and it can be significant at times. Due to slippage the authorised limit was not achieved, and it was felt that was a lot of latitude for additional borrowing that exceeded the programme. Another measure of control was

required in terms of borrowing and that the borrowing headroom was itself an indicator so if the amount of debt funded expenditure was increased then this itself needed to be approved.

The Chair recommended that this paragraph needed to be reworded.

Councillor Giles noted that it was an interesting discussion and that their experience with Plan B Capital Expenditure was match funded which caused great difficulties as it was funded to what we could afford. Councillor Giles noted that there were developers who added unexpected large costs which were not always planned for. Councillor Giles added their thanks to the team for the report.

**Actions:**

For the Assistant Head of Finance to amend page 73-paragraph 12 as advised by the Chair.

**Agreed:**

The Governance and Audit Committee noted the report.

**6 Lessons Learned 2020/21**

This report is to provide the Governance & Audit Committee with an update from the exit meeting with Audit Wales which reflected upon the 2020-21 Statement of Accounts audit process, and whether practices could be amended to benefit the 2021-22 Statement of Accounts process.

The report was presented by the Assistant Head of Finance who confirmed that the Statement of Accounts 2020/21 were signed off in November 2021, but refinements were acknowledged and corrected.

The changes made were reflected in the working papers which automatically go through into the 2021-22 process.

- The focus on the Audit meeting looked at what went well and what could be improved, information sharing aspects and how the team could better meet the statutory audit timescales. Covid flexibilities made the accounts more difficult, but it was recognised that those flexibilities may soon not exist.
- Auditors have time commitments for other audits and as a result of the Audit meeting there was a consideration by the local authority as to whether there was a look to prepare the accounts with auditor availability or to push to close with early time scales.
- It was noted about the delay to reserves approval which was covid related. The Covid grant itself which was a lot of money involved around £30 million funding to be allocated to particular services.
- It was noted this was a good audit process and it was good to be challenged to meet the May deadline and that it was sensible to work to statutory guidelines.
- It was a small team but very resilient under pressures which was a risk the Council needed to appreciate.

### **Questions:**

Councillor Hourahine stated that as it was a small team what availability was there in the whole finance system to allocate staff where they were most needed.

The Head of Finance noted that this was a very technical piece of work, and the Assistant Head of Finance stated a certain expertise was needed for certain things such as the presentation of a 160-page document following the international financial reporting standards.

The Assistant Head of Finance explained that certain closing jobs were shared out in the team but with a team of 4 that inherent challenge and capacity was present.

The Head of Finance confirmed that the entire accountancy team were all involved and there was a central team which brought it all together with the Assistant Head of Finance, alongside one capital accountant and a finance business partner. The work was very technical, and this level of knowledge was not available to everyone in accountancy. Everyone was involved in the end process. Resilience was a problem, and this was concerning but with resources that were there the team did the best they could.

The Chair agreed that this problem was everywhere and noted that it was good to have a Lessons Learned document which was great to have. The Chair agreed that it was necessary to go to the end of May deadline and it was correct to stick to this as there was less risk doing it that way.

### **Agreed:**

The Governance and Audit Committee noted the report

### **7. SO24 / Waiving of Contract SO's: Quarterly report reviewing Cabinet / CM urgent decisions or waiving Contract SO's (Quarter 3, October to December 2021)**

This report provided details of decisions on the use of Standing Order 24 (decisions taken urgently) or the Waiving of Contract Standing Orders for the above period. In consideration of this report, Members were reminded that they are not questioning the merits of the decisions taken but were focussing on why decisions were taken as urgent or why contract standing orders needed to be waived.

The report was presented by the Chief Internal Auditor who explained that this was a regular report to Committee and SO24 allowed Cabinet Members or Cabinet to make urgent decisions without going through the normal consultation process.

During the last quarter there was one report that was submitted which was in relation to a Standard Order 24 and the Committee needed to assure themselves that the reason for pushing through the SO24 was justifiable which would lead to good governance.

The Chief Internal Auditor explained that their role was to review the decision schedule and the report which was included in the papers and to identify the reason for the urgent decision.

The Chief Internal Auditor stated that in his opinion the justification for the urgency of the decision was not explicit or recorded in the report and there was no timeline included around budget or options.

The Chief Internal Auditor informed the Committee that he was not recommending for the Cabinet Member to be called in to the Committee, but they would suggest that the Committee consider requesting the Cabinet Member to provide a written response as to why it was appropriate to use SO24 on this occasion.

The Chair agreed with the recommendation and stated that further information was needed.

**Agreed:**

For the Chief Internal Auditor to request the Cabinet Member to provide a written response to the Governance and Audit Committee to explain the use of SO24.

**8. Internal Audit Unsatisfactory Audit Opinions (6 monthly report)**

This report was presented to Committee by the Chief Internal Auditor.

This report was about the opinions that the team issued, and it gave the Committee an update on the progress on the Unfavourable opinions that were issued.

**Main Points:**

- 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.
- During 2020/21, 29 audit opinions had been issued; 1 was Unsatisfactory, none were Unsound.
- During 2021/22 (to 30-9-21), 9 audit opinions had been issued; none were Unsatisfactory or Unsound.

This was a promising way forward as the number of unfavourable opinions were reducing. Members can see improvements have been made and there was a commitment made to follow up on any Unfavourable opinions and report back to the Committee the secondary opinion which could be positive or negative.

- In some cases there have been 2 consecutive Unfavourable opinions then Committee have called in the relevant Head of Service to challenge the individual as to why little action was taken and to make those improvements.
- In 2015-16 Paragraph 6 of the report, 34 audit opinions were issued; 8 of which were deemed to be *Unsatisfactory*; one was noted in the summary

table as the 7 previous reports have been followed up and more favourable opinions were issued and have been duly reported to the Committee.

- Table 6 showed the Joint Venture- Newport Norse which was Unsatisfactory some years ago. There have been some delays in getting this report in terms of follow up. Follow up was started in 2021, continued into 2022 and a new opinion was issued which was reported to be more favourable and this would be reported back to the Committee in due course.
- In 2016/17, 35 audit opinions were issued; 5 were deemed to be Unsatisfactory, 1 was Unsound. One report has not yet been followed up. This was an SRS issue and the previous 4 Unsatisfactory reports and one Unsound have been followed up by a more favourable opinion. SRS and the Digital Team have engaged with a consultant to identify a gap analysis and an update would be provided to the Committee in due course.
- Paragraph 8 stated that in 2017/18, 40 audit opinions were issued; 6 were deemed to be Unsatisfactory, none were Unsound. 4 out of the 6 have been followed up; 3 of which have resulted in a more favourable audit opinion. Two reports have not yet been followed up. In relation to the Preferred Catering Contractor this was not yet picked up as the school were yet to engage with a new contract.
- In 2018/19, 48 audit opinions had been issued; 10 were deemed to be Unsatisfactory, 1 was deemed to be Unsound. 6 audits have been followed up which resulted in more favourable opinions. The outstanding opinions were shown in the table. Adoption Allowances were being followed up in this current financial year. Commercial & Industrial Property Portfolio was originally Unsatisfactory, and the final report was issued in March 2021 which was an improved opinion of Reasonable. Highways has seen an improved opinion of Reasonable. Vehicle Tracking System & Usage was previously Unsatisfactory, this has not yet been followed up as they were implementing a new tracking system. Trips and Visits have had a follow up undertaken and the Committee have previously called in the Head of Service who gave assurances that things would improve. There was a delay in this follow up due to Covid/Pandemic school closures. Caerleon Comprehensive was Unsatisfactory and due to Covid this was not followed up as of the 30<sup>th</sup> September 2021. However, this was subsequently followed up and the report would be submitted to the Committee at a future meeting.
- In 2019/20, 32 audit opinions had been issued; 6 were deemed to be Unsatisfactory, none were deemed to be Unsound. 3 audits have been followed up which has resulted in more favourable opinions. Taxi Contracts were to be followed up in this Quarter 4 of 2021/22. Corporate Governance was to be followed up in 2022/23 next financial year. Kinships have received 2 consecutive Unsatisfactory opinions and the Head of Children and Young People was called in to give assurances that things would improve. A follow up was completed which improved the opinion to Reasonable. Children & Families Imprest Account was originally Unsatisfactory with the final report issued in August 2021 which was a better Reasonable opinion. Gwent Music Support had an Unsatisfactory report and discussions have been ongoing with their service manager, a follow up was not carried out but advice was issued and post Covid a follow up Audit would be completed.
- In 2020/21, 29 audit opinions had been issued; 1 was deemed to be Unsatisfactory, none were deemed to be Unsound.

- In 2021/22, to September 2021, 9 audit opinions have been issued; no audit reports have been issued with an Unsatisfactory or Unsound audit opinion.
- Managers have a commitment to make the changes that were suggested, and the managers put their own management actions to address their issues and it was up to the operational managers to move this forward.

### **Questions:**

Councillor Giles stated that it appeared that everything was quite detailed and was very efficient. They stated that some opinions were familiar, and some were unexpected. Councillor Giles also noted that there were a lot of Covid aspects and asked whether there were any examples to explain how services were affected.

The Chief Internal Auditor confirmed that the main audit areas affected were our schools and not being able to carry out site visits due to Covid restrictions and school closures. . The Audit Team would work with schools and Head Teachers, and they would have a controlled risk self-assessment to be sent out to them to make sure adequate controls were in place. With other service areas the focus was on frontline provision during the pandemic rather than audit which was acknowledged.

Councillor Hourahine remarked on the summary sheet which mentioned audit opinions as this was touched on this before. Councillor Hourahine requested for there to be an indication in the summary tables of when the team were next able to visit as this would be helpful e.g., 2018/2019 opinions.

The Chief Internal Auditor stated that they would take this on board and stated that the information was captured in the tables, and it depends on when the job appeared on the Audit cycle as other risks come on board which may take priority. In relation to the follow up to an Unfavourable report a follow up would be completed within 12 months but sometimes this could always be accommodated.

### **Agreed:**

The Governance and Audit Committee noted the report

## **9. Work Programme**

The Chief Internal Auditor requested the Internal Audit Charter to go on the agenda for the 31<sup>st</sup> March 2022 Committee.

Audit Wales requested for Audit Wales Annual Audit Plan 2022 to go on the agenda for the 31<sup>st</sup> March 2022 Committee.

Audit Wales stated that Audit Wales Annual Report on Grants Works 2021-22 Draft may be on March's Committee but this would need to be confirmed.

## **10 Date of Next Meeting**

31 March 2022 @ 5pm



# Report

## Governance and Audit Committee

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### Part 1

Date: 26 May 2022

**Subject** **Audit Committee – changes to title and terms of reference**

**Purpose** To advise Committee about the changes to the title and terms of reference of Audit Committee made by the Local Government & Elections (Wales) Act 2021 and to recommend to Council that the relevant parts of the Constitution are amended accordingly.

**Author** Head of Law and Regulation

**Ward** All Wards

**Summary** Sections 115-118 of the Local Government (Wales) Measure 2011 extend the role of Audit Committees and re-name them Governance and Audit Committees. In addition to their existing functions, Audit Committees will be required to scrutinise the Council's governance and performance arrangements, considering and making recommendations about the Council's self-assessment report, and its response to panel performance assessment and special inspection reports. Lay membership requirements will also be strengthened, so that one third of members would be required to be lay members.

These changes came into effects as from 1<sup>st</sup> April 2021 and, therefore, amendments will need to be made to the current terms of reference within the Council's constitution to reflect the legislative requirements. The provisions relating to the appointment of additional lay members and the performance self-assessment arrangements will need to be implemented from May 2022.

**Proposal** **To note the report and recommend to Council that:-**

**(a) Audit Committee is re-named Governance and Audit Committee;**

**(b) The terms of reference of the Governance and Audit Committee is changed to include additional responsibility for,**

- reviewing performance assessment
- review and assess the authority's ability to handle complaints effectively;
- make reports and recommendations in relation to the authority's ability to handle complaints effectively

**Action by** Head of Law and Regulation

**Timetable** Immediate

This report was prepared after consultation with:

- Chief Officers

- Head of Finance
- Head of People and Business Change

## Background

1. The Local Government & Elections (Wales) Act 2021 (“the Act”) received Royal Assent on 20<sup>th</sup> January 2021 and the various sections of the new legislation will be brought into force on a phased basis through a series of commencement orders, with secondary legislation and guidance provided by Welsh Government.
2. Sections 115-118 of the Act amend the Local Government (Wales) Measure 2011 to extend the role of Audit Committees and to re-name them Governance and Audit Committees. In addition to their existing functions, Audit Committees will be required to scrutinise the Council’s governance and performance arrangements, considering and making recommendations about the Council’s self-assessment report, and its response to panel performance assessment and special inspection reports. Lay membership requirements will also be strengthened, so that one third of members would be required to be lay members. The Chair would also be required to be a lay member.
3. The Council will continue to determine other details of its Governance and Audit Committees as appropriate, including the size of the committee and the frequency with which it meets.
4. Audit Committee provide important checks and balances to the Council’s governance arrangements, as required by the 2011 Measure. The Council has a statutory duty to establish an Audit Committee to review and scrutinise its financial affairs, risk management, internal control and corporate governance arrangements.
5. Although Audit Committee is a committee of the Council, in order to provide effective scrutiny, they are required to be independent from the Executive. Under the Measure, at least one member is required to be a ‘lay member’, a financially competent, independent member who is not an officer or member of the Council. Currently, the Council only has the statutory minimum of one lay member, who is also the independent Chair of Audit Committee. However, the Act will increase the requirement for additional lay membership to bring an extended range of skills, perspectives, and experiences, in order to strengthen the scrutiny that an Audit Committee can provide.
6. The purpose of the new legislation is to expand the functions of the Governance and Audit Committee to strengthen corporate governance and assurance and increase the lay membership to strengthen their ability to provide robust and independent scrutiny.
7. The additional powers relating to performance arrangements, considering and making recommendations about the Council’s self-assessment report, and any response to panel performance assessment and special inspection reports, relate to the new provisions introduced by the Act for performance self-assessment. These provisions will replace the continuous improvement requirements set out in the Local Government Wales Measure 2009 and the need for Annual Improvement Reports and Audit certificates of compliance. The new stream-lined approach to performance assessment will require the Council to produce an annual self-assessment report and undertake a peer review by an independent panel. Governance and Audit and Performance Scrutiny Committees will have a role to play in the annual performance self-assessment process. The first self-assessment reports will have to be produced for 2022/23.

## Commencement

8. Section 115 of the Act was brought into force by Commencement Order No.2 with effect from **1<sup>st</sup> April 2021**. As from that date, the following changes have been introduced
  - (a) Audit Committees are re-named Governance and Audit Committees;
  - (b) The statutory terms of reference of Governance and Audit Committees (under the 2011 Measure) are amended to include

- (i) reviewing performance assessment
  - (ii) review and assess the authority's ability to handle complaints effectively;
  - (iii) make reports and recommendations in relation to the authority's ability to handle complaints effectively
9. The remaining sections of the Act relating to membership and proceedings of the Governance and Audit Committee will be brought into force with effect from **5<sup>th</sup> May 2022**, following the next local government elections. By that time,
- (a) the Chair of the Governance and Audit Committee must be a lay member;
  - (b) One third of the members of the Governance and Audit Committee must be lay persons
  - (c) The Deputy Chair must not be a member of the Council's Executive or an assistant to its executive

## Changes to Constitution

10. The current terms of reference of Audit Committee, as set out in Part 3 of the Council's Constitution are attached at Appendix 1 to this report.
11. It is recommended that the terms of reference are amended to rename the Committee "Governance and Audit Committee" and to include the additional responsibilities set out in section 115 of the Act in relation to reviewing performance assessment, reviewing and assessing the Council's ability to handle complaints effectively and making reports and recommendations. The proposed amended terms of reference are set out in Appendix 2. No further amendments are required to comply with the legislation and the current allocation of additional functions by the Council is considered to be sufficient for the purposes of adequate controls and independent oversight.
12. The membership of the new Governance and Audit Committee will also need to be reviewed in due course, and prior to May 2022. The Committee currently comprises 9 members, including 1 lay representative and 8 elected members (politically balanced). There is only one lay member of the Committee, who acts as the independent Chair. The Chair must be appointed by the Committee itself. The statutory guidance recommends that councils follow a public recruitment exercise, similar to that used to appoint members of standards committees, to recruit their lay members. It is recommended that a lay member should not be appointed for more than two full terms of a local authority. Any lay member with voting rights is subject to the provisions of the authority's Code of Conduct for Members.
13. The current Chair will have served two terms of office by May 2022 and, therefore, a recruitment process will need to be undertaken to appoint a replacement. In addition, at least one-third of the Committee will need to be lay members. If the membership remains at 9 members, then that will require three lay members, including the Chair, and therefore additional independent members will also have to be recruited. The remaining 6 seats will then have to be allocated to the political groups in proportion to their representation on the new council.
14. The Act will also require the appointment of a Deputy Chair of Governance and Audit Committee. The Deputy Chair does not need to be a lay member but cannot be a member of the Council's executive. Again, it will be for the Committee to make the appointment. If it is an elected member, then no senior salary will be payable.
15. The WLGA are developing revised role descriptions for the Chair, Deputy Chair and members of Governance and Audit Committees, and copies are attached at Appendix 3. The Committee and Council have previously agreed to adopt these role descriptions for elected and co-opted members of the authority and it is recommended that these revised role descriptions are adopted and included within the new Constitution, once they are finalised.

## **Financial Summary**

16. The only financial implications for the Council are the additional costs of paying the extra 2 lay members for their allowances. Lay Chairs are entitled to a daily attendance allowance of £268 (£134 for a half-day meeting) and other lay members an attendance allowance of £210 (£105 for a half day meeting). Based on the current number of meetings, this would amount to an additional cost of approximately £2,400, which would be met from the members' allowances budget. There would be one-off costs of recruitment, but the Council would be required to advertise and recruit for a new lay Chair in any event and, therefore, any additional costs would be marginal

## **Risks**

17. Failure to adopt the legislative changes would leave the Council open to challenge in terms of its governance processes.

## **Links to Council Policies and Priorities**

18. The principles of good corporate governance, which underpin these legislative changes, are enshrined in the Council's well-being plan and objectives under the Well-being of Future Generations (Wales) Act.

## **Proposal**

19. That Standards Committee note the report and recommend to Council that:-
- (a) Audit Committee is re-named Governance and Audit Committee;
  - (b) The terms of reference of the Governance and Audit Committee is changed to include additional responsibility for,
    - reviewing performance assessment
    - review and assess the authority's ability to handle complaints effectively;
    - make reports and recommendations in relation to the authority's ability to handle complaints effectively

## **Comments of Chief Financial Officer**

The financial implications are set out above.

## **Comments of Monitoring Officer**

Included in the report.

## **Staffing Implications: Comments of Head of People and Business Change**

There are no specific staffing implications or policy implications.

## **Background Papers**

None.

Dated: 22<sup>nd</sup> April 2021

## **Appendix 1**

### **Constitution**

#### **Part 3: Responsibility for Functions**

#### **Appendix 1: Terms of Reference**

##### **4. Audit Committee**

The Local Government (Wales) Measure 2011 (The Measure) requires the local authority to appoint an audit committee. The Measure prescribes the functions of the audit committee as:

- (a) Reviewing and scrutinising the authority's financial affairs;
- (b) Making reports and recommendations in relation to the Council's financial affairs
- (c) Reviewing and assessing the risk management, internal control and corporate governance arrangements of the authority
- (d) Making reports and recommendations to the authority on the adequacy and effectiveness of those arrangements
- (e) Oversee the council's internal and external audit arrangements and
- (f) Review the financial statements prepared by the authority

##### **4.1 Terms of Reference**

To exercise the following functions and take the following resolved decisions, under delegated powers:

- (a) To appoint the Chair of the Audit Committee
- (b) To receive and approve the Council's Annual Statement of Accounts in accordance with the Accounts and Audit Regulations
- (c) To receive and approve the Annual Internal Audit Report from the Chief Internal Auditor
- (d) To receive and approve the Annual Internal Audit Plan
- (e) To review and approve the annual programme for internal audits, the audit priorities and effectiveness of the programme in providing adequate assurance in respect of the Council's main business risks
- (f) To review and monitor the effectiveness of the Council's system of internal control and the proper administration of its financial affairs, including corporate governance and risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements
- (g) To engage with external auditors and inspection agencies and other relevant bodies to ensure that there are effective relationships between external and internal audit.

To exercise the following functions and make recommendations, where appropriate

- (h) To monitor and oversee the implementation and outcomes of the internal audit programme and, where necessary, review and make recommendations regarding unsatisfactory audit reports
- (i) To review the adequacy of the Council's internal audit resources and to make recommendations, where necessary
- (j) To seek assurances on the adequacy of Cabinet, Cabinet Member and/or management responses to internal audit advice, findings and recommendations and monitor implementation and compliance with agreed action plans
- (k) To consider the Annual Audit and Inspection Letter, make any recommendations to Cabinet and to monitor the Council's response to individual risks or areas of concern identified in the Letter
- (l) To consider the Annual Report on Treasury Management and Prudential Indicators and make recommendations to Council
- (m) To receive and consider inspection reports from external regulators and inspectors and to make recommendations and, where necessary, monitor implementation and compliance with agreed action plans
- (n) To monitor and review decisions to waive Contracts Standing Orders and urgent executive decisions taken without consultation and to make recommendations where appropriate.
- (o) To make recommendations to the Head of Finance and Monitoring Officer in relation to the Financial Procedures and Regulations set out in the Council's Constitution
- (p) To recommend to the Council the appointment of further lay members, where appropriate

## **Appendix 2**

### **Proposed New Terms of Reference**

#### **4. Governance and Audit Committee**

The Local Government (Wales) Measure 2011 (The Measure) (as amended by the Local government & Elections (Wales) Act 2021) requires the Council to appoint a Governance and Audit Committee. The Measure (as amended) prescribes the functions of the Governance and Audit Committee as:

- (a) Reviewing and scrutinising the authority's financial affairs;
- (b) Making reports and recommendations in relation to the authority's financial affairs
- (c) Reviewing and assessing the risk management, internal control, performance assessment and corporate governance arrangements of the authority
- (d) Making reports and recommendations to the authority on the adequacy and effectiveness of those arrangements
- (e) review and assess the authority's ability to handle complaints effectively
- (f) make reports and recommendations in relation to the authority's ability to handle complaints effectively
- (g) Oversee the council's internal and external audit arrangements and
- (h) Review the financial statements prepared by the authority

#### **4.1 Terms of Reference**

To exercise the following functions and take the following resolved decisions, under delegated powers:

- (i) To appoint the Chair and Deputy Chair of the Governance and Audit Committee
- (j) To receive and approve the Council's Annual Statement of Accounts in accordance with the Accounts and Audit Regulations
- (k) To receive and approve the Annual Internal Audit Report from the Chief Internal Auditor
- (l) To receive and approve the Annual Internal Audit Plan
- (m) To review and approve the annual programme for internal audits, the audit priorities and effectiveness of the programme in providing adequate assurance in respect of the Council's main business risks
- (n) To review and monitor the effectiveness of the Council's system of internal control and the proper administration of its financial affairs, including corporate governance and risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements
- (o) To engage with external auditors and inspection agencies and other relevant bodies to ensure that there are effective relationships between external and internal audit.

To exercise the following functions and make recommendations, where appropriate

- (p) To monitor and oversee the implementation and outcomes of the internal audit programme and, where necessary, review and make recommendations regarding unsatisfactory audit reports
- (q) To review the adequacy of the Council's internal audit resources and to make recommendations, where necessary
- (r) To seek assurances on the adequacy of Cabinet, Cabinet Member and/or management responses to internal audit advice, findings and recommendations and monitor implementation and compliance with agreed action plans
- (s) To consider the Annual Audit and Inspection Letter, make any recommendations to Cabinet and to monitor the Council's response to individual risks or areas of concern identified in the Letter
- (t) To consider the Annual Report on Treasury Management and Prudential Indicators and make recommendations to Council
- (u) To receive and consider inspection reports from external regulators and inspectors and to make recommendations and, where necessary, monitor implementation and compliance with agreed action plans
- (v) To monitor and review decisions to waive Contracts Standing Orders and urgent executive decisions taken without consultation and to make recommendations where appropriate.
- (w) To make recommendations to the Head of Finance and Monitoring Officer in relation to the Financial Procedures and Regulations set out in the Council's Constitution
- (x) To recommend to the Council the appointment of further lay members, where appropriate

## **Appendix 3**

### **Draft WLGA Chair of Governance and Audit Committee Role Description 2021**

#### **1. Accountabilities**

To Full Council

#### **2. Role Purpose and Activity**

##### **Providing leadership and direction**

- To demonstrate independence, integrity, and impartiality in decision making according to legal, constitutional and policy requirements
- To provide confident and effective management of meetings to facilitate inclusivity, participation and clear decision making
- To comply with the authority's Code of Conduct
- To work according to the Terms of Reference for the Committee
- To work with senior officers of the authority including the Chief Financial Officer and Head of Internal Audit (or equivalent), to agree the forward work programme and to set agendas for the Committee.
- To work with other members of the authority to ensure that the work of the Committee is communicated to and aligns with that of the Cabinet, Standards and Scrutiny functions whilst maintaining appropriate independence.
- To promote the role of the committee within the authority.
- To report as required to Council
- To participate in and contribute to training and development required for the role
- To support committee members to develop the skills required for the role.
- To lead the committee in responding to any recommendations made by the Auditor General for Wales

##### **Leading the Committee in its role in reviewing and scrutinising the authority's financial affairs**

- Make reports and recommendations in relation to the authority's financial affairs
- Oversee the authority's internal and external audit arrangements
- Work with internal and external auditors
- Review the financial statements prepared by the authority and approve them when powers are delegated including making relevant reports and recommendations

##### **Leading the Committee in its role in contributing to the effective performance of the authority**

- Review the draft report of the authority's annual self-assessment. Make recommendations for changes to the conclusions or actions that the authority intends to take
- Make recommendations in response to the draft report of the authority's Panel Assessment (commissioned once per term **from May 2022**)
- Review and assess the authority's ability to handle complaints effectively.
- Make reports and recommendations to the authority about the authority's ability to handle complaints effectively.

##### **Leading the Committee in its role in Reviewing and assessing the Governance, Risk Management and Control of the authority**

- Review and assess the risk management, internal control, and corporate governance arrangements of the authority
- Make reports and recommendations to the authority on the adequacy and effectiveness of those arrangements
- Review and assess the financial risks associated with corporate governance, and be satisfied that the authority's assurance statements including the annual governance statement reflect the risk environment and any activities required to improve it

### **3. Values**

To be committed to the values of the council and the following values in public office:

Openness and transparency

Honesty and integrity

Tolerance and respect

Equality and fairness

Appreciation of cultural differences

Sustainability

## **Draft WLGA Governance and Audit Committee Member Role Description 2021**

### **1 Accountabilities**

To Full Council  
To the Chair of the Committee

### **2. Role purpose and activity**

#### **Participating in meetings of the committee and making decisions**

- To demonstrate independence, integrity, and impartiality in decision making according to legal, constitutional and policy requirements.
- To have regard to the requirements of the Chair of the Committee and the professional advice of senior officers of the authority including the Chief Financial Officer and Head of Internal Audit (or equivalent)
- To Comply with the authority's Code of Conduct
- To work according to the Terms of Reference for the Committee
- To contribute to the development of the forward work programme for the Committee.
- To promote the role of the committee within the authority
- To report as required to Council
- To respond to any recommendations made by the Auditor General for Wales
- To participate in any training and development required for the role

#### **Contributing to the work of the Committee in its role in:**

##### **Reviewing and scrutinising the authority's financial affairs**

- Make reports and recommendations in relation to the authority's financial affairs
- Oversee the authority's internal and external audit arrangements
- Work with internal and external auditors
- Review the financial statements prepared by the authority and approve them when powers are delegated including making relevant reports and recommendations.

##### **Contributing to the effective performance of the authority**

- Review the draft report of the authority's annual self-assessment and make recommendations for changes to the conclusions or actions that the authority intends to take
- Make recommendations in response to the draft report of the authority's Panel Assessment (commissioned once per term **from May 2022**)
- Review and assess the authority's ability to handle complaints effectively.
- Make reports and recommendations in relation to the authority's ability to handle complaints effectively.

##### **Reviewing and assessing the Governance, Risk Management and Control of the authority**

- Review and assess the risk management, internal control, and corporate governance arrangements of the authority
- Make reports and recommendations to the authority on the adequacy and effectiveness of those arrangements
- Review and Assess the financial risks associated with corporate governance, and be satisfied that the authority's assurance statements, including the annual governance statement, reflects the risk environment and any activities required to improve it

### **3. Values**

To be committed to the values of the Council and the following values in public office:

Openness and transparency  
Honesty and integrity  
Tolerance and respect  
Equality and fairness  
Appreciation of cultural differences  
Sustainability

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# Report

## Governance and Audit Committee

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### Part 1

Date: 26 May 2022

**Subject** Local Government & Elections (Wales) Act 2021 – Corporate Self-Assessment

**Purpose** To provide the Council’s Governance and Audit Committee an overview of the Council’s approach to completing its annual Corporate Self-Assessment as per the Local Government & Elections (Wales) Act 2021.

**Author(s)** Strategic Director - Transformation and Corporate  
Head of Law & Regulation  
Head of People, Policy and Transformation

**Ward** All Wards

**Summary** The Local Government and Elections (Wales) Act 2021 requires local authorities in Wales to undertake a Self-Assessment of its governance and performance.

Following Welsh Government guidance, the proposal is that the Council will integrate its Self-Assessment into the Council’s Annual Corporate Report whilst also considering the findings and assessments completed in other statutory annual reports. This assessment will enable the Council to reflect on where it has performed well and where further improvements can be made. An action plan will be reported and monitored to ensure the Council makes continuous improvement on the delivery of its services.

**Proposal** For the Governance and Audit Committee to provide comments and recommendations on the Council’s proposed approach in completing its annual Corporate Self-Assessment.

**Action by** Executive Board and Corporate Management Team

**Timetable** Immediate

This report was prepared after consultation with:

- Executive Board
- Corporate Management Team

**Signed**

## Background

In February 2021, the Local Government and Elections (Wales) Act (the Act) received Royal Assent and replaced the previous Local Government (Wales) Act 1994. One of the requirements in the Act is for local authorities in Wales to:

- Conduct an annual self-assessment of performance; and
- Conduct periodic review to provide an external, expert perspective on performance.

For the purpose of this report for Committee consideration the focus will be on the Council's approach to undertaking an annual self-assessment. There is ongoing work to finalise the approach Councils will take towards periodic external reviews also known as Peer Reviews. The approach that the Council will take will be reported in a future report to the Governance and Audit Committee.

To support the implementation of these new requirements, the Welsh Government published guidance for local authorities to consider and adopt the best approach to suit its own governance and performance monitoring requirements. A link to the Welsh Government guidance can be found [here](#). In summary:

1. **Keep performance under review** – ensuring that the Council is exercising its functions effectively; using its resources economically, efficiently, and effectively; and that governance arrangements are effective for securing these areas.
2. **Duty to consult on performance** – ensuring that Councils consult with local people, businesses operating in Newport, Council staff and Trade Unions.
3. **Duty to report on performance** – demonstrating the extent to which the Council has performed in the previous financial year, the action it intends to take or has taken to meet and increase upon performance requirements.

The Council will have to report its Self-Assessment to the Auditor General for Wales, Her Majesty's Chief Inspector of Education and Training in Wales and Welsh Minister's including Care Inspectorate Wales.

The Act allows all local authorities to determine the best approach they wish to take and the appropriate format for the assessment to be published. Before the self-assessment is published, there is a requirement for the views of the Council's Governance and Audit Committee to:

- Ensure the self-assessment has been completed in accordance with the Act.
- Reviewing the draft report, its conclusions, and actions; and
- Proposing recommendations for changes to the assessment.

The Act also states that the report must be published four weeks after the final approval of its preferred approach.

### **Newport City Council Self-Assessment Approach**

Over the last nine months Newport Council has been researching and discussing with other local authorities and Welsh Local Government Association (WLGA) on the best approach to take in undertaking the Corporate Self-Assessment. In developing the Council's approach, three options were considered by senior officers which included:

1. Undertaking a standalone self-assessment of the Council's Governance and performance requesting service areas to self-assess each of their areas and overall corporate governance.
2. Integrating the self-assessment into the Council's Annual Governance Statement (AGS) as this report already assesses the effectiveness and efficiency of the Council's governance, performance and use of resources.
3. Integrating the self-assessment into the Council's annual Corporate Well-being Report (Annual Report) to assess the overall performance and governance of the organisation.

Following a review of the three options, the preferred approach is option 3 (integration with the Annual Report) as the best approach to undertake a self-assessment within the resources of the Council. This considers the additional resource and time required with the other two options to comply with the Act and also the duplication with other statutory reports e.g. Annual Governance Statement, Director of Social

Services Report etc produced by the Council in relation to governance, assessment of performance and compliance with statutory duties.

The integration of the self-assessment into the Annual Report is the preferred option as:

1. The Annual Report includes an assessment of performance against performance measures and an overall assessment of what the Council has delivered in the previous financial year.
  - a. Where measures are underperforming, commentary is provided outlining the reason(s) and where further action is being taken to improve performance.
  - b. The report links into the End of year Service Plan reviews that are completed by each service area and subject to Performance Scrutiny Committee review.
2. The Annual Report integrates and links into other statutory annual reports that are produced by the Council which includes (not exclusive):
  - a. Annual Governance Statement
  - b. Strategic Equalities Annual report
  - c. Welsh Language Annual report
  - d. Director of Social Services Annual Report
  - e. Annual Statement Accounts
  - f. Corporate compliments, comments, and complaints
  - g. Annual Digital and Information Report
3. The Report includes how the Council has consulted and engaged with the City's residents, businesses and staff on key strategic decision making and its performance.

A copy of the last Annual Report can be found [here](#).

To comply with the new requirements in the Act and guidance, several enhancements will be made to the Annual Report but also to other statutory annual reports to support the Council's overall assessment:

- The Annual Report will state how the Report supports the requirements of the Act and enables the Council to effectively self-assess its performance.
- The Annual Report will be more self-reflective and challenging in what it has achieved and where further improvements can be made.
- Inclusion of additional assessment and coverage on the effectiveness of the Council's corporate governance and performance management.
- Widen the coverage of how the Council has effectively engaged and consulted with the key stakeholders (residents, businesses, staff, and Trade unions) outlined in the Act.
- Incorporate and include an action plan outlining how it will improve its governance and corporate performance. The recommendations and actions from other statutory reports will be included and subject to monitoring by the Council's service areas.

### **Governance and Scrutiny**

The Act and guidance state it is at the discretion of each local authority to determine the approach and format which its Self-Assessment is completed. One stipulation in the Act is that the Self-Assessment is reviewed by the local authorities' Governance and Audit Committee (GAC) and that it is formally approved by the Council's Cabinet and/or Council. Once approved it must be published within 4 weeks (in Welsh and English).

At Newport City Council, service areas undertake quarterly monitoring and reporting of their performance, and risk management. Mid and End of Year reviews of service area performance is reported to the council's Performance Scrutiny Committees and Cabinet. In addition, performance and risk are subject to regular senior officer reviews including deep dives into underperforming areas or where risks are not being mitigated effectively.

The Council's performance scrutiny committees will continue their review of service area performance as well as undertaking reviews into specific areas delivered by the Council. For the Council's Annual Report, both GAC and the Overview and Scrutiny Management Committees responses / recommendations will be

taken into consideration before the final version is approved by the Council's Cabinet and published. For clarity the role of each Committee will be:

- **Governance and Audit Committee** – To ensure the self-assessment has been completed in accordance with the Act; reviewing the draft report, its conclusions, and actions; and proposing recommendations for changes to the assessment.
- **Overview and Scrutiny Management Committee** – To review the Annual Report and to scrutinise the performance of the Council in the last financial year ensuring the Council is meeting its Well-being goals and strategic priorities.

### **Next Steps**

The recommendations from the Governance and Audit Committee will be considered in the review of the Council's approach. A report will be presented at Cabinet with a report also presented to the Council's Democratic Services Committee for information.

The draft Annual Report / Corporate Self-Assessment 2021/22 will be drafted and in Quarter 1 and presented to the Council's GAC, Overview and Scrutiny Management Committee and Cabinet in Quarter 2. The final report will be published within 4 weeks of the Cabinet approval and will be available in Welsh and English. Feedback and lessons learned from the development of the first publication will be considered and improvements made to future reports.

The Council will also update its Planning, Performance and Risk Management Framework and its supporting Planning and Performance Policy to incorporate the new requirements of the legislation. The framework and policies will be presented at a future Governance and Audit Committee in 2022/23.

### **Financial Summary (Capital and Revenue)**

The implementation of the new requirements in the Act will be made within existing resources of the Council.

### **Risks**

<b>Risk Title / Description</b>	<b>Risk Impact score of Risk if it occurs* (H/M/L)</b>	<b>Risk Probability of risk occurring (H/M/L)</b>	<b>Risk Mitigation Action(s)</b> What is the Council doing or what has it done to avoid the risk or reduce its effect?	<b>Risk Owner</b> Officer(s) responsible for dealing with the risk?
Non-compliance with the Local Government & Elections Act	M	L	The Approach outlined in the report will mitigate against non-compliance with the Act.	Director for Corporate and Transformation

\* Taking account of proposed mitigation measures

### **Links to Council Policies and Priorities**

- Corporate Plan 2017-22

### **Options Available and considered**

1. Governance and Audit Committee to provide comments and recommendations on the Council's approach to the Self-Assessment note the contents of this report and the approach that the Council will undertake to comply with the new requirements set in the Local Government & Elections Act 2021.
2. Governance and Audit Committee do not accept the contents of the report and require further information to support the Council's approach proposed.

## **Preferred Option and Why**

Option 1 is the preferred option and Officers will consider any feedback received in relation to report presented.

## **Comments of Chief Financial Officer**

There will be no budgetary impact as a result of this report which merely requests that the Governance and Audit Committee provide comments and recommendations on the Council's proposed approach in completing its annual Corporate Self-Assessment. Any actions required as a result of the self assessment process will need to be dealt with through the budget setting process and Medium Term Financial Plan.

## **Comments of Monitoring Officer**

There are no specific legal issues arising from the report. The Governance & Audit Committee is being asked to consider and comment on the proposed arrangements for developing and publishing the annual self-assessment performance report, building-on the current Annual Corporate Well-being Report. The Local Government & Elections (Wales) Act 2021 has removed the previous statutory duty under the Local Government (Wales) Measure 2009 for councils to secure continuous improvement in the delivery of services. The continuous improvement duty has been replaced by a more flexible performance self-assessment process which requires the Council to keep under review the extent to which it is exercising its functions effectively, using its resources economically, efficiently and effectively and has in place effective governance arrangements to secure these performance requirements. As part of that self-assessment process, the Council is required to produce an annual self-assessment report, setting out its conclusions on the extent to which it has met these performance requirements and any actions it intends to take, or has already taken, to increase performance. The annual self-assessment process will require consultation with a number of key stakeholders, including the public, local businesses, Council staff and trade unions. Governance & Audit Committee have a new statutory role under the 2021 Act in relation to this performance self-assessment process and will be required to review the annual draft self-assessment and can make recommendations for changes to the conclusions or action contained in the draft report. How the Council develops and publishes the annual self-assessment performance report is a matter for the Council to determine but, of the available options, it has been agreed that utilising the Annual Corporate Well-being Report would be the most appropriate way of discharging this duty, as it already encompasses most of the evidence-based requirements for the self-assessment process.

## **Comments of Head of People, Policy and Transformation**

The new requirements in the Local Government and Elections (Wales) Act 2021 provides an opportunity for the Council to improve the reporting and assessment on the effectiveness of the Council to its stakeholders in the city. Over the last 4 years the Council has been making steady progress to improving its governance and performance reporting and this new requirement provides the next evolution stage to this work.

The Well-being of Future Generations Act and other statutory duties has been at the centre of how the Council plans the delivery of its services, monitor its performance, and manages the risks of the Council. The Council's Executive Board and Corporate Management Team have been consulted throughout its development and accept the approach outlined in this report. However, as this is the first year of reporting, the Council also accepts that continuous improvements will be made to the overall self-assessment process in the Council.

## **Scrutiny Committees**

An information report will be provided to the Council's Democratic Services Committee for consideration following approval from the Council's Cabinet.

## **Fairness and Equality Impact Assessment:**

### **• Wellbeing of Future Generation (Wales) Act**

The requirements set out in the Local Government and Elections Act have integrated the Wellbeing of Future Generations Act in its guidance and legislation. The final report published will be integrated into

the Council's Corporate Annual Report which provides an overview of the Council's performance in delivering its Well-being Goals and strategic priorities.

- **Equality Act 2010 / Socio-economic Duty**

There is no requirement to undertake an FEIA which has already been considered by the Welsh Government in the development of the guidance and consultation with local authorities and other affected groups.

For the purpose of the Corporate Self-Assessment the Council will integrate the Council's annual reports on the Equality Act and Welsh Language Measure.

### **Consultation**

The Council has consulted with the Executive Board and Corporate Management Team on the proposed approach that the Council will undertake.

### **Background Papers**

Welsh Government Guidance on Performance and Governance Self-Assessment

Dated: 24<sup>th</sup> March 2022

# Report

## Governance and Audit Committee

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### Part 1

Date: 26 May 2022

**Subject** Quarter 3 2021/22 Corporate Risk Register Update

**Purpose** To present an update of the Corporate Risk Register for the end of quarter 3 (1<sup>st</sup> October to 31<sup>st</sup> December 2021).

**Author** Director of Transformation and Corporate  
Head of People, Policy and Transformation

**Ward** All

**Summary** The Council's Corporate Risk Register monitors those risks that may prevent the Council from achieving its Corporate Plan or delivering services to its communities and service users in Newport.

At the end of quarter three, the Council had 44 risks across its eight service areas. Two service area risks were closed at the end of quarter 3 with no new risks being included.

Eighteen of the 47 risks were recorded in the Council's Corporate Risk Register and considered to have a significant impact on the achievement of the Council's objectives and statutory obligations. At the end of quarter three, there were no risks closed or escalated from the service area risk registers. Overall, there are 10 Severe risks (risk scores 15 to 25); 5 Major risks (risk scores 7 to 14); 2 Moderate risks (risk scores 4 to 6); and one low risk (1-3) that are outlined in the report.

The role of the Governance and Audit Committee is 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.

**Proposal** The Governance and Audit Committee is asked to consider the contents of this report and assess the risk management arrangements for the Authority, providing any additional commentary and/or recommendations to Cabinet.

**Action by** Executive Board, Corporate Management Team and Heads of Service

**Timetable** Immediate

This report was prepared after consultation with:

- Executive Board
- Corporate Management Team

**Signed**

## **Background**

The Wellbeing of Future Generations (Wales) Act 2015, requires Newport City Council to set Wellbeing Objectives in its Corporate Plan 2017-22. With any Corporate Plan there will be risks that may prevent the Council from achieving its objectives. The Council's Risk Management Policy and Corporate Risk Register enables the Council to effectively identify, manage and monitor those risks to ensure that the Council realises its Plan and ensure service delivery is provided to its communities and citizens. In July 2020 the new Risk Management Policy for 2020-22 was approved by the leader of the Council. This policy is attached as part of the background papers of this report for reference.

The Local Government and Elections (Wales) Act 2021 changes the role and responsibilities of the Council's Governance and Audit Committee in relation to the performance and governance arrangements of authority and other constitutional changes. In April 2021, the Council's Democratic Services agreed to update the terms of reference of the Governance and Audit Committee to reflect these changes in the Act. The role and responsibilities of the Governance and Audit Committee remains the same in the review and assessment of the Council's corporate governance and risk management arrangements in place with comments and recommendations of the Committee on risk process considered by Cabinet.

The Council has set up a working group to review and implement the new legislative requirements over the next year.

## **Covid-19 / Post EU Transition, Newport City Council Response**

Throughout the last year, Newport City Council has continued to focus on supporting front-line services, protecting lives and minimising the spread of Covid-19. As part of the Council's Civil Contingencies arrangements, the Council's Gold Command group consisting of Heads of Service and Chief Executive to monitor the situation; and to manage emerging operational / community risks. This group also links into the wider Strategic Coordination Group and Welsh Government structures and these arrangements remain in place at the time of this report.

Similarly, the Council has continued to monitor the situation following the UK leaving the EU and the Single Market. The Post EU Transition risk score presented in this report reflects the position at the time (31<sup>st</sup> December 2021).

## **Risk Management Process**

In Newport City Council risks that may prevent or impact on the delivery of our services is continuously monitored and managed at all levels of the organisation. The following diagram below summarises how risks are continuously managed in Newport City Council.

There are many different sources of risks, such as civil contingencies, health & safety, service delivery and projects throughout the organisation where risks to the delivery of the Corporate Plan, or services might be identified and included on the Council's risk register. New risks identified to be included on the register must be assessed and evaluated to determine their risk scores (Inherent / Residual / Target), existing controls that are in place and where further mitigating controls are required to respond and reduce the overall impact of the risk to the Council. To assess risk scores Newport City Council uses a standard 5x5 matrix that is commonly adopted across Welsh and English local authorities. Appendix 1 of this report shows a heat map of the Council's corporate risks using this matrix.



All risks identified must be initially agreed by the Head of Service. If the residual risk score is 15 or above or if the Head of Service considers the risk to have an impact on the delivery of services / achievement of objectives in Council, it is escalated to the Council's Corporate Management Team (CMT) to determine whether it is included on the Council's Corporate Risk Register or if the risk should be managed by the relevant service area(s).

All risks are recorded in the Council's 'Management Information Hub'. Every quarter, risk owners, and risk action owners are required to assess and provide an update on the risk score and mitigating actions in place. Any risk that has escalated to 15 or above is automatically escalated and requires the Directors team to consider whether it should be included on the Corporate risk register or if they are satisfied that the responsible owner and mitigating actions are effective to be managed within the service area / team.

As risk mitigating actions are completed and the risk is reduced to meet the target risk score, an assessment will be undertaken by the risk owner to determine whether the risk is closed and if the risk mitigation actions have been sufficient to mitigate the overall risk. For risks on the Corporate Risk Register this responsibility would fall onto the Risk Owner and CMT to determine if the risk can be closed.

### Quarter Three risk update

Service areas' have aligned the objectives and actions in the 2021/22 service plans with the [Council's Strategic Recovery Aims](#). Service areas also continue to consider any new and/or emerging risks that are impacting on the delivery of their services.

At the end of quarter three (to 31<sup>st</sup> December 2021), service areas had recorded 44 risks (including Corporate Risks) recorded in their risk registers.

Service Area	Q3 Risks	Risk Scores Increased since Q2	Risk Scores Decreased since Q2	No Change since Q2	New Risks (Since Q2)	Closed Risks (Since Q2)
Adult & Community Service	3	0	0	3	0	0
Children & Young People Service	3	0	0	3	0	0
City Services	6	0	1	5	0	0
Education	7	0	1	6	0	0
Finance	5	0	2	3	0	0
Law & Regulation	2	0	0	2	0	1

Service Area	Q3 Risks	Risk Scores Increased since Q2	Risk Scores Decreased since Q2	No Change since Q2	New Risks (Since Q2)	Closed Risks (Since Q2)
People & Business Change	12	0	1	11	0	0
Regeneration, Investment & Housing	6	0	1	5	0	1
<b>Total</b>	<b>44</b>	<b>0</b>	<b>6</b>	<b>38</b>	<b>0</b>	<b>2</b>

### Closed Service Area Risks

At the end of quarter 3, two risks were closed in the following service areas:

Risk	Service Area	Q3 Risk Score	Target Risk Score	Reason
Transfer of Land Charges to Land Register	Law & Regulation	5	6	The transfer of land registry funded through government grant and the Council will receive an additional transitional payment as compensation to mitigate its impact. As the risk has achieved its target risk score the Head of Service has closed this risk.
Children and Communities Grant (CCG)	Regeneration Investment & Housing	3	5	Newport Council received confirmation of funding over the next three years from Welsh Government. As the risk has achieved its target risk score, the Head of Service has agreed for the risk to close.

### Corporate Risk Register Update (Quarter 3)

The role of the Corporate Management Team (CMT) is to determine whether the risk should be included on the Corporate Risk Register for monitoring or if the risk should remain in the service area(s) because of sufficient management action being undertaken to manage the overall risk.

At the end of quarter three, the Council's Corporate Risk Register included 18 of the 44 risks that are considered to pose the most risk to the delivery of Council services and achievement of its Corporate Objectives. The 18 Corporate Risks consisted of:

- 10 Severe risks (15 to 25)
- 5 Major Risks (7 to 14)
- 2 Moderate Risk (4 to 6)
- 1 Low Risk (1 to 3).

Full list of Corporate risks are and can be found in appendix 1:

- COVID-19 Pandemic Outbreak (Cross-cutting, led by People & Business Change)
- Stability of Social Services Providers (Adult & Community Services)
- Highways Network (City Services)
- Educational Out of County Placements (Education Services)
- Pressure on Adult & Community Services (Adult & Community Services)
- Ash Die Back Disease (City Services)

- Pressure on the delivery of Children Services (Children & Young People Services)
- Demand for Additional Learning Needs (ALN) and Special Educational Needs (SEN) support (Education Services)
- Balancing the Council's Medium-Term budget (Finance Services)
- Schools Finance / Cost Pressures (Education Services / Finance Services)
- Cyber Security (People & Business Change)
- Pressure on Housing & Homelessness Service (Regeneration, Investment & Housing)
- Post EU Transition (Cross Cutting, led by People & Business Change)
- City Centre Security and Safety (City Services / People & Business Change)
- In year financial management (Finance Services)
- Climate Change (Cross Cutting, led by Regeneration, Investment & Housing)
- Newport Council's Property Estate (Regeneration, Investment & Housing)
- Safeguarding (Cross Cutting, led by Children & Young People Services)

**Change in direction of risk score (Quarter Three)**

In comparison to the quarter two Corporate risk register, there were no new and/or escalated risks, and no risks were closed. No risks de-escalated back into service area registers for monitoring. At the end of quarter three, two risks had decreased, and 16 risks had remained the same as quarter two. The table below highlights those risks where there has been a change in direction between quarter three and two. These risks are:

Risk	Service Area Cabinet Member	Q2 Risk Score	Q3 Risk Score	Commentary
<b>Ash Die Back Disease</b>	Deputy Leader & Cabinet Member for City Services & Member Development	20	16	Still an issue with potentially major impacts, however management programme of survey and removal is in place, so risk is reducing each month. Works will continue throughout 2022 and risk re-assessed each quarter.
<b>Balancing the Council's medium-term budget</b>	Leader of the Council / Cabinet	16	9	Between Q2 and Q3, the Council has received its provisional 2022/23 funding settlement figure from Welsh Government. In addition, indicative funding allocations for the following two financial years were also received. The 2022/23 settlement figure was more positive than anticipated, meaning that the Council does not have a funding gap to address in 2022/23. As well as this, the indicative figures for 2023/24 and 2024/25, when inserted into the Medium-Term Financial Plan, result in an overall medium term budget position that is broadly balanced. Whilst there is a risk that additional pressures will emerge, which could result in a budget gap, the challenge of balancing the medium-term budget is seemingly more achievable than previously assumed.

**Appendix 1** - Quarter 3 Corporate Risk Heat Map and Risk Profile  
**Appendix 2** of this report is the Council's Corporate Risk Register.

**Financial Summary**

There are no direct costs associated with this report.

**Risks**

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
The Council does not achieve its objectives as corporate level risks are not adequately managed and monitored.	M	L	Risk Management Strategy has been adopted and mechanisms are in place to identify, manage and escalate emerging and new risks / mitigation strategies.  Audit Committee oversight of risk management process.	Directors, Heads of Service and Performance Team

\*Taking account of proposed mitigation measures

### Links to Council Policies and Priorities

Corporate Plan 2017-22  
Strategic Recovery Aims  
Service Plans 2021/22

Robust risk management practices increase the chances that all the Council's priorities and plans will be implemented successfully.

### Options Available and considered

1. To consider the contents of this report and assessment of the risk management arrangements for the Authority, providing any additional commentary and/or recommendations to Cabinet.
2. To request further information or reject the contents of the risk register

### Preferred Option and Why

1. Option 1 is the preferred option with recommendations raised by the Audit Committee to be considered and reported to Cabinet and Officers in accordance with the Council's Constitution.

### Comments of Chief Financial Officer

There are no direct financial implications arising from this report. The corporate risk register forms an important part of the governance and budget setting arrangements for the council and the risk register is used to guide the internal audit plan.

It is noted that overall, the corporate risk register remains largely unchanged since the second quarter with no new or escalated risks and none closed or de-escalated back to the service areas, but three have decreased and 15 remained the same. The register will continue to be monitored closely and any increasing risk scores that may lead to financial pressures without mitigation will be reflected in established ongoing revenue and capital monitoring and MTFP arrangements.

It should be noted that the risk score in relation to balancing the Council's medium term budget has been reduced between quarters two and three. The reasons for this are explained in the body of the report, however it should be noted that this is a rolling risk and, therefore, whilst the current medium term outlook is more positive than previously modelled, there remains scope for the position to deteriorate, particularly if unforeseen financial pressures emerge.

### Comments of Monitoring Officer

There are no specific legal issues arising from the report. As part of the Council's risk management strategy, the corporate risk register identifies those high-level risks that could impact upon the Council's

ability to deliver its corporate plan objectives and essential public services. The report confirms that there have been no significant changes in the risk profile during the third quarter of this year, with no additional risks being added to the corporate risk register and no risks being de-escalated back to the service areas. For the most part, the individual risk scores have also remained the same, with only 3 of the 18 risk scores being decreased. Governance & Audit Committee are responsible for reviewing and assessing the Council's risk management, internal control and corporate governance arrangements. The identification of corporate risks within the risk register and monitoring the effectiveness of the mitigation measures are matters for Cabinet

### **Comments of Head of People, Policy and Transformation**

Risk Management in the Council is a key area to implementing Wellbeing of Future Generations Act (Wales) 2015 and provides assurance over our control and governance arrangements in the Council.

The report provides an overview of the Council's risk management processes in place to manage internal and external risks that could impact on the delivery of the Corporate Plan and statutory duties. External factors such as Covid are managed through the council's business continuity arrangements. As prescribed in the Council's Risk Management Policy, the Council's Cabinet and senior officers operate an evidence-based approach to decision making considering all opportunities and risks to the Council, its services and service users.

### **Comments of Cabinet Member**

The Council's quarter three Corporate Risk Register has been reported to the Council's Cabinet on 9<sup>th</sup> March 2022. The Chair of Cabinet has been consulted and has agreed that this report goes forward to Audit Committee for consideration with Audit Committee comments and recommendations reported back to Cabinet in the next quarters update.

### **Local issues**

None.

### **Scrutiny Committees**

Not Applicable. Audit Committee have a role in reviewing and assessing the risk management arrangements of the Authority.

### **Fairness and Equalities Impact Assessment**

Not applicable as this report is not seeking any strategic decisions or policy changes with its purpose to update GAC on the previous risk register.

### **Wellbeing of Future Generations (Wales) Act 2015**

Under the Wellbeing of Future Generations Act (Wales) 2015 and its 5 ways of working principles this report supports:

Long Term – Having effective risk management arrangements will ensure that the opportunities and risks that will emerge consider the long term impact on service users and communities.

Preventative – Identifying opportunities and risks will ensure the Council is able to implement necessary mitigations to prevent or minimise their impact on Council services and service users.

Collaborative – The management of risk is undertaken throughout the Council and officers collaborate within service areas, Corporate Management Team and the Council's Cabinet to ensure decisions are made in a timely manner and are evidence based.

Involvement – The Council's Risk Management process involves officers across the Council's service areas and Cabinet Members.

Integration – Risk Management is being integrated throughout the Council and supports the integrated Planning, Performance and Risk Management Framework. The Framework ensures that planning activities consider the opportunities and risks to their implementation and overall supports the delivery of the Council's Corporate Plan and legislative duties.

## **Consultation**

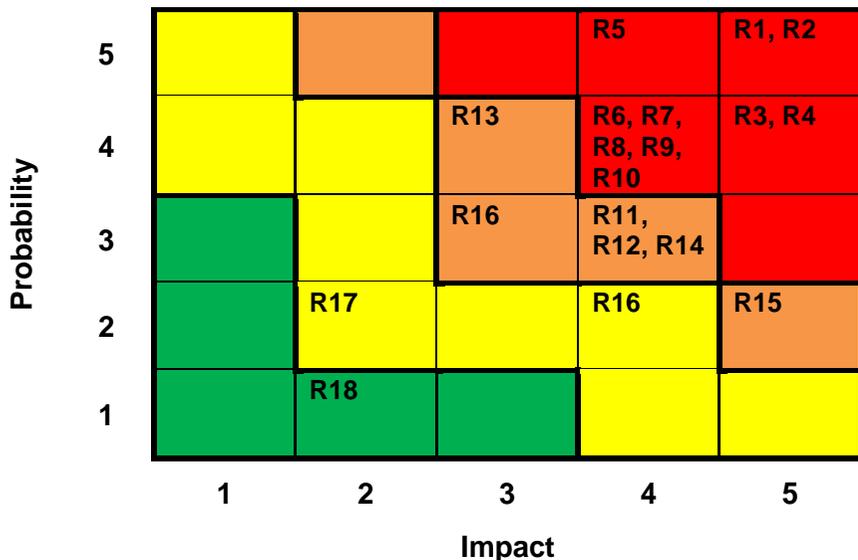
As above, the Risk Register is considered by Audit Committee and Cabinet.

## **Background Papers**

Risk Management Policy 2020-22 v1  
Q2 Risk Cabinet Report, December 2021  
Covid Strategic Recovery Aims

Dated: 24<sup>th</sup> March 2022

Appendix 1 - Quarter 3 Corporate Risk Heat Map



Corporate Risk Heat Map Key (Quarter 3 2021/22)	
R1 - Stability of Social Services Providers	R10 - Newport Council's Property Estate
R2 - Pressure on Adult & Community Services	R11 - Schools Finance / Cost Pressures
R3 - Highways Network	R12 - Educational Out of County Placements
R4 - COVID-19 Pandemic Outbreak	R13 - Climate Change
R5 - Pressure on the delivery of Children Services	R14 - Post EU Transition
R6 - Ash Die Back Disease	R15 - City Centre Security and Safety
R7 - Demand for ALN and SEN support	R16 - Balancing the Council's Medium-Term budget
R8 - Cyber Security	R17 - Safeguarding
R9 - Pressure on Housing and Homelessness Service	R18 - In year financial management

### Risk Score Profile between Quarter 4 2020/21 and Quarter 3 2021/22

\* Information on Cabinet portfolios added to the report to improve alignment with portfolios.

Risk Reference	Risk	Lead Cabinet Member(s) *	Risk Score Quarter 4 2020/21	Risk Score Quarter 1 2020/21	Risk Score Quarter 2 2020/21	(Current) Quarter 3 2021/22	Target Risk Score
R1	Stability of Social Services Providers	Cabinet Member for Social Services	25	25	25	25	6
R2	Pressure on Adult & Community Services	Cabinet Member for Social Services	20	20	25	25	10
R3	Highways Network	Deputy Leader and Cabinet Member for City Services & Member Development	20	20	20	20	15
R4	COVID-19 Pandemic Outbreak	Leader of the Council /Cabinet	20	15	20	20	6
R5	Pressure on the delivery of Children Services	Cabinet Member for Social Services	20	20	20	20	6
R6	Ash Die Back Disease	Deputy Leader & Cabinet Member for City Services & Member Development	20	20	20	16	6
R7	Demand for ALN and SEN support	Cabinet Member for Education and Skills	12	16	16	16	6
R8	Cyber Security	Cabinet Member for Assets and Community	16	16	16	16	10
R9	Pressure on Housing and Homelessness Service	Leader of the Council	16	16	16	16	6

Risk Reference	Risk	Lead Cabinet Member(s) *	Risk Score Quarter 4 2020/21	Risk Score Quarter 1 2020/21	Risk Score Quarter 2 2020/21	(Current) Quarter 3 2021/22	Target Risk Score
R10	Newport Council's Property Estate	Cabinet Member for Assets and Community	16	16	16	16	9
R11	Schools Finance / Cost Pressures	Leader of the Council /Cabinet Member for Education and Skills	12	12	12	12	6
R12	Educational Out of County Placements	Cabinet Member for Education and Skills	12	12	12	12	5
R13	Climate Change	Cabinet Member for Sustainable Development	9	9	12	12	10
R14	Post EU Transition	Leader of the Council / Cabinet	8	8	12	12	10
R15	City Centre Security and Safety	Deputy Leader and Cabinet Member for City Services and Member Development	10	10	10	10	8
R16	Balancing the Council's Medium-Term budget	Leader of the Council / Cabinet	16	16	16	9	10
R17	Safeguarding	Cabinet Member for Social Services	6	6	4	4	4
R18	In year financial management	Leader of the Council / Cabinet	3	3	3	2	6

## **Glossary**

This document provides an explanation of terminology used in this report and supporting documents.

**Risk Appetite** – the amount of risk that Newport City Council is willing to seek or accept in the pursuit of the Council's long term objectives.

**Inherent Risk Score** – The level of risk in the absence of any existing controls and management action taken to alter the risk's impact or probability of occurring.

**Residual Risk Score** – The level of risk where risk responses i.e. existing controls or risk mitigation actions have been taken to manage the risk's impact and probability.

**Target Risk Score** – The level of risk (risk score) that Newport City Council is willing to accept / tolerate in managing the risk. This is set in line with the Council's overall risk appetite.

**Risk Mitigation Action** – Actions identified by the Risk Owner to respond to the risk and reduce the impact and probability of the risk of occurring.

**Risk Mitigation Action (Red Progress Score)** – Significant issue(s) have been identified with the action which could impact on the ability of the action meeting its completion date. Immediate action / response is required resolve its status.

**Risk Mitigation Action (Amber Progress Score)** – issue(s) have been identified that could have a negative impact on the action achieving its completion date. Appropriate line manager(s) should be informed and where necessary action taken.

**Risk Mitigation Action (Green Progress Score)** – The action is on course for delivering to the agreed completion date and within the agreed tolerances.

### **How the Council Assesses Risk**

An assessment of the likelihood and impact of risk is important to measure, compare and monitor risks to ensure efficient use of resources and effective decision making. This assessment is carried out using the risk matrix as described below.

### **Risk Assessment Matrix**

A Corporate Risk Register will contain the high level risks for the whole authority. To differentiate between these high level risks a 5x5 risk assessment matrix will be applied. The matrix is shown below and further detail is included in appendix 3.

Risks are scored using the scoring system for probability and impact and assigned a rating based on the tolerances set out in the matrix below

## Impact Matrix

Score	Description	Impact Measures						
		Strategic / Policy	Operational / Business Continuity	Financial	Governance / Legal / Regulatory	Health & Safety	Reputational	Project Delivery / Savings / Benefits
5	<b>Severe</b>	Failure of a key strategic objective	Serious organisational / service failure that has direct impact on stakeholders including vulnerable groups.  Service disruption over 5+ days.	<u><b>Corporate / Project</b></u>  Unplanned and/or additional expenditure disturbance.  Capital > £1M Revenue >£1M	Legislative / Regulatory breach resulting in multiple litigation / legal action taken on the Council (linked to Financial / Reputational Impacts).	Multiple major irreversible injuries or deaths of staff, students, or members of public.  (Linked to Financial / Reputational Impacts)	Severe and persistent National media coverage. Adverse central government response, involving (threat of) removal of delegated powers. Officer(s) and / or Members forced to Resign.	Project status is over 12 months from anticipated implementation date.  Project(s) do not deliver the major benefits / savings identified in business case.  This is linked to Financial / Strategic / Reputational Impacts
4	<b>Major</b>	Severe constraint on achievement of a key strategic objective	Loss of an important service(s) for a short period that could impact on stakeholders.  Service disruption between 3-5 days.	<u><b>Corporate / Project</b></u>  Unplanned and/or additional expenditure disturbance. Capital > £0.5M - £1.0M Revenue >£0.5M-£1M	Serious legislative breach resulting in intervention, sanctions and legal action. (Linked to Financial / Reputational Impacts)	Major irreversible injury or death of staff, student or member of public. (Linked to Financial / Reputational Impacts)	Adverse publicity in professional / municipal press, affecting perception / standing in professional /local government community  Adverse local and social media publicity of a significant and persistent nature.	Project status is 6 to 12 months over from anticipated implementation date.  Project(s) do not deliver major benefits / savings identified in business case.  This is linked to Financial / Strategic / Reputational Impacts
3	<b>Moderate</b>	Noticeable constraint on achievement of a key	Loss and/or intermittent disruption	<u><b>Corporate / Project</b></u>	Significant legislative breach resulting in investigation.	Major reversible injury to staff, student or member of	Adverse local publicity /	Project status is 1 to 6 months over from

Score	Description	Impact Measures						
		Strategic / Policy	Operational / Business Continuity	Financial	Governance / Legal / Regulatory	Health & Safety	Reputational	Project Delivery / Savings / Benefits
		strategic objective / Service Plan objective.	of a service between 2-3 days.	Unplanned and/or additional expenditure disturbance.  Capital = £0.25M - £0.5M Revenue = £0.25M to £0.5M Revenue = £0.25M to £0.5M	(Linked to Financial / Reputational Impacts)	public. Not life threatening.  (Linked to Financial / Reputational Impacts)	local public opinion including social media. Statutory prosecution of a non-serious nature.	anticipated implementation date.  There is significant reduction on delivery of benefits / savings identified in business case.  This is linked to Financial / Strategic / Reputational impacts.
Page 48 2	Low	Constraint on achievement of Service Plan objective that does not impact on Corporate Strategy	Brief disruption of service that has a minor impact on the delivery of a service.  Service disruption 1 day.	<u>Corporate / Project</u>  Unplanned and/or additional expenditure disturbance.  Capital = £0.1M - £0.25M Revenue = £0.1M – £0.25M	Moderate impact leading to warning and recommendations.	Some minor reversible injuries.  (Linked to Financial / Reputational Impacts)	Contained within Directorate Complaint from individual / small group, of arguable merit	Project status is 1 to 4 weeks over from anticipated implementation date.  There is minor reduction on delivery of benefits / savings identified in business case.  This is linked to Financial / Strategic / Reputational impacts.
1	Very Low	Constraint on achievement of Service / Team Plan objective	Minor disruption of a non-critical service.	<u>Corporate / Project</u>  Unplanned and/or additional expenditure disturbance.  Capital < £100k	No reprimand, sanction or legal action.	Some superficial injuries.  (Linked to Financial / Reputational Impacts)	Isolated complaint(s) that are managed through the corporate complaints process and service area.	Project status is 1 week over from anticipated implementation date.  There is insignificant / no impact on delivery of

Score	Description	Impact Measures						
		Strategic / Policy	Operational / Business Continuity	Financial	Governance / Legal / Regulatory	Health & Safety	Reputational	Project Delivery / Savings / Benefits
				Revenue <£100k		Reputational Impacts)		benefits / savings identified in business case.  This is linked to Financial / Strategic / Reputational impacts.

## Probability

Score	Probability	Criteria
5	<b>Very likely</b> 75% +	<p><b>Systematic Risks</b> – Local evidence indicating <b>very high</b> probability of occurrence if no action / controls are in place. Risk is highly likely to occur daily, weekly, monthly, quarterly.</p> <p><b>Emerging Risks</b> – National and Global evidence indicating <b>very high</b> probability of occurrence on local communities if no action / controls are taken. Risks are highly likely to occur within the next 5 years.</p>
4	<b>Likely</b> 51-75%	<p><b>Systematic Risks</b> – Local evidence indicating <b>high</b> probability occur in most circumstances with near misses regularly encountered e.g. once or twice a year.</p> <p><b>Emerging Risks</b> – National and Global evidence indicating <b>high</b> probability of occurrence on local communities if no action / controls are taken. Risks are likely to occur within the next 5-10 years.</p>
3	<b>Possible</b> 26-50%	<p><b>Systematic Risks</b> – Local evidence indicating <b>distinct</b> possibility with circumstances regularly encountered and near misses experienced every 1-3 years.</p> <p><b>Emerging Risks</b> – National and Global evidence indicating <b>distinct</b> probability of occurrence on local communities if no action / controls are taken. Risks are likely to occur within the next 10-15 years.</p>
2	<b>Unlikely</b> 6-25%	<p><b>Systematic Risks</b> – Local evidence indicating <b>low</b> to infrequent near misses experienced every 3 + years.</p> <p><b>Emerging Risks</b> – National evidence indicating <b>low</b> probability of occurrence on local communities if no action / controls are taken. Risks are likely to occur within the next 16-25 years.</p>
1	<b>Very Unlikely</b>	<p><b>Systematic Risks</b> – Local evidence indicating risk has rarely / never happened or in exceptional circumstances.</p> <p><b>Emerging Risks</b> – National evidence indicating very low probability of occurrence on local communities if no action / controls are taken. Risks are likely to occur within the next 16-25 years.</p>

**Systematic Risks** – Risks that are known or are becoming part of social, cultural, economic and environmental systems that govern our lives.

**Emerging Risks** – Risks that are further away, less defined and early stage of being known about.

# Report

## Governance & Audit Committee

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### Part 1

Date: 26th May 2022

**Subject** **Outturn Report on Treasury Management for the period 2021/22**

**Purpose** This report is to inform Governance & Audit Committee of treasury activities undertaken for the financial year 2021/22 and confirms, (other than interest rate volatility exposure), that all treasury and prudential indicators have been adhered to. The Committee is asked to make any comments or observations, as needed, which will be included in this report when subsequently sent to Cabinet / Council.

**Author** Head of Finance / Assistant Head of Finance

**Ward** All

**Summary** In line with the agreed Treasury Management Strategy, the Council continues to be both a short-term investor of cash and borrower to manage day-to-day cash flows. Current forecasts indicate that in the future, temporary borrowing will continue to be required to fund normal day-to-day cash flow activities and longer-term borrowing will increase to fund new commitments in the current capital programme as well as the impact of reduced capacity for 'internal borrowing'. However, during 2021/22, and symptomatic in the previous year too, the Council has received a net inflow of extra-ordinary resourcing by way of extra RSG and grant whilst also experiencing a significant slippage in the capital programme spending, to become a net investor of funds in the short term, and this has caused the unusual variance and non-compliance against the performance indicator previously set that monitors exposure to interest rate changes.

During the year the Council's net borrowing decreased by £44.5m from £128.3m at 31 March 2021 to £83.8m at 31 March 22.

**Proposal** To note the report on treasury management activities for the period 2021-22 and provide comments to Council.

**Action by** Head of Finance / Assistant Head of Finance

**Timetable** Immediate

This report was prepared after consultation with:

- Treasury Advisors
- Head of Finance

**Signed**

## Background

1. In June 2009 the Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code) which requires the Authority to approve a treasury management annual report after the end of each financial year.
2. Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which required the Authority to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report. This report fulfils the Authority's legal obligation to have regard to the CIPFA Code.
3. CIPFA defines Treasury Management as

*The management of the organisation's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.*

The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

4. The 2021/22 Treasury Management Strategy was approved by the Council as part of the Capital Strategy in March 2021 and can be viewed via the following link

<https://democracy.newport.gov.uk/documents/s19160/06%20Capital%20Strategy%20and%20Treasury%20Strategy%202021.pdf?LLL=0>

5. This report presented the following information:

- details of capital financing, borrowing, debt rescheduling and investment transactions
- reports on the risk implications of treasury decisions and transactions
- details the monitoring position on treasury management transactions
- confirms compliance with treasury limits set and Prudential Code

## BORROWING STRATEGY / ACTIVITY

### Short and Long Term Borrowing

1. Whilst the Council has significant long-term borrowing requirements, the Council's current strategy of funding capital expenditure is through the concept of 'internal borrowing' where the Council seeks to use its existing cash balances and reserves to afford its capital expenditure prior to the necessity to take out external borrowing i.e. we defer taking out new long term borrowing and fund capital expenditure from the Council's own cash resources for as long as we can – which it has because of its 'cash-backed' reserves and, to a lesser extent, day to day positive cash-flows. The Council may undertake borrowing early if there is a clear underlying need for future borrowing and it feels it can minimise risk of future interest rate rises while providing value for money. Any such action will be in line with advice from our treasury advisors. Such decisions may be more prevalent into the future as Bank of England has started to increase interest rates as a mechanism to mitigate inflationary pressures.
2. By using an internal borrowing strategy the Council can also minimise cash holding at a time when counterparty risk remains relatively high, especially with the current economic implications of the Covid-19 pandemic. The interest rates achievable on the Council's investments are also significantly

lower than the current rates payable on long-term borrowing and this remains a sensible consideration in operating an 'internal borrowing' arrangement.

3. Whilst the strategy minimises investment counterparty risk, the risk of interest rate exposure is increased as the current low longer term borrowing rates may rise in the future. The performance indicator for interest rate exposure is exceeded currently due primarily to the level of recurrent short term investments being undertaken. There has been a conscious choice to keep a larger "cash" balance during the Covid-19 pandemic and there is also an assumption that capital expenditure levels will need to increase significantly to address the levels/budgets approved in capital programme. The market position is being constantly monitored in order to minimise this risk.
4. The following table compares the borrowing levels at the end of 2021-22 with the equivalent from the end of the previous year. This indicates a net reduction in borrowing of £11m during 2021-22, predominantly through the redemption of the short term temporary loan and a PWLB loan at end September, neither of which has been replaced, plus we have a number of loans which are Equal Instalments of Principal (EIP), which pays back principal over the life of the loan, so the borrowing levels decline naturally over the life of the loan as an alternative to maturity based loans where the amount borrowed is only repaid at the end when the loan period expires.

Comparison	21-22	20-21
Public Works Loan Board	97,064,396	101,972,948
Temporary Borrowing		5,000,000
Interest free Borrowing	10,079,672	10,553,464
LOBOS	30,000,000	30,000,000
Ex Lobos	5,000,000	5,000,000
	142,144,068	152,526,412

5. In regards to LOBOs, no loans were called during the period. All £30m outstanding is subject to potential change of interest rates by the lender (which would automatically trigger a right to the Council to repay these loans). Should a change of interest rate be requested, then it will be considered in detail and a decision on how we proceed will be made in conjunction with our treasury advisors.
6. These LOBO loans historically used LIBOR as a reference rate for calculating repayment offers. Traditionally LIBOR (the London Interbank Offered Rate) has been used by the financial sector to reflect a series of interest reference rates for a variety of periods, including 'overnight' or longer term periods of one, three, six or twelve months. (Interest rates for periods longer than overnight are often referred to as "term rates"). These reference rates have traditionally underpinned and are used as a basis for calculating many interest rates for financial products.
7. In December 2021 LIBOR was discontinued and has been replaced by an alternative reference rate, SONIA (the Sterling Overnight Index Average). They are broadly comparable when used as LOBO reference rates, and our treasury advisors exhibited no concern in accepting changes to the terms and conditions of these loans to update any reference of LIBOR to SONIA. The change was not regarded as fundamental to introduce a redemption condition unlike if the actual rate of the loan were proposed to change.

## INVESTMENTS ACTIVITY / POSITION

8. The Council's strategies in this area of Treasury Management are

- (i) to be a short term and relatively low value investor, consistent with the pursuit of an ‘internal borrowing strategy’ and
- (ii) investment priorities should follow the priorities of security, liquidity and yield, in that order.

9. The following table compares the investment levels at the end of 2021-22 with the equivalent from the end of the previous year. This indicates a net increase in investment activity of £33.5m during 2021/22

Comparison	21-22	20-21
Investment	- 58,265,000	- 24,780,000

These investments reflect surplus cash invested in financial institutions or organisations to provide a return. Appreciating the ongoing Ukrainian turmoil, (and whilst the global nature of investment markets makes certainty difficult in tracking ultimate consequences), none of our investments directly involve Russian institutions.

It may be interesting to highlight the current volatility experienced in cash management around the year end. Circa £30m of investments were placed with other Councils in the last 2 weeks of the financial year, symptomatic of the extra cash flowing into the Council through grant funding, extra revenue support grant and capital expenditure being less than predicted by project managers. The majority of this was placed as short term investments of 3-6 weeks.

Due to the continuing pandemic the Authority has continued to keep more cash available at shorter notice than is normal to cover any unexpected calls on cash flow. Currently there is not much demand for very short term borrowing within the market place, and rates on deposits below 14 days with the Debt Management Account Deposit Facility (DMADF) are still very low at 0.5%. The Authority investments with other local authorities are for slightly longer periods and involve interest rates of between 0.57% and 0.62%, but with still quite low interest rates. It is anticipated that investments will reduce during 2022/23 as an alternative to borrowing until we reach the balance of £10m, which will remain invested for compliance with MiFID II.

- 10. As an explanation to new members of the Committee, January 2018 saw the implementation in the UK of the second Markets in Financial Instruments Directive (MiFID II), where treasury consulting firms were obliged to treat all local authorities as retail clients unless they opted up to professional client status and met certain criteria. Those criteria included holding a minimum of £10m investment balance and employing knowledgeable and experienced staff to carry out investment transactions.
- 11. Currently the Council has £10m invested with the CCLA Investment management fund into the medium term to satisfy this requirement. CCLA operates a number of pooled funds consistent with the risk appetite of public and charity sectors, such that it derives a greater level of return both in terms of capital growth and investment returns than traditional deposit investments whilst focussing on lower-risk instruments.

**IMPACT OF COVID-19 PANDEMIC**

12. Since the early days of the pandemic the Council has been monitoring the impact on cash flow closely. In addition to the business grants, the Council saw an increase Covid-19 related expenditure, a reduction in income across services, and a pressure in the collection of Council Tax and Non-Domestic Rates (NDR) which resulted in extra resourcing for WG in the form of extraordinary settlement funding and the provision of resourcing to assist with taxation relief schemes such as NDR Relief Scheme for retail, leisure and hospitality businesses.
13. All of the above would have had a significant impact on cash flow if not addressed. However, WG continue to have mitigated this impact by reimbursing increased expenditure through the hardship fund and through loss of income claims. WG have also repaid the business grants in a timely manner, as well as providing a grant to support the cash flow of the 100% rate reliefs. Up to this point this has certainly assisted with cash flow and the Council has not been required to undertake additional net borrowing to address cash flow considerations.
14. 2022-23 is potentially going to be more volatile from a cash flow management point of view as the Council's services shift to a more traditional provision with increased emphasis of some services being paid for by customer fees and charges again, as an alternative to receiving Covid 19 hardship and support grants from Welsh Government. However helpfully this may also mean in time that the Council can move to a greater degree of longer term investments as opposed to the current short term strategy.

## **NON-TREASURY INVESTMENTS**

15. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in the Investment Guidance issued by Ministry of Housing, Communities and Local Government's (MHCLG) and Welsh Government, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

The Authority also held such investments in:

- directly owned property such as office and commercial units of £12.7m
- loans to developers £10.6m
- shareholding in subsidiaries £0.3m (Newport Transport)

Directly held property is subject to annual valuation review which can change the value of the holding. In terms of the financial valuations of these assets, the outbreak of Covid-19 has impacted global financial markets such that less weight can be attached to previous market evidence for comparison purposes, to inform opinions of value. Therefore, the valuations are currently reported on the basis of 'material valuation uncertainty'. Consequently, less certainty and a higher degree of caution should be attached to the valuation of these property investments than would traditionally be the case. The above figure is reflective of 2020-21 Accounts, and is provided as an illustration as the Accounts process for 2021-22 won't have concluded by the time this paper is finalised.

The developer loans activity reflects those regenerative partnership projects that are included within the capital programme to assist developers with cash flow loans on particular projects and which are required to be repaid plus interest. The increase of £5.9m during 2021-22 when compared to previous year reflects the progress experienced in relation to the Indoor Market and Mill Street regeneration schemes predominantly.

## **OTHER TREASURY CONSIDERATIONS FOR 2021-22**

### **Economic background and Counter Party Update**

16. Appendix A outlines the underlying economic environment as provided by the Council's Treasury Management Advisors, Arlingclose. This is very useful context in informing annual strategy and assisting in effective treasury decisions.
17. Our treasury management advisors Arlingclose have completed a recurrent review of its credit advice on unsecured deposits. The outcome of that review included additions to the counterparty list (e.g. NatWest Markets plc) together with the removal of the previous suspensions (e.g. Handelsbanken plc). In addition, the maximum duration for all recommended counterparties was extended to 100 days. Importantly, the long-term rating of Santander UK, (the Council's bankers), remains at A+; above the Council's minimum level of A-. Whilst our CCLA investment of £10m (for MiFiD purposes) is likely to be longer term than most of our other investments, because of its on call nature it generally still wouldn't be considered a long term investment. During 2022-23 as Council services resume to a more traditional pattern and profile, it is intended that an analysis be undertaken whether cash flow movements will allow a degree of short term investments to instead be invested longer term.

**Compliance with Prudential Indicators approved by Council**

18. The Authority measures and manages its exposures to treasury management risks using various indicators which can be found in Appendix B. There is an exception that the Council is exposed to higher degree of interest rate fluctuation than anticipated in the treasury strategy, the rationale of which is explained in that appendix and reflects primarily the volume of net investments being undertaken at the moment. But other than that, the Authority has complied with the Prudential Indicators for 2021/22, set in March 2021 as part of the Treasury Management Strategy.

**PWLB future lending terms**

19. Members will be aware that the Public Works Loan Board (PWLB), the main borrowing institution used by councils, increased interest rates on loans in the autumn of 2019 following concerns about the level of Local Government debt, in particular for commercial activities.

These have manifested themselves in enhanced PWLB rules being adopted during 2021/22, to preclude advantageous PWLB borrowing rates being used to fund investments primarily for yield. These checks are anticipated to add 2 days to the approval mechanism. The guidelines also allow for sanctions being applied to any counterparty using this funding source erroneously, varying from no longer being able to use PWLB for any of its borrowing, having to unwind specified transactions and/or the application of fines and penalties depending upon the severity of the breach.

**Risks**

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Investment counterparty not repaying investments	High but depending on investment value	Low	The Council only invests with Institutions with very high credit scores. It employs advisors to monitor money market movements and changes to credit scores and acts immediately should things change adversely. The lower levels of funds available for investment will also alleviate the risk.	Members, Head of Finance, Treasury staff, based on advice from treasury advisors

Interest Rates moving adversely against expectations	Low	Low	Future expectations for higher short term rates are subdued. The Treasury strategy approved allows for the use of short term borrowing once investment funds are exhausted to take advantage of these low rates.	Head of Finance, Treasury staff, treasury advisors
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\* Taking account of proposed mitigation measures

**Links to Council Policies and Priorities**

It is the Council's policy to ensure that the security of the capital sums invested is fully recognised and has absolute priority. The Council follows the advice of the Welsh Government that any investment decisions take account of security, liquidity and yield in that order.

**Options Available and considered**

The Prudential Code and statute requires that, during and at the end of each financial year, reports on these matters are presented to Council for approval.

**Preferred Option and Why**

The approach required by statute is quite prescriptive, such that there aren't many choices/options. This report is a regular half yearly event. The Governance and Audit Committee acts as the main scrutiny mechanism before a similar report is received by Cabinet/Council. The approach remains unchanged in advocating that the Committee notes the contents of the report in relation to Treasury activities and Indicators, and particularly the deficiency against the interest rate exposure indicator and provides endorsement or feedback pertinent to add to the Cabinet/Council report.

**Comments of Chief Financial Officer**

Decisions made on treasury matters will be made with a view to comply with the Treasury Management Strategy, Prudential Indicators, taking advice, where needed, from our Treasury Advisers.

**Comments of Monitoring Officer**

There are no legal implications. The in year and annual treasury management report is consistent with relevant Chartered Institute of Public Finance and Accountancy Guidance, Treasury Management principles and the Council's investment Strategy.

**Comments of Head of People and Business Change**

There are no direct HR implications associated with the report.

The Well-being of Future Generations Act requires public bodies to balance short-term needs with the needs to safeguard the ability to meet long-term needs. As stated in this report, the Council continues to be both a short-term investor of cash and borrower to manage day-to-day cash flows but current forecasts indicate that in future temporary borrowing will continue to be required and longer-term borrowing will increase to fund the capital programme. Sound financial management by the Council aligns with the well-being goal of a Prosperous Wales.

**Comments of Cabinet Member**

N/A

## **Local issues**

N/A

## **Scrutiny Committees**

N/A

## **Fairness and Equality Impact Assessment:**

- **Wellbeing of Future Generation (Wales) Act**
- **Equality Act 2010**
- **Socio-economic Duty**
- **Welsh Language (Wales) Measure 2011**

For this report, a full Fairness and Equality Impact Assessment has not been undertaken. This is because this report is not seeking any strategic decisions or policy changes, with its purpose being to update on the treasury management activities for the year retrospectively. However, fairness and equality are considered as part of service delivery and will feature in annual finance reports, such as the Treasury and Capital Strategy.

In terms of the Wellbeing of Future Generations (Wales) Act, and the five ways of working contained within it, this report highlights examples of these being supported. This report is a backwards looking report of the treasury management activities of the Council. It shows that we followed the treasury management strategy and the compliance with prudential code and treasury management indicators. This links into the long-term objectives of the authorities and ensures that the Councils' activities are carried out in an affordable, prudent and sustainable manner.

In the case of the Welsh Language, the service will continue to ensure that, wherever possible, services or information is available in the medium of Welsh.

The Equality Act 2010 contains a Public Sector Equality Duty, which came into force on 06 April 2011. The Act identifies a number of 'protected characteristics', namely age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; sexual orientation; marriage and civil partnership. The new single duty aims to integrate consideration of equality and good relations into the regular business of public authorities. Compliance with the duty is a legal obligation and is intended to result in better-informed decision-making and policy development and services that are more effective for users. Nothing in this report is considered to have a direct equality impact.

## **Consultation**

N/A

## **Background Papers**

Report to Council March 2021: Capital Strategy and Treasury Strategy.

Dated: 12<sup>th</sup> May 2022

## APPENDIX A

### External Context - Provided by Council's Treasury Advisors

**Economic background:** The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the period.

Bank Rate was 0.1% at the beginning of the reporting period. April and May saw the economy gathering momentum as the shackles of the pandemic restrictions were eased. Despite the improving outlook, market expectations were that the Bank of England would delay rate rises until 2022. Rising, persistent inflation changed that.

UK CPI was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality which were re-opening after the pandemic lockdowns, inflation then was believed to be temporary. Thereafter price rises slowly became more widespread, as a combination of rising global costs and strong demand was exacerbated by supply shortages and transport dislocations. The surge in wholesale gas and electricity prices led to elevated inflation expectations. CPI for February 2022 registered 6.2% year on year, up from 5.5% in the previous month and the highest reading in the National Statistic series. Core inflation, which excludes the more volatile components, rose to 5.2% y/y from 4.4%.

The government's jobs furlough scheme insulated the labour market from the worst effects of the pandemic. The labour market began to tighten and demand for workers grew strongly as employers found it increasingly difficult to find workers to fill vacant jobs. Having peaked at 5.2% in December 2020, unemployment continued to fall and the most recent labour market data for the three months to January 2022 showed the unemployment rate at 3.9% while the employment rate rose to 75.6%. Headline 3-month average annual growth rate for wages were 4.8% for total pay and 3.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 0.1% while regular pay fell by 1.0%.

With the fading of lockdown - and, briefly, the 'pingdemic' - restraints, activity in consumer-facing sectors improved substantially as did sectors such as oil and mining with the reopening of oil rigs but materials shortages and the reduction in the real spending power of households and businesses dampened some of the growth momentum. Gross domestic product (GDP) grew by an upwardly revised 1.3% in the fourth calendar quarter of 2021 according to the final estimate (initial estimate 1.0%) and took UK GDP to just 0.1% below where it was before the pandemic. The annual growth rate was revised down slightly to 7.4% (from 7.5%) following a revised 9.3% fall in 2020.

Having increased Bank Rate from 0.10% to 0.25% in December, the Bank of England hiked it further to 0.50% in February and 0.75% in March. At the meeting in February, the Monetary Policy Committee (MPC) voted unanimously to start reducing the stock of its asset purchase scheme by ceasing to reinvest the proceeds from maturing bonds as well as starting a programme of selling its corporate bonds.

In its March interest rate announcement, the MPC noted that the invasion of Ukraine had caused further large increases in energy and other commodity prices, with the expectation that the conflict will worsen supply chain disruptions around the world and push CPI inflation to around 8% later in 2022, even higher than forecast only a month before in the February Monetary Policy Report. The Committee also noted that although GDP in January was stronger than expected with business confidence holding up and the labour market remaining robust, consumer confidence had fallen due to the squeeze in real household incomes.

GDP growth in the euro zone increased by 0.3% in calendar Q4 2021 following a gain of 2.3% in the third quarter and 2.2% in the second. Headline inflation remains high, with CPI registering a record 7.5% year-on-year in March, the ninth successive month of rising inflation. Core CPI inflation was 3.0% y/y in March, was well above the European Central Bank's target of 'below, but close to 2%', putting further pressure on its long-term stance of holding its main interest rate of 0%.

The US economy expanded at a downwardly revised annualised rate of 6.9% in Q4 2021, a sharp increase from a gain of 2.3% in the previous quarter. In its March 2022 interest rate announcement, the Federal Reserve raised

the Fed Funds rate to between 0.25% and 0.50% and outlined further increases should be expected in the coming months. The Fed also repeated its plan to reduce its asset purchase programme which could start by May 2022.

**Financial markets:** The conflict in Ukraine added further volatility to the already uncertain inflation and interest rate outlook over the period. The Dow Jones started to decline in January but remained above its pre-pandemic level by the end of the period while the FTSE 250 and FTSE 100 also fell and ended the quarter below their pre-March 2020 levels.

Bond yields were similarly volatile as the tension between higher inflation and flight to quality from the war pushed and pulled yields, but with a general upward trend from higher interest rates dominating as yields generally climbed.

The 5-year UK benchmark gilt yield began the quarter at 0.82% before rising to 1.41%. Over the same period the 10-year gilt yield rose from 0.97% to 1.61% and the 20-year yield from 1.20% to 1.82%.

The Sterling Overnight Rate (SONIA) averaged 0.39% over the quarter.

**Credit review:** In the first half of FY 2021-22 credit default swap (CDS) spreads were flat over most of period and are broadly in line with their pre-pandemic levels. In September spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but then fell back. Fitch and Moody's revised upward the outlook on a number of UK banks and building societies on the Authority's counterparty to 'stable', recognising their improved capital positions compared to 2020 and better economic growth prospects in the UK.

Fitch also revised the outlook for Nordea, Svenska Handelsbanken and Handelsbanken plc to stable. The agency considered the improved economic prospects in the Nordic region to have reduced the baseline downside risks it previously assigned to the lenders.

The successful vaccine rollout programme was credit positive for the financial services sector in general and the improved economic outlook meant some institutions were able to reduce provisions for bad loans. However, in 2022, the uncertainty engendered by Russia's invasion of Ukraine pushed CDS prices modestly higher over the first calendar quarter, but only to levels slightly above their 2021 averages, illustrating the general resilience of the banking sector.

Having completed its full review of its credit advice on unsecured deposits, in September Arlingclose extended the maximum duration limit for UK bank entities on its recommended lending list from 35 days to 100 days; a similar extension was advised in December for the non-UK banks on this list. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

### **Revised CIPFA Codes, Updated PWLB Lending Facility Guidance**

In August 2021 HM Treasury significantly revised guidance for the PWLB lending facility with more detail and 12 examples of permitted and prohibited use of PWLB loans. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20<sup>th</sup> December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.

The principles of the Prudential Code took immediate effect.

To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the CFR unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.

Borrowing is permitted for cash flow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules.

Unlike the Prudential Code, there is no mention of the date of initial application in the Treasury Management Code. The TM Code now includes extensive additional requirements for service and commercial investments, far beyond those in the 2017 version.

## Appendix B - 2021-22 Treasury Activities and Indicators

### Local Context

On 31<sup>st</sup> March 2021, the Authority had net borrowing of £128.3m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. Whilst work on the 2021-22 Statement of Accounts remains a work in progress, a comparative draft illustration is provided in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.22 Draft/budgeted £m	31.3.21 Actual £m
General Fund CFR	295	281
Less: *Other debt liabilities	-39	-41
<b>Loans CFR</b>	<b>256</b>	<b>240</b>
Less: Usable reserves	-168	-108
Less: Working capital	-4	-4
<b>Net borrowing</b>	<b>84</b>	<b>128</b>

\* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt

Lower official interest rates have lowered the cost of short-term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing. The Authority pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk.

The treasury management position at 31<sup>st</sup> March 2022 and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.21 Balance £m	Movement £m	31.3.22 Balance £m	31.3.22 Rate
Long-term borrowing	136.9	-4.9	132.0	3.9%
Long term interest free borrowing	10.6	-0.5	10.1	0%
Short-term borrowing	5.6	-5.6	0	N/A
<b>Total borrowing</b>	<b>153.1</b>	<b>-11</b>	<b>142.1</b>	
Long-term investments				
Short-term investments	-5.0	-31.0	-36.0	0.57%
Cash and cash equivalents	-19.8	-2.5	-22.3	0.71%
<b>Total investments</b>	<b>-24.8</b>	<b>-33.5</b>	<b>-58.3</b>	
<b>Net borrowing</b>	<b>128.3</b>	<b>44.5</b>	<b>83.8</b>	

### Borrowing Update

Local authorities can borrow from the PWLB provided they can confirm they are not planning to purchase 'investment assets primarily for yield' in the current or next two financial years, with confirmation of the purpose of capital expenditure from the Section 151 Officer. Authorities that are purchasing or intending to purchase

investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing.

Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

Competitive market alternatives may be available for authorities with or without access to the PWLB. However, the financial strength of the individual authority and borrowing purpose will be scrutinised by commercial lenders.

The Authority is not planning to purchase any investment assets primarily for yield within the next three years and so is able fully access the PWLB

### **Borrowing Strategy during the period**

At 31<sup>st</sup> March 2022 the Authority held £142.1m of loans, (a decrease of £11m against 31<sup>st</sup> March 2021, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 31<sup>st</sup> March are summarised in Table 3 below.

**Table 3: Borrowing Position**

	<b>31.3.21 Balance £m</b>	<b>Net Movement £m</b>	<b>31.3.22 Balance £m</b>	<b>31.3.22 Weighted Average Rate %</b>	<b>31.3.22 Weighted Average Maturity (years)</b>
Public Works Loan Board	102.0	-5.0	97.0	3.7	16.0
Banks (LOBO)	30.0	0	30.0	4.4	32.3
Banks (fixed-term)	5.0	0	5.0	3.8	56.0
Local authorities (long-term)	0	0	0	N/a	N/a
Local authorities (short-term)	5.0	-5.0	0	N/a	N/a
Other WG loans	10.6	-0.5	10.1	0%	8.1
Accrued interest	0.6	-0.6	0	N/a	N/a
<b>Total borrowing</b>	<b>153.1</b>	<b>-11.0</b>	<b>142.1</b>		

The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

In keeping with these objectives, no new borrowing was undertaken, while £11m of existing loans allowed to mature without replacement. This strategy enabled the Authority to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

With short-term interest rates remaining much lower than long-term rates and with surplus of liquidity continuing to feature in the LA to LA market, the Authority considered it to be more cost effective in the near term to use internal resources or borrowed rolling temporary / short-term loans instead. The net movement in temporary / short-term loans is shown in table 3 above.

The Authority continues to hold £30m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Authority has the option

to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the year.

### Other Debt Activity

Although not classed as borrowing, the Authority previously raised capital finance previously to afford Glan Usk School and the Southern Distributor Road. The Accounts for 2021-22 are still be being prepared at the time this report is finalised, but as an illustration the 2020-21 Statement of Accounts indicated an outstanding liability of £39m to pay to the operator.

### Treasury Investment Activity

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Authority's investment balances ranged between £17.9 and £58.2 million due to timing differences between income and expenditure. The investment position is shown in Table 4 below.

Table 4: Treasury Investment Position

	<b>31.3.21 Balance £m</b>	<b>Net Movement £m</b>	<b>30.9.21 Balance £m</b>	<b>Income Return %</b>	<b>Weighted Average Maturity days</b>
Banks & building societies (unsecured)	9.8	-7.5	2.3	0.2	-
Government (incl. local authorities and money market fund)	15.0	41.0	56.0	0.6	-
<b>Total investments</b>	<b>24.8</b>	<b>33.5</b>	<b>58.3</b>		-

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Ultra-low short-dated cash rates which have been a feature since March 2020 when Bank Rate was cut to 0.1% have resulted in the return on sterling low volatility net asset value money market funds (LVNAV MMFs) being close to zero even after some managers have temporarily waived or lowered their fees. At this stage net negative returns are not the central case of most MMF managers over the short-term, and fee cuts or waivers should result in MMF net yields having a floor of zero, but the possibility cannot be ruled out.

Deposit rates with the Debt Management Account Deposit Facility (DMADF) are also largely around zero.

In the Treasury Management Strategy, it was agreed that the Authority will move into higher risk/higher yield investments such as pooled funds. In December 21, the Council invested £10m in a CCLA money market fund which is a pooled fund.

### Non-Treasury Investments

The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in the Investment Guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG) and Welsh Government, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

The Authority also held investments in

- directly owned property such as office and commercial units of £12.7m
- loans to developers £10.6m
- shareholding in subsidiaries £0.3m

### Treasury Performance

The Authority measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in Table 6 below.

### Compliance

The Head of Finance reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management strategy. Compliance with specific investment limits is demonstrated in Table 5 below.

Compliance with the authorised limit and operational boundary for external debt is demonstrated in Table 7 below.

Table 5: Debt Limits

	2021/22 Maximum	31.3.22 Actual	2021/22 Operational Boundary	2021/22 Authorised Limit	Complied? Yes/No
Borrowing	146	142.1	187	255	Y
PFI and Finance Leases	39	39	42	42	Y
<b>Total debt</b>	<b>185</b>	<b>181.1</b>	<b>229</b>	<b>297</b>	<b>Y</b>

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow. This has not been necessary, but it would not be counted as a compliance failure anyway.

As part of Treasury Strategy, the Council agreed the following counterparty limits and appetite towards investment risk. None of these indicators were breached during 2021-22.

Table 8: Investment Limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£20m	Unlimited
Secured investments *	20 years	£10m	Unlimited
Banks (unsecured) *	13 months	£5m	Unlimited
Building societies (unsecured) *	13 months	£5m	£10m
Registered providers (unsecured) *	5 years	£5m	£25m
Money market funds *	n/a	£10m	Unlimited
Strategic pooled funds	n/a	£10 m	£25m
Real estate investment trusts	n/a	£10m	£25m

Other investments *	5 years	£5m	£5m
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Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£5m 5 years	£10m 20 years	£10m 50 years	£5m 20 years	£5m 20 years
AA+	£5m 5 years	£10m 10 years	£10m 25 years	£5m 10 years	£5m 10 years
AA	£5m 4 years	£10m 5 years	£10m 15 years	£5m 5 years	£5m 10 years
AA-	£5m 3 years	£10m 4 years	£10m 10 years	£5m 4 years	£5m 10 years
A+	£5m 2 years	£10m 3 years	£5m 5 years	£5m 3 years	£5m 5 years
A	£5m 13 months	£10m 2 years	£5m 5 years	£5m 2 years	£5m 5 years
A-	£5m 6 months	£5m 13 months	£5m 5 years	£5m 13 months	£5m 5 years
None	£1m 6 months	n/a	£10m 25 years	Not Applicable	£5m 5 years
<b>Pooled funds and real estate investment trusts</b>		£10m per fund or trust			

### Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

**Interest Rate Exposures:** This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests was:

Interest rate risk indicator	31.3.22 Actual	2021/22 Limit	Complied?
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates (borrowing)	£300,000	£200,000	N
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates (investments)	(£362,000)	(£100,000)	N

Whilst both borrowing and investment sensitivity to interest rates is higher than level anticipated in the Treasury Strategy, this shouldn't be regarded as introducing a risk that requires specific mitigation, due to the following explanation.

#### **Borrowing:**

The only element of Council borrowing that is subject to interest rate volatility are LOBO loans. We have historically not assessed these as variable rate loans and in that circumstance, 100% of the Council's loans were fixed with no interest rate risk therefore possible. The limit was simply used here for any new in-year loans we might have taken out with a variable rate.

We have re-appraised the above position and assesses these now as variable rate loans; or more correctly, as "semi-fixed" as the Council has the choice to redeem the loan should an interest rate change be advocated without penalty. The effect of a 1% variance interest rate on these is calculated above. The non-compliance therefore predominantly arises due to a change in interpretation and therefore the basis of the target and the actual here as opposed to a true non-compliant issue. . Indeed, traditional replacement fixed rate loan finance is currently

available at lower rate than the existing LOBO rates and therefore in the event that the Council were notified of an increase here, we would not suffer any actual budget pressure.

**Investment:**

In calculating the limit here, an estimate on amounts invested was made when setting this as that is a key component of any financial impact of a change in interest rates. In working out a limit in the treasury strategy, the investment interest sensitivity set would not have presumed that the Council would have £58m invested at the end of financial year. This is a key reason in understanding why this limit is non-compliant. The indicator here is a ‘blunt tool’ in reality as it also makes no reference to the budgeted/expected amount of interest income resulting from investments. In the event of a 1% decrease in rates, the budget would still have been achieved because the quantum of investments was so much higher than the base budget was based on.

In order to mitigate risk of both interest volatility and security of investments, £36m of this has been placed with other local authorities or government agencies at fixed rates so exclusive of interest rate risk. However these are short term in nature and will need to be reinvested at maturity. It is anticipated to use similar fixed rate arrangements and similar entities mitigating interest rates volatility exposure, however this isn’t certain, so prudently this has been included in the calculation above. The Council also has £22m investments on call which would be more subject to variable interest rate volatility. £10m of that £22m relates to the Council’s longer term investment in the CCLA fund, to satisfy MiFiD II requirements. The annual interest receivable relating to on call investments is £157k currently (including in the above table), reflective of 0.2% collective returns, these investments are priced very prudently, so it is unlikely that adverse interest rate fluctuations would be as great as 1%. Base rate increases introduced by Bank of England also mean that volatility indications are more skewed to affecting the borrowing line in above table than investments.

**Maturity Structure of Borrowing:** This indicator is set to control the Authority’s exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	31.3.22 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	1%	60%	0%	Y
12 months and within 24 months	1%	40%	0%	Y
24 months and within 5 years	23%	40%	0%	Y
5 years and within 10 years	3%	40%	0%	Y
10 years and within 20 years	19%	30%	0%	Y
20 years and within 30 years	16%	20%	0%	Y
30 years and within 40 years	21%	20%	0%	N
40 years and within 50 years	9%	20%	0%	Y
50 years and above	7%	20%	0%	Y

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. *For presentational purposes LOBO option dates are treated as potential repayment dates.*

Please note that borrowing arranged to mature between 30 and 40 years hence shows a 1% compliance deficiency against the limit set. This is not because any new borrowing was arranged for this period during 2021-22 but instead more the consequence of £30m for that period now being more significant against a lower total borrowing. It is not cost effective to arrange early redemption of some of these loans to better comply with limits, particularly as borrowing levels can be expected to rise as Council addresses the backlog in capital programme expenditure.

**Principal Sums Invested for Periods Longer than a year:** The purpose of this indicator is to control the Authority’s exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2022/23	2023/24	2024/25
Actual principal invested beyond year end	0	0	0
Limit on principal invested beyond year end	£10m	£10m	£10m
Complied?	Y	Y	Y

NB. Any “on call” investments are treated as less than 12 months investments as they can be redeemed at any time.

### Other

**IFRS 16:** The implementation of the new IFRS 16 Leases accounting standard was due to come into force for local authorities from 1<sup>st</sup> April 2022. Following a consultation CIFPA/LASAAC announced an optional two year delay to the implementation of this standard a decision which was confirmed by the Financial Reporting Advisory Board in early April 2022. Authorities can now choose to adopt the new standard on 1<sup>st</sup> April 2022, 1<sup>st</sup> April 2023 or 1<sup>st</sup> April 2024. A straw poll amongst other Welsh authorities suggest a 2024 implementation date being most common, and there is sense in councils being consistent, but this will need to be ratified by Council explicitly. At the moment, Accountancy is working through the ramifications, particularly its impact upon the capital financing requirement to be able to advise members accordingly.



# Report

## Governance and Audit Committee

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### Part 1

Date: 26 May 2022

**Subject** Newport Annual Audit Summary 2021

**Purpose** To provide an informative summary of Newport City Council Annual Audit Summary 2021.

**Author** Director of Transformation and Corporate  
Head of People, Policy & Transformation

**Ward** All

**Summary** As part of the programme of regulatory activity, in accordance with the Well-being for Future Generations Act 2015, Audit Wales undertakes a programme of work to ensure the Council is discharging its duties under the Act.

The Annual Audit Summary produced by Audit Wales provides an overview of audit work completed in 2020/21 at Newport Council and how the Audit Wales fulfilled its duties undertaking continuous improvement, audit of accounts, value for money, and sustainable development. The Report also includes an overview of planned Audit Wales work for 2021/22.

**Proposal** For the Governance and Audit Committee to consider and note the contents of this report from Audit Wales.

**Action by** Executive Board  
Corporate Management Team

**Timetable** Immediate

**Signed**

## Background

As part of the programme of regulatory activity in accordance with the Well-being of Future Generations (Wales) Act 2015, Audit Wales undertakes a programme of work to ensure the Council is fulfilling its duties under the Act. Purpose of the report is to demonstrate the work carried out by Newport City Council since the last Annual Audit Summary issued in March 2021.

## Report Overview

To meet the Auditor General's duties, Audit Wales assesses the Councils financial statements and determines whether arrangements have been put into place to secure value for money. Audit Wales findings and conclusions are summarised below:

### **Audit of Newport City Councils 2020-21 statement of Accounts:**

- The Auditor General gave an unqualified true and fair opinion on the Council's financial statements on 16<sup>th</sup> November 2021.
- The Council's Annual Governance Statement and Narrative Report were prepared in line with the CIPFA Code and relevant guidance. They were also consistent to the financial statements prepared by the Council.
- The quality of the draft statements presented for audit on 6<sup>th</sup> July 2021 was mainly good.
- Several changes were made to the Council's financial statements arising from the audit work, which were reported to the Governance and Audit Committee (GAC) in the Audit of Financial Statements Report in November 2021.
- In addition to the Auditor General's responsibilities for auditing the Council's financial statements, there is also a responsibility for the certification of several grant claims and returns. Work is still ongoing, and Audit Wales will report the outcome of this work in greater detail to the GAC once completed.
- The Auditor General issued the certificate confirming the audit of accounts for 2020-21 has been completed.

### **Continuous improvement:**

- The Auditor General certified that the Council had met its remaining Local Government (Wales) Measure 2009 duties for the financial year 2020-21, as saved by an order made under the Local Government and Elections (Wales) Act 2021.
- Audit Wales noted a reduced reference to comparative performance information, although recognising that the COVID-19 pandemic led to the suspension of some national data collection.
- The ability to compare data and performance with other organisations will continue to be an important aspect of arrangements to secure value for money, and a challenge for councils as they continue to implement requirements relating to self-assessment as required in the Local Government and Elections (Wales) Act 2021.

### **Financial Sustainability**

- Audit Wales concluded Newport City Council has a good understanding of its financial position.
- Newport City Council recognises the need to transform its service delivery for future sustainability, however further work is required to design and implement these changes.

### **Discretionary Services (April 2021)**

- Financial pressures have led Councils to reduce spending and cutting services, however the pandemic has demonstrated local government services are essential to keeping the public safe.
- Audit Wales recognised the demand for some essential services is continuing to increase, and several Councils are not confident that they can effectively deliver these services in the face of rising and complex demand.
- Audit Wales recommends that Councils need to take the opportunity to refresh, reevaluate and reset what they do and learn from the pandemic, to build a stronger and better future.

## Planned work for 21-22

Audit Wales reviewed the key challenges and opportunities that faced the Council. These could impact on the Council's ability to meet its legal as regards to the sustainable development principle and the use of its resources. The largest risk and issue facing the Council and the wider public sector during 2021-22 is COVID-19. Audit Wales have shaped their work to provide re-assurance and support the Council through this period. The planned work for 2021-22 includes:

Assurance and risk assessment including a focus on:

- The Local Government and Elections Act (Wales) 2021
- Recovery planning
- Carbon reduction plans
- Self-assessment arrangement
- Financial position

Full detail of the report can be found:

Appendix 1 – Newport City Council Summary 2021 (English)

Appendix 2 – Newport City Council Summary 2021 (Welsh)

## Financial Summary (Capital and Revenue)

Not applicable. There are no direct costs associated with this report.

## Risks

<b>Risk Title / Description</b>	<b>Risk Impact score of Risk if it occurs* (H/M/L)</b>	<b>Risk Probability of risk occurring (H/M/L)</b>	<b>Risk Mitigation Action(s)</b> What is the Council doing or what has it done to avoid the risk or reduce its effect?	<b>Risk Owner</b> Officer(s) responsible for dealing with the risk?
Newport City Council does not implement recommendations and actions from Audit Wales.	M	L	Audit Wales reports and recommendations are implemented as necessary by the relevant service area.	Director for Corporate and Transformation

\* Taking account of proposed mitigation measures

## Links to Council Policies and Priorities

[Corporate Plan 2017-22](#)

## Options Available and considered

1. Governance and Audit Committee to consider and note the contents of the report.
2. Governance and Audit Committee to request further information or reject contents of the report.

## Preferred Option and Why

1. Governance and Audit Committee to consider and note the contents of the report.

## Comments of Chief Financial Officer

There are no direct financial implications arising from this report, which takes a retrospective view of work completed by Audit Wales over the last year. The report is for information only and captures viewpoints and information that will have largely been reported previously, for example the audit of the 2020/21 Statement of Accounts. It is positive that the report acknowledges the Council's sound understanding of its financial position and resilience, as well as the good quality of the draft statements that were presented for audit in July 2021.

## **Comments of Monitoring Officer**

There are no specific legal issues arising from the report, which presents the Annual Audit Summary of the Council audit work completed by Audit Wales in 2020/21. The Annual summary includes all of the statutory audit work carried out during the last completed financial year, including the audit of accounts, and their assessments of how the Council is meeting its duties to secure value for money, continuous improvement and sustainable development in accordance with the Well-being of Future Generations Act 2015. The report is being presented to Governance & Audit Committee for information, given its role in overseeing the Council's external audit arrangements and its systems of internal control, financial management and corporate governance.

## **Comments of Head of People, Policy & Transformation**

Newport Council welcomes this report from Audit Wales and its assessment on the effectiveness of governance, finance, and performance arrangements in the Council. The work undertaken by Audit Wales provides necessary assurances and areas for improvement by the Council to implement. The challenges and opportunities faced by the Council will be considered as part of the development work for the Council's Corporate Plan and future risk assessments. There are no HR implications in this report.

## **Scrutiny Committees**

Not applicable. Information report only.

## **Fairness and Equality Impact Assessment:**

Not applicable as this report is an information only report for the Governance and Audit Committee.

- **Wellbeing of Future Generation (Wales) Act**

The review undertaken by Audit Wales was completed in compliance with the Well-being of Future Generation (Wales) Act. The findings and recommendations from Audit Wales consider the principles of the Act providing assurances that the Council has due regard for sustainable development and the five ways of working.

- **Equality Act 2010**

Not applicable as this is an information only report for the Governance and Audit Committee.

- **Socio-economic Duty**

Not applicable as this is an information only report for the Governance and Audit Committee

- **Welsh Language (Wales) Measure 2011**

Audit Wales are committed to implementing and maintaining the Welsh Language Standards. The standards promote and facilitate the Welsh language and ensure that the Welsh language is not treated less favourably than the English Language in Wales. Audit Wales promotes the Welsh language through various situations and services to the public, audited bodies, and stakeholders.

## **Consultation**

Not applicable. Information report only.

## **Background Papers**

Not applicable.

Dated: 24<sup>th</sup> March 2022

## Newport City Council Annual Audit Summary 2021

This is our audit summary for Newport City Council. It shows the work completed since the last Annual Audit Summary, which was issued in March 2021. Our audit summary forms part of the Auditor General for Wales' duties.



More information about these duties can be found on our [website](#).

## About the Council

### Some of the services the Council provides



#### Key facts

The Council is made up of 50 councillors<sup>1</sup> who represent the following political parties:

- Welsh Labour 31
- Welsh Conservative 12
- Newport Independent Party 4
- Welsh Liberal Democrats 2
- Independent 1

The Council spent £290.8 million on providing services<sup>2</sup> during 2020-21, the tenth-highest spending of the 22 unitary councils in Wales.

<sup>1</sup> Source: [About the council | Newport City Council](#)

<sup>2</sup> We define spending on services as the cost of services charged to the general fund from the Expenditure Funding Analysis, less any Housing Revenue Account cost of services, plus precepts, levies and debt interest.

## Key facts

As at 31 March 2021, the Council had £101.5 million of usable financial reserves<sup>3</sup>. This is equivalent to 34.9% of the Council's annual spending on services, the fifth-highest percentage of the 22 unitary councils in Wales<sup>4</sup>.

Newport City has 23 (24%) of its 95 areas deemed the most deprived 10% of areas in Wales, this is the highest of the 22 unitary councils in Wales<sup>5</sup>.

The population living within the area of Newport City Council is projected to increase by 11.9% between 2020 and 2040 from 155,796 to 174,290, including a 3.6% increase in the number of children, an 8.5% increase in the number of the working-age population and a 34.3% increase in the number of people aged 65 and over<sup>6</sup>.

## The Auditor General's duties

### We completed work to meet the following duties

- **Continuous improvement**

The Council also had to put in place arrangements to make continuous improvements, including related plans and reports, and the Auditor General had to assess whether the Council met these requirements during 2020-21.

- **Audit of Accounts**

Each year the Auditor General audits the Council's financial statements to make sure that public money is being properly accounted for.

- **Value for money**

The Auditor General examines whether the Council has put in place arrangements to get value for money for the resources it uses, and he has to be satisfied that it has done this.

- **Sustainable development principle**

Public bodies need to comply with the sustainable development principle when setting and taking steps to meet their well-being objectives. The Auditor General must assess the extent to which they are doing this.

<sup>3</sup> We define useable financial reserves as reserves usable for revenue costs, where the purpose is not protected by law. This is the total of the general fund, earmarked reserves and schools balances. It excludes Housing Revenue Account reserves, capital receipts and capital grants unapplied.

<sup>4</sup> Source: 2020-21 Statement of Accounts

<sup>5</sup> An area in this context is defined as a 'Lower Super Output Area'. Source: Stats Wales

<sup>6</sup> Source: Stats Wales



We continue to recognise the huge strain on public services and to work in a way that seeks to reduce the impact on public bodies' response to COVID-19, while still meeting our statutory duties.



**To meet the Auditor General's duties we complete specific projects, but we also rely on other audit work, and the work of regulators such as Care Inspectorate Wales and Estyn (the education inspectorate). We take the findings of our audit work into account when assessing whether the Council has put in place arrangements to secure value for money. Our findings and conclusions are summarised below.**

## What we found

### Audit of Newport City Council's 2020-21 Statement of Accounts

Each year we audit the Council's financial statements.

#### For 2020-21:

- the Auditor General gave an unqualified true and fair opinion on the Council's financial statements on 16 November 2021.
- the Council's Annual Governance Statement and Narrative Report were prepared in line with the CIPFA Code and relevant guidance. They were also consistent with the financial statements prepared by the Council and with our knowledge of the Council.
- the quality of the draft statements presented for audit on 6 July 2021 was generally good.
- a number of changes were made to the Council's financial statements arising from our audit work, which were reported to the Governance and Audit Committee in our Audit of Financial Statements Report in November 2021.
- in addition to the Auditor General's responsibilities for auditing the Council's financial statements, he also has responsibility for the certification of a number of grant claims and returns. Our work is still ongoing and we will report the outcomes of this work in more detail to the Governance and Audit Committee once it is complete.
- the Auditor General issued the certificate confirming that the audit of accounts for 2020-21 has been completed.

## Our work in response to the COVID-19 pandemic

In response to the COVID-19 pandemic, we changed the approach and focus of our performance audit work in local government and other bodies. Below is a summary of some of the work we have undertaken in response to the pandemic across a number of sectors, much of which is of relevance to local government.

We undertook a project to support public sector efforts by sharing learning through the pandemic. The project aims to help prompt some thinking, and practise exchange. [Further information is available on our website.](#)

In March 2021, we published a [national report](#) setting out an overview of progress to date on Test, Trace, Protect in Wales. In December 2020, we also published some [observations](#) of the Auditor General on the procurement and supply of PPE during the COVID-19 pandemic, followed by a [report](#) in April 2021. In June 2021, we also published our [report](#) on the rollout of the COVID-19 vaccination programme in Wales.

## Continuous improvement

The Auditor General certified that the Council had met its remaining Local Government (Wales) Measure 2009 duties for the financial year 2020-21, as saved by an order made under the Local Government and Elections (Wales) Act 2021.

As part our examination of councils' performance assessments covering the 2020-21 financial year, we noted a reduced reference to comparative performance information, although we recognise that the pandemic led to the suspension of some national data collection. The ability to compare data and performance with other organisations will continue to be an important element of arrangements to secure value for money and will be a challenge for councils to consider particularly as they continue to implement the requirements relating to self-assessment set out in the Local Government and Elections Act (Wales) 2021.

## Financial sustainability

During 2020-21, we examined the financial sustainability of each council in Wales. In Newport City Council we concluded that the Council has a good understanding of its financial position and recognises the need to transform its service delivery for future sustainability, although further work is required to design and implement these changes.

We also published two national summary reports: the [first report](#) in October 2020 and the [second report](#) in September 2021.

## Recovery planning

During 2020-21, we reviewed the arrangements that each council in Wales was putting in place to support recovery planning. We undertook this work on an ongoing basis, providing real-time and ongoing feedback where appropriate.

## Other inspectorates

We also took into account the reports of Care Inspectorate Wales (CIW) and Estyn as well as any subsequent actions taken by the Council in response. On 4 November 2021, CIW issued an [Assurance Check 2021 letter](#) to the Council.

CIW and Healthcare Inspectorate Wales published their joint National review of the use of Deprivation of Liberty Safeguards (DoLS) in Wales. They identified a number of key findings and recommendations in the [full report](#).

In November 2021, CIW also published its [national overview report of assurance checks in Wales](#) and [Let me flourish](#), a national review of early help, care and support and transition for disabled children in Wales.

Estyn inspected local schools in Newport and the [reports](#) are on its website.

Estyn did not undertake an inspection of Local Government Education Services in Newport during 2020-21.

## Local government studies

As well as local work at each council, each year we also carry out studies across the local government sector to make recommendations for improving value for money. Since the last annual improvement report, we have published the following reports:

### Discretionary services (April 2021)

Financial pressures have led to councils reducing spending and cutting services, but the pandemic has shown local government services are essential to keeping people safe and healthy. We focussed on how councils define services, the systems and processes they have used to review services and how robust these are. Demand for some essential services is continuing to increase and councils are not confident that they can continue to deliver these services in the face of this rising and complex demand. Councils need to take the opportunity to refresh, reevaluate and reset what they do and to learn from the pandemic to build a better future. Our [report](#) was published in April 2021.

### Regenerating town centres in Wales (September 2021)

Between 1950 and 1980, local authorities prioritised regeneration of town centres creating new and greater retail space. However, past policy choices, changing consumer expectations and technological advances are now adversely affecting many Welsh town centres. And the pandemic has created challenges for local government and central government, with one in seven shops on Welsh high streets now empty, despite the Welsh Government investing and leveraging in £892.6 million in the last seven years. Local authorities do not have the capacity to respond to this situation and are not always using the powers they have to help regenerate towns. To deliver the best local outcomes, policies and joint working need to be aligned and integrated, and resources prioritised on town centres. Our [report](#) was published in September 2021.

## Planned work for 2021-22

We also looked at the key challenges and opportunities facing the Council. These could have an effect on the Council's ability to meet its legal obligations in relation to the sustainable development principle and the use of its resources.

The most significant risk and issue facing councils and the wider public sector during 2021-22 continues to be the COVID-19 pandemic. We have shaped our work to provide assurance and challenge in a way which helps to support the Council through this period. Our planned work for 2021-22 includes:

- Assurance and risk assessment including a focus on:
  - The Local Government and Elections Act (Wales) 2021
  - Recovery planning
  - Carbon reduction plans
  - Self-assessment arrangements
  - Financial position
- Springing Forward – as the world moves forward, learning from the pandemic, this review looks at how effectively councils are strengthening their ability to transform, adapt and maintain the delivery of services, including those delivered in partnership with key stakeholders and communities.
- Improvement reporting audit

The Auditor General is independent of government, and is appointed by Her Majesty the Queen. The Auditor General undertakes his work using staff and other resources provided by the Wales Audit Office, which is a statutory board established for that purpose and to monitor and advise the Auditor General. The Wales Audit Office is held to account by the Senedd.

The Auditor General audits local government bodies in Wales, including unitary authorities, police, fire and rescue authorities, national parks, and community councils. He also conducts local government value for money studies, assesses compliance with the remaining requirements of the Local Government (Wales) Measure 2009 and may undertake special inspections under the Local Government and Elections (Wales) Act 2021.

Beyond local government, the Auditor General is the external auditor of the Welsh Government and its sponsored and related public bodies, the Senedd Commission, and National Health Service bodies in Wales.

Audit Wales is the non-statutory collective name for the Auditor General for Wales and the Wales Audit Office, which are separate legal entities with their own legal functions, as described above. Audit Wales is not a legal entity.

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

This document is also available in Welsh.

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## Cyngor Dinas Casnewydd

### Crynodeb Archwilio Blynyddol 2021

Dyma ein crynodeb archwilio ar gyfer Cyngor Dinas Casnewydd. Mae'n dangos y gwaith a gwblhawyd ers y Crynodeb Archwilio Blynyddol diwethaf, a gyhoeddwyd ym mis Mawrth 2021. Mae ein crynodeb archwilio yn rhan o ddyletswyddau Archwilydd Cyffredinol Cymru.

Ceir rhagor o wybodaeth am y dyletswyddau hyn ar ein [gwefan](#).



## Ynglŷn â'r Cyngor

### Rhai o'r gwasanaethau y mae'r Cyngor yn eu darparu



#### Ffeithiau allweddol

Mae gan y Cyngor 33<sup>1</sup> o gynghorwyr sy'n cynrychioli'r pleidiau gwleidyddol canlynol:

- Llafur Cymru 31
- Ceidwadwyr Cymreig 12
- Plaid Annibynnol Casnewydd 4
- Democratiaid Rhyddfrydol Cymru 2
- Annibynnol 1

Gwariodd y Cyngor £290.8 miliwn ar ddarparu gwasanaethau<sup>2</sup> yn ystod 2020-21, y gwariant isaf o'r 22 o gynghorau unedol yng Nghymru.

<sup>1</sup> Ffynhonnell: [Ynglŷn â'r cyngor | Cyngor Dinas Casnewydd](#)

<sup>2</sup>Rydym yn diffinio gwariant ar wasanaethau fel cost gwasanaethau a godir ar y gronfa gyffredinol o'r Dadansoddiad Ariannu Gwariant, namyn costau unrhyw wasanaethau a ariennir o'r Cyfrif Refeniw Tai, gan ychwanegu praeseptau, arddelau a llosg ar ddyledion.

## Ffeithiau allweddol

O ran y sefyllfa ar 31 Mawrth 2021, roedd gan y Cyngor £101.5 miliwn o gronfeydd ariannol wrth gefn defnyddiadwy<sup>3</sup>. Mae hyn yn cyfateb i 34.9% o wariant blynyddol y Cyngor ar wasanaethau, y 13eg ganran uchaf o'r 22 o gynghorau unedol yng Nghymru<sup>4</sup>.

Mae 23 (24%) o'r 95 o ardaloedd yn Ninas Casnewydd yn rhai yr ystyrir eu bod ymhlith y 10% o ardaloedd mwyaf amddifad yng Nghymru, dyma'r uchaf o'r 22 o gynghorau unedol yng Nghymru<sup>5</sup>.

Rhagamcanir y bydd poblogaeth ardal Cyngor Dinas Casnewydd yn cynyddu 11.9% rhwng 2020 a 2040 o 155,796 i 174,290, gan gynnwys cynnydd o 3.6% yn nifer y plant, cynnydd o 8.5% yn nifer y boblogaeth o oedran gweithio a chynnydd o 34.3% yn nifer y bobl 65 mlwydd oed neu hŷn.<sup>6</sup>

## Dyletswyddau'r Archwilydd Cyffredinol

### Fe wnaethom gwblhau gwaith i gyflawni'r dyletswyddau canlynol

- **Gwella'n barhaus**

Roedd rhaid i'r Cyngor hefyd sefydlu trefniadau i wneud gwelliannau parhaus, gan gynnwys cynlluniau ac adroddiadau cysylltiedig, ac roedd yn rhaid i'r Archwilydd Cyffredinol asesu a wnaeth y Cyngor ateb y gofynion hyn yn ystod 2020-21.

- **Archwilio'r Cyfrifon**

Bob blwyddyn mae'r Archwilydd Cyffredinol yn archwilio datganiadau ariannol y Cyngor i wneud yn siŵr y rhoddir cyfrif priodol am arian cyhoeddus.

- **Gwerth am arian**

Mae'r Archwilydd Cyffredinol yn archwilio pa un a yw'r Cyngor wedi sefydlu trefniadau i gael gwerth am arian am yr adnoddau y mae'n eu defnyddio, a rhaid iddo fod wedi'i argyhoeddi ei fod wedi gwneud hyn.

<sup>3</sup> Rydym yn diffinio cronfeydd ariannol wrth gefn defnyddiadwy fel cronfeydd wrth gefn y gellir eu defnyddio ar gyfer costau referniw, lle nad yw'r diben wedi'i ddiogelu gan y gyfraith. Mae hyn yn golygu cyfanswm y gronfa gyffredinol, cronfeydd wrth gefn wedi'u clustnodi a balansau ysgolion. Nid yw'n cynnwys cronfeydd wrth gefn y Cyfrif Refeniw Tai, derbyniadau cyfalaf a grantiau cyfalaf heb eu defnyddio.

<sup>4</sup> Ffynhonnell: Datganiad Cyfrifon 2020-21

<sup>5</sup> Diffinnir ardal yn y cyd-destun hwn fel 'Ardal Gynnyrch Ehangach Haen Is'. Ffynhonnell: StatsCymru

<sup>6</sup> Ffynhonnell: StatsCymru

- **Yr egwyddor datblygu cynaliadwy**

Mae angen i gyrff cyhoeddus gydymffurfio â'r ddyletswydd datblygu cynaliadwy wrth bennu eu hamcanion llesiant a chymryd camau i'w cyflawni. Rhaid i'r Archwilydd Cyffredinol asesu i ba raddau y maent yn gwneud hyn.



Rydym yn parhau i gydnabod y straen enfawr ar wasanaethau cyhoeddus ac i weithio mewn ffordd sy'n ceisio lleihau'r effaith ar ymateb cyrff cyhoeddus i COVID-19, gan ddal i gyflawni ein dyletswyddau statudol.



I gyflawni dyletswyddau'r Archwilydd Cyffredinol rydym yn cwblhau prosiectau penodol, ond rydym hefyd yn dibynnu ar waith archwilio arall, a gwaith cyrff rheoleiddio megis Arolygiaeth Gofal Cymru ac Estyn (yr arolygiaeth addysg). Rydym yn cymryd canfyddiadau ein gwaith archwilio i ystyriaeth wrth asesu pa un a yw'r Cyngor wedi sefydlu trefniadau i sicrhau gwerth am arian. Caiff ein canfyddiadau a'n casgliadau eu crynhoi isod.

## Yr hyn a ganfuom

### Archwiliad o Ddatganiad o Gyfrifon 2020-21 Cyngor Dinas Casnewydd

Bob blwyddyn rydym yn archwilio datganiadau ariannol y Cyngor.

#### Ar gyfer 2020-21:

- rhoddodd yr Archwilydd Cyffredinol farn ddiamed bod datganiadau ariannol y Cyngor yn gywir a theg ar 16 Tachwedd 2021.
- cafodd Datganiad Llywodraethu Blynyddol ac Adroddiad Naratif y Cyngor eu paratoi yn unol â Chod CIPFA a chanllawiau perthnasol. Roeddent hefyd yn gyson â'r datganiadau ariannol a baratowyd gan y Cyngor ac â'n gwybodaeth ni am y Cyngor.
- roedd ansawdd y datganiadau drafft a gyflwynwyd i'w harchwilio ar 6 Gorffennaf 2021 yn dda ar y cyfan.
- fe wnaed nifer o newidiadau i ddatganiadau ariannol y Cyngor a gododd o'n gwaith archwilio, gyda'r rheiny'n cael eu dwyn i sylw'r Pwyllgor Llywodraethu ac Archwilio yn ein Hadroddiad ar yr Archwiliad o'r Datganiadau Ariannol ym mis Tachwedd 2021.
- yn ogystal â chyfrifoldebau'r Archwilydd Cyffredinol am archwilio datganiadau ariannol y Cyngor, mae ganddo gyfrifoldeb hefyd am ardystio nifer o hawliadau am grantiau a ffurflenni grantiau. Mae ein gwaith yn parhau a byddwn yn adrodd yn fanylach ar ganlyniadau'r gwaith hwn i'r Pwyllgor Llywodraethu ac Archwilio unwaith y bydd wedi'i gwblhau.
- cyhoeddodd yr Archwilydd Cyffredinol dystysgrif a oedd yn cadarnhau bod yr archwiliad o'r cyfrifon ar gyfer 2020-21 wedi cael ei gwblhau.

## Ein gwaith mewn ymateb i bandemig COVID-19

Mewn ymateb i bandemig COVID-19, fe newidiom ni ddull a phwyslais ein gwaith archwilio perfformiad mewn llywodraeth leol a chyrrff eraill. Isod ceir crynodeb o rywfaint o'r gwaith yr ydym wedi'i wneud mewn ymateb i'r pandemig ar draws nifer o sectorau, y mae cryn dipyn ohono'n berthnasol i lywodraeth leol.

Fe gynhaliom ni brosiect i ategu ymdrechion y sector cyhoeddus trwy rannu gwersi a ddysgwyd trwy'r pandemig. Nod y prosiect yw ysgogi rhywfaint o feddwl, a chyfnewid ymarfer. [Ceir rhagor o wybodaeth ar ein gwefan.](#)

Ym mis Mawrth 2021, fe gyhoeddod ni [adroddiad cenedlaethol](#) a oedd yn nodi trosolwg o'r cynnydd hyd yma o ran Profi, Orlhain, Diogelu yng Nghymru. Ym mis Rhagfyr 2020, fe wnaethom hefyd gyhoeddi rhai o [arsylwadau'r](#) Archwilydd Cyffredinol ar gaffael a chyflenwi Cyfarpar Diogelu Personol yn ystod pandemig COVID-19, ac yna [adroddiad](#) ar hynny ym mis Ebrill 2021. Ym mis Mehefin 2021, fe wnaethom hefyd gyhoeddi ein [hadroddiad](#) ar gyflwyno rhaglen frechu COVID-19 yng Nghymru.

## Gwella'n barhaus

Fe wnaeth yr Archwilydd Cyffredinol ardystio bod y Cyngor wedi cyflawni ei ddyletswyddau sy'n weddill dan Fesur Llywodraeth Leol (Cymru) 2009 ar gyfer blwyddyn ariannol 2020-21, fel y'u harbedwyd gan orchymyn a wnaed dan Ddeddf Llywodraeth Leol ac Etholiadau (Cymru) 2021.

Fel rhan o'n harchwiliad o asesiadau cynghorau o'u perfformiad ar gyfer blwyddyn ariannol 2020-21, fe wnaethom nodi bod llai o gyfeirio at wybodaeth gymharol am berfformiad er ein bod yn cydnabod bod y pandemig wedi arwain at atal gwaith i gasglu peth data ar lefel genedlaethol am y tro. Bydd y gallu i gymharu data a pherfformiad â sefydliadau eraill yn dal i fod yn elfen bwysig o drefniadau i sicrhau gwerth am arian a bydd yn her i gynghorau ei ystyried yn enwedig wrth iddynt barhau i weithredu'r gofynion sy'n ymwneud â hunanasesu a nodir yn Neddf Llywodraeth Leol ac Etholiadau (Cymru) 2021.

## Cynaliadwyedd ariannol

Yn ystod 2020-21, fe wnaethom archwilio cynaliadwyedd ariannol pob cyngor yng Nghymru. Yng Nghyngor Dinas Casnewydd, daethom i'r casgliad bod gan y Cyngor ddealltwriaeth dda o'i sefyllfa ariannol ac mae'n cydnabod yr angen i drawsnewid ei ddarpariaeth o wasanaethau ar gyfer cynaliadwyedd yn y dyfodol, er bod angen gwneud rhagor o waith i gynllunio a gweithredu'r newidiadau hyn.

Fe wnaethom hefyd gyhoeddi dau adroddiad cryno cenedlaethol: yr [adroddiad cyntaf](#) ym mis Hydref 2020 a'r [ail adroddiad](#) ym mis Medi 2021.

## Cynllunio adferiad

Yn ystod 2020-21, fe wnaethom adolygu'r trefniadau yr oedd pob cyngor yng Nghymru yn eu rhoi ar waith i gefnogi cynllunio adferiad. Fe wnaethom y gwaith hwn yn barhaus, gan ddarparu adborth amser real a pharhaus lle bo hynny'n briodol.

## Arolygiaethau eraill

Fe wnaethom hefyd ystyried canfyddiadau Archwiliadau Sicrwydd a gwblhawyd gan Arolygiaeth Gofal Cymru (AGC) ac adroddiadau Estyn yn ogystal ag unrhyw gamau dilynol a gymerwyd gan y Cyngor mewn ymateb. Ar 4 Tachwedd 2021, cyhoeddodd AGC [lythyr](#) Gwiriad Sicrwydd 2021 i'r Cyngor.

Fe gyhoeddodd AGC ac Arolygiaeth Gofal Iechyd Cymru eu hadolygiad Cenedlaethol ar y cyd o ddefnyddio'r Trefniadau Diogelu rhag Colli Rhyddid yng Nghymru. Nodwyd nifer o ganfyddiadau ac argymhellion allweddol yn yr [adroddiad llawn](#).

Ym mis Tachwedd 2021, fe wnaeth AGC hefyd gyhoeddi ei [hadroddiad trosolwg cenedlaethol o archwiliadau sicrwydd yng Nghymru a Gadewch imi ffynnu](#), adolygiad cenedlaethol o gymorth cynnar, gofal a chefnogaeth a threfniadau pontio ar gyfer plant anabl yng Nghymru.

Arolygodd Estyn ysgolion lleol yng Nghasnewydd ac mae'r [adroddiadau](#) ar ei wefan.

Ni wnaeth Estyn gynnal arolygiad o Wasanaethau Addysg Llywodraeth Leol yng Nghasnewydd yn ystod 2020-21.

## Astudiaethau llywodraeth leol

Yn ogystal â gwaith lleol ym mhob cyngor, bob blwyddyn rydym hefyd yn cynnal astudiaethau ar draws y sector llywodraeth leol i wneud argymhellion ar gyfer gwella gwerth am arian. Ers yr adroddiad gwella blynyddol diwethaf, rydym wedi cyhoeddi'r adroddiadau canlynol:

### Gwasanaethau dewisol (Ebrill 2021)

Mae pwysau ariannol wedi peri i gynghorau ostwng gwariant a thorri gwasanaethau, ond mae'r pandemig wedi dangos bod gwasanaethau llywodraeth leol yn hanfodol i gadw pobl yn ddiogel ac yn iach. Fe wnaethom ganolbwyntio ar sut y mae cynghorau'n diffinio gwasanaethau, y systemau a'r prosesau y maent wedi'u defnyddio i adolygu gwasanaethau a pha mor gadarn yw'r rhain. Mae'r galw am rai gwasanaethau hanfodol yn dal i gynyddu ac nid yw cynghorau'n hyderus y gallant barhau i ddarparu'r gwasanaethau hyn yn wyneb y galw cynyddol a chymhleth hwn. Mae angen i gynghorau achub ar y cyfle i adnewyddu, ailgloriannu ac ailosod yr hyn y maent yn ei wneud a dysgu o'r pandemig i greu dyfodol gwell. Cyhoeddwyd ein [hadroddiad](#) ym mis Ebrill 2021.

### Adfywio canol trefi yng Nghymru (Medi 2021)

Rhwng 1950 a 1980, fe wnaeth awdurdodau lleol roi blaenoriaeth i adfywio canol trefi gan greu mannau adwerthu newydd a mwy. Fodd bynnag, mae dewisiadau polisi blaenorol, disgwyliadau newidiol defnyddwyr a datblygiadau technolegol bellach yn effeithio'n andwyol ar ganol sawl tref yng Nghymru. Ac mae'r pandemig wedi creu heriau i lywodraeth leol a'r Llywodraeth ganolog, gydag un siop ymhob saith ar strydoedd mawr Cymru bellach yn wag, er bod Llywodraeth Cymru wedi buddsoddi ac ysgogi buddsoddiadau gwerth £892.6 miliwn yn y saith mlynedd ddiwethaf. Nid oes gan awdurdodau lleol y capasiti i ymateb i'r sefyllfa hon ac nid ydynt wastad yn defnyddio'r pwerau sydd ganddynt i helpu i adfywio trefi. I gyflawni'r deilliannau lleol gorau, mae angen i bolisiau a threfniadau cydweithio gael eu halinio a'u hintegreiddio, ac mae angen i adnoddau gael eu blaenoriaethu ar ganol trefi. Cyhoeddwyd ein [hadroddiad](#) ym mis Medi 2021.

## Gwaith sydd yn yr arfaeth ar gyfer 2021-22

Fe wnaethom hefyd fwrw golwg ar yr heriau a chyfleoedd allweddol sy'n wynebu'r Cyngor. Gallai'r rhain gael effaith ar allu'r Cyngor i gyflawni ei rwymedigaethau cyfreithiol mewn perthynas â'r egwyddor datblygu cynaliadwy a'r modd y mae'n defnyddio'i adnoddau.

Y risg a'r mater mwyaf arwyddocaol sy'n wynebu cynghorau a'r sector cyhoeddus ehangach o hyd yn ystod 2021-22 yw pandemig COVID-19. Rydym wedi trefnu ein gwaith i ddarparu sicrwydd a her mewn ffordd sy'n helpu i gefnogi'r Cyngor trwy'r cyfnod hwn. Mae ein gwaith arfaethedig ar gyfer 2021-22 yn cynnwys:

- Sicrwydd ac asesu risg gan gynnwys pwyslais ar y canlynol:
  - Deddf Llywodraeth Leol ac Etholiadau (Cymru) 2021
  - Cynllunio adferiad
  - Cynlluniau lleihau carbon
  - Trefniadau hunanasesu
  - Sefyllfa ariannol
- Llamu Ymlaen – wrth i'r byd symud yn ei flaen, gan ddysgu o'r pandemig, mae'r adolygiad hwn yn ystyried pa mor effeithiol y mae cynghorau'n cryfhau eu gallu i drawsnewid, addasu a pharhau i ddarparu gwasanaethau, gan gynnwys y rhai a ddarperir mewn partneriaeth gyda rhanddeiliaid allweddol a chymunedau.
- Archwiliad o adrodd ar wella.

Mae'r Archwilydd Cyffredinol yn annibynnol ar y llywodraeth, ac fe'i penodir gan Ei Mawrhydi'r Frenhines. Mae'r Archwilydd Cyffredinol yn gwneud ei waith gan ddefnyddio staff ac adnoddau eraill a ddarperir gan Swyddfa Archwilio Cymru, sy'n fwrdd statudol a sefydlwyd at y diben hwnnw ac i fonitro a chynghori'r Archwilydd Cyffredinol. Caiff Swyddfa Archwilio Cymru ei dwyn i gyfrif gan y Senedd.

Mae'r Archwilydd Cyffredinol yn archwilio cyrff llywodraeth leol yng Nghymru, gan gynnwys awdurdodau unedol, yr heddlu, awdurdodau tân ac achub, parciau cenedlaethol a chynghorau cymuned. Mae hefyd yn cynnal astudiaethau o werth am arian mewn llywodraeth leol, yn asesu cydymffurfiaeth â'r gofynion sy'n weddill o Fesur Llywodraeth Leol (Cymru) 2009 a gall gynnal arolygiadau arbennig dan Ddeddf Llywodraeth Leol ac Etholiadau (Cymru) 2021.

Y tu hwnt i lywodraeth leol, yr Archwilydd Cyffredinol yw archwilydd allanol Llywodraeth Cymru a'r cyrff cyhoeddus a noddir ganddi ac sy'n gysylltiedig â hi, Comisiwn y Senedd a chyrff y Gwasanaeth Iechyd Gwladol yng Nghymru.

Archwilio Cymru yw'r enw cyfunol anstatudol ar gyfer Archwilydd Cyffredinol Cymru a Swyddfa Archwilio Cymru, sy'n endidau cyfreithiol ar wahân sydd â'u swyddogaethau cyfreithiol eu hunain, fel a ddisgrifir uchod. Nid yw Archwilio Cymru yn endid cyfreithiol.

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

Mae'r ddogfen hon hefyd ar gael yn Saesneg.

## 2022 Audit Plan – Newport City Council and Newport City Council Group

Audit year: 2021-22

Date issued: March 2022

Document reference: 2975A2022

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# 2022 Audit Plan

## About this document

- 1 This document sets out the work I plan to undertake during 2022 to discharge my statutory responsibilities as your external auditor and to fulfil my obligations under the Code of Audit Practice.

## My duties

- 2 I complete work each year to meet the following duties.

## Audit of financial statements

- 3 Each year I audit Newport City Council's (the Council) and Newport City Council Group's (the Group) financial statements to make sure that public money is being properly accounted for.

## Value for money

- 4 The Council has to put in place arrangements to get value for money for the resources it uses, and I have to be satisfied that it has done this.

## Sustainable development principle

- 5 The Council needs to comply with the sustainable development principle when setting and taking steps to meet their well-being objectives. The Auditor General must assess the extent to which they are doing this.

## Impact of COVID-19

- 6 The COVID-19 pandemic has had an unprecedented impact on the United Kingdom and the work of public sector organisations.
- 7 While Wales is currently at Coronavirus Alert Level 0, Audit Wales will continue to monitor the position and will discuss the implications of any changes in the position with your officers.

## Audit of financial statements

- 8 It is my responsibility to issue a certificate and report on the financial statements. This includes:
  - an opinion on the on the 'truth and fairness' of the Council's and Group's financial statements for the financial year ended 31 March 2022; and

- an assessment as to whether the Council's and Group's Narrative Report and Annual Governance Statement is prepared in line with the CIPFA Code and relevant guidance and is consistent with the financial statements and with my knowledge of the Council and Group.
- 9 In addition to my responsibilities for auditing the Council's financial statements, I also have responsibility for:
- certifying a return to the Welsh Government which provides information about the Council and Group to support preparation of Whole of Government Accounts;
  - responding to questions and objections about the accounts from local electors (additional fees will be charged for this work, if necessary);
  - the examination of the Greater Gwent Crematorium Joint Committee's annual return for the year ended 31 March 2022; and
  - the certification of a number of grant claims and returns as agreed with the funding bodies.
- 10 I do not seek to obtain absolute assurance on the truth and fairness of the financial statements and related notes but adopt a concept of materiality. My aim is to identify material misstatements, that is, those that might result in a reader of the accounts being misled. The levels at which I judge such misstatements to be material will be reported to the Governance and Audit Committee prior to completion of the audit.
- 11 Any misstatements below a trivial level (set at 5% of materiality) I judge as not requiring consideration by those charged with governance and therefore will not report them.
- 12 There have been no limitations imposed on me in planning the scope of this audit.
- 13 I will also report by exception on a number of matters which are set out in more detail in our [Statement of Responsibilities](#), along with further information about my work.

## Audit of financial statements risks

- 14 The following table sets out the significant risks I have identified for the audit of the Council and Group.

**Exhibit 1: financial statement audit risks**

This table summarises the key financial statement audit risks identified at the planning stage of the audit.

Audit risk	Proposed audit response
<b>Significant risks</b>	
<p><b>Management override of controls</b> The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>• test the appropriateness of journal entries and other adjustments made in preparing the financial statements;</li> <li>• review accounting estimates for biases; and</li> <li>• evaluate the rationale for any significant transactions outside the normal course of business.</li> </ul>
<b>Other audit risks</b>	
<p><b>Impact of COVID-19 – resources</b> Although COVID-19 restrictions have now been removed, there have been ongoing pressures on staff resources and of remote working that may impact on the preparation, audit and publication of accounts. There is a risk that the quality of the accounts and supporting working papers, eg around estimates and valuations, may be compromised leading to an increased incidence of errors. Quality monitoring arrangements may be compromised due to timing issues and/or resource availability.</p>	<p>My audit team will discuss your closedown process and quality monitoring arrangements with the accounts preparation team and make arrangements to monitor the accounts preparation process. We will help to identify areas where there may be gaps in arrangements.</p>

Audit risk	Proposed audit response
<b>Other audit risks</b>	
<p><b>Impact of COVID-19 – funding streams</b></p> <p>The COVID-19 pandemic will have a significant impact on the risks of material misstatement and the shape and approach to my audit. The Welsh Government has made available various funding streams to the Council. In some cases, these monies provide financial support to the Council itself. In other cases, the funds have been administered by the Council, making payments to third parties on behalf of the Welsh Government. The amounts involved are material to the accounts.</p> <p>Examples of audit risks include:</p> <ul style="list-style-type: none"> <li>• incorrect accounting treatment for COVID-19 funding, ie principal or agency arrangements;</li> <li>• fraud/error risks;</li> <li>• potential year-end valuation uncertainty; and</li> <li>• estimation of accrued annual leave provisions.</li> </ul>	<p>My audit team will review the funding streams received from the Welsh Government and confirm the appropriate accounting treatment with the Council.</p>
<p><b>Impact of COVID-19 – disclosures</b></p> <p>Last year, I included an ‘Emphasis of matter’ paragraph in my audit report, drawing attention to material valuation uncertainty in the financial statements in respect of the valuation of land and buildings and investment properties.</p> <p>This uncertainty arose from the COVID-19 pandemic, and my audit opinion was not modified in respect of these matters. However, it remains possible that similar disclosures may be required this year.</p>	<p>My audit team will review the asset valuer’s year-end reports and consider the impact on my audit of any reported material valuation uncertainties.</p>

Audit risk	Proposed audit response
<b>Other audit risks</b>	
<p><b>Asset valuations</b></p> <p>Accounting for Property, Plant and Equipment and Intangible Assets continued to be one of the most challenging areas of the accounts and gives rise to most of our audit findings. In light of the COVID restrictions that were in place throughout 2021-22 and uncertainties over market values for assets since the start of the pandemic, there is a risk that the carrying value of assets reported in the accounts may be materially different to the current value of assets as at 31 March 2022. In particular, this may be the case where assets have been valued on a rolling basis and not as at the financial year-end.</p>	<p>My audit team will review the Council's asset valuation programme to establish when individual groups of assets were valued and seek to confirm that valuations carried out earlier than as at 31 March 2022 are not materially different to the current value of assets as at the year-end.</p>
<p><b>Related parties</b></p> <p>Disclosure of related party transactions are important as these transactions identify relationships that might materially prevent a body pursuing its separate interests or allow the body to prevent another party from pursuing its interests independently.</p> <p>We have identified related party transactions as material to the accounts as they can provide scope to distort financial information and/or obscure the substance of transactions.</p> <p>We have previously identified weaknesses in the Council's systems for identifying and recording related party transactions.</p>	<p>My audit team will review the process for collating and reporting related party relationships and perform relevant audit procedures where required to ensure that disclosures are complete and accurate in the Council's accounts.</p>

## Performance audit

- 15 In addition to my Audit of Financial Statements, I also carry out a programme of performance audit work to discharge my duties as Auditor General as set out in **paragraphs 4 and 5** in relation to value for money and sustainable development.
- 16 In response to the pandemic, I adopted a flexible approach to my performance audit work both in terms of topic coverage and methodology. This enabled me to respond to the fast-moving external environment and provide more real-time feedback in a range of formats.
- 17 For 2022-23, I intend to continue this approach to help enable my work to be responsive and timely, and where possible to share learning more quickly. As part of this approach, I anticipate that a significant proportion of my local performance audit programme will continue to be delivered through the Assurance and Risk Assessment Project, that will be ongoing throughout the year.
- 18 Given the high degree of commonality in the risks facing councils I also intend to deliver a number of thematic projects examining risks common to all councils.
- 19 During 2020-21, I consulted public bodies and other stakeholders on how I will approach my duties in respect of the Well-being of Future Generations (Wales) Act 2015 from 2020-2025.
- 20 In March 2021, I wrote to the public bodies designated under the Act setting out my intentions, which include:
- carrying out specific examinations of how public bodies have set their well-being objectives; and
  - integrating my sustainable development principle examinations of steps to meet well-being objectives with my national and local audit programmes.
- 21 My auditors are liaising with the Council to agree on the most appropriate time to examine the setting of well-being objectives.
- 22 The examination of steps to meet well-being objectives will be conducted as part of work set out in this audit plan and successive audit plans, leading up to my statutory report under the Act in 2025.
- 23 For 2022-23, my performance audit work at the Council is set out below.

## Exhibit 2: performance audit programme 2022-23

This table summarises the performance audit programme for 2022-23:

Performance audit programme	Brief description
<b>Assurance and Risk Assessment</b>	<p>Project to identify the level of audit assurance and/or where further audit work may be required in future years in relation to risks to the Council putting in place proper arrangements to secure value for money in the use of resources and acting in accordance with the sustainable development principle.</p> <p>The project is likely to focus in particular on:</p> <ul style="list-style-type: none"> <li>• financial position;</li> <li>• capital programme management;</li> <li>• use of performance information – with a focus on service user feedback and outcomes; and</li> <li>• setting of well-being objectives.</li> </ul>
<b>Thematic review – unscheduled care</b>	<p>We intend to undertake a cross-sector review focusing on the flow of patients out of hospital. This review will consider how the Council is working with its partners to address the risks associated with the provision of social care to support hospital discharge, as well as prevent hospital admission. The work will also consider what steps are being taken to provide medium to longer-term solutions.</p>
<b>Thematic review – to be confirmed</b>	<p>Details of this thematic work to be confirmed following the consultation referred to in <b>paragraph 24</b> below.</p>
<b>Local audit work</b>	<p>To be confirmed following discussions with the Council over the course of the 2022-23 financial year.</p>

- 24 In March 2022, I published a [consultation](#) inviting views to inform our future audit work programme for 2022-23 and beyond. In particular, it considers topics that may be taken forward through our national value for money examinations and studies and/or through local audit work across multiple NHS, central government and local government bodies. As we develop and deliver our future work programme, we will be putting into practice key themes in our new five-year strategy, namely:

- the delivery of a strategic, dynamic, and high-quality audit programme; supported by
  - a targeted and impactful approach to communicating and influencing.
- 25 The possible areas of focus for future audit work that we set out in the consultation were framed in the context of three key themes from our Picture of Public Services analysis in autumn 2021, namely: a changing world; the ongoing pandemic; and transforming service delivery. We also invited views on possible areas for follow-up work.
- 26 We will provide updates on the performance audit programme through our regular updates to the Governance and Audit Committee.

## Certification of grant claims and returns

- 27 I have also been requested to undertake certification work on the Council's grant claims, which I anticipate will include Housing Benefits, Teachers' Pensions, and NDR returns, along with a statement of money transfers from NHS bodies under the NHS (Wales) Act 2006.
- 28 In respect of the 2020-21 certification of Grants and Returns, we will produce a separate report which summarises the more significant and/or recurring issues identified when undertaking grant certification work in 2020-21. This report will be completed following the conclusion of our work on the 2020-21 Housing Benefit Subsidy return.

## Statutory audit functions

- 29 In addition to the audit of the accounts, I have statutory responsibilities to receive questions and objections to the accounts from local electors. These responsibilities are set out in the Public Audit (Wales) Act 2004:
- Section 30 Inspection of documents and questions at audit; and
  - Section 31 Right to make objections at audit.
- 30 As this work is reactive, I have made no allowance in the fee table below. If I do receive questions or objections, I will discuss potential audit fees at the time.

## Fee, audit team and timetable

- 31 My fees and planned timescales for completion of the audit are based on the following assumptions:
- the financial statements are provided in accordance with a timescale to be agreed taking into account the impact of COVID-19, to the quality expected and have been subject to a robust quality assurance review;
  - information provided to support the financial statements is in accordance with the agreed audit deliverables document;

- when we are able to resume on-site activities, appropriate accommodation and facilities are provided to enable my audit team to deliver the audit in an efficient manner;
- all appropriate officials will be available during the audit;
- you have all the necessary controls and checks in place to enable the Responsible Financial Officer to provide all the assurances that I require in the Letter of Representation addressed to me; and
- Internal Audit's planned programme of work is complete and management has responded to issues that may have affected the financial statements.

32 If I do receive questions or objections, I will discuss potential audit fees at the time.

## Fee

33 As set out in our [Fee Scheme 2022-23](#), our fee rates for 2022-23 have increased by 3.7%, as a result of the need to continually invest in audit quality and in response to increasing cost pressures.

34 The estimated fee for 2022 is set out in **Exhibit 3**. This represents a 3.5% increase compared to your total actual 2021 fee, in line with the above increase in fee rates.

### Exhibit 3: audit fee

This table sets out the proposed audit fee for 2022, by area of audit work, alongside the actual audit fee for last year.

Audit area	Proposed fee (£) <sup>1</sup>	Actual 2021 fee (£)
Audit of accounts <sup>2</sup>	198,380	191,900
Performance audit work <sup>3</sup>	106,848	103,090
Other financial audit work <sup>4</sup>	1,244	1,244
<b>Total fee</b>	<b>306,472</b>	<b>296,234</b>

35 As noted in **paragraph 29**, our grant certification work for 2020-21 is ongoing. We will produce a separate report which summarises any significant issues and will update the Council on the proposed fee for 2021-22, as well as the actual fee for 2020-21.

<sup>1</sup> The fees shown in this document are exclusive of VAT, which is not charged to you.

<sup>2</sup> Payable November 2021 to October 2022.

<sup>3</sup> Payable April 2022 to March 2023.

<sup>4</sup> Payable as examination work is completed on the Greater Gwent Crematorium Joint Committee Annual Return.

36 Planning will be ongoing, and changes to my programme of audit work, and therefore my fee, may be required if any key new risks emerge. I shall make no changes without first discussing them with the Council.

37 Further information can be found in my [Fee Scheme 2022-23](#).

## Audit team

38 The main members of my team, together with their contact details, are summarised in **Exhibit 4**.

### Exhibit 4: my audit team

This table lists the members of the local audit team and their contact details.

Name	Role	Contact number	E-mail address
Matthew Edwards	Engagement Director	029 2032 0663	<a href="mailto:matthew.edwards@audit.wales">matthew.edwards@audit.wales</a>
Gareth Lucey	Audit Manager (Financial Audit)	029 2082 9398	<a href="mailto:gareth.lucey@audit.wales">gareth.lucey@audit.wales</a>
Ramim Khan	Audit Lead (Financial Audit)	029 2032 0632	<a href="mailto:ramim.khan@audit.wales">ramim.khan@audit.wales</a>
Timothy Buckle	Audit Manager (Performance Audit)	029 2032 0653	<a href="mailto:timothy.buckle@audit.wales">timothy.buckle@audit.wales</a>
Martin Gibson	Audit Lead (Performance Audit)	029 2032 0617	<a href="mailto:martin.gibson@audit.wales">martin.gibson@audit.wales</a>

39 I can confirm that team members are all independent of you and your officers. In addition, I am not aware of any potential conflicts of interest that we need to bring to your attention.

## Timetable

40 The key milestones for the work set out in this plan are shown in **Exhibit 5**.

- 41 The Public Audit (Wales) Act 2004 provides electors with the right to ask questions and to make objections to the Council's accounts to the Auditor General. The rights to ask questions and make objections at audit are linked to electors' rights to inspect the accounts that are also set out in the 2004 Act.

#### Exhibit 5: audit timetable

Planned output	Work undertaken	Report finalised
<b>2022 Audit Plan</b>	February – April 2022	May 2022
<b>Audit of financial statements</b> <ul style="list-style-type: none"> <li>• Audit of Financial Statements Report</li> <li>• Opinion on Financial Statements</li> <li>• Financial Accounts Memorandum</li> </ul>	July – October 2022	October 2022 <sup>5</sup> October 2022 November 2022
<b>Other financial audit work</b> <ul style="list-style-type: none"> <li>• Examination of Greater Gwent Crematorium Joint Committee</li> </ul>	July – October 2022	October 2022
<b>Performance audit work</b>	Timescales for individual projects will be discussed with the Council and detailed within the specific project briefings produced for each piece of work.	
<b>Grants certification work</b>	November 2022 to January 2023	March 2023

<sup>5</sup> The statutory deadline for certification of local government accounts is July 2022. However, legislation allows for over-runs where appropriate notification is made on the Council's website, and this approach was followed for the 2019-20 and 2020-21 accounts and audit due to the effects of the COVID-19 pandemic. The Welsh Government has confirmed that for the 2021-22 accounting year, it expects all Council accounts to be certified by the end of November 2022.

<b>Planned output</b>	<b>Work undertaken</b>	<b>Report finalised</b>
<b>Annual Audit Summary</b>	November 2022	December 2022



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We welcome correspondence and telephone calls in Welsh and English.  
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.

# Report

## Governance & Audit Committee

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### Part 1

Date: 26 May 2022

**Subject** Internal Audit – Progress against audit plan 2021/22  
Quarter 3

**Purpose** To inform Members of the Council’s Governance & Audit Committee of the Internal Audit Section’s progress against the 2021/22 agreed audit plan for the first 9 months of the year by providing information on audit opinions given to date and progress against key performance targets.

**Author** Chief Internal Auditor

**Ward** General

**Summary** The attached report identifies that the Internal Audit Section is making progress against the 2021/22 audit plan and internal performance indicators.

Covid-19 has impacted on Internal Audit and its ability to deliver services as intended; site visits to establishments are currently not being undertaken on a regular basis although this should become easier as Covid-19 restrictions ease.

The original audit plan was based on 1084 audit days.

**Proposal** 1) The report be noted by the Council’s Governance & Audit Committee

**Action by** The Governance & Audit Committee

**Timetable** Immediate

This report was prepared after consultation with:

- Chief Financial Officer
- Monitoring Officer
- Head of People and Business Change

**Signed**

## Background

1. This report aims to inform Members of the Governance & Audit Committee of progress of work undertaken by the Internal Audit Section of the Council against the agreed audit plan. Progress against the audit plan for the first 9 months of the year will be reported along with the performance of the team for that period.
2. The report gives Members assurance (or otherwise) on the adequacy of the internal control environment operated within the Council by providing the audit opinions on work undertaken at the end of Q3.

### Internal Audit Staffing

3. The team currently operates with an establishment of 8 audit staff. At the start of the year there were 7 audit staff in the team; support is being provided by an external internal audit provider.
4. 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 and reduced in numbers in 2016/17.
5. The relationship with Monmouthshire County Council (for sharing of the Chief Internal Auditor) continues.

### Public Sector Internal Audit Standards (PSIAS)

6. The Public Sector Internal Audit Standards (PSIAS) (IIA) came into force from April 2013 (updated March 2017) which the team needs to ensure it is compliant with as it carries out work in line with the Audit Plan. These standards replace the former Code of Practice for Internal Audit within Local Government (CIPFA).
7. A requirement of the PSIAS is for the Internal Audit team to be externally assessed once every five years to ensure compliance with these Standards. The Welsh Chief Auditors' Group proposed an option of a peer review in order to meet the requirements of this external assessment, which has been agreed by respective S 151 Officers of local authorities in Wales. Newport's peer review took place in 2017/18; the outcome being that the team is generally compliant with the Standards, with no significant areas of non-compliance; this is the highest standard of compliance. The next review will take place at the end of 2023.

### Audit Plan & The Impact of Covid-19

8. The 2021/22 Audit Plan was agreed by the Governance & Audit Committee on the 27<sup>th</sup> May 2021 and was originally based on 1084 audit days with 64 opinion related jobs.
9. The pandemic struck Wales mid February, early March 2020. The majority of Council staff were advised to work from home from the 18th March 2020, where they could. This meant the Internal Audit Team had to change the way it operated for the year end and for the start of the new financial year. This has continued into 2021/22.
10. Generally in Q1 of our audit plan the team are finalising reports in draft at year end, completing audit jobs which were ongoing at year end but draft reports had not been issued, picking up carried forward jobs from the previous year and starting new year audit jobs. In order to undertake audit work effectively and efficiently we need the co-operation of service managers and the staff in their

service areas to accommodate site visits (where necessary), meetings and provide relevant documentation.

11. Internal Audit staff currently work from home.
12. In 2019/20 external resources were brought in to undertake audit jobs which could not be completed in house due to a vacancy and a long term illness. This support has continued into 2021/22 to ensure appropriate audit coverage in the year.

### Performance

13. The Audit Section's performance is measured against planned work, which incorporates externalities like special investigations, financial advice and financial regulations training. Where actual time taken for the review exceeds planned time there will be an impact on the audit plan. Ad-hoc reviews requested by management cannot be planned for but will have an immediate impact on the achievement of the audit plan; we will endeavour to minimise these throughout the year. The section has been involved with some special investigations so far this year but if this increases significantly it could have an impact on this year's achievement of the audit plan; there have also been a few unplanned reviews.
14. The section's performance is measured against performance indicators set and agreed by the Welsh Chief Auditors' Group. Performance against these indicators is reported to the Governance & Audit Committee on a quarterly basis; the targets for each of the indicators are set internally by the Chief Internal Auditor.
15. The performance for Quarter 3 2021/22 is summarised below with the detail shown at **Appendix A**:
  - a. 42% of the original audit plan has been achieved so far which is below the target of 50%;
  - b. The promptness of issuing draft reports (comparing timescale between finalising all fieldwork and issuing the draft report to management) averages at 6 days, 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 of finalised report to management) averages 3 days which is within the target time of 5 days.
16. 13 out of 14 2020/21 audit reviews which were in draft as at 31/03/21 have now been finalised.
17. A vacancy / secondment provision was taken into account in the planning stage which related to the Chief Internal Auditor's work with Monmouthshire and a vacant post. The team took on additional external professional support to enable it to achieve the 2019/20 audit plan and carried this through to 2020/21 and 2021/22.
18. The main reasons for the team's current performance is that we have an ongoing long term sickness which is being covered from within the team, so overall resources have been reduced; our external provider has been unable to provide us with additional support on top of what has already been agreed; we have not been able to undertake the majority of site visit related audits due to current restrictions; the Principal Auditor vacancy was not filled during the year.
19. However, audit work has been re-prioritised where possible and the team have projected that closer to 70% of the agreed plan will be completed by the year end.

20. Inevitably there will be some overruns on reviews undertaken within the team which may result in not as many reviews being undertaken as were planned for the year. Some planned work may be deferred by service managers to either later in the year or the following financial year.
21. From time to time the team does get involved with additional non-planned audit work which can result in special investigations.

#### Quality Control

22. On completion of all audit reviews, an evaluation questionnaire is sent out to the service manager with the final report. This gives the manager who has been audited an opportunity to comment on the audit review itself, confirming (or not) that it was of benefit to their service and that the main risks had been covered; the staff, their approach, constructiveness and helpfulness; the report, covering the benefits of discussing the draft report, whether the balance was right via the inclusion of strengths and weaknesses, whether management comments were correctly reflected and if the report format was easy to follow. These questionnaires are returned in confidence to the Chief Internal Auditor who will assess the comments and address any criticisms. Generally, there has been positive feedback from service managers via these questionnaires; this will continue to be collated throughout the year and fed into the annual audit report for 2021/22.

#### Financial Training

23. In the Audit Section's continued efforts to ensure that Council's assets are safeguarded and to provide assurance to management that their internal controls are robust, further training specifically on financial regulations and contract standing orders will be offered to all service areas. This course is available on a self-nomination basis, bimonthly, as part of the Corporate Training Programme. Feedback from staff who have previously attended courses has been positive. 8 training sessions have been held so far this year, via MS Teams, with others planned.

#### Audit Opinions 2021/22

24. Audit opinions issued so far in 2021/22 are shown at **Appendix B**. Definition of audit opinions currently given is shown at **Appendix D**.
25. 18 jobs completed to at least draft report stage by 31 December 2021 warranted an audit opinion: 6 x *Good*, 11 x *Reasonable*, 1 x *Unsatisfactory*, no *Unsound* audit opinions. In addition, 5 grant claim audits have been undertaken during the year; all resulting with an *Unqualified*, opinion. Other work completed related to the Annual Governance Statement, NFI and the provision of financial advice and financial regulations training (**Appendix C**).
26. The audit opinion relates to the adequacy of internal controls within the system or establishment being reviewed. The opinion is derived from the balance of strengths and weaknesses identified from evidence obtained, and testing undertaken, during the audit. Where the auditor believes that any issues identified are the result of a deliberate action and may be in breach of the Disciplinary Code or Employee Code of Conduct, further investigations will be carried out and action taken as appropriate.

#### Service Management Responsibilities

27. Heads of Service and service managers are responsible for addressing any weaknesses identified in internal systems and demonstrate this by incorporating their agreed actions into the audit reports. When management sign off the reports they are accepting responsibility for addressing the issues identified within the agreed timescales.

28. Although Heads of Service are responsible for implementing and maintaining adequate internal controls within service areas, operational managers are responsible for working within those controls and for ensuring compliance with Council policies and procedures. All reports, once finalised, are sent to the respective Heads of Service for information and appropriate action where necessary.

Follow up audit reviews

29. Where *Unsatisfactory* or *Unsound* opinions are issued, they are followed up within a twelve month timescale to ensure that the agreed actions have been taken by management and that the internal control systems are improved. These are reported separately to this Governance & Audit Committee on a six-monthly basis.

**Financial Summary**

30. There are no financial issues related to this report.

**Risks**

31. If the plan is not completed due to a lack of resource in the team, the Chief Internal Auditor may have to qualify his year end assurance opinion provided to the Governance & Audit Committee.

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Audit Plan not completed	L	L	Audit work will be prioritised ; Have enquired with external provider but they cannot currently provide additional resources to support the team	Chief Internal Auditor

\* Taking account of proposed mitigation measures

**Links to Council Policies and Priorities**

32. Giving management assurance on systems in operation gives them confidence that there is sound financial management in place, that more effective services can be provided and the risk of theft, fraud and corruption is minimised. Better service provision, looking after the public pound makes our City a better place to live for all our citizens, hence Improving People’s Lives.

**Options Available**

33. This is a factual progress report and therefore there are no specific options to be considered. The quarterly reports provide a mechanism for monitoring the performance and progress of the Internal Audit team and the adequacy of the Council’s internal control environment to ensure the public pound is spent wisely and appropriately and that fraud, theft and corruption is minimised.

34. The Governance & Audit Committee is asked to note progress on delivery of the audit plan and audit opinions given to date and ask questions, make observations and recommendations, as necessary.

### **Preferred Option and Why**

35. N/A

### **Comments of Chief Financial Officer**

36. I can confirm that I have been consulted and have no additional comments.

### **Comments of Monitoring Officer**

37. There are no legal implications. The report has been prepared in accordance with the Council's internal audit procedures and the Performance Management framework. The progress made to date in delivering the objectives set out in the approved Audit Plan highlights the effectiveness of the work undertaken by this service area in ensuring that adequate and effective internal financial controls are in place.

### **Comments of Head of People, Policy and Transformation**

38. This report presents an updated position on the delivery of the Internal Audit Plan and its activity during quarter 3. The role of Internal Audit provides assurance that the Council's corporate governance arrangements are operating effectively and efficiently to manage governance, internal control and risk management. This work also supports the Council's overall assessment that it is delivering its statutory duties and has the necessary arrangements to deliver its Corporate Plan 2017-22 contributing towards the Well-being of Future Generations Act 2015. There are no direct human resources impact from this report, but the Council's Human Resources team are supporting the team with its ongoing resource issues.

### **Comments of Cabinet Member**

39. N/A

### **Local issues**

40. N/A

### **Scrutiny Committees**

41. N/A

### **Equalities Impact Assessment and the Equalities Act 2010**

42. The Equality Act 2010 contains a Public Sector Equality Duty which came into force on 06 April 2011. The Act identifies a number of 'protected characteristics', namely age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; sexual orientation; marriage and civil partnership. The new single duty aims to integrate consideration of equality and good relations into the regular business of public authorities. Compliance with the duty is a legal obligation and is intended to result in better informed decision-making and policy development and services that are more effective for users. In exercising its functions, the Council must have due regard to the need to: eliminate unlawful discrimination, harassment, victimisation and other conduct that is prohibited by the Act; advance equality of opportunity between persons who share a protected characteristic and those who do not; and foster good relations between persons who

share a protected characteristic and those who do not. The Act is not overly prescriptive about the approach a public authority should take to ensure due regard, although it does set out that due regard to advancing equality involves: removing or minimising disadvantages suffered by people due to their protected characteristics; taking steps to meet the needs of people from protected groups where these differ from the need of other people; and encouraging people from protected groups to participate in public life or in other activities where their participation is disproportionately low.

43. As this is a progress report on performance and audit opinions there is no need for an Equalities Impact Assessment. All audits are undertaken in a non-discriminatory manner.

## **Wellbeing of Future Generations (Wales) Act 2015**

44. The role of Internal Audit supports the Council in complying with the principles of the Wellbeing Act and providing assurance on the activities undertaken across the Council. In compiling this report the principles of this Act have been considered:

**Long term** - The Internal Audit workload is based on an annual operational plan supported by a 5 year strategic plan that is aligned to the Council's Corporate Plan.

**Prevention** - Internal Audit identify strengths and weaknesses within the control environment of Newport City Council; addressing the weaknesses gives management the opportunity of preventing gaps in service provision getting worse. This should also minimise the potential for fraud, theft, loss or error.

**Integration** - Internal Audit opinions provide an objective opinion on the adequacy of the Council's corporate governance, internal control and risk management environment in operation and support sound stewardship of public money.

**Collaboration** - Internal Audit work in collaboration with operational managers to develop an appropriate action plan in order to address identified concerns.

**Involvement** - Heads of Service and Senior Managers are invited to contribute to the audit planning process each year in order to prioritise audit resources. The involvement of the Governance & Audit Committee provides assurance and oversight of an effective internal audit provision to carry out its duties.

## **Consultation**

45. N/A

## **Background Papers**

46. N/A

Dated:

## Appendix A

## Newport City Council Internal Audit Service Performance Indicators

2020/21	2020/21 Target	1 <sup>st</sup> Qtr 20/21	2 <sup>nd</sup> Qtr 20/21	3 <sup>rd</sup> Qtr 20/21	4 <sup>th</sup> Qtr 20/21	Comments
Proportion of planned audits complete	82%	N/A	24%	42%	78%	Quarterly performance
Directly chargeable time against total time available	50%	N/A	N/A	N/A	N/A	Quarterly performance
Directly chargeable time against planned	100%	N/A	N/A	N/A	N/A	Quarterly performance
Proportion of Special Reviews responded to within 5 working days	100%	N/A	N/A	N/A	N/A	Cumulative figures
Number of sessions provided to train staff in all Service Areas on best financial practice	8	N/A	1	2	6	Cumulative figures
Staff turnover rate (number of staff)	0	N/A	0	0	0	Quarterly performance
Promptness of draft report issue (end of fieldwork to draft report issue date)	10 days	N/A	3 days	6 days	8 days	Cumulative figures
Promptness of report finalisation (date of client meeting to final report issue date)	5 days	N/A	2 days	2 days	3 days	Cumulative figures

2021/22	2021/22 Target	1 <sup>st</sup> Qtr 21/22	2 <sup>nd</sup> Qtr 21/22	3 <sup>rd</sup> Qtr 21/22	4 <sup>th</sup> Qtr 21/22	Comments
Proportion of planned audits complete	82%	20%	30%	42%		[Profiled Target Q3 50%]
Directly chargeable time against total time available	50%	57%	55%	53%		Quarterly performance
Directly chargeable time against planned	100%	78%	75%	78%		Quarterly performance
Proportion of Special Reviews responded to within 5 working days	100%	100%	100%	100%		Cumulative figures
Number of sessions provided to train staff in all Service Areas on best financial practice	8	2	5	8		Cumulative figures
Staff turnover rate (number of staff)	0	0	0	0		Quarterly performance
Promptness of draft report issue (end of fieldwork to draft report issue date)	10 days	7 days	6 days	6 days		Cumulative figures
Promptness of report finalisation (date of client meeting to final report issue date)	5 days	5 days	4 days	3 days		Cumulative figures

**Appendix B**  
**Opinions as at 31 December 2021, Qtr 3**

Good	6
Reasonable	11
Unsatisfactory	1
Unsound	0
Total	18
Unqualified	5

**Internal Audit Services - Management Information for 2021/22**  
**Q3**

Job number	Service Area	Section or Team	Job Title	Risk Rating / Priority	Opinion given
P2122-P3	Finance	Income Collection	National Non Domestic Rates (NDR)	Medium	Good
P2122-P39	Law & Regulation	Legal	Insurances	Medium	Good
P2122-P42	Law & Regulation	Public Protection	Licensing (Taxi)	Medium	Good
P2122-P48	RI&H	Development Services	Building Control	Medium	Good
P2122-P58	City Services	Highways & Engineering	Street Works	Medium	Good
P2122-P84	People & Bus Change	Policy & Partnership	Covid-19 Response	High	Good
P2122-P2	Finance	Accountancy	Place & Corporate Accountancy	Medium	Reasonable
P2122-P4	Finance	Strategic Procurement	Gateway Process (incl. Excepted Contracts)	High	Reasonable
P2122-P23	Children & Young People Serv	Resources	Forest Lodge	Medium	Reasonable
P2122-P24	Children & Young People Serv	Resources	Oaklands (Replaced Rose Cottage)	Medium	Reasonable
P2122-P27	Children & Young People Serv	General	Children & Families Imprest Account (Follow-Up) 2020/21	High	Reasonable
P2122-P28	Children & Young People Serv	General	Control Risk Self-Assessments	Medium	Reasonable
P2122-P50	RI&H	Housing, Regeneration & Property	Newport Norse (Joint Venture) Follow Up 2020/21	High	Reasonable

Job number	Service Area	Section or Team	Job Title	Risk Rating / Priority	Opinion given
P2122-P56	City Services	Highways & Engineering	Highways (Follow-up) 2020/21	High	Reasonable
P2122-P57	City Services	Highways & Engineering	SDR Contract	Medium	Reasonable
P2122-P65	Education Serv	Inclusion	Pupil Exclusions	Medium	Reasonable
P2122-P68	Education Serv	Nursery Schools	Kimberley Nursery Closure / Amalgamation	Medium	Reasonable
P2122-P54	City Services	Customer Services	Housing Benefits	High	Unsatisfactory
P2122-P33	Adult & Comm Serv	Service Development & Commissioning	Housing Support Grant	Medium	Unqualified
P2122-P34	Adult & Comm Serv	Service Development & Commissioning	Homelessness Prevention (Rough Sleeping) Grant	Medium	Unqualified
P2122-P43	Law & Regulation	Public Protection	Scambusters Grant Claim 2020/21	Medium	Unqualified
P2122-P66	Education Serv	Education Grants	Education Improvement Grant (SIG) 2020/21	Medium	Unqualified
P2122-P67	Education Serv	Education Grants	Pupil Development Grant 2020/21	Medium	Unqualified

## Appendix C

### Non Opinion work 2021/22 Q3

Job number	Service Area	Section or Team	Job Title
P2122-P7	Finance	General	Annual Governance Statement
P2122-P9	Finance	General	Financial Advice
P2122-P18	People & Bus Change	General	Financial Advice
P2122-P19	People & Bus Change	General	Financial Regulations Training
P2122-P29	Children & Young People Serv	General	Financial Advice
P2122-P37	Adult & Comm Serv	General	Financial Advice
P2122-P45	Law & Regulation	General	Financial Advice
P2122-P52	RI&H	General	Financial Advice
P2122-P62	City Services	General	Financial Advice
P2122-P79	Education Serv	General	Control Risk Self-Assessments
P2122-P80	Education Serv	General	Schools Financial Regulations Training / Cluster Meetings
P2122-P81	Education Serv	General	Financial Advice

**INTERNAL AUDIT SERVICES – OPINION DEFINITIONS**

	<b>GOOD</b>	<b>Well controlled with no critical risks identified which require addressing; substantial level of assurance.</b>	<b>Green</b>
	REASONABLE	Adequately controlled although risks identified which may compromise the overall control environment; improvements required; reasonable level of assurance.	Yellow
	UNSATISFACTORY	Not well controlled; unacceptable level of risk; changes required urgently; poor level of assurance.	Amber
	UNSOUND	Poorly controlled; major risks exists; fundamental improvements required with immediate effect.	Red

Unqualified	<p>The Financial Statement is free from material misstatement and presents fairly the activities of the organisation.</p> <p>The terms and conditions of the grant funding have been complied with.</p>
Qualified	<p>There is a lack of supporting information or documentation to verify that that figures quoted in the Financial Statement fairly represent the activities of the organisation.</p> <p>The terms and conditions of the grant funding have not been fully complied with.</p>

# Report

## Governance & Audit Committee

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### Part 1

Date: 26 May 2022

**Subject** Internal Audit Charter– Revised and updated

**Purpose** This report aims to make Members of the Governance and Audit Committee aware of the Council's Internal Audit Charter in order to enable them to make an informed decision to approve The Charter in line with the expectations of the Public Sector Internal Audit Standards (PSIAS). The purpose of this Charter is to define what Internal Audit at Newport City Council is and explain its purpose, authority and responsibility.

This Charter has been written in accordance with Standard 1000 of the Public Sector Internal Audit Standards (PSIAS) which came into force from April 2013.

**Author** Chief Internal Auditor

**Ward** General

**Summary** The attached report is the updated Internal Audit Charter for the Council's Internal Audit Team. The Charter was last approved by Audit Committee in December 2015 so this revision takes into account of PSIAS update in 2017, inclusion of an Internal Audit Mission, reference to the new Executive Board and Strategic Directors within the Council and reference to the new Governance and Audit Committee.

**Proposal** The report be noted and approved by the Council's Governance & Audit Committee.

**Action by** The Governance & Audit Committee

**Timetable** Immediate

This report was prepared after consultation with:

- Chief Financial Officer
- Monitoring Officer
- Head of People and Business Change

**Signed**

## Background

1. This report aims to make Members of the Governance and Audit Committee aware of the Council's Internal Audit Charter in order to enable them to make an informed decision to approve The Charter in line with the expectations of the Public Sector Internal Audit Standards (PSIAS).
2. The purpose of this Charter is to define what Internal Audit at Newport City Council is and explain its purpose, authority and responsibility.
3. This Charter has been written in accordance with Standard 1000 of the Public Sector Internal Audit Standards (PSIAS) which came into force from April 2013.
4. The Public Sector Internal Audit Standards 2013 (PSIAS) states the mission of internal audit is:  
*“ to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.”*

and defines Internal Audit as:

*“... an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”*

5. A professional, independent and objective Internal Audit service is one of the key elements of good governance.
6. Internal Audit has specific responsibilities and rights of access to people and documents written into the Council's Financial Regulations which are included within The Charter, along with its objectives, roles and responsibilities, the staff involved and how it demonstrates its organisational independence. The expectations and responsibilities of the Chief Internal Auditor are also included within The Charter.
7. The Charter reinforces the point that Internal Audit provides assurance to Members and Senior Management and should not be involved with operational matters of service delivery. It includes an important reference to the Code of Ethics for those working within the team in that they need to conform with the principles of Integrity, Objectivity, Confidentiality and Competence and have due regard to the 'Seven Principles of Public Life (Nolan Principles)' when undertaking their duties.
8. The expectations of how Internal Auditors will approach their work in terms of due professional care, integrity, independence, impartiality is written into The Charter; the work itself being delivered through an Audit Strategy and an Annual Audit Plan. The reporting and quality assurance processes are also included, along with how relationships with the team's stakeholders will be developed.
9. Dealing with Fraud and Irregularities is an important part of what the Internal Audit Team does in order to safeguard public money; it is important to include this aspect of its work within The Charter. How the Internal Audit Team will be resourced and continually developed through training has also been included within The Charter.
10. The intention is to maintain The Charter as a working document, which from time to time, will need to be refreshed and updated. The Charter was last approved by Audit Committee in December 2015; this update takes account of the PSIAS update in 2017, inclusion of an Internal Audit Mission, reference to the new Executive Board and Strategic Directors within the Council and reference to the new Governance and Audit Committee.

11. The Internal Audit Charter will therefore be reviewed periodically by the Chief Internal Auditor and presented to Senior Management and the Audit Committee for approval in future. The next review will be in 2025.

### Financial Summary

12. There are no financial issues related to this report.

### Risks

13. If the plan is not completed due to a lack of resource in the team, the Chief Internal Auditor may have to qualify his year end assurance opinion provided to the Governance & Audit Committee.

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Audit Plan not completed	L	L	Audit work will be prioritised ; Have enquired with external provider but they cannot currently provide additional resources to support the team	Chief Internal Auditor

\* Taking account of proposed mitigation measures

### Links to Council Policies and Priorities

14. Giving management assurance on systems in operation gives them confidence that there is sound financial management in place, that more effective services can be provided and the risk of theft, fraud and corruption is minimised. Better service provision, looking after the public pound makes our City a better place to live for all our citizens, hence Improving People's Lives.

### Options Available

15. This is a factual progress report and therefore there are no specific options to be considered. The quarterly reports provide a mechanism for monitoring the performance and progress of the Internal Audit team and the adequacy of the Council's internal control environment to ensure the public pound is spent wisely and appropriately and that fraud, theft and corruption is minimised.

16. The Governance & Audit Committee is asked to note progress on delivery of the audit plan and audit opinions given to date and ask questions, make observations and recommendations, as necessary.

### Preferred Option and Why

17. N/A

### Comments of Chief Financial Officer

18. I can confirm that I have been consulted and have no additional comments.

## **Comments of Monitoring Officer**

19. There are no legal issues arising from the report, which simply advises the Committee of updated changes to the Council's Internal Audit Charter to reflect the PSIAS update in 2017, the inclusion of an Internal Audit Mission Statement, and references to the new senior management governance structure and the new terms of reference of Governance and Audit Committee.

## **Comments of Head of People, Policy and Transformation**

20. The Internal Audit Charter is an important document for Newport Council outlining their roles and responsibilities providing independent assurance, advice and guidance in the delivery of its statutory duties. The Charter enables the Council's Internal Audit team and stakeholders across the Council to understand how Internal Audit provides assurances on the effectiveness and efficiency of Council services and delivery of its strategic objectives in the Corporate Plan meeting its Well-being of Future Generations Act requirements. There are no direct human resources impact from this report.

## **Comments of Cabinet Member**

21. N/A

## **Local issues**

22. N/A

## **Scrutiny Committees**

23. N/A

## **Equalities Impact Assessment and the Equalities Act 2010**

24. The Equality Act 2010 contains a Public Sector Equality Duty which came into force on 06 April 2011. The Act identifies a number of 'protected characteristics', namely age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; sexual orientation; marriage and civil partnership. The new single duty aims to integrate consideration of equality and good relations into the regular business of public authorities. Compliance with the duty is a legal obligation and is intended to result in better informed decision-making and policy development and services that are more effective for users. In exercising its functions, the Council must have due regard to the need to: eliminate unlawful discrimination, harassment, victimisation and other conduct that is prohibited by the Act; advance equality of opportunity between persons who share a protected characteristic and those who do not; and foster good relations between persons who share a protected characteristic and those who do not. The Act is not overly prescriptive about the approach a public authority should take to ensure due regard, although it does set out that due regard to advancing equality involves: removing or minimising disadvantages suffered by people due to their protected characteristics; taking steps to meet the needs of people from protected groups where these differ from the need of other people; and encouraging people from protected groups to participate in public life or in other activities where their participation is disproportionately low.
25. As this is a progress report on performance and audit opinions there is no need for an Equalities Impact Assessment. All audits are undertaken in a non-discriminatory manner.

## Wellbeing of Future Generations (Wales) Act 2015

26. The role of Internal Audit supports the Council in complying with the principles of the Wellbeing Act and providing assurance on the activities undertaken across the Council. In compiling this report the principles of this Act have been considered:

**Long term** - The Internal Audit workload is based on an annual operational plan supported by a 5 year strategic plan that is aligned to the Council's Corporate Plan.

**Prevention** - Internal Audit identify strengths and weaknesses within the control environment of Newport City Council; addressing the weaknesses gives management the opportunity of preventing gaps in service provision getting worse. This should also minimise the potential for fraud, theft, loss or error.

**Integration** - Internal Audit opinions provide an objective opinion on the adequacy of the Council's corporate governance, internal control and risk management environment in operation and support sound stewardship of public money.

**Collaboration** - Internal Audit work with delivered in collaboration with operational managers to develop an appropriate action plan in order to address identified concerns.

**Involvement** - Heads of Service and Senior Managers are invited to contribute to the audit planning process each year in order to prioritise audit resources. The involvement of the Governance & Audit Committee provides assurance and oversight of an effective internal audit provision to carry out its duties.

### Consultation

27. N/A

### Background Papers

28. N/A

Dated:

Appendix A





**NEWPORT**

CITY COUNCIL

CYNGOR DINAS

**CASNEWYDD**

# **INTERNAL AUDIT CHARTER 2022**

Version: 2 – Draft  
Author: Andrew Wathan, Chief Internal Auditor

Approved by: Governance and Audit Committee  
Date Approved:  
Date of Next Review: March 2025

**Version Control:**

Version	Details	Approved by & Date
1	Original	Audit Committee, December 2015
2	Revised and updated, taking account of changes to Public Sector Internal Audit Standards (2017).	Governance and Audit Committee, TBC

# INTERNAL AUDIT CHARTER

## 1 Introduction

- 1.1 The purpose of this Charter is to define what Internal Audit is and explain its mission, authority, responsibility and position within Newport City Council.
- 1.2 This Charter has been written in accordance with Standard 1000 of the Public Sector Internal Audit Standards (PSIAS) and sets out how the Internal Audit Section will discharge its duties in compliance with the PSIAS. Compliance with the PSIAS is mandatory for all internal audit providers and is based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF).
- 1.3 For the purposes of internal audit activity the following terms are defined as follows:

Board	Governance & Audit Committee
Senior Management	The Executive Board which is made up of the Chief Executive Strategic Director Transformation & Corporate Strategic Director Social Services Strategic Director Environment & Sustainability

## 2 Mission, Definition, Authority and Scope of Internal Audit

### Mission and Definition

- 2.1 The Public Sector Internal Audit Standards 2017 (PSIAS) confirms the mission of internal audit is:
- “ to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.”*
- 2.2 The Standards define Internal Audit as:
- “... an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”*
- 2.3 A professional, independent and objective Internal Audit service is one of the key elements of good governance.

### Authority

- 2.4 The authority of the internal audit function is derived from legislation. The requirement for an internal audit function for local authorities is implied by Section 151 of the Local

Government Act 1972, which required that authorities shall *'make arrangements for the proper administration of their financial affairs and shall ensure that one of their officers has responsibility for the administration of those affairs'*. The Accounts and Audit (Wales) Regulations 2014 requires that *'A relevant body (Newport City Council) must maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control'*.

2.5 Newport City Council has delegated these responsibilities to the Head of Finance.

2.6 Financial Regulations (March 2016) section 5.4 states:

To ensure that internal auditors have the authority to:

- enter at all reasonable times on any Council premises or land without prior notice;
- have access to all records, documents, computer programs and files and correspondence relating to any financial and related transactions of the Council;
- require and receive such explanations as are necessary concerning any matter under examination;
- require any employee of the Council to produce cash, stores or any other Council property under their control or such items in their custody as an officer of the Council which are the property of other persons;
- secure and prevent access to any equipment and records subject to an immediate report to the relevant Head of Service or Strategic Director.

### **Scope**

2.7 The scope of Internal Audit work is to determine whether the Council's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed;
- Interaction with the various governance groups occurs as needed;
- Significant financial, managerial, and operating information is accurate, reliable, and timely;
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations;
- Resources are acquired economically, used efficiently, and adequately protected;
- Programmes, plans, and objectives are achieved;
- Quality and continuous improvement are fostered in the Council's control process;
- Significant legislative or regulatory issues impacting the Council are recognised and addressed appropriately; and

- Opportunities for improving management control, profitability and the Council's image may be identified during audits. They will be communicated to the appropriate level of management.

Our scope of work may include audit activity both within Newport City Council (NCC) and on functions that NCC has delegated or contracted out.

2.8 The scope of Internal Audit allows for unrestricted coverage of the Authority's activities in order to review, report and provide the appropriate assurance based on its reviews to the Governance and Audit Committee. Internal Audit shall also have unrestricted access to all records, property and assets deemed necessary by auditors in the course of an audit. In addition, Internal Audit, will have unrestricted access to:-

- the Governance and Audit Committee
- the Chief Executive
- the Leader of the Council
- Members of the Council
- individual chief officers
- all Authority employees.

2.9 Such access to records, assets and personnel may be limited to certain named individuals as agreed with the Chief Internal Auditor where highly sensitive or confidential information is involved.

2.10 Internal Audit is known as the 3<sup>rd</sup> line of defence within an organisation, with operational management controls being the 1<sup>st</sup>, risk management and compliance the 2<sup>nd</sup>. Each line has its own role in the Authority to ensure that risks are appropriately managed and identified. Internal Audit's unique role is to provide assurance to the strategic management that is objective and independent of management about the controls in place to manage risk.

### 3 Objectives

3.1 Internal Audit's main objectives are to:

- provide a high quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources;
- provide assurance to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures;
- to ensure the objectives of the Council are being met;
- provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes;
- provide advice and support to management to enable an effective control environment to be maintained;
- promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud;

- investigate allegations of fraud, bribery, corruption and other irregularities; and
- to liaise with the police and other relevant agencies where criminal activities are suspected.

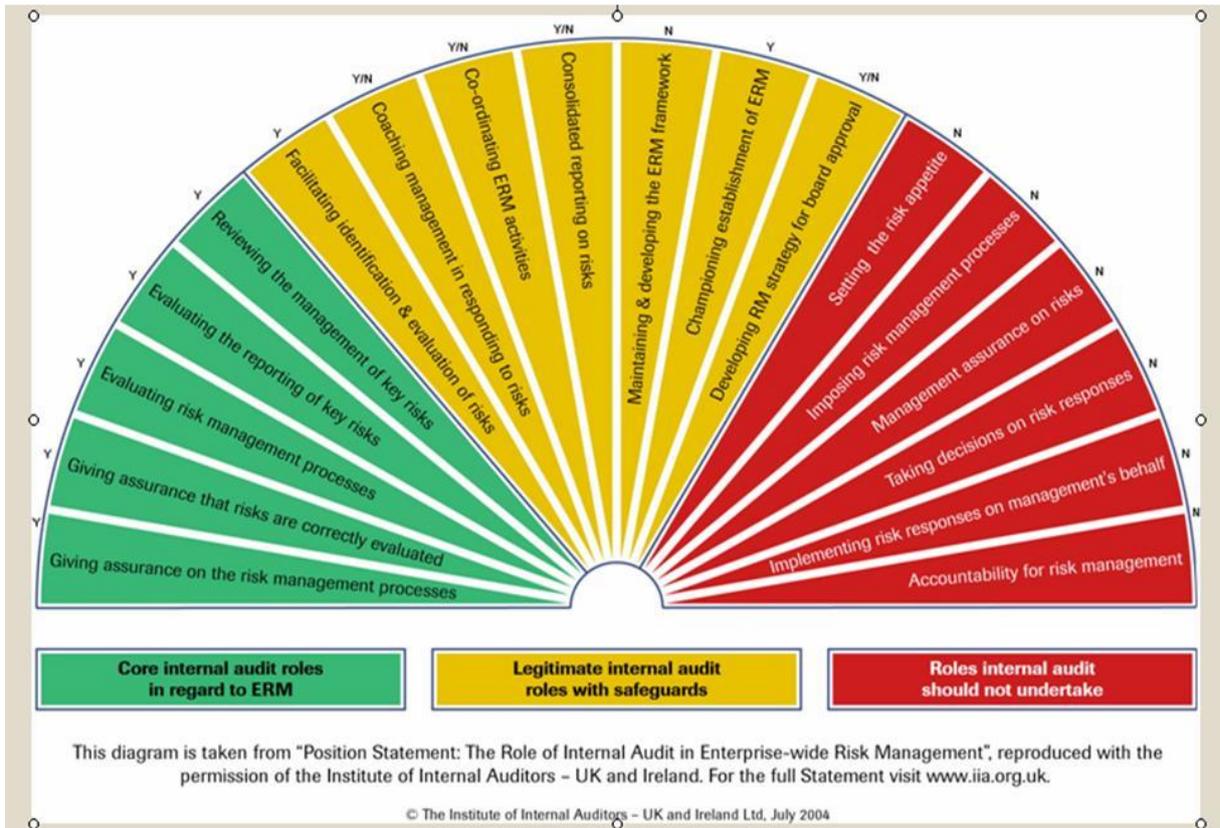
## **4 Roles & Responsibilities**

4.1 To meet Internal Audit objectives, internal auditors are responsible for:

- reviewing and assessing the soundness, adequacy and reliability of financial and non-financial management systems and operations;
- reviewing and assessing the effectiveness of internal controls;
- assessing the appropriateness of management action for improvement, where appropriate;
- reviewing and assessing procedures to check that the Council's assets and interests are adequately protected and risks are identified and effectively managed;
- checking for compliance with legislation, Council policies and procedures;
- promoting and assisting the Council in the effective use of resources;
- ensuring governance and risk management processes are effective and robust; and
- undertaking independent investigations into allegations of fraud and irregularity in accordance with Council policies and procedures and relevant legislation.

4.2 The diagram below illustrates the sorts of roles that Internal Audit can play, providing the necessary safeguards are in place:





4.3 The internal audit activity must assess and make appropriate recommendations and or agree management actions to improve the organisation's governance processes for:

- making strategic and operational decisions
- overseeing risk management and control
- promoting appropriate ethics and values within the organisation
- ensuring effective organisational performance management and accountability
- communicating risk and control information to appropriate areas of the organisation, and
- co-ordinating the activities of and communicating information among the board, external and internal auditors, other assurance providers and management.

### Provision of the Internal Audit Function

4.4 The Internal Audit Function is provided 'in house' and consists of the Chief Internal Auditor, 2 Audit Managers, 3 Principal Auditors and 2 Auditors. The team comprises of professionally qualified and part qualified accountants and auditors (CIPFA, ACCA, IIA, AAT). The Chief Internal Auditor operates in collaboration with a neighbouring local authority dividing his time on a 50:50 basis between Newport City Council and Monmouthshire County Council.

### Organisational Independence and Objectivity

- 4.5 PSIAS Standard 1100 states that the Chief Internal Auditor must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. The Chief Internal Auditor will confirm to the Governance and Audit Committee, at least annually, the organisational independence of the internal audit activity.
- 4.6 Organisational independence is effectively achieved when the Chief Internal Auditor reports functionally to the Governance and Audit Committee. The Governance and Audit Committee is required to:
- approve the Internal Audit Charter;
  - approve the risk based Internal Audit Plan;
  - receive communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters;
  - make appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scopes or resource limitations.
- 4.7 Members of the Internal Audit Team annually declare any potential conflicts of interests and do not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment.
- 4.8 Where Internal Audit provide consultancy services, the work will be organised in ways to ensure independence will not be impaired where they subsequently audit that area.

### **Management Structure**

- 4.9 Internal Audit is part of the Finance Service Area, with the Chief Internal Auditor reporting directly to the Head of Finance (nominated S151 Officer). However, in order to maintain its independence Internal Audit has a right of access to the Chief Executive and/or the Leader of the Council and/or the Chair of the Governance and Audit Committee should circumstances warrant it. The Chief Internal Auditor also reports in his own name. Internal Audit does not carry out any non-audit functions and has operational independence.
- 4.10 The Chief Internal Auditor is responsible:
- in managerial terms to the Head of Finance;
  - for the performance of the Internal Audit Service to the Governance and Audit Committee;
  - for providing a level of assurance, or otherwise, to the Governance and Audit Committee and the Executive Board.
- 4.11 The Chief Internal Auditor's responsibilities to the Governance and Audit Committee include:
- keeping under review and periodically presenting for approval the Internal Audit Charter;
  - presenting and obtaining approval of the risk-based annual Internal Audit Plan;
  - reporting quarterly on the work undertaken by Internal Audit;

- reporting any serious weaknesses found in the internal control systems, governance or risk, and any instances where corrective action has not been taken by management;
- reporting any instances where responses to audit reports have not been received within a reasonable timescale of the issue of draft and/or final audit reports, and any instances where agreed management actions have not been implemented within an acceptable time period;
- providing an annual Internal Audit report, including an opinion of the overall adequacy and effectiveness of the Council's internal control environment;
- the annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme; and

4.12 The Governance and Audit Committee's responsibilities are in accordance with the Committee's terms of reference as set out in the Council's Constitution.

## 5 Code of Ethics

5.1 The Internal Audit Service operates in accordance with the Public Sector Internal Audit Standards (PSIAS) 2017 by:

- ensuring that all internal auditors conform to the Code of Ethics principles of integrity, objectivity, confidentiality and competency;
- implementing the Attribute and Performance Standards as detailed in Section 7 of the Standards.

5.2 Internal Audit staff are required to make an annual affirmation of their knowledge of, and compliance with, the PSIAS Code of Ethics and must also have regard to The Committee on Standards in Public Life's *Seven Principles of Public Life* (the Nolan Principles).

## 6 Service Standards

### What can be expected from Internal Audit:

6.1 Internal Auditors will, at all times, exercise due professional care, act with integrity and take a professional, reliable, independent and innovative approach to their work. It is essential that auditors are impartial so that when an audit opinion is requested it will be unbiased and based upon the facts available. Should a situation arise where impartiality could be questioned, then another auditor will be assigned to undertake the task concerned.

- 6.2 The Chief Internal Auditor and individual members of the Internal Audit team are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.
- 6.3 Where an auditor was previously employed within a service/area subject to audit then the Chief Internal Auditor will ensure that the auditor concerned is not assigned audits in that area until an appropriate amount of time has lapsed.

### **Audit Strategy**

- 6.4 The Chief Internal Auditor prepares a risk-based audit strategy and translates this into a five-year plan that shows cyclical coverage of audits across all service areas. Where there is a difference between the strategy/plan and resources available, this will be reported to the Governance and Audit Committee.

### **Annual Audit Plan**

- 6.5 To implement the audit strategy, an annual audit plan is established using a risk-based assessment methodology. Planning is informed by review of the Authority's Corporate Risk Register and of Council and Cabinet minutes as well as the Audit Strategy. The plan determines in broad terms the resources and skills needed, and is used for allocating auditors' work. Should the plan indicate a need for additional resources, this will be discussed with the Head of Finance. Heads of Service / Managers are consulted on the audit plan during the planning process and asked if there are any areas or work they wish specifically to be incorporated into the audit coverage. The plan is flexible and includes a contingency to allow for changes in priorities, emerging risks, ad hoc projects, fraud and irregularity, etc.
- 6.6 The Chief Internal Auditor may rely on the work of other assurance and consultancy service providers having first satisfied himself of their competency, objectivity and due professional care. Where such reliance is placed on the work of others, however, the Chief Internal Auditor is still accountable and responsible for ensuring that appropriate support is available for any conclusions and opinions reached.
- 6.7 The Annual Internal Audit Plan is reported to, considered and approved by the Governance and Audit Committee.
- 6.8 During the year, the Chief Internal Auditor must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programmes,

systems, and controls. Any material changes in the Audit Plan as a result will be reported to the Governance and Audit Committee.

### **What is expected from operational managers and staff?**

6.9 Managers and staff should co-operate with the auditors, for example:

- Agreeing audit scopes promptly prior to the commencement of audit fieldwork;
- Providing Internal Audit with full support and co-operation, including complete access to all records, data, property and personnel relevant to the performance of their responsibilities at all levels of operations, without unreasonable delay;
- Responding to the draft internal report, including provision of management responses to issues raised, within the timescale requested by the Audit Team, normally 10 days. Where a response is not forthcoming a reminder will be issued. However, if a response is not received then the matter may be referred up to the next level of management, and ultimately to the Head of Service, Strategic Director, Chief Executive or Governance and Audit Committee, as appropriate;
- Implementing agreed audit recommendations or management actions in accordance with the agreed timescales;
- Updating Internal Audit with progress made on audit recommendations and agreed management actions;
- Informing Internal Audit of proposed changes and developments in processes and systems and newly identified significant risks;
- promptly notifying the Chief Internal Auditor where they believe fraud, corruption or bribery may have occurred within the organisation'

6.10 Managers and staff are encouraged to feedback any comments which would help improve the future delivery of internal audit services during the audit and through the client audit evaluation questionnaire issued at the conclusion of each audit.

## **7 Reporting**

### **Audit Reports**

7.1 All audit assignments will be the subject of formal reports or memoranda. Where appropriate, draft reports will be sent to the managers responsible for the area under review for agreement of the factual accuracy of findings. After agreement, the final reports will be issued to the relevant Head of Service and Strategic Director.

7.2 Audit reports:

- present the findings based on a risk assessment e.g. critical, significant and moderate risk, together with control strengths identified during the audit (Appendix 1)
- are balanced, showing strengths and weaknesses identified from the evidence obtained during the audit work

- include an action plan showing the agreed management actions and the target date for implementation
- give an opinion of the system / establishment of internal control as at the time of the audit based on the findings (Appendix 1)
- define the circulation of the draft and the final reports
- will be issued on behalf of the Chief Internal Auditor.

### 7.3 Audit report circulation/reporting structure:

- Operational managers (and Headteachers) receive a draft report for discussion followed by the final report
- Heads of Service (and for schools, Chairs of Governors) and Strategic Directors will receive a copy of all final reports within their service area
- The Executive Board (including the Chief Executive) will receive a copy of all quarterly update reports presented to the Governance and Audit Committee and can request individual reports as required.

## Reporting Standards

- 7.4 Upon completion of audits, draft audit reports are internally quality reviewed and issued to the relevant line managers for them to confirm the accuracy of the audit findings. Managers are invited to discuss the report and asked to provide their response to the critical and significant risk weaknesses raised in the draft report. For agreed management actions, dates for action or implementation are recorded in the report and the action plan. The managers' responses are recorded in the final report.
- 7.5 In accordance with professional standard (2500 Monitoring Progress), follow-up audits are undertaken to ensure that the agreed controls and actions have been implemented by management, or that risks of not doing so have been accepted.
- 7.6 Any agreed management actions not implemented within a reasonable timescale and any 'critical risk' weaknesses that are not accepted will be reported to the Governance and Audit Committee for their consideration of any action necessary in accordance with the Committee's terms of reference.
- 7.7 Internal Audit works to the reporting quality standards benchmarked by the Welsh Chief Internal Auditors' Group, which include the timely issue of draft and final audit reports.
- 7.8 Agreed action plans within final reports will be followed-up within 12 months of the date issue of the final audit report, to ensure that the agreed audit recommendations or management actions have been implemented.

## 8 Quality Assurance

- 8.1 The Chief Internal Auditor will maintain a process of review of the Internal Audit Service to provide reasonable assurance that its work conforms with the relevant standards and to the requirements of this document. Internal assessments will include:
- ongoing monitoring of the performance of the service including ensuring there is adequate supervision of work performed
  - periodic self-assessments on how the service meets the requirements of the Public Sector Internal Audit Standards
- 8.2 External assessments of the Internal Audit Service will be undertaken once every five years, in accordance with the PSIAS. The latest external assessment was completed in March 2018, hence the deadline for the next review is March 2023. The Governance and Audit Committee is encouraged to oversee the external assessment process and the outcome of each assessment will be reported promptly to them.
- 8.3 Internal auditors are required to enhance their knowledge, skills and other competencies through continuing professional development which is supported by Audit Management.
- 8.4 All audit reports are reviewed by a senior member of audit staff prior to issue. All Unsatisfactory or Unsound reports are reviewed by the Chief Internal Auditor. All reports are issued in the name of the Chief Internal Auditor.

## 9 Relationships

- 9.1 General - in all of these relationships the person(s) concerned will be treated with respect, courtesy, politeness and professionalism. Any confidential or sensitive issues raised with, or reported to, Internal Audit staff will be dealt with in an appropriate manner. Where issues could cause embarrassment to the Council, the appropriate manager will be advised immediately so that the issue can be addressed without delay.
- 9.2 Internal - the main contacts are with: Council employees, operational managers, Heads of Service, Strategic Directors and the Chief Executive. Internal auditors will ensure that they explain to the person(s) concerned the purpose of the audit and the various stages that the audit will follow. Internal Audit will agree with the manager concerned the timing and scope of the audit and the circulation of the audit report.
- 9.3 The Internal Audit Team will maintain an up to date intranet page on the Council's intranet site which will include the IA Plan, IA Charter, staff profiles along with a brief explanation of the audit process.
- 9.4 Councillors – the main means of communication between Internal Audit and Councillors is via the Governance and Audit Committee which meets approximately 7 times per year.
- 9.5 External – Internal Audit will liaise with the external auditors in order to:
- foster a co-operative and professional working relationship
  - minimise the incidence of duplication of effort

- ensure appropriate sharing of information
- co-ordinate the overall audit effort

## 10 Fraud & Irregularities

- 10.1 The Chief Internal Auditor is responsible for reviewing and updating the Council's Anti-Fraud, Bribery and Corruption Strategy and for promoting an anti-fraud culture within the Council. This is achieved by the following:
- specific detailed testing in high risk areas
  - participation in the Cabinet Office National Fraud Initiative (NFI) data matching exercise
  - investigation of areas of concern identified through routine audits, reported to management or via the Council's Whistleblowing Policy, where appropriate.
- 10.2 Heads of Service / operational managers are responsible for managing risks in order to prevent fraud, irregularity, waste of resources, etc. Internal Audit will assist service colleagues to effectively manage these risks.
- 10.3 However, no level of controls can guarantee that fraud will not occur, even when the controls are performed diligently with due professional care.
- 10.4 Where there is evidence or reasonable suspicion that a fraud or irregularity has occurred, then this must be reported immediately to Internal Audit. All cases will be dealt with in accordance with the Council's *'Anti-Fraud, Bribery and Corruption Strategy'* and *'Whistleblowing Policy'*.

## 11 Audit Resources

- 11.1 Ideally, the staffing structure of Internal Audit will comprise a mix of qualified, technician, trainee and auditor posts with a mix of professional specialisms to reflect the varied functions of the Section.
- 11.2 As far as is practicable, Internal Audit will not participate in the day-to-day operation of any systems of internal control. However, in strict emergency situations only, audit personnel may be called upon to carry out non-audit work on a short-term basis. Where this is the case the Chief Internal Auditor will implement safeguards to limit any potential impairments of independence or objectivity.
- 11.3 Internal Audit may also provide consultancy services, such as providing advice on implementing new systems and controls or being asked to be part of a project team. However, any significant consulting activity not already included in the Audit Plan and which might affect the level of assurance work undertaken will be reported to the Governance and Audit Committee.
- 11.4 Members of the Internal Audit team will be expected to contribute to the general management and conduct of business through membership of working groups and participation in ad hoc exercises.

## **12 Audit Training**

- 12.1 Internal auditors will continue to enhance their knowledge, skills and other competencies through continuing professional development (Standard 1230).
- 12.2 The Chief Internal Auditor will carry out a continuous review of the development and training needs of all audit personnel and will arrange in-service training covering both internal and external courses. This will complement the Council's performance management 'Check in' process.
- 12.3 The Internal Audit Team will continue to co-ordinate regional training for internal auditors across South Wales internal audit teams on behalf of the Welsh Chief Auditors Group. An annual training programme will be proposed and delivered where resources allow.
- 12.4 NCC's Internal Audit Team will be encouraged to attend this training programme along with training provided through other sources such as the Institute of Internal Auditors.

## **13 Review**

- 13.1 The Internal Audit Charter will be reviewed every three years by the Chief Internal Auditor and presented to the Executive Board and the Governance and Audit Committee for approval. The next renewal date will be March 2025.

## APPENDIX 1

### Categories of Audit Findings:

RATING	DESCRIPTION
CRITICAL	Major risk to the system.
SIGNIFICANT	Unacceptable risk.
MODERATE	Risk partially mitigated but should still be addressed.

### Audit Opinions

	GOOD (Green)	Well controlled with no critical risks identified which require addressing; substantial level of assurance.
➔	REASONABLE (Yellow)	Adequately controlled although risks identified which may compromise the overall control environment; improvements required; reasonable level of assurance.
	UNSATISFACTORY (Amber)	Not well controlled; unacceptable level of risk; changes required urgently; poor level of assurance.
	UNSOUND (Red)	Poorly controlled; major risks exists; fundamental improvements required with immediate effect; unacceptable level of assurance.

# Report

## Governance and Audit Committee

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### Part 1

Date: 26<sup>th</sup> May 2022

**Subject** Draft Annual Governance Statement 2021/22

**Purpose** To inform and give Members an opportunity to contribute to the Council's Annual Governance Statement, which will accompany the Annual Statement of Accounts for 2021/22.

**Author** Chief Internal Auditor

**Ward** General

**Summary** In order to meet the requirements of the Accounts and Audit (Wales) Regulations 2014, Newport City Council needs to prepare and present an Annual Governance Statement with its Annual Statement of Accounts. This Statement is based on how well the Council meets its own Code of Corporate Governance. A review of Governance is also a requirement of the Local Government Measure and the Local Government and Elections (Wales) Act 2021. The recommendations and actions from this Statement for the Council to improve will be integrated into the Council's Annual Well-being and Self-Assessment Report.

**Proposal** To review the draft Annual Governance Statement and provide appropriate comments before recommending its presentation alongside the Annual Statement of Accounts 2021/22.

**Action by** The Governance & Audit Committee

**Timetable** Immediate

This report was prepared after consultation with:

- Chief Financial Officer
- Monitoring Officer
- Head of People, Policy & Transformation

**Signed**

## Background

1. In order to meet the requirements of the Accounts and Audit (Wales) Regulations 2014, Newport City Council needs to prepare and present an Annual Governance Statement (AGS) alongside its Annual Statement of Accounts. The AGS is based on the Council's Code of Corporate Governance. A review of Governance is also a requirement of the Local Government Measure.
2. The Code sets out Newport City Council's approach to achieving and maintaining good corporate governance. It follows guidance produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE), and also takes account of the Welsh Government's 'citizen-centred governance principles for Wales'.
3. Newport City Council (the Council) is by nature, a complex organisation which affects the lives of all citizens in the area: As well as providing a diverse range of services, it also works with partner organisations who provide other public services. The Council's aims and priorities reflect these responsibilities.
4. The Council sees Corporate Governance as aiming to do the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. It comprises the systems and processes, and also the culture and values, by which the Council is directed and controlled and how it accounts to and engages with its citizens.
5. Strong, transparent and responsive governance enables the Council to put citizens first by pursuing its aims and priorities effectively, and by underpinning them with appropriate mechanisms for managing performance and risk. In order to maintain citizens' confidence, these mechanisms must be sound and be seen to be sound.

### Governance Principles

6. The Council operates through a governance framework that brings together its legislative responsibilities and management processes. The Council's Governance arrangements are in line with the following principles:

Overarching requirements for acting in the public interest:

- A.** Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- B.** Ensuring openness and comprehensive stakeholder engagement

Achieving good governance in the public sector also requires effective arrangements for:

- C.** Defining outcomes in terms of sustainable economic, social, and environmental benefits
- D.** Determining the interventions necessary to optimise the achievement of the intended outcomes

- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it
  - F. Managing risks and performance through robust internal control and strong public financial management
  - G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.
7. The Council's AGS, shown at Appendix 1, is based around these governance principles and demonstrates how it ensures that its business is conducted in accordance with the law and to proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The Council is now required to self-assess its governance and performance as outlined in the Local Government and Elections (Wales) Act 2021.
8. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions and which includes arrangements for the management of risk.
9. The governance framework comprises the systems and processes, and culture and values, by which the Authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.
10. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The overall Council Internal Audit Opinion for 2021/22 is **Reasonable**. The following audit opinions were issued following audit reviews:

	2019-20	2020-21	2021-22
Good	7	5	10
Reasonable	19	23	23
Unsatisfactory	6	1	2
Unsound	0	0	0
<b>Total</b>	<b>32</b>	<b>29</b>	<b>35</b>

11. The governance framework has been in place at the Council for the year 2021/22.

### Financial Summary

12. There are no financial issues related to this report.

### Risks

13. If Members are not involved in the endorsing the Annual Governance Statement it would weaken the overall governance arrangements of the Council and be non-compliant with the Public Sector Internal Audit Standards, which therefore, could be subject to adverse criticism from the external auditor, currently Audit Wales.

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Members not involved with annual governance process	M	L	The Chief Internal Auditor has compiled the AGS and taken it to Governance & Audit Committee for discussion and comment.	Chief internal Auditor

\* Taking account of proposed mitigation measures

### Links to Council Policies and Priorities

14. The Governance framework and arrangements supports all of the Council's priorities and plans.

15. Giving management assurance on systems in operation gives them confidence that there is sound financial management in place, that more effective services can be provided and the risk of theft, fraud and corruption is minimised. Better service provision, looking after the public pound makes our City a better place to live for all our citizens, hence Improving People's Lives.

- To make our city a better place to live for all our citizens
- To be good at what we do
- To work hard to provide what our citizens tell us they need

### **Options Available**

16. This is a factual report and therefore there are no specific options to be considered. The Annual Governance Statement is a statutory requirement and forms part of the Annual Statement of Accounts. The statement sets out how the Authority is meeting its own Code of Corporate Governance.

17. That the Annual Governance Statement be accepted and presented alongside the Annual Statement of Accounts 2021/22, subject to any amendments suggested by the Governance & Audit Committee.

### **Preferred Option and Why**

18. Option (1) as it is requirement of the Accounts and Audit (Wales) Regulations 2014, the Public Sector Internal Audit Standards and ensures good governance.

### **Comments of Chief Financial Officer**

19. I can confirm that I have been consulted on the Annual Governance Statement 2021/22 and have no additional comments.

### **Comments of Monitoring Officer**

20. In accordance with the Accounts and Audit (Wales) Regulations 2014, an Annual Governance Statement must be prepared with the Annual Statement of Accounts, setting out how well the Council complies with its Code of Corporate Governance. The Council's internal governance arrangements are set out in various constitutional framework documents under the umbrella of the Code of Governance. The Code has been prepared in accordance with relevant Guidance and incorporates the seven core governance principles developed by the Independent Commission on Good Governance in Public Services. It also reflects legislative requirements and ethical principles of democratic decision-making. Compliance with the Code will ensure that decisions continue to be made lawfully and with propriety and in a fair and transparent manner.

### **Comments of Head of People, Policy & Transformation**

21. There are no other specific HR issues arising as a result of the report. Newport Council is now required to self-assess its governance and performance as outlined in the Local Government and Elections (Wales) Act 2021. The Annual Governance Statement supports the Council's approach to self-assessing the effectiveness and efficiency of its performance and governance arrangements. The recommendations

and actions for the Council to improve will be integrated into the Council's Annual Well-being and Self-Assessment Report. This work also aligns to the Council's statutory responsibilities under the Well-being of Future Generations Act (2015).

### **Comments of Cabinet Member**

22. Not applicable.

### **Local issues**

23. No local issues.

### **Scrutiny Committees**

24. Not appropriate.

### **Equalities Impact Assessment**

25. Not required.

26. The Equality Act 2010 contains a Public Sector Equality Duty which came into force on 06 April 2011. The Act identifies a number of 'protected characteristics', namely age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; sexual orientation; marriage and civil partnership. The new single duty aims to integrate consideration of equality and good relations into the regular business of public authorities. Compliance with the duty is a legal obligation and is intended to result in better informed decision-making and policy development and services that are more effective for users. In exercising its functions, the Council must have due regard to the need to: eliminate unlawful discrimination, harassment, victimisation and other conduct that is prohibited by the Act; advance equality of opportunity between persons who share a protected characteristic and those who do not; and foster good relations between persons who share a protected characteristic and those who do not. The Act is not overly prescriptive about the approach a public authority should take to ensure due regard, although it does set out that due regard to advancing equality involves: removing or minimising disadvantages suffered by people due to their protected characteristics; taking steps to meet the needs of people from protected groups where these differ from the need of other people; and encouraging people from protected groups to participate in public life or in other activities where their participation is disproportionately low.

27. As this is an annual review of the governance arrangements in place at Newport City Council there is no need for an Equalities Impact Assessment. Internal Audit forms part of the governance process and all audits are undertaken in a non-discriminatory manner.

### **Children and Families (Wales) Measure**

28. Not appropriate.

### **Wellbeing of Future Generations (Wales) Act 2015**

29. The role of Internal Audit supports the Council in complying with the principles of the Wellbeing Act and providing assurance on the activities undertaken across the Council. In compiling this report the principles of this Act have been considered:

**Long term** - The Internal Audit workload is based on an annual operational plan supported by a 5 year strategic plan that is aligned to the Council's Corporate Plan.

**Prevention** - Internal Audit identify strengths and weaknesses within the control environment of Newport City Council; addressing the weaknesses gives management the opportunity of preventing gaps in service provision getting worse. This should also minimise the potential for fraud, theft, loss or error.

**Integration** - Internal Audit opinions provide an objective opinion on the adequacy of the Council's corporate governance, internal control and risk management environment in operation and support sound stewardship of public money.

**Collaboration** - Internal Audit work with delivered in collaboration with operational managers to develop an appropriate action plan in order to address identified concerns.

**Involvement** - Heads of Service and Senior Managers are invited to contribute to the audit planning process each year in order to prioritise audit resources. The involvement of the Governance & Audit Committee

## Consultation

30. Not appropriate.

## Background Papers

31. 2021/22 Approved Internal Audit Plan; 2021/22 Annual Internal Audit Report; Corporate Plan; Cabinet and Scrutiny papers; Council policy and procedures.

Dated:

**APPENDIX 1**

ANNUAL GOVERNANCE STATEMENT 2021/22

DRAFT 3

Andrew Wathan

# **ANNUAL GOVERNANCE STATEMENT 2021/22**



Newport City

**DRAFT 0.3** Andrew Wathan, Chief Internal Auditor



## **What is Corporate Governance?**

Corporate governance is the system of rules, practices and processes by which an organisation is directed and controlled. Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

## **What does 'Good' Corporate Governance look like?**

Good governance is about the processes for making and implementing decisions. It's not about making 'correct' decisions, but about the best possible process for making those decisions, ensuring that it is doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. Good governance leads to effective:

- leadership and management;
- performance and risk management;
- stewardship of public money; and
- public engagement and outcomes for our citizens and service users.

## **What this statement will tell you**

The Annual Governance Statement is a requirement of the Accounts and Audit (Wales) Regulations 2014. It also takes account of the Local Government and Elections (Wales) Act 2021. This Statement will be incorporated into the Council's Annual Wellbeing and Self Assessment Report. This Statement demonstrates that Newport City Council is compliant with these Regulations for 2021/22.

It describes the governance framework in place within the Council, how the effectiveness of the governance arrangements has been monitored and evaluated during the year with evidence and examples and sets out any changes planned for 2022/23.

This Statement has been prepared in accordance with guidance produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE); the 'Delivering Good Governance in Local Government Framework 2016' and 'Delivering Good Governance in Local Government Guidance Notes for Welsh Authorities 2016'. It embraces the elements of internal financial control required by the 'Code of Practice on Local Authority Accounting in the United Kingdom'.

This statement was compiled following the Coronavirus (COVID-19) pandemic which, in the first few months of 2020, resulted in the suspension of all public and non-essential meetings and which continued, to a lesser extent, throughout 2021/22.

The sound governance framework in place at Newport City Council is detailed in the revised Code of Corporate Governance 2019/20 which includes a detailed list of all governance arrangements.

## **1 Scope of Responsibility**

- 1.1 Newport City Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and to proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- 1.2 The Council also has a duty under the Local Government (Wales) Measure 2011 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to strategic effectiveness, service quality, service availability, fairness, sustainability, efficiency and innovation. The Council is now required to self-assess its governance and performance as outlined in the Local Government and Elections (Wales) Act 2021.
- 1.3 In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions and arrangements for the management of risk.
- 1.4 'CIPFA's Statement on the Role of the Chief Financial Officer in Local Government (2010)' sets out the governance arrangements which are in place within the Council to ensure sound financial management.
- 1.5 The Council's Code of Corporate Governance sets out its commitment to good Governance, which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government'. This was initially approved by Cabinet and then Council in July 2013 with a further update approved by Cabinet in July 2014. The Code was updated in 2019/20 and approved by Cabinet in April 2021. A copy of the Code can be obtained from the Head of Finance.
- 1.6 The Code of Corporate Governance outlines the key governance arrangements in place at Newport City Council and as such will be cross referenced to where relevant throughout this Annual Governance Statement.

## **2 The Purpose of the Governance Framework**

- 2.1 The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

2.3 The governance framework has been in place at the Council throughout the year 2021/22, and up to the date of approval of the statement of accounts.

2.4 A review of the governance arrangements around the development, delivery and monitoring of the Council's future 'Transformation Programme' is currently underway and will also include clear responsibilities and arrangements for other key areas, such as financial management, capital programme, major projects etc. It is anticipated this will be put in place in the first quarter of 2022/23.

### **3 The Governance Framework**

3.1 The Council's Governance arrangements are in line with the following principles:

Overarching requirements for acting in the public interest:

- A.** Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- B.** Ensuring openness and comprehensive stakeholder engagement

Achieving good governance in the public sector also requires effective arrangements for:

- C.** Defining outcomes in terms of sustainable economic, social, and environmental benefits
- D.** Determining the interventions necessary to optimise the achievement of the intended outcomes
- E.** Developing the entity's capacity, including the capability of its leadership and the individuals within it
- F.** Managing risks and performance through robust internal control and strong public financial management
- G.** Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

The Statement will cover these principles in more detail from Section 6 onwards.

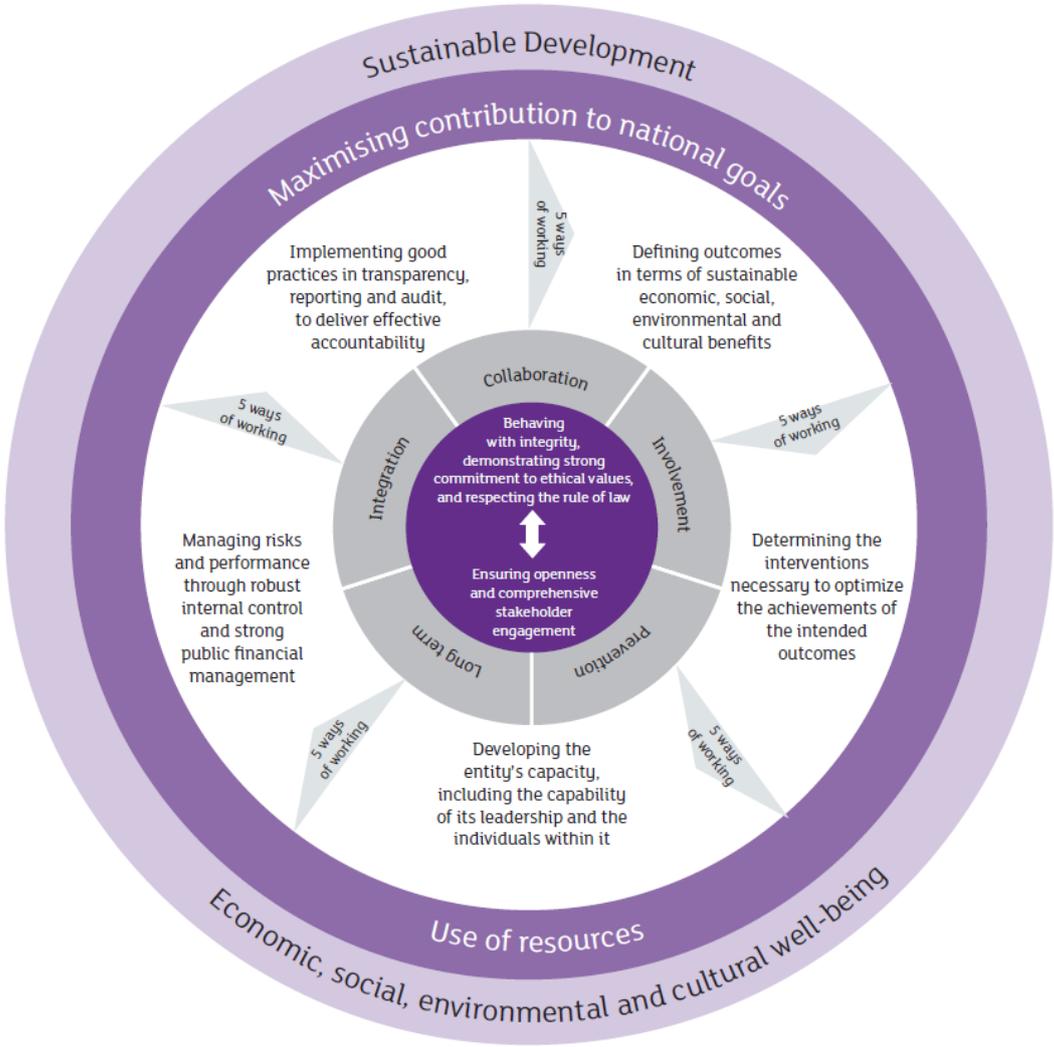
#### **Wellbeing of Future Generations (Wales) Act 2015**

3.2 The diagram on the following page brings together the above principles of good governance with the requirements of the Well-being of Future Generations (Wales) Act 2015; it shows sustainability as all-encompassing, with the core behaviours of:

- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law; and
- Ensuring openness and comprehensive stakeholder engagement

This needs to be applied to the five ways of working outlined in the 2015 Act. These five ways of working have to permeate all segments of delivering outcomes which, in turn, should ensure

effective use of resources as the Council maximises its contribution to the economic, social, environmental and cultural well-being of Wales.



**The Three Lines of Defence in effective Risk Management and Control**

3.3 Assurance can come from many sources within the Council. The Three Lines of Defence is a concept for helping to identify and understand the different sources of assurance. These are:

- First Line - functions that own and manage risks e.g. management and supervisory controls;
- Second Line - functions that oversee risks e.g. Governance structures and processes such as Scrutiny Committees, policies and procedures and;
- Third Line - functions that provide independent assurance on the management of risks e.g. Internal Audit along with external providers of assurance such as External Audit and External Inspections & Regulatory Reports (e.g. ESTYN & CIW).

The model helps the Council understand how each area contributes to the overall level of assurance and how good governance can be integrated and supported.

### **Corporate Plan**

3.4 The Council's Corporate Plan for 2017 to 2022 "Building on Success – Building a Better Newport" sets out the 5 year vision and direction for the Council.

3.5 The Corporate Plan forms part of the Council's policy framework, and prior to agreement had been through the necessary consultation with scrutiny and members of staff.

3.6 Within the Corporate Plan twenty commitments for change, relating to the following four key areas have been outlined:

- Resilient Communities,
- Thriving City,
- Aspirational People,
- Modernised Council.

3.7 Newport City Council's Well-being Objectives are:

- To improve skills, educational outcomes and employment opportunities
- To promote economic growth and regeneration while protecting the environment
- To enable people to be healthy, independent and resilient
- To build cohesive and sustainable communities

3.8 The Corporate Plan is delivered through service area plans. Service plans are set in conjunction with Cabinet Members and scrutiny committees to ensure oversight and accountability for the delivery of the actions.

3.9 An annual report of progress against the Corporate Plan is presented to members (Cabinet - October 2021) and published so that it can be shared with all employees and members of the public to present an open and transparent view of how the Council is working towards its vision and objectives and how further work will be focused to ensure further improvement.

### **Public Service Board**

3.10 The One Newport Public Service Board (PSB) Newport merged with other local boards during 2021/22 to form the regional Gwent Public Service Board (Cabinet October 2021). One Newport will continue as a strong Local Delivery Partnership and will deliver the City's Well-being Plan until March 2023.

3.11 PSBs were established by the Well-being of Future Generations (Wales) Act 2015 (WFG) and must work in accordance with the sustainable development principle and achievement of the seven wellbeing goals by:

- assessing the state of the City's economic, social, environmental and cultural wellbeing;

- setting local objectives that are designed to maximise their contribution within the City to achieving those goals;
- taking all reasonable steps to meet those objectives.

3.12 Performance of the Well-being Plan was reported through the Performance Scrutiny Committee – Partnerships during 2021/22, in October 2021 and February 2022. A summary was reported into Cabinet October 2021.

3.13 Newport's stakeholders are encouraged to get involved with shaping the policies and decisions of the PSB through the Involve Newport Citizens' Panel and the One Newport Engagement and Participation Strategy.

### **Coronavirus (Covid-19) Pandemic**

3.14 The Coronavirus pandemic (Wef March 2020) had caused significant organisational disruption including new emergency responsibilities, increased staff absence and a requirement for staff to work from home (where possible) while continuing to ensure statutory services were maintained as expected. For the duration of 2021/22 the majority of office based staff within the Council continued to work from home. This statement assesses the governance in place during 2021/22.

3.15 In accordance with the Council's Corporate Emergency Management Plan (revised March 2019) an Emergency Response Team (ERT) was established along with a regional multi-agency Strategic Co-ordination Group (SCG) to deal with this pandemic. These groups continued to meet throughout 2021/22.

3.16 Once enacted, the Corporate Emergency Management Plan allowed for an emergency management structure and delegation of emergency powers to the ERT Gold Duty Officer in consultation with the Leader of the Council.

3.17 The pandemic impacted on the Council's delivery of services as some staff were diverted to front line duties to ensure that critical services were prioritised. There were also new areas of activity as part of the national response to Coronavirus for example providing emergency assistance to businesses in Newport.

3.18 There has been funding and logistical consequences of delivering the local government response. To ensure appropriate governance and accountability, these costs have been identified by staff and appropriately coded on the Council's Main Accounting System and reclaimed from Welsh Government.

3.19 In line with public health measures to mitigate the spread of Coronavirus and to enable the Council to focus on the delivery of critical services, all public meetings were initially suspended. This included Council meetings, meetings of full Cabinet and all committee and sub-committee meetings, including Scrutiny, Planning and Licensing.

3.20 Urgent decisions were made in accordance with the officer and members' schemes of delegation as detailed in the Council's Constitution and urgent decision-making procedures.

- 3.21 Using appropriate technology there was minimum disruption to Council democratic business; Cabinet recommenced in June 2020, Council in July 2020, Governance & Audit Committee in September 2020, Democratic Services Committee in October 2020, Scrutiny Committees in September 2020. Virtual and remote meetings were held in line with temporary legislation.
- 3.22 Moving into 2021/22, Welsh Government restrictions eased. Covid 19 Recovery Updates and Response and Progress continued to be reported through Cabinet monthly. Responding to the New Normal was also reported through Cabinet in July 2021 and December 2021.
- 3.23 During 2021/22 the coronavirus pandemic did not lead to significant internal control or governance issues which impacted on the overall review of effectiveness.

### **Internal Audit**

- 3.24 As far as possible, the systems of internal control have continued to operate during the pandemic. The Council's implementation of Office365 and multi-factor authorisation has allowed the majority of employees to successfully work from home without major disruption. For example, the Council's i-Procurement system allows for electronic authorisation from delegated officers with an inbuilt segregation of duties.
- 3.25 In the Chief Internal Auditor's opinion, adequate assurance was obtained over the course of 2021/22 resulting in an overall '*Reasonable*' assurance audit opinion to be issued for the Council's activities, although this was based on limited work undertaken by the team; the Internal Audit Plan was approved by Governance & Audit Committee in May 2021. Internal Audit normal coverage was adversely affected during the 2021/22 as very few site visits were permissible. 71% of the approved Audit Plan was completed against the target of 82%, with 35 audit opinions issued. Reliance on previous years' audit work has also been taken into consideration in arriving at this year's opinion in that there have been no significant systems or staff changes. Further detail regarding the Internal Audit team's performance is included within the Internal Audit Annual Report 2021/22 which will be presented to the Governance & Audit Committee in May 2022.

## **4 Review of Effectiveness**

- 4.1 The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Corporate Management Team within the Council which has responsibility for the development and maintenance of the governance environment, the Chief Internal Auditor's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.
- 4.2 The processes that have been applied to maintain, review and improve the effectiveness of the governance framework include:

- i. periodic reviews of the Constitution and ethical governance arrangements by the Monitoring Officer; Democratic Services Committee in February 2021;
- ii. periodic reviews of the financial controls by the Chief Finance Officer; Revised Contract Standing Orders approved by Cabinet in December 2019;
- iii. formal risk management and regular on-going review of the processes involved; Cabinet March 2021, September 2021, October 2021, December 2021;
- iv. the Internal Audit function, whose work takes account of identified risks through regular audits of the major systems and establishments in accordance with the Annual Internal Audit Plan, and which includes 'follow-up' work to ensure that Heads of Service implement agreed management actions; Annual Report 2020/21 Governance & Audit Committee May 2021;
- v. the work of the Performance Scrutiny Committees, Overview & Scrutiny Management Committee, Democratic Services Committee, Standards Committee and Governance & Audit Committee;
- vi. the opinions and recommendations of the Council's external auditors and other inspection and regulatory agencies;
- vii. regular monitoring of performance against service plans and key targets, and reporting of this to senior management and members, through the Management Information Hub;
- viii. the outcomes of the Annual Information Risk Report are monitored quarterly by the Information Governance Group;
- ix. progress against the Newport Well-being Plan is monitored by scrutiny and the PSB throughout the year.

Sections 5 to 11 demonstrate how the Council is meeting the key governance principles with evidence and examples.

## **5 Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

### **Behaving with integrity**

- 5.1 Standards Committee met throughout 2021/22; received reports on succession planning for Standards Committee Members in line with respective Regulations, updates on complaints against Members, revised Employee Code of Conduct, changes to the Guidance on Members' Code of Conduct.
- 5.2 In order to monitor all key Council decisions for fairness a 'Fairness Commission' was established. Members of the Fairness Commission were chosen to represent a range of interests, experiences and backgrounds from across the City, including education, trade unions, equality groups, faith communities and the two main political parties in the Council. The Fairness Commission is chaired by an academic from the University of South Wales. Reviews of the Council budget proposals have been undertaken by the Fairness Commission.

- 5.3 The Council has an agreed Constitution, available on the website, which includes the Council's related codes and protocols.
- 5.4 A set of Council values 'Courageous, Positive, Responsible' were established following staff feedback. These are regularly communicated with all staff.
- 5.5 The Council demonstrates, communicates and embeds its operating principles and values through appropriate policies which are reviewed on a regular basis. These policies also place an emphasis on ethical values. Some of the policies in place to support this are:
- Whistleblowing Policy
  - Member and Employee Codes of Conduct
  - Anti-Fraud, Bribery & Corruption Policy
  - Safeguarding Policy
  - Complaints Procedure
  - Code of Corporate Governance
- 5.6 The Council's financial management arrangements conform to 'CIPFA's Statement on the Role of the Chief Financial Officer in Local Government (2010)'.
- 5.7 The revised Anti-fraud, Bribery and Corruption Policy and the updated Code of Corporate Governance were approved by Cabinet April 2021.

### **Demonstrating strong commitment to ethical values**

- 5.8 The Council's Ethical Governance Framework includes:
- codes of conduct for officers and members, which are reviewed, updated and tested for compliance;
  - a protocol governing Member/Officer relations;
  - a whistle-blowing policy widely communicated within the Council and which is periodically reviewed;
  - registers of personal and business interests for Members and Chief Officers;
  - an agreed policy and associated corporate procedures for ensuring that complaints about services can be properly made and investigated, and for ensuring that any lessons can be applied;
  - the Strategic Equality Plan and Equality Objectives 2020-24 were agreed by Cabinet in July 2020 and Council September 2020;
  - Strategic Equality Plan Annual Report for 2020/21 went to Council in November 2021.
- 5.9 In line with the Local Government Measure a separate Democratic Services Committee was established; this committee met throughout 2021/22; it deals with national consultation exercises, national policy and Members' codes and development. Council received a copy of the Democratic Services Committee Annual Report for 2020/21 in November 2021.

- 5.10 The Standards Committee, which includes a majority of independent representatives, advises on and monitors the Member Code of Conduct, the Protocol for Member/Officer Relations, and any other codes relating to the conduct of Members. Council received a copy of the Standards Committee Annual Report for 2020/21 in November 2021.
- 5.11 A review of Ethical Standards Framework was taken through Standards Committee in November 2021.
- 5.12 Induction training for employees covers code of conduct, expected standards of behaviour and the importance of the whistleblowing policy. These documents are also available on the staff intranet.
- 5.13 The Council looks to ensure that external providers of services on behalf of the Council act with integrity and in compliance with high ethical standards. The Council has signed up to the Welsh Government's Code of Practice – Ethical Employment in Supply Chains. The Code covers modern slavery and human rights abuses, blacklisting, false self-employment, unfair use of umbrella schemes and zero hours contracts as well as considering paying the living wage.

#### **Respecting the rule of law**

- 5.14 The Council has a strong commitment to the rule of law and adhering to the laws and regulations set by Welsh Government, UK Government and the European Union. There were no “call-in” challenges to decisions on procedural grounds and no judicial review challenges on grounds of legality during the year.
- 5.15 The Council is required to meet statutory obligations regarding the handling of data; the Digital Strategy incorporates an Information Risk Management Policy which outlines roles and responsibilities for information risk management. This ensures that the requirements of legislation, including the Data Protection Act 2018 (GDPR), Environmental Information Regulations 2004 and the Freedom of Information Act 2000 are met and that the risks around information are managed appropriately. The Annual Information Risk Report 2020/21 was presented through the Information Governance Group for consultation and endorsed by the Cabinet Member in September 2021.
- 5.16 There were 2 ongoing complaints of Member misconduct made to the Public Services Ombudsman for Wales (PSOW) during 2021/22 involving City Councillors. 3 further complaints against City Councillors were made to the PSOW but he felt there was no breach of the Code and were not accepted for formal investigation. During the year the PSOW reported the outcome of 1 complaint which was upheld and referred to the Standards Committee for a breach of the Member Code and consideration of a sanction.
- 5.17 The Council's Annual Report on Compliments, Comments & Complaints was taken through Cabinet November 2021. In 2020/21 17 complaints were received by PSOW concerning Newport. Most of the complaints received were discontinued or resolved. Although the Council had to take action on 3 complaints, there were no findings of maladministration, misconduct or public interest reports.

- 5.18 Following the Local Government elections in May 2017, mandatory training was provided to new Members of the Council along with other training sessions for existing Members. This will be reviewed and updated following Local Government elections in May 2022.
- 5.19 The Internal Audit team continued to deliver awareness raising sessions on the importance of compliance with Financial Regulations and Contract Standing Orders.
- 5.20 There was no change in Leadership of the Council in 2021/22; Cllr Mudd continued as Leader of the Council.
- 5.21 During 2021/22 the Council had the following statutory posts and enables officers to fulfil their responsibilities in accordance with legislative and regulatory requirements:
- Head of Paid Service (Chief Executive)
  - Section 151 Officer (Head of Finance)
  - Monitoring Officer (Head of Law & Standards)
  - Director of Social Services
    - The Director of Social Services post was fulfilled by the Head of Adult & Community Services on an interim basis until the recruitment took place for the Strategic Director (Social Services) who assumed this role in October 2021.
  - Head of Democratic Services
    - Following an internal appointment, the role of Democratic Services Manager was filled in May 2021.
- 5.22 The Corporate restructure saw the appointment of 3 new Strategic Directors during the year:
- Transformation & Corporate
  - Environment & Sustainability
  - Social Services
- In addition, the restructure saw an increase from 8 to 11 Heads of Service. One Head of Service appointment (Head of Housing & Communities) was vacant at the end of the 2021/22 year.
- 5.23 The Council optimises the use of the full powers available for the benefit of the citizens of Newport, communities and other stakeholders. For example, the Council takes its decisions by way of full Council or the Executive (Cabinet). Decisions are also taken by individual Cabinet Members and Chief Officers. The Scheme of Delegation and the Terms of Reference which are included in the Constitution, make it clear at which level decisions are taken.
- 5.24 A revised Whistleblowing Policy was updated in 2017, and a confidential helpline set up. In 2021/22 there were no disclosures made under the policy.
- 5.25 All waivers of Contract Standing Orders and urgent decisions are reported through the Governance & Audit Committee quarterly.

## Openness

- 6.1 The majority of meetings are held in public as shown from Committee agendas and minutes which are then available on the website. The Council broadcasts Council meetings and Planning Committees live on the internet and is working towards webcasting other formal member meetings. Live tweets are broadcast from Newport City Council's Twitter account.
- 6.2 Due to the impact of Covid-19 and national lockdown in March 2020 all public meetings were initially put on hold. Throughout 2021/22 virtual and remote meetings were set up which were accessible to the public.
- 6.3 As part of Newport City Council's commitment to being open and transparent it continues to publish its data on the website which the public is free to view and use [www.newport.gov.uk/transparency](http://www.newport.gov.uk/transparency).
- 6.4 The Council has responded to Freedom of Information Act requests within the required 20 days:

	2019-20	2020-21	2021-22
No' of FOI requests	1100	797	953
No' responded to within 20 days	992	724	853
Percentage of FOIs responded to within 20 days	90.2 Target 88%	90.8% Target 88%	89.5% Target 88%

- 6.5 The Scheme of Delegation sets out responsibilities for decision making. The Council's website includes the Cabinet and Cabinet Member decisions / Member profiles.
- 6.6 Standing Orders of the Council were amended in July 2017 to include a session for open questions to the Leader of the Council at full Council meetings.
- 6.7 Agendas, reports, decision schedules and minutes of all meetings of the Council, Cabinet or Cabinet Member are available to the public by way of the Council's website. Minutes or decisions arising from the consideration of such reports are available to the public via the website.
- 6.8 Every report considered as part of the decision making process by Members must contain comments by the Council's Monitoring Officer, the Section 151 Officer and the Head of People, Policy & Transformation. The report template ensures report authors consider potential risks, equalities, WFG and financial implications of their proposals.
- 6.9 Public Service Board (PSB) papers are published online on the One Newport partnership website to ensure transparency.

- 6.10 The Council uses a range of formal and information consultation and engagement exercises to determine the most appropriate and effective intervention / course of action. For instance, the Council undertakes the school reorganisation programme in accordance with the Welsh Government statutory School Organisation Code. Each consultation is supported by full stakeholder engagement as outlined in the statutory code. Since the pandemic, we have ceased face to face meetings. Instead, and regarding engagement with adult stakeholders, we ask that any questions or comments are submitted to a dedicated email account and are then responded to in a timely manner to enable stakeholders to submit an informed response to the consultation. We have however continued to support pupil engagement through MS Teams. Following each consultation, a consultation report is prepared and published which outlines how the consultation was carried out, who is engaged and the relevant responses. These reports are provided as annexes to the Cabinet Member report which approves moving to the next stage in the process – publication of the statutory notice. The statutory notice is the stage at which legal objections can be lodged against proposals.
- 6.11 The Director of Social Services' Annual Report 2020/21 was taken through Cabinet in December 2021. The Corporate Safeguarding Annual Report 2020/21 was taken through Cabinet September 2021. The Corporate Risk Register, Covid updates, Brexit updates and the New Normal reports were also taken through Cabinet during the year demonstrating openness and transparency.
- 6.12 Scrutiny Annual Report 2020/21, Democratic Services Committee Annual Report and the Standards Committee Report went through Council September 2021 and November 2021 respectively.

### **Engaging comprehensively with institutional stakeholders**

- 6.13 The Council looks to effectively engage with all stakeholders to ensure that the objectives and intended outcomes for each relationship are clear so the outcomes can be achieved successfully and sustainably. For example, the Local Authority works closely with the governing bodies of all schools across Newport and as key stakeholders they are consulted where appropriate on all matters.
- 6.14 The Council has developed a number of formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively. Some examples of these are the Public Services Board, Newport Live (Leisure Trust) and the Community Safety Partnership.
- 6.15 All partnerships are based on trust along with a shared commitment to change while promoting challenge among partners.
- 6.16 The Council has a number of formal appointments onto outside bodies to provide effective challenge. These appointments are agreed at the Council's AGM and at further Full Council meetings when necessary. A list of these appointments can be seen within the Council minutes.

### **Engaging stakeholders effectively, including individual citizens and service users**

- 6.17 A formal policy for the type of issues that the Council will meaningfully consult with or involve individual citizens, service users and other stakeholders to ensure that service provision is contributing towards the achievement of intended outcomes needs to be developed.
- 6.18 Communication is important to Newport; the Annual Statement of Accounts 2020/21 was taken through the Governance & Audit Committee in 2021/22. All Council decisions, reports and questions asked by Members are available on the website, as are Cabinet Member decisions, Governance & Audit Committee reports and the work of the Scrutiny Committees. Headline figures of the Council's financial position were included in the Council tax leaflets distributed with all bills. Financial information, Council activities, achievements, developments, updates and events were included in Newport Matters, which is distributed to every household in the City, and are also available on the Council's intranet and website.
- 6.19 The Council looks to communicate via a number of different methods. 'Have Your Say' consultations are on the Council website, along with regular posts on social media and the use of Bus WIFI surveys.
- 6.20 Members hold Ward meetings and these are supported by Officers of the Council, although these were suspended during 2021/22 due to the pandemic. Social media, Twitter and Facebook for example, is regularly being used to engage local people and communicate the corporate message.
- 6.21 Dealing with customer complaints helps Newport to identify and deal with failures in service delivery and look for opportunities to improve. The Council's Customer Complaints Policy and procedures are available on the web site; the public can report a problem or concern via the 'Report it' option on the web front page. An Annual Report on Compliments, Comments and Complaints Management for 2020/21 was presented to Cabinet in November 2021. The following table shows the number of complaints received for the past three years:

	2019-20	2020-21	2021-22
Stage 1 Complaints	354	181	
Stage 2 Complaints	33	19	
Complaints to PSOW	31	14	

- 6.22 The online self-service system made it much easier for customers to make their complaints online, using the website, their customer accounts or through an app.
- 6.23 Public engagement and consultation is key to the WFG Act. One of the five ways of working is Involvement - *the importance of involving people with an interest in achieving the well-being goals, and ensuring that those people reflect the diversity of the area which the body serves.* This is now considered in all Cabinet Member reports.

## **7 Principle C: Defining outcomes in terms of sustainable economic, social and environmental benefits**

### **Defining Outcomes**

- 7.1 The Corporate Plan 2017-2022 “Building on Success - Building a Better Newport” incorporates the Council’s wellbeing objectives as required by the WFG Act. The Plan sets out clearly the Council’s purpose, priorities and demonstrates its commitment to improving social, economic, environmental and cultural well-being and promoting sustainable development. This provides the basis for the Council’s overall strategy and performance.
- 7.2 Audit Wales issued the Council with its Certificate of Compliance in accordance with the Local Government (Wales) Measure 2009 following its publication of its Corporate Annual Report 2020/21. This went to Cabinet in December 2021, confirming the Council had discharged its duties under section 17 of the Measure and has acted in accordance with Welsh Government guidance sufficiently to discharge its duties.
- 7.3 The One Newport PSB Well-being Plan (Cabinet October 2021) – represents the combined strategic planning intent of a partnership of the key public service providers in Newport which includes the Council – for improving the quality of life in terms of the social, economic, cultural and environmental well-being of the whole community. The priorities have been identified as those where the PSB and other key stakeholders must work together to achieve success and meet the requirements of the WFG Act. The new Gwent Public Services Board came into being in October 2021, merging the 5 regional PSBs.
- 7.4 Members of the performance team attend each service area’s monthly management team meetings to comment on and review the section’s performance against key performance indicator targets.
- 7.5 The Council identifies and manages risk through the Corporate Risk Register (see section 11) and also individual service area plans to ensure the achievement of intended outcomes.
- 7.6 The Council looks to manage service user expectations with regards to determining priorities and making the best use of the resources available. For instance, regular updates on the Council’s Medium Term Financial Plan (MTFP) are presented to Cabinet regularly.
- 7.7 2021/22 service planning incorporated an understanding of customer needs, service area outcomes and improvement priorities, performance management and monitoring, an action plan to achieve the outcomes, an assessment of service related risk, an acknowledgement of regulators’ proposals for improvement and an equalities impact assessment.

### **Sustainable economic, social and environmental benefits**

- 7.8 Newport City Council considers and balances these combined economic, social and environmental impact of policies, plans and decisions when taking decisions about service provisions. Each report considered as part of the decision making process by Members must contain comments by the Council’s Monitoring Officer (legal), the Section 151 Officer (economic) and the Head of People, Policy & Transformation (social and environmental).
- 7.9 Equality Impact Assessments (EIA) are required by law under the Equality Act 2010. Newport’s assessments also examine ‘Fairness’ and the Welsh language to ensure that the

needs of other vulnerable people are considered, as well as the effect on different areas within Newport. A range of these were undertaken during 2021/22 which have been published on the Council's website. A Strategic Equalities annual report is published by the Council (Cabinet July 2021).

- 7.10 The PSB review includes the monitoring of targets to ensure policies are delivering the agreed outcomes to ensure services are effective, focused on local people and improved quality of life in the City. In terms of measuring the environmental impact of policies, plans and decisions, the Council is working with the Welsh Local Government Association as one of 10 lead authorities for sustainability, and this will also form part of the Wellbeing Assessment and Wellbeing Plan work.

## **8 Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes**

### **Determining Interventions**

- 8.1 Decision makers are provided with reports which allow for an analysis of a variety of options including how they would be achieved and the risks associated. Comments are received on each report from the Monitoring Officer, Chief Financial Officer and the Head of People, Policy & Transformation.
- 8.2 The results of all consultation exercises are considered along with Fairness Equality Impact Assessments when making decisions about service improvements to prioritise the competing demands with the resources available. All reports consider the WFG Act.

### **Planning Interventions**

- 8.3 The Council's Corporate Plan underpins the strategic objectives of the Council. Each service area also has an operational plan along with their own priorities and targets. Service area plans are approved by the Cabinet Member responsible for the portfolio. Mid and end of year reviews are completed by the Head of Service and reported to Scrutiny; November 2021.
- 8.4 To ensure the Council continues to meet its statutory duty to demonstrate continuous improvement the monitoring of performance is undertaken through Cabinet, Cabinet Members and Scrutiny Committees.
- 8.5 Through the Council's communication methods and annual budget consultation internal and external stakeholders are consulted in determining how services and other courses of action are planned and delivered.
- 8.6 For partner organisations such as the ONE Newport PSB (merged into the Gwent PSB during 2021/22) and Newport Live, the Council collaboratively works together to consider and monitor the risks which may arise while ensuring that any arrangement is flexible so they can be adapted to any change of circumstance.

- 8.7 The Council has established a number of local performance indicators and monitors these along with the relevant statutory and national performance indicators. These are detailed within individual service plans and reported via the Council's performance management system MI Hub. The year-end Performance Analysis for 2020/21 was taken through Cabinet in September 2021 which showed 55% of performance indicators performed in line with targets.
- 8.8 Performance management arrangements have improved with regular monitoring by the Cabinet and Cabinet Members as well as at officer level. The Authority had made its targets more difficult to achieve in an effort to push the organisation into improving services.
- 8.9 Mid-Year Performance Analysis for 2021/22 was taken through Cabinet in January 2022. The report showed that for the first six months of this financial year:
- 63% of performance measures were on target
  - 20% of performance measures were short of target
  - 13 of performance measures were off target
  - 69% of the actions identified in the service plans were reported as being 'In Progress';
  - 37% of actions reported as being 'Completed'
  - 17% of actions had been reported as 'Amber'; and
  - 2% of actions had not yet started.
- 8.10 Budgets are prepared in accordance with the Council's strategic directives and Corporate Plan. There are robust arrangements for effective financial control through the Council's accounting procedures, Financial Regulations (last updated May 2016). These include established budget planning procedures, which are subject to risk assessment, and regular reports to members comparing actual revenue and capital expenditure to annual budgets. The Council's Treasury Management arrangements follow professional practice and are subject to regular review by the Council's Governance & Audit Committee and Cabinet (July 2021, December 2021) to ensure a sustainable funding strategy is maintained.

### **Optimising achievement of intended outcomes**

- 8.11 Where value for money of the public pound is concerned, budget proposals were examined by meetings of the Scrutiny Committees. This is to ensure that the service priority, affordability and other resource constraints are balanced.
- 8.12 Regular budget / outturn reports for revenue and capital were presented to and approved by Cabinet during the year. The updated MTFP and budget monitoring reports were presented to and approved by Cabinet in July 2021, September 2021, November 2021, January 2022 and February 2022, taking into account the full cost of operations. The MTFP report highlights any significant delivery issues or changes to the external environment which arise during the period and have a financial impact.

- 8.13 The Head of Finance will review the governance arrangements around the capital programme to ensure the decision making, responsibilities and monitoring are robust moving forward.
- 8.14 The 2022/23 Budget consultation and MTFP were submitted to Cabinet in January 2022 and Council in March 2022; The Council recognises that timely and accurate budget monitoring information is essential for effective decision making purposes. A public consultation exercise was also undertaken to determine the 2022/23 budget proposals.

## **9 Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it**

### **Developing the entity's capacity**

- 9.1 The Council has developed and maintained a People & Culture Strategy 2018 – 2022 as a workforce plan to enhance the strategic allocation of resources.
- 9.2 Through annual service area plans and mid year reviews, the operations and use of assets are reviewed. Performance is monitored through the service plans and also through the MI Hub performance management system with 6 monthly reports to Cabinet to ensure the continuing effectiveness of operations.
- 9.3 The Council recognises the benefits of partnerships and collaborative working to add value into the organisation. Examples of these arrangements can be in place locally (within Newport) such as the Newport Live (Leisure Trust), regionally within Gwent – the Education Achievement Service for SE Wales (EAS), regionally within South East Wales - the Cardiff Capital Region City Deal and wider afield through the 'Great Western Powerhouse'.

### **Developing the capability of the entity's leadership and other individuals.**

- 9.4 The Council has an agreed Member/Officer Protocol within the Constitution which ensures that a shared understanding of the roles and objectives are maintained.
- 9.5 The Council's senior Leadership Team was strengthened in 2021/22 with the implementation of a new structure which introduced an additional Director role and three Chief Officer roles. All of the Executive Team and Chief Officers will be undergoing relevant training in the Council's decision making and governance arrangements and their own responsibilities and accountabilities. As noted elsewhere here, the scheme of delegation has been updated to reflect this increased and new structure.
- 9.6 The Constitution also includes a clear scheme of delegated powers for decision taking by Members and Chief Officers. This document details the types of decisions which can be delegated to Cabinet Members, established Sub-Committees or Chief Officers or those which have to be made by the collective body of the full Council.

- 9.7 The scheme of delegation in the Constitution sets out the various responsibilities of Members and Officers. This is updated as required via the Democratic Services Committee. Standing Orders and the Constitution were updated to take account of the requirements of the Local Authorities (Standing Orders) (Wales) (Amendment) Regulations in July 2014. Also updated in October 2019, and will be further reviewed and updated to reflect the Local Government and Elections (Wales) Act 2021.
- 9.8 As a necessity, temporary governance measures were in place for some aspects of officer key decision making in 2021/22 given the significant gaps in the Council's Leadership Team and which also impacted on general capacity on performance monitoring and delivery. The new structure and increased resources now allows a new framework to be devised and implemented and this is in progress.
- 9.9 Appropriate and relevant job descriptions were in place for the Chief Executive, Senior Leadership Team (SLT), Monitoring Officer and Head of Finance. In year the SLT became the Executive Board, which consisted of the Chief Executive, Strategic Director Transformation & Corporate, Strategic Director Environment & Sustainability and Strategic Director Social Services.
- 9.10 Following the permanent appointment of the Chief Executive in 2020 a restructure of the leadership team was put in place to better manage capacity. Strategic Directors were increased from 2 to 3 with Heads of Service increasing from 8 to 11. As at 31 March 2022 all but one of the posts had been appointed to.
- 9.11 The Council develops the capabilities of members and senior management to achieve effective shared leadership. This enables the Council to respond successfully to changing legal and policy demands. In addition the Council ensures that Members and officers have the appropriate skills, knowledge resources and support to fulfil their roles and responsibilities. This is completed by;
- An on-going programme of events and training for Members especially those involved in the Planning & Licensing Committees and Sub Committees.
  - A mandatory management programme for all senior managers 'Management in Action' to develop management capacity (2018).
  - Further In-house management development modules for middle managers;
  - Aspiring Leaders Programme delivered in partnership with the University of South Wales.
  - Core Skills training is also available to all employees aligned to our corporate values with specific training available on topics such as Customer Care, Stress Management and Equality and Diversity.
- 9.12 Embedded Appraisal arrangements for Chief Officers are in place, including:-
- Chief Executive's Annual Appraisal;
  - Chief Executive's one to one meetings with Strategic Directors & Heads of Service;

- Strategic Directors one to one meetings with Heads of Service
- Cabinet Member one to one meetings with Heads of Service

- 9.13 The previously used 'Clear Review' performance management system was replaced by the 'Check-in' process directly recorded onto the i-Trent HR & Payroll System. This forms part of the suite of corporate performance indicators. The system also allows continued professional development (CPD) opportunities to be identified which are needed to improve the skill, knowledge and understanding of employees. This enables ongoing evaluation and encourages all staff to give feedback to colleagues. This ensures that all officers and managers reflect on their objectives and staff are able to link their objectives directly to the organisational goals set within the Corporate Plan and service plan.
- 9.14 In accordance with its statutory responsibilities, the Council has in place a Health and Safety Policy and related procedures. Newport City Council supports employees and citizens in maintaining both their physical and mental well-being. Information on our workforce can be found in the Strategic Equalities annual report.

## **10 Principle F: Managing risks and performance through robust internal control and strong public financial management**

### **Managing Risk**

- 10.1 Risk management is an integral part of all activities and is considered in all aspects of decision making. A report template for all formal Member and scrutiny reports requires authors to consider risk and its management or mitigation when writing reports. Each Head of Service incorporate the keys risks to their service within service plans which identify the impact, the likelihood and any mitigation in place to manage those risks.
- 10.2 The Corporate Risk Management Policy was reviewed during 2019/20 and revised to strengthen existing arrangements and support the delivery of the Corporate Plan. The revised Policy was considered by the Governance & Audit Committee in January 2020, approved and endorsed by the Leader in July 2020.
- 10.3 The Council's Corporate Risk Register was updated and taken through Cabinet and Governance & Audit Committee during 2021/22 on a quarterly basis. Mitigation of risk is incorporated within the risk register, which moves the risk from inherent to residual. 18 corporate risks were identified for the Council and these were recorded on the Corporate Risk Register as of the end of quarter 3 2020/21 which went to Cabinet March 2022; 10 severe, 5 major, 2 moderate, 1 low.
- 10.4 The Governance & Audit Committee felt that managing the risks faced by service areas was an important aspect of the manager's role and should be part of his / her day to day responsibilities. Risk management is included within the service plans where operational managers have greater responsibility for owning and dealing with the risks identified in their

areas. All risks within the Corporate Risk Register have a designated overseeing officer(s) and a lead Cabinet Member(s) assigned.

## **Managing Performance**

- 10.5 Service delivery is monitored through a number of key performance indicators agreed with targets at the start of each year. These are included on the Council's performance management system MI Hub and challenged by the Policy & Performance team. The planning, specification and delivery of service area work is included within annual service area plans which are approved by the lead Cabinet Member for the service area along with being reviewed through the scrutiny process. These are subject to mid-year and end of year reviews presented to the respective scrutiny committee. This ensures that Members and senior managers have regular reports on progress towards outcome achievement.
- 10.6 All decisions are based on clear, objective analysis taking into account the Council's financial position, social and environmental implications. Consideration against statutory policies is also made through a review of the WFG Act commitments. The above are considered by the report author when writing the report and also through the comments of the Monitoring Officer, Chief Financial Officer and the Head of People, Policy & Transformation.
- 10.7 Members of the scrutiny committees review policies and performance and question key decisions made by the Council's Cabinet and Officers to ensure they are open, accountable, transparent and in the best interests of the local area and its residents. Audit Wales reviewed the Council's Overview and Scrutiny functions to determine if they were 'Fit For the Future' in August 2018. They concluded that the Council's leadership was committed to improving its scrutiny function and to meet current and future challenges for scrutiny, but Members need a fuller understanding of their scrutiny role and more effective, timely training.
- 10.8 Scrutiny committees also review the Council's achievements against planned targets, issues of local concern and services provided by the Council and other public organisations. In Newport City Council there are four scrutiny committees:
- Overview and Scrutiny Management Committee
  - Performance Scrutiny Committee - Partnerships
  - Performance Scrutiny Committee - People
  - Performance Scrutiny Committee - Place and Corporate

Each Committee is politically balanced and the chair persons are allocated in proportion to the number of seats held by political groups.

## **Robust internal control**

- 10.9 Internal Audit provides assurance to Senior Management and the Governance & Audit Committee on the effectiveness of internal control, risk management and governance.
- 10.10 The Governance & Audit Committee considers the work of internal and external auditors and the responses to audit recommendations. The Governance & Audit Committee has appointed an independent Chair; who is not part of the political structure of the Council. It also has responsibility for approving the Annual Statement of Accounts and its associated reports (which include this statement). This responsibility has been delegated by Council where the Chair of the Governance & Audit Committee signs the Accounts on behalf of the Governance & Audit Committee.
- 10.11 Moving forward, from May 2022, the Governance & Audit Committee will have 3 lay members as part of its committee, one of which will be the Chair in accordance with the Local Government & Elections (Wales) Act 2021. The recruitment process for the new lay members took place by means of a cross member panel during 2021/22 in readiness for the Committee's first meeting in 2022/23.
- 10.12 Governance & Audit Committee meets regularly and its activities can be seen via the Council's website; it met 4 times in 2021/22. Members received:
- The Annual Internal Audit Report 2020/21
  - The Annual Internal Audit Plan 2021/22
  - Quarterly updates from Internal Audit re opinions / performance
  - Standing Order 24 (Urgent Decisions) and Waiving of Contract Standing Orders quarterly reports
  - Treasury Management report and updates
  - Corporate Risk Register quarterly updates
  - Draft and Final 2020/21 Financial Statements, including the Annual Governance Statement
  - 6 monthly updates on Internal Audit low assurance opinions
  - Audit Wales reports
- 10.13 The Council has established anti-fraud, bribery and corruption arrangements which provide a deterrent, promote detection, identify a clear pathway for investigation and encourage prevention. The revised Anti-Fraud, Bribery and Corruption Statement was approved by Cabinet in April 2021.
- 10.14 Internal Audit operate to the standards set out in the Public Sector Internal Audit Standards (PSIAS) and its role and status is set out in the Council's Internal Audit Charter. The Chief Internal Auditor is accountable to the Head of Finance and the Governance & Audit Committee. As required under the PSIAS the Newport City Council Internal Audit team underwent an external quality assessment during 2017/18. The report (issued March 2018) stated that Internal Audit were 'generally compliant' with the PSIAS.
- 10.15 The Chief Internal Auditor reports, in his own name, to the Governance & Audit Committee a summary of audit findings for each quarter, and also reports annually an opinion on the overall adequacy and effectiveness of the Council's internal control environment, governance arrangements and risk management processes.

10.16 35 Internal Audit opinions were issued in 2021/22. The overall opinion on the adequacy of the internal control environment for 2021/22 was **REASONABLE** (in 2020/21 the opinion was Reasonable).

	2019-20	2020-21	2021-22
Good	7	5	10
Reasonable	19	23	23
Unsatisfactory	6	1	2
Unsound	0	0	0
<b>Total</b>	<b>32</b>	<b>29</b>	<b>35</b>

10.17 Management have agreed to implement the action points in order to address the weaknesses identified and Internal Audit will follow this up. 82% of agreed management actions for 2020/21 had been implemented by management.

10.18 Reasons why the outcome of some internal audit reviews were deemed to be unsatisfactory were presented to Governance & Audit Committee. The Governance & Audit Committee has the power to call in a Head of Service and Cabinet Member to hold them to account for addressing required improvements to the internal control environment within their service area. There were no call-ins during 2021/22.

10.19 Assurance is provided by Heads of Service who attend Governance & Audit Committee that improvements will be made in the examined areas which will result in a future improvement in the internal control environment and resulting internal audit opinion.

### **Managing Data**

10.20 Following adoption of the Information Risk Management Policy in 2013 the Council has defined roles and responsibilities for information risk as:

- The Senior Information Risk Owner (SIRO) has high level responsibility for controls relating to information security and the role is undertaken by the Head of Law & Regulation (independent of operational responsibilities);
- Information Asset Owners (IAO's) must effectively manage the information assets that they own;
- The Information Management team are the operational lead on information governance in conjunction with the IT Service (SRS);
- The Information Governance Group provides a high level management overview of information governance;

The Council's Information Risk Register is maintained by the Information Management team to document and manage risks, reported annually.

- 10.21 The Annual Information Risk Report 2020/21 Draft was presented to the Information Governance Group through the year for consultation and endorsed by Cabinet Member for Community and Resources in September 2021.
- 10.22 There is a Council policy on information sharing along with numerous information sharing protocols with our partners. Information sharing is key to joined up service delivery. The Wales Accord on the Sharing of Personal Information (WASPI) was developed as a practical approach to multi agency sharing for the public sector in Wales, and Newport signed up to this in January 2011. The Council is required to meet statutory obligations regarding the handling and sharing of data, in accordance with the Data Protection Act 2018. The Information Sharing Policy has been developed to ensure information is only shared appropriately, safely and compliantly.
- 10.23 Through Internal and External Audit reviews the quality and accuracy of data used in decision making and performance monitoring is reviewed.

### **Strong public financial management**

- 10.24 The Council ensures that its financial management supports both long term achievement of the strategic objectives and outcomes while ensuring that short-term financial and operational performance is monitored. This is completed through the approval of a Medium Term Financial Plan and Capital Programme which are reviewed on a regular basis by Cabinet. On a short term basis, the individual service area budgets are monitored on a risk based programme by Accountancy.
- 10.25 The Council has a Budget Management System which promotes responsible and good financial management across all service areas of the Council. This system allows officers to highlight and explain any financial risks and controls.

## **11 Principle G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability**

### **Implementing good practice in transparency**

- 11.1 The Council looks to ensure that all reports and communications are in clear English and in a style which is easily understandable. All reports can be accessed via the democracy pages on the Council's website using the modern.gov platform. The Council ensures that the provisions of the Welsh Language Standards are met with its communication to residents.
- 11.2 All reports are required to have comments from the Monitoring Officer, Chief Financial Officer and the Head of People, Policy & Transformation. These 3 Officers ensure that reports strike the correct balance to ensure the right amount of information is provided to satisfy transparency demands and to enhance public scrutiny. They also ensure that reports are not too onerous and in a language which the users can understand.

### **Implementing good practices in reporting**

- 11.3 All service areas are required to report annually on performance, value for money and the stewardship of resources through the service plan reviews, which also have a mid year review by Scrutiny.
- 11.4 All service plans, risks, budgets and performance measures have a designated responsible officer along with the appropriate Head of Service and Cabinet Member.
- 11.5 The Council has arrangements through this Annual Governance Statement for ensuring robust arrangements for assessing the extent to which the principles contained in the Code of Corporate Governance Framework have been applied to demonstrate good governance.
- 11.6 The Councils Code of Corporate Governance was revised during 2019/20 and approved by Cabinet in April 2021.
- 11.7 The preparation of the Council's financial statements are completed as soon as possible after year end. Both the publication of the Draft and Final 2020/21 end of year accounts, whilst not within required deadlines, commensurate with nearly all of the sector across the UK, were reported to the Audit and Governance Committee. The final, audited accounts were approved and signed in November 2021.

### **Assurance and effective accountability**

- 11.8 Any recommendations made by the Council's external auditors (Audit Wales) are acted upon. Each report contains an action plan and is presented to and monitored by the appropriate scrutiny committee. An end of year 'lessons learnt' exercise was completed for the 2020/21 account closure process and this was reported to the Governance & Audit Committee in January 2022.
- 11.9 The Council has an Internal Audit service which has unrestricted access to all personnel, documentation and premises of the Council. The Chief Internal Auditor also has unrestricted access to the Chair of the Governance & Audit Committee, Chief Executive and Leader of the Council if required. These provisions are set within the Council's Financial Regulations (part of the agreed Constitution) and are also included within the Internal Audit Charter.
- 11.10 An Internal Audit follow up review of Corporate Governance across the organisation will be undertaken during 2022/23.
- 11.11 The Council welcomes all challenge, reviews and inspections from regulatory bodies. A number of external bodies have provided reports on the Council's activities during 2021/22 including Audit Wales, the Care Inspectorate for Wales (CIW) and Her Majesty's Inspector of Education & Training in Wales (ESTYN). The Council looks to implement all recommendations arising from these reports to ensure the necessary controls and improvements are made for the benefit of the citizens of Newport.
- 11.12 When working in partnership, the Council ensures that arrangements for accountability are clear, whether this is through a memorandum of understanding or contract being in place. This is to ensure that wider public accountability is met.

Based on the review of the governance framework, the following issues need to be addressed during 2022/23 to further improve and strengthen the governance arrangements and their effectiveness in future years.

2019/20 Action Plan

Issue	Action	Responsible Officer
<p>6.8 Key statutory positions are currently filled as soon as possible, even if that is on a temporary, interim basis.</p>	<p>To ensure all statutory posts within the Council are appointed to following an open and transparent recruitment process.</p> <p><u>Progress to date:</u></p> <p>Chief Executive and Democratic Services Manager posts have been appointed to. The Strategic Leadership team is subject to review.</p> <p>April 2022:</p> <p>The Strategic Leadership restructure has taken place with all 3 Strategic Directors having taken up their appointments. Heads of Service increased from 8 to 11; all bar one have been appointed and have taken up their positions.</p>	<p>Head of People &amp; Business Change / [Head of People, Policy &amp; Transformation]</p>
<p>7.15 Consultation and Engagement Policy requires review</p>	<p>To review the required policy and seek appropriate approval.</p> <p><u>Progress to date:</u></p> <p>To be reviewed as part of the implementation plan for the Local Govt. &amp; Elections (Wales) Act during 2021/22.</p>	<p>Head of Law &amp; Standards</p>
<p>12.6 The Council's revised Code of Corporate Governance needs to formally approved.</p>	<p>The Council's Code of Corporate Governance will be considered by Governance &amp; Audit</p>	<p>Chief Internal Auditor</p>

Issue	Action	Responsible Officer
[b/f from 2018/19]	<p>Committee before taking to Cabinet for approval during 2020/21</p> <p><u>Progress to date:</u></p> <p>Code of Corporate Governance was approved by Cabinet April 2021.</p>	
<p>12.7 Once approved the revised Code of Corporate Governance needs to be communicated to all jointly managed and shared service organisations.</p>	<p>Communicate the revised Code of Corporate Governance to all jointly managed and shared service organisations and that assurance on compliance is received for the Annual Governance Statement 2020/21.</p> <p><u>Progress to date:</u></p> <p>Action to be taken in 2022/23</p>	<p>Head of Finance Chief Internal Auditor</p>
<p>12.11 Action needs to be taken in response to the 'Corporate Governance' Unsatisfactory Internal Audit report (Finalised December 2020).</p>	<p>Management to agree a response to the report and ensure concerns are addressed.</p> <p><u>Progress to date:</u></p> <p>Management actions agreed; assurance has been provided that agreed actions have been implemented; Internal Audit to undertake a follow up audit in 2022/23.</p>	<p>Head of People &amp; Business Change [Head of People, Policy &amp; Transformation]</p> <p>Head of Law &amp; Standards</p> <p>Head of City Services</p>
<p>The established anti-fraud, bribery and corruption policy statement required review. This was endorsed by the Governance &amp; Audit Committee.</p>	<p>The revised anti-fraud, bribery and corruption policy statement to be taken through Cabinet, approved and published on the NCC website. Staff to be made aware via internal communications.</p> <p><u>Progress to date:</u></p> <p>Anti-fraud, bribery and corruption policy statement</p>	<p>Chief Internal Auditor</p>

<b>Issue</b>	<b>Action</b>	<b>Responsible Officer</b>
	approved by Cabinet April 2021.	

### 2020/21 Action Plan

Apart from the actions carried forward from the 2019/20 Action Plan there was no Action Plan for 2020/21.

### 2021/22 Action Plan

<b>Issue</b>	<b>Action</b>	<b>Responsible Officer</b>
A review of the governance arrangements around the development, delivery and monitoring of the Council's future 'Transformation Programme' is currently underway and will also include clear responsibilities and arrangements for other key areas, such as financial management, capital programme, major projects etc	To conclude the review and communicate the outcome to all concerned.	
New Members have the appropriate skills to effectively undertake their roles	Training and Induction for new Members will be reviewed and updated following Local Government elections in May 2022.	
Ideally there should be a formal policy for the type of issues that the Council will meaningfully consult with or involve individual citizens, service users and other stakeholders to ensure that service provision is contributing towards the achievement of intended outcomes needs to be developed.	Consideration to be given to developing a formal policy and communicating it to all relevant stakeholders.	
The Council's Constitution is kept up to date following recent legislation.	Consideration needs to be given to further update the Council's Constitution to reflect the Local Government and Elections (Wales) Act 2021.	

Revised decision making and review/reporting arrangement	Following the new structure, the interim decision making arrangements which have been in place should be formally updated and implemented	Chief Executive and Executive Team

**13 Conclusion**

13.1 In conclusion during 2021/22 the Coronavirus pandemic did not lead to significant internal control or governance issues which impacted on the overall review of effectiveness. There are effective governance arrangements in place at Newport City Council. This will be monitored during 2022/23 and reviewed as part of Internal Audit work and future Annual Governance Statements.

13.2 We propose over the coming year to continually monitor and review the projects within each service area to mitigate and manage any risks to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that may be identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

**Signed: .....Date..... 2022**

**Councillor Jane Mudd, Leader of Newport City Council**

**Signed: .....Date..... 2022**

**Beverly Owen, Chief Executive of Newport City Council**

# Report

## Governance and Audit Committee

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### Part 1

Date: 26<sup>th</sup> May 2022

**Subject** DRAFT - Internal Audit Annual Plan 2022/23

**Purpose** To inform Members of the Council's Governance and Audit Committee of the Internal Audit Section's Draft Operational Audit Plan for 2022/23.

For the Governance and Audit Committee to comment on as appropriate and approve the 2022/23 Draft Operational Internal Audit Plan.

**Author** Chief Internal Auditor

**Ward** General

**Summary** Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps 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 examines, evaluates and reports 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 Operational Internal Audit Plan for 2022/23 based on an assessment of risk and available audit resources for the 12 months of the financial year. The plan is based on delivering 1147 audit days; available Internal Audit resources equals 998 days therefore further refinement of the plan is required.

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

**Proposal** That the Internal Audit Annual Plan 2022/23 be noted and approved by the Council's Governance and Audit Committee

**Action by** The Governance and Audit Committee

**Timetable** Immediate

This report was prepared after consultation with:

- Chief Financial Officer
- Monitoring Officer
- Head of People, Policy & Transformation

**Signed**

## Background

1. This report aims to inform Members of the Governance and Audit Committee of the work to be undertaken by the Internal Audit Section at an operational level for 2022/23. It identifies why the Council operates an Internal Audit function, the resources currently available and how they will be applied across the services of Newport City Council to give management assurance that systems are working as intended.
2. The plan has been compiled from cumulative audit knowledge and experience, with reference to the Corporate Plan, Service Plans, Newport's Corporate Risk Register, Budget and Medium Term Revenue Plans and external audit reports along with previous history of known problems, issues or risks. The views and concerns of service area management teams have also been incorporated into prioritising workloads for the audit planning process. Heads of Service have been afforded the opportunity to contribute to the drafting of the plan.
3. As a result of Covid-19, audit work has been re-prioritised in conjunction with Heads of Service. Some of the audits planned in 2021/22 which were not undertaken have been included within this year's plan.
4. The Head of Finance is, for the purposes of Section 151 of the 1972 Local Government Act, responsible for the proper administration of the Council's financial affairs. More specifically, The Accounts and Audit (Wales) Regulations 2014 require that the relevant body maintains an adequate and effective internal audit function. Under the direction of the Chief Internal Auditor, the Internal Audit Section at Newport City Council undertakes this provision on behalf of the Head of Finance.
5. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps 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 provides assurance or otherwise to management.
6. An organisation as diverse as the City Council has many internal systems which require appropriate controls. Each of these systems can be considered appropriate for internal audit review along with the Council's establishments. However, it is not considered appropriate to review all systems every year so they are undertaken on a cyclical basis, prioritised by way of a risk assessment approach (high, medium or low priority). The attached draft audit plan (**Appendix 1**) shows a summary of how the Internal Audit resource will be allocated across service areas. The more detailed draft plan (**Appendix 2**) shows how the systems operated and services provided within all service areas will be covered during the year.
7. The operational plan takes account of available audit resources and an allowance for financial training and advice; special investigations have also been included. Allowances for non-productive days such as post entry training, general training, holidays, sickness and professional studies have been made in arriving at the number of available audit days for 2022/23. Total days available at the outset amounted to 1,399 days, less non-productive days, leaves 998 days available to undertake audit work (includes an element for vacancies).
8. The timing of each review in the 5-year cycle depends on an assessment of the risk that each system poses for the Council, Service Area and Section. A number of factors are taken into account when assessing risk, but it should be stressed that management are responsible for managing that risk, and are best placed to identify the risk in the first place. Accordingly, the views of the management teams within each service area have been sought when compiling this plan and incorporated where appropriate.

9. Although Internal Audit has limited resources (establishment of 7.5 staff including the Chief Internal Auditor), the aim is to provide as much coverage of the Council's systems and establishments as possible. The audit resources have been significantly reduced over the last few years which leads to less coverage across service areas which will have an impact on the level of assurance the audit team can give to senior management on the adequacy of sound financial management / internal control / governance / risk management across the Council.
10. The draft Internal Audit plan has been circulated to Heads of Service to ensure the risk profile determined by the audit management team is right. Heads of Service have welcomed the opportunity to contribute to the audit planning process and view it as a positive move forward.
11. The initial plan for the year always starts off as a "long-list" of what work we should be covering in that particular year. In an ideal world these are the audits the team should be undertaking in 2022/23 based on the strategic plan. The long list is further risk assessed with audit work prioritised. This plan is based on 1147 audit days; resources available are 998 days.
12. We then have to balance the plan with the resources we have available the best we can. The 2022/23 operational plan aims to cover the areas stated within the given time allocations but professionally I feel that the plan will provide assurance to managers on the effectiveness of their internal controls and safeguard the assets of the Authority whilst covering the key risks. Time allocations per review are also tight but have been set to provide as much coverage as possible within service areas. External support will be brought in to support the delivery of the audit plan and cover the existing Principal Auditor vacancy.
13. The UK was subject to the Pandemic, Covid-19, late February early March 2020. Work in the Council was prioritised to deliver essential front line services which meant Internal Audit was unable to undertake its normal duties early in 2020/21 and throughout 2021/22. Following discussions with Heads of Service and optimism that Covid-19 restrictions will not return, there will be less disruption to this year's plan.
14. Agreed management actions of previous audit reports will be followed up during 2022/23; this will identify the progress managers have made on addressing weaknesses in internal control; i.e. have the agreed management actions been implemented? This could impact on the coverage planned for other systems within service areas. This will be reported back to the Governance and Audit Committee.
15. From time to time the risk profile or priority of audit workload or service area may change so the planning process needs to be flexible enough to accommodate this. Where significant changes to the operational plan are required, the matter will be reported to the Head of Finance for approval; this will subsequently be reported to the Governance and Audit Committee. Internal Audit's performance against this plan will continue to be reported to the Governance and Audit Committee on a regular basis.
16. Ultimately, the Audit Team has to undertake sufficient work across the whole Authority to enable the Chief Internal Auditor to give an overall annual audit opinion, and hence assurance, on the adequacy of the internal control environment of the systems operated within the Council.
17. With collaboration, change and efficiency reviews on the horizon, across the whole Council, the Audit Team will need to be flexible enough and adaptable to respond to changing priorities within the Council in order to provide the assurances required. The Chief Internal Auditor will continue to provide the same service to Monmouthshire CC, in collaboration.

## **Risk Analysis**

18. The risks that the Council face are many and varied. A number of factors have been taken into consideration in compiling both the operational one-year plan and the strategic plan; financial budgets, previous audit work, The Measure, history of fraud, theft, misappropriation or non-

compliance, changes in systems, changes in key personnel, along with concerns of management. A risk assessment exercise is undertaken in compiling the audit plan.

19. The audit workload needs to be prioritised to ensure appropriate coverage is given in all service areas and that assurance can be given that Council and service area objectives are being achieved. This is helped with Heads of Service and their senior managers being involved with the process and contributing to the risk profile assessment as a collaborative exercise with Internal Audit.
20. Grant income and external funding is becoming more prominent within the finances of the Council; from time to time, Internal Audit may be requested to audit some grants, therefore, a limited number of days have been included in the Internal Audit planning process.
21. In the Audit Section's continual efforts to ensure that Council assets are safeguarded and to provide assurance to management that their internal controls are robust, further training specifically on Financial Regulations and Contract Standing Orders has been incorporated in the audit plan. Heads of Service have noted that this is a positive step and encourage their staff to attend.
22. A requirement of the Accounts and Audit (Wales) Regulations 2014 is that an Annual Governance Statement needs to be included with the Statement of Accounts; this covers corporate governance, performance measurement and risk management as well as internal financial control. The Chief Internal Auditor will continue to be involved with collating and co-ordinating the relevant information to support this statement, although the preparation of the statement should be a corporate responsibility. The draft Annual Governance Statement will go through CMT for comment and approval before being presented as part of the Statement of Accounts.
23. An allocation of time has been included in the plan for special investigations and unplanned work which members of the team may get involved with during the year. These could range from allegations of fraud or theft to non-compliance with Contract Standing Orders. The allocation has been consistent over the last few years; for 2022/23 the allocation is 150 days:

Year	Allocation of days for special investigations
2019/20	150
2020/21	150
2021/22	150
2022/23	150

### **Provision of Internal Audit - Opportunities**

24. There is a potential change to the way audit services are delivered across South Wales with shared services on the agenda following the Williams Report. This could be seen as an opportunity for Newport Internal Audit team especially as the Chief Internal Auditor currently provides the same service to a neighbouring local authority. This will continue into 2022/23.
25. The team are using current technology to undertake audits in a variety of ways which could lead to more efficient ways of working.

### **Independence**

26. Independence is achieved through the organisational status of Internal Audit and the objectivity of internal auditors. In order to ensure the objective nature of audit reviews is not compromised,

Internal Audit must be seen to be demonstrably independent of all managerial influence. Within Newport City Council this is achieved as follows:

- the Chief Internal Auditor is responsible for the control and direction of Internal Audit;
- the Chief Internal Auditor has a duty to report direct to the Chief Executive and the Leader of the Council on any matter which he feels appropriate, in particular where the Head of Finance appears to be personally involved;
- individual audit reports are sent to service managers and Heads of Service as appropriate in the name of the Chief Internal Auditor; and
- the Chief Internal Auditor submits an annual report to the Governance and Audit Committee giving an overall opinion on the adequacy of internal controls operated within the Council.

## Audit Opinion

27. At the end of each audit review an audit opinion is given on the level assurance gained from the internal controls operated within that system or establishment. Taking into account strengths and weaknesses, the current suite of opinions ranges from good through to unsound:

GOOD	Well controlled with no critical risks identified which require addressing; substantial level of assurance.
REASONABLE	Adequately controlled although risks identified which may compromise the overall control environment; improvements required; reasonable level of assurance.
UNSATISFACTORY	Not well controlled; unacceptable level of risk; changes required urgently; poor level of assurance.
UNSOUND	Poorly controlled; major risks exists; fundamental improvements required with immediate effect.

28. 62 audit opinion and 29 non-opinion jobs have been incorporated within the draft 2022/23 Plan, in addition to 5 grant claims.

## Structure

29. The Internal Audit Section comprises of two teams each led by an Audit Manager both reporting directly to the Chief Internal Auditor. The section has an establishment of 7.5 and is responsible for auditing all of the Council's systems and establishments including the payroll functions for 6,000+ staff. Actual FTE is currently 5.5, due to 2 vacancies as at 31.03.22

## Resources

30. Consideration has been given to the appropriate level of resources for Internal Audit at Newport City Council. The current establishment of 7.5 staff remains just about adequate for the current level of assessed risk as outlined above; a greater audit resource could provide a greater assurance to management and allow the section to be even more responsive to changing priorities and risk profiles throughout the year. Any unplanned absences such as long term sickness, secondments or prolonged special investigations could significantly affect the audit plan as cover is limited.

31. If the risk profile of the Council significantly changes or if more investigations into allegations of Council staff are required than were planned for, then consideration will need to be given to increasing the resources of the Internal Audit team in order to maintain the current level of service provided.
32. It has been difficult to prioritise workload for 2022/23; after discussions with senior management teams in the service areas, in particular Social Services and Education Services, it was evident that a lot more audit coverage was required than the team is resourced up to deal with.

### **Staffing & Training**

33. The Section is supported by staff on a range of grades with appropriate professional qualifications including part qualified and fully qualified accountants and auditors. The staff have considerable experience of working within the local authority and audit environment. The Chief Internal Auditor, Andrew Wathan, is a qualified CIPFA accountant (Chartered Institute of Public Finance and Accountancy) and has extensive working knowledge of external and internal audit practices within the public sector. Andrew's management team consists of two professionally qualified Audit Managers, one CIPFA qualified and one IIA qualified (CIA). Others in the team are part qualified, either IIA, ACCA or AAT.
34. Audit management will continue to support professional and work related training in order to enhance the Section's effectiveness in service delivery in line with the Council's management expectations and the Public Sector Internal Audit Standards. This will ensure that all staff are kept up to date with developments in auditing techniques and changes within local government which may impact on the provision of the service.
35. The team normally arranges technical audit training on behalf of the South Wales Chief Auditors' Group throughout the year which Newport's Internal Audit staff have the opportunity of attending. These sessions are run on a breakeven basis. This will be reviewed during 2022/23.

### **External Auditor Relations**

36. The Council's external auditor is Audit Wales. The Internal Audit team has developed a good working relationship with the team and will continue to do so to work jointly, share good practice and avoid duplication. They will also continue to assess Internal Audit against the standards to ensure that a professional and effective service is being provided.
37. The Chief Internal Auditor will continue to ensure compliance with the Public Sector Internal Audit Standards.

### **Service Areas**

38. Many of the managers within the Council call upon the Internal Audit Section for financial advice which is incorporated within the plan. Audit staff are more than willing to offer any help and assistance they can to ensure that operations are undertaken properly but this also has an impact on planned audit reviews where time allocations are exceeded.
39. As a service to all levels of management, it is important that Internal Audit is seen as contributing positively to managers undertaking their responsibilities. These are wide ranging but include the prevention of fraud and corruption and securing the efficient and effective delivery of services; part of management obligations under the Council's Financial Regulations.

**Impact of Covid-19**

- 40. The pandemic struck Wales mid February, early March 2020. All Council staff were advised to work from home from the 18<sup>th</sup> March 2020. This continued during 2021/22, however, it is envisaged that hybrid working between the Civic Centre, operational premises / establishments and home will become the norm during 2022/23.
- 41. As per the Internal Audit Annual Reports 2019/20, 2020/21 and 2021/22, we were unable to complete all work as planned as service areas re-prioritised their staff and workloads, staff became unavailable, meetings and site visits were cancelled and requests came in to postpone ongoing audit work.
- 42. Generally in Q1 of our audit plan the team are finalising reports in draft at year end, completing audit jobs which were ongoing at year end, picking up carried forward jobs from the previous year and starting new year audit jobs. In order to undertake audit work effectively and efficiently we need the co-operation of service managers and the staff in their service areas to accommodate site visits, meetings and provide relevant documentation.

**Financial Summary**

- 43. There are no financial issues related to this report.

**Risks**

- 44. If Members are not involved in the process of endorsing the annual Internal Audit Plan then this weakens the governance arrangements and would be non-compliant with the Public Sector Internal Audit Standards, which could then be subject to adverse criticism from the external auditor, currently Audit Wales.

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Members not involved in approving the IA Annual Plan	M	L	The Chief Internal Auditor reports regularly into Governance and Audit Committee so its Members are aware of the obligations of Internal Audit and its plans	Chief Internal Auditor

\* Taking account of proposed mitigation measures

**Links to Council Policies and Priorities**

- 45. The work of Internal Audit supports all of the Council's priorities and plans.

**Options Available**

46. (1) That the Draft Annual Internal Audit Plan for 2022/23 be approved, subject to any amendments suggested by the Governance and Audit Committee.

### **Preferred Option and Why**

47. Option (1) as it is requirement of the Public Sector Internal Audit Standards.

### **Comments of Chief Financial Officer**

48. I can confirm that I have been consulted on the Annual Internal Audit Plan 2022/23 and have no additional comments.

### **Comments of Monitoring Officer**

49. There are no specific legal issues arising from the report, which sets out the revised operational Internal Audit plan for 22/23 and identifies the specific areas of audit work that will be carried out, having regard to the corporate risk profile and available staffing resources. The Council has a statutory duty under the Accounts and Audit (Wales) Regulations 2014 to ensure that it has adequate and effective financial management and a sound system of internal control, which is reviewed regularly. The Governance and Audit Committee has responsibility under the Local Government (Wales) Measure 2011 to keep under review the Council's risk management, internal control and corporate governance arrangements and to oversee the work of the internal audit team. Therefore, the Governance and Audit Committee are required to consider the revised operational plan and satisfy themselves that the annual work programme to be undertaken by the internal audit team is sufficient to discharge this responsibility.

### **Comments of Head of People, Policy & Transformation**

50. Due to the Covid-19 outbreak the Council has had to reassess its strategic priorities and resources. As the Council is moving towards recovery, new / emerging opportunities and risks will need to be considered as part of the audit plan to ensure the Council has adequate internal controls, governance and risk management processes in place. The involvement of the Council's Corporate Management Team to support the Internal Audit team to effectively undertake their role is vital to provide necessary assurance, advice and guidance to meet our statutory duties and protect public finances. This plan will also ensure that the Council can meet its requirements under the Wellbeing of Future Generations Act and ensure sustainable development can meet short and long term objectives of the Council.

### **Comments of Cabinet Member**

51. Not applicable.

### **Local issues**

52. No local issues.

### **Scrutiny Committees**

53. Not appropriate

### **Equalities Impact Assessment**

54. The Equality Act 2010 contains a Public Sector Equality Duty which came into force on 06 April 2011. The Act identifies a number of 'protected characteristics', namely age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; sexual orientation; marriage and civil partnership. The new single duty aims to integrate consideration of equality and good relations into the regular business of public authorities. Compliance with the duty is a legal obligation and is intended to result in better informed decision-making and policy development and services that are more effective for users. In exercising its functions, the Council must have due regard to the need to: eliminate unlawful discrimination, harassment, victimisation and other conduct that is prohibited by the Act; advance equality of opportunity between persons who share a protected characteristic and those who do not; and foster good relations between persons who share a protected characteristic and those who do not. The Act is not overly prescriptive about the approach a public authority should take to ensure due regard, although it does set out that due regard to advancing equality involves: removing or minimising disadvantages suffered by people due to their protected characteristics; taking steps to meet the needs of people from protected groups where these differ from the need of other people; and encouraging people from protected groups to participate in public life or in other activities where their participation is disproportionately low.
55. As this is an annual report on planned audit work there is no need for an Equalities Impact Assessment. All audits are undertaken in a non-discriminatory manner.

### **Children and Families (Wales) Measure**

56. Not appropriate.

### **Wellbeing of Future Generations (Wales) Act 2015**

57. The role of Internal Audit supports the Council in complying with the principles of the Wellbeing Act and providing assurance on the activities undertaken across the Council. In compiling this report the principles of this Act have been considered:

**Long term** - The Internal Audit workload is based on an annual operational plan supported by a 5 year strategic plan that is aligned to the Council's Corporate Plan.

**Prevention** - Internal Audit identify strengths and weaknesses within the control environment of Newport City Council; addressing the weaknesses gives management the opportunity of preventing gaps in service provision getting worse. This should also minimise the potential for fraud, theft, loss or error.

**Integration** - Internal Audit opinions provide an objective opinion on the adequacy of the Council's corporate governance, internal control and risk management environment in operation and support sound stewardship of public money.

**Collaboration** - Internal Audit work with delivered in collaboration with operational managers to develop an appropriate action plan in order to address identified concerns.

**Involvement** - Heads of Service and Senior Managers are invited to contribute to the audit planning process each year in order to prioritise audit resources. The involvement of the Governance & Audit Committee

### **Consultation**

58. Not applicable

### **Background Papers**

59. 2021/22 Internal Audit quarterly reports, Corporate Plan, Corporate Risk Register, Service Plans.

Dated:

APPENDIX 1

<b>Internal Audit Services</b>		
<b>Operational Audit Plan for 2021/22</b>		
<b>Service Area</b>	<b>Number of days</b>	<b>Percentage of plan</b>
Finance	131	11%
People & Business Change	140	12%
Law & Regulation	93	8%
Children & Young People Services	89	8%
Adult Services	81	7%
City Services	100	9%
Regeneration, Investment & Housing	115	10%
Education Services	236	21%
External – SWCAG Training Programme	2	0%
Peer Assessments (PSIAS)	10	1%
Special Investigations	150	13%
<b>Total Days for Operational Plan</b>	<b>1147</b>	<b>100.00%</b>

Total Resources Available within the IA team = 998 days

Overplanned / under resourced by 149 days

## APPENDIX 2

### DRAFT INTERNAL AUDIT PLAN – 2022/23

The plan will be reviewed and updated during 2022/23.

### INTERNAL AUDIT SERVICES – DRAFT AUDIT PLAN 2022/23

Finance		Last Review	Risk	2022/23 Days	
<b>Accountancy</b>					
	Main Accounting System	-			
	~ New Financial System	n/a	H	12	
	~ Bank Reconciliation	2016/17			
	~ Budgetary Control (Revenue)	2021/22			
	~ Budgetary Control (Capital)	2018/19			
	~ Coding Structure / Journals / Holding & Suspense	2019/20			
	~ System Security & Integrity	2019/20			
	~ Feeder Systems	2019/20			
	Education & Schools Accountancy	-			
	~ Schools Finance	2020/21			
	Place & Corporate Accountancy	2021/22			
	Social Services Accountancy	-			
	~ Social Services Income Assessment & Charging	2017/18			
	Taxation (VAT)	2018/19			
	Treasury Management	-			
	~ Income Management	2015/16			
	~ Income Returns	2018/19			
	~ Internet Banking	2018/19			
	~ Paye.net	2019/20			
	~ Treasury Management	2017/18			
	Fees & Charges	Never			
	Capital Programme	2018/19	H	20	
<b>Income &amp; Tax</b>					
	Council Tax	2020/21			
	National Non Domestic Rates (NNDR)	2021/22			
	Rate Relief Schemes				
	~ Business Rate Retail Hospitality and Leisure Relief Scheme	Never			
	~ City Centre Local Rate Relief Scheme	Never			
	~ Discretionary Relief for Charities	Never			
	Sundry Debtors	2019/20	M	20	
<b>Procurement &amp; Payments</b>					
	Strategic Procurement	-			
	~ Gateway Process (incl. Excepted Contracts)	2021/22			
	~ eTendering	2015/16			
	Contract Management	2020/21			
	Creditors CAATs	2021/22			
	Petty Cash / Imprest Accounts	2018/19			
	Procure to Pay (eProcurement)	2016/17			
	Purchasing Cards (System)	2017/18	H	15	

	Purchasing Cards (Transactions)	2021/22	M	13	
<b>Housing Benefits</b>					
	Issues raised by External Audit (Follow Up)	2021/22	H	12	
<b>Customer Services</b>					
	Contact Centre	2015/16			
	Information Station	2012/13			
<b>General</b>					
	Annual Governance Statement	Annual		10	
	National Fraud Initiative (NFI)	Annual		15	
	Financial Advice	Annual		10	
	Follow up of Agreed Management Actions 2021/22	Annual		3	
	Finalisation of 2021/22 Audits	Annual		1	
<b>Total Planned Days for Finance</b>				<b>131</b>	
<b>People &amp; Business Change</b>		<b>Last Review</b>	<b>Risk</b>	<b>2022/23 Days</b>	
<b>Digital Services &amp; Complaints</b>					
	Document Services	-			
	~ Electronic Document Management System (EDMS) & Modern Records	Never			
	~ Mail Services	2014/15			
	~ Telephony (Follow-up)	2021/22	H	8	
	~ Printing / Reprographic Services	2013/14			
	Information Management	-			
	~ Data Protection (General Data Protection Regulation) (Follow Up)	2019/20			
	~ Freedom of Information	2017/18			
	~ Payment Card Industry Data Security Standards (PCI DSS) (Follow Up)	2016/17	H	8	
	Digital Projects	-			
	~ SRS Client Relationship Management	2018/19			
	Complaints	2020/21			
<b>Human Resources</b>					
	Employment Services	-			
	~ Agency Staff	2017/18			
	~ Employment Status	2019/20			
	~ Wellness at Work	Never			
	~ Maternity Absence Payments	2017/18			
	~ Members' Allowances	2018/19			
	~ iTrent	2021/22			
	~ HR/Payroll CAATs	2018/19	M	15	
	~ Starters, Leavers & Transfers	2016/17			
	~ Recruitment & Selection	2020/21	H	20	
	~ Redundancy	2012/13			
	~ Sickness Absence Payments	2017/18			
	~ Travel & Subsistence	2019/20			

	Health & Safety	2013/14	H	18	
	Human Resources & Organisational Development	-			
	~ Job Evaluation / Equal Pay	2018/19			
	~ Social Services Training Unit	2017/18			
	~ Organisational Development	Never			
<b>Newport Intelligence Hub</b>			M	18	
	Address Management Function (Corporate Gazetteer)	Never			
	iTrent	2021/22			
	Corporate Geographical Information Systems (GIS)	Never			
	Database System Administration	Never			
	Education Learning & Support	2006/07			
<b>Policy &amp; Partnership</b>					
	Civil Contingencies	2019/20			
	Corporate Policy	Never			
	Partnerships	Never			
	Performance Management				
	~ Performance Indicators (Data Quality)	2021/22			
	Risk Management	2018/19	H	20	
<b>Business Transformation</b>					
	Business Improvement Team	Never			
<b>PR &amp; Communication</b>					
	Marketing & Communications	2020/21			
<b>Assets</b>					
	Newport Norse - Joint Venture Contract	2021/22			
	Commercial & Industrial Properties	2020/21			
<b>General</b>					
	Corporate Governance (Follow-Up)	Annual	M	10	
	Project Management	Never			
	Welsh Language Standards	Never			
	Financial Advice	Annual		8	
	Financial Regulations Training	Annual		10	
	Follow up of Agreed Management Actions 2021/22	Annual		3	
	Finalisation of 2021/22 Audits	Annual		2	
<b>Total Planned Days for People &amp; Business Change</b>				140	
<b>Children &amp; Young People Services</b>		<b>Last Review</b>	<b>Risk</b>	<b>2022/23 Days</b>	
<b>Children's Teams</b>					
	Children with Disabilities 2021/22	2012/13	M	10	
	Pathway Teams x3	2011/12			
<b>Child Protection &amp; Family Support</b>					

	Child Protection & Family Support (x 4 Teams)	2019/20			
	Family Contact Centre	2018/19			
	Integrated Family Support Service	2012/13			
	Mentoring, Assessment & Consultancy	Never			
<b>Fostering &amp; Adoption</b>					
	Adoption Allowances (Follow Up #2)	2021/22	H	10	
	Fostering	2014/15	M	18	
	Family & Friends	-			
	~ SGO/Kinship Payments	2019/20			
	Matching & Placement Support	Never			
	~ LAC Education Support	2014/15			
<b>Residential &amp; Operations</b>					
	Residential	-			
	~ Forest Lodge	2021/22			
	~ Oaklands	2021/22			
	~ Rose Cottage	Never	M	15	
	~ Rosedale	Never			
<b>Safeguarding, Quality Assurance &amp; Child Protection</b>			H	18	
	Adult Safeguarding	-			
	~ Appointeeships	2016/17			
	~ Deprivation of Liberty Safeguards (DOLS)	Never			
	~ Adults at Risk	2019/20			
	~ Violence Against Women Domestic Abuse & Sexual Violence (VAWDASV)	Never			
	Children's Safeguarding	-			
	~ Education Safeguarding	2016/17			
	~ Independent Reviewing Officers (IROs)	2021/22			
	Corporate Safeguarding	2017/18			
	Quality Assurance	Never			
<b>Youth Justice &amp; Preventions</b>					
	Preventions	2019/20			
	Youth Justice Service	2021/22			
<b>General</b>					
	Adoption Fees	2018/19			
	Children & Families Imprest Account	2021/22			
	Control Risk Self-Assessments	Annual	M	3	
	Financial Advice	Annual		8	
	Follow up of Agreed Management Actions 2021/22	Annual		3	
	Finalisation of 2021/22 Audits	Annual		4	
<b>Total Planned Days for Children &amp; Young People Services</b>				<b>89</b>	

Adult & Community Services		Last Review	Risk	2022/23 Days	
<b>Integrated Teams</b>					
	Occupational Therapy Service	2014/15	M	18	
	Mental Health Service (2021/22)	Never	H	2	
<b>First Contact</b>					
	Hospital Team	2019/20			
	Intake Team	2017/18			
	Independent Living Advisors	Never			
<b>Managed Care</b>					
	Frailty Service (Reablement)	2019/20			
	NCN Teams (x 3 - East, North, West)	2018/19			
<b>Service Development &amp; Commissioning</b>					
	Commissioning & Contracts				
	~ Commissioning, Contracts, Monitoring	2016/17	M	18	
	~ Direct Payments	2017/18			
	~ Non-Residential Care Provider Payments	2021/22			
	~ Residential Care Provider Payments	2018/19			
	~ Supported Living Provider Payments	Never			
	Supporting People	2013/14			
	~ Housing Support Grant	2021/22	M	6	
	~ Homelessness Prevention Grant	2021/22	M	6	
<b>Care &amp; Support Services</b>					
	Residential Services	-			
	~ Blaen-y-Pant	2021/22			
	~ Parklands	2018/19			
	~ Spring Gardens	2017/18			
	Day Services	-			
	Cross-Cutting / Thematic Reviews				
	~ Residents' Monies	2014/15			
	~ Amenity Funds	2016/17			
	Short Break Service	New	M	15	
<b>General</b>					
	Control Risk Self-Assessments	Annual		3	
	Financial Advice	Annual		6	
	Follow up of Agreed Management Actions 2021/22	Annual		3	
	Finalisation of 2021/22 Audits	Annual		4	
<b>Total Planned Days for Adult &amp; Community Services</b>				<b>81</b>	
	TOTAL AUDIT DAYS			441	
	SPECIAL INVESTIGATIONS			75	
	TOTAL PLANNED AUDIT DAYS			516	

Law & Standards		Last Review	Risk	2022/23 Days	
<b>Democratic Services</b>					
	Democratic Services & Governance	2018/19			
	Mayoralty & Events	2004/05			
<b>Electoral Registration</b>					
	Electoral Registration	<b>2012/13</b>	<b>M</b>	<b>15</b>	
<b>Legal</b>					
	Insurances	2021/22			
	Land Charges	<b>2014/15</b>	<b>M</b>	<b>12</b>	
	Litigation	2021/22			
	Corporate Admin Team	2019/20			
<b>Public Protection</b>					
	Community & Environment				
	Environmental Health				
	- Food Safety	2018/19			
	- Environmental & Health & Safety				
	- Port Health	2006/07			
	- Private Sector Housing (HMO)	<b>2012/13</b>	<b>M</b>	<b>15</b>	
	- Neighbourhood - CCTV	2020/21			
	- Neighbourhood - CSW	<b>2015/16</b>	<b>M</b>	<b>15</b>	
	- Pollution	2009/10			
	- Discretionary Charging	2015/16			
	Consumer Protection				
	- Consumer Protection Team	2018/19			
	- RIPA	2017/18			
	- Industrial & Animal Health	2007/08			
	- Licensing (Premises)	2019/20			
	- Licensing (Taxi)	2021/22			
	- Scambusters Team / Project	2012/13			
	- Scambusters Grant Claim 2021/22	<b>Annual</b>	<b>M</b>	<b>7</b>	
	- Newport City Dogs Home Follow Up	<b>2019/20</b>	<b>H</b>	<b>8</b>	
<b>Registration Services</b>					
	Registration Services & Coroners	<b>2016/17</b>	<b>M</b>	<b>15</b>	
<b>General</b>					
	Financial Advice	<b>Annual</b>		<b>4</b>	
	Follow up of Agreed Management Actions 2021/22	<b>Annual</b>		<b>1.5</b>	
	Finalisation of 2021/22 Audits	<b>Annual</b>		<b>1</b>	
<b>Total Planned Days for Law &amp; Standards</b>				<b>93.5</b>	
<b>Regeneration, Investment &amp; Housing</b>		<b>Last Review</b>	<b>Risk</b>	<b>2022/23 Days</b>	

<b>Community Regeneration</b>			<b>H</b>	<b>20</b>	
	Communities First	2009/10			
	Community Buildings / Hubs (wef 2019)	Never			
	- Directly Managed	2008/09			
	- Voluntary Managed	2015/16			
	Families First	2018/19			
	Flying Start				
	- Flying Start	2019/20			
	- Play Development	2003/04			
	30 hours free childcare	2019/20			
	Work, Skills & Performance				
	- Inspire to Achieve	2018/19			
	- Inspire to Work	Never			
	- Skills & Work Contract	<b>2015/16</b>	<b>M</b>	<b>15</b>	
	- Community Development Improvement Plan	2011/12			
	- Financial & Admin Systems	2009/10			
	Youth Development				
	- Youth Service	2017/18			
	- Duke of Edinburgh Award	2017/18			
	Grants				
	- Children & Communities Grant (Flexible Funding)	2019/20			
<b>Development Services</b>					
	Development Control				
	- Planning Applications	2020/21			
	- Planning Enforcement	2020/21			
	- Historic Building Conservation	Never			
	Building Control	2021/22			
	Regeneration Initiatives		<b>M</b>	<b>15</b>	
	- Targeted Regeneration Investment Funding (Prev VVP)	2017/18			
	- Heritage Lottery Funding	Never			
	- Business Support Loans & Grants	2017/18			
	Planning Policy				
	- Planning Obligations (S106)	<b>2017/18</b>	<b>M</b>	<b>15</b>	
	Technical Support	Never			
<b>Culture, Libraries and Community Learning</b>					
	Business Support Team	Never			
	Community Learning & Libraries	under Hubs			
	- Adult Education	2015/16			
	- Library Service	2014/15			
	Museum & Heritage				
	- Museum & Art Gallery	2019/20			
	- Medieval Ship	2008/09			
	- Transporter Bridge	<b>2012/13</b>	<b>M</b>	<b>10</b>	
	- Tredegar House (National Trust Agreement)	2012/13			

	- Fourteen Locks	Never			
	- Tourist Information Centre	2010/11			
<b>Housing, Regeneration &amp; Property</b>					
	Housing Needs		<b>H</b>	<b>15</b>	
	- Home Options (Common Register)	2018/19			
	- Homelessness Assessment & Prevention	2017/18			
	- Private Sector Housing (Leasing)	<b>2009/10</b>	<b>M</b>	<b>15</b>	
	Housing Renewals				
	- Disabled Facilities Grants	2017/18			
	- Empty Homes (Houses to Homes Grant)	2013/14			
	Newport Norse (Joint Venture) Follow Up 2020/21	2020/21			
	Ellen Ridge Gypsy & Traveller Site	Never			
	Integrated Property Unit				
	- Commercial & Industrial Properties Follow up	2020/21			
	- Newport Market	2005/06			
	- Facilities Management (Civic Centre / Info Station)	Never			
	- Carbon Reduction Commitment 2021/22	<b>Never</b>	<b>M</b>	<b>2</b>	
	Destination Development (inc City Festivals & Events)	2019/20			
<b>General</b>					
	Financial Advice	<b>Annual</b>		<b>4</b>	
	Follow up of Agreed Management Actions 2021/22	<b>Annual</b>		<b>1.5</b>	
	Finalisation of 2021/22 Audits	<b>Annual</b>		<b>2</b>	
<b>Total Planned Days for Regeneration, Investment &amp; Housing</b>				<b>114.5</b>	
<b>City Services</b>		<b>Last Review</b>	<b>Risk</b>	<b>2022/23 Days</b>	
<b>Customer Services</b>					
	Contact Centre				
	- Contact Centre	2015/16			
	- Information Station	2012/13			
	Digital Optimisation				
	- Channel Optimisation	Never			
	Complaints Handling	2020/21			
	- Children's Rights & Complaints	Never			
	Benefits				
	- Housing Benefits	2021/22			
<b>Environment &amp; Leisure</b>					
	Bereavement Services				
	- Cemeteries (Follow-Up)	2018/19			
	- Gwent Crematorium	<b>2016/17</b>	<b>M</b>	<b>15</b>	
	Parks & Recreation				
	- Parks & Outdoor Recreation	2020/21			
	- Allotments	Never			
	Countryside & Conservation	2021/22			

	- Access to Countryside	2006/07			
	- Active Travel	Never			
	- Tree Surveys and Inspections (TPO)	Never			
	- Biodiversity	Never			
	Grounds Maintenance				
	- Grounds Maintenance Follow up	2020/21			
	Newport Live (Partnership Arrangements)	2019/20			
<b>Highways &amp; Engineering</b>					
	Highways Maintenance				
	- Highways & Drainage (Network)	2010/11			
	- Highways (follow up) 2020/21	2020/21			
	- Drainage	2019/20			
	- SDR Contract	2021/22			
	- Overtime & On Call Facility	2017/18			
	- Parking Services	2017/18			
	- Street Works	2021/22			
	- Winter Maintenance	Never			
	Transport				
	- Fleet / Vehicle Management	<b>2012/13</b>	<b>M</b>	<b>15</b>	
	- Vehicle Usage & Trackers (follow up)	<b>2018/19</b>	<b>H</b>	<b>8</b>	
	- Home to School Transport	2020/21			
	- Social Services Taxi Framework	2013/14			
	- Passenger Transport Unit - Taxi Contracts Follow Up 2021/22	<b>2018/19</b>	<b>H</b>	<b>6</b>	
	- Public Transport Support	2006/07			
	- Bus Services Support Grant	2017/18			
	- Civil Parking Enforcement (Consultancy)	2018/19			
	Traffic & Safety				
	- Traffic, Transport & Road Safety	<b>Never</b>	<b>H</b>	<b>15</b>	
	Asset Management				
	- Telford Depot CCTV & Security (Follow-Up)	2018/19			
	- Highways Improvement Contracts (Follow-Up)	2015/16			
	- Project Management	Never			
	- Streetlighting	2020/21			
	- Highways Network Assets Valuation Follow Up	2017/18			
<b>Waste &amp; Cleansing</b>					
	Waste Collections				
	- Refuse	<b>2015/16</b>	<b>M</b>	<b>15</b>	
	- Agency / Overtime (Follow-Up #2)	2018/19			
	Recycling				
	- Recycling & Engagement	Never			
	- Enforcement	Never			
	Landfill Site				
	- Waste Disposal Site (Landfill Site)	2021/22			
	- Household Waste Recycling Centre	<b>2013/14</b>	<b>M</b>	<b>15</b>	
	- Agency / Overtime	2016/17			
	Cleansing				
	- Street Cleansing (follow up)	2019/20			

	Wastesavers (Partnership Arrangements)	2004/05			
<b>General</b>					
	Financial Advice	Annual		5	
	Follow up of Agreed Management Actions 2021/22	Annual		2	
	Finalisation of 2021/22 Audits	Annual		4	
<b>Total Planned Days for City Services</b>				<b>100</b>	
<b>Education Services</b>					
		<b>Last Review</b>	<b>Risk</b>	<b>2022/23 Days</b>	
<b>Resources &amp; Planning</b>					
	School Admissions & Appeals	2010/11	M	15	
	21st Century Schools Capital Programme	Never	H	15	
	School Reorganisation Programme	Never			
	Education Properties (Caretakers)	2006/07			
	School Meals				
	- Catering Contract Management (Chartwells)	2012/13			
	- Outside Preferred Catering Contractor (Schools)	2017/18			
	- Cashless Catering (Parent Pay)	Never			
	- Free School Meals	2010/11			
	Breakfast Clubs	Never			
	Trips & Visits (Evolve System) (Follow-Up #2)	2019/20	H	7	
	Early Years	2020/21			
<b>Engagement &amp; Learning</b>					
	Education Welfare Service	2017/18	M	15	
	Gwent Education Minority-Ethnic Service (GEMS)	2017/18			
	Gwent Music Support Service				
	- Music Support Service Follow Up	2019/20	H	8	
	- Review of Procedures for Trips & Events	2006/07			
<b>Inclusion</b>					
	Bridge Achievement Centre (PRU) Follow up	2019/20			
	Curriculum Improvement				
	- Additional Educational Needs (AEN) Service	Never			
	- Specific Learning Difficulty (SpLD) Service	Never			
	- Healthy Schools	Never			
	Educational Psychology	2011/12	M	15	
	Special Educational Needs				
	- SEN Assessments	2015/16			
	- SEN Out of County Placements	2020/21			
	- SEN Recoupment	2009/10	M	12	
	- SEN Equipment & Resources	Never			
	- SEN Transport	Never			
	Education Safeguarding & Child Protection	2016/17			
	Pupil Exclusions	2021/22			
	Education Other Than At Schools (EOTAS)	2005/06	M	15	
<b>Education Grants</b>					
	Education Improvement Grant (SIG) 2021/22	Annual	M	5	
	Pupil Development Grant 2021/22	Annual	M	5	
	Appetite for Life Grant	2012/13			
<b>Nursery Schools</b>					

	Kimberley Nursery Closure / Amalgamation	2021/22			
	Fairoak Nursery Closure / Amalgamation	2021/22			
	Newport Nursery	Never			
<b>Primary Schools</b>					
	Gaer Primary	2012/13	M	10	
	Malpas Park Primary	2012/13	M	10	
	Rogerstone Primary 2021/22	2012/13	M	7	
	Marshfield Primary	2013/14	M	10	
	St Mary's RC Primary	2013/14	M	10	
	Malpas Church in Wales Primary	2013/14	M	10	
	St Joseph's RC Primary	2013/14	M	10	
<b>Secondary Schools</b>					
	Ysgol Gyfun Gwent Is Coed	Never	M	12	
	Caerleon Comprehensive Follow up	2021/22			
	Secondary Learning Resource Units	Never			
<b>Special Schools</b>					
	Maes Ebbw	2017/18			
	Ysgol Bryn Derw	Never	M	12	
<b>Other - School Related</b>					
	CRSA's / Healthcheck - Secondary / Primary / Nursery	Annual	M	12	
	Duffryn High Sports Hall	2011/12			
	Post 16 Funding	-			
	Deficit Budget Project	2019/20			
<b>General</b>					
	Schools Financial Regulations Training / Cluster Meetings	Annual		4	
	Financial Advice	Annual		15	
	Follow up of 2021/22 Agreed Management Actions	Annual		2	
	Finalisation of 2021/22 Audits				
<b>Total Planned Days for Education Services</b>				<b>236</b>	
	TOTAL AUDIT DAYS			544	
	EXTERNAL - SWCAG TRAINING PROGRAMME			2	
	PEER ASSESSMENT (PSIAS)			10	
	SPECIAL INVESTIGATIONS			75	
	TOTAL PLANNED AUDIT DAYS			631	
	<b>OVERALL PLANNED AUDIT DAYS FOR TEAM</b>			<b>1147</b>	
	RESOURCES AVAILABLE IN IA TEAM *			998	
	EARLY DRAFT PLAN IS THEREFORE OVER PLANNED BY			149	Days
	* on the assumption that the AM and PA are only available for 6 months of the year				



# Report

## Governance and Audit Committee

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### Part 1

Date: 26<sup>th</sup> May 2022

**Subject** Internal Audit Annual Report 2021/22

**Purpose** To inform the Members of the Council's Governance and Audit Committee of:

- i) the overall opinion on the internal controls of the City Council for 2021/22;
- ii) Internal Audit's progress against the agreed audit plan;
- iii) Internal Audit's performance against local performance indicators.

**Author** Chief Internal Auditor

**Ward** General

**Summary** Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

This report has been prepared in accordance with the Public Sector Internal Audit Standards. It gives an overall opinion on the adequacy and effectiveness of the City Council's internal controls during 2021/22, which was **Reasonable** - Adequately controlled although risks identified which may compromise the overall control environment; improvements required; reasonable level of assurance.

For 2021/22 the overall opinion has been based on the approved Internal Audit plan 2021/22 (May 2021). The full year plan was based on delivering 1082 audit days. Reliance on previous years' audit work has also been taken into consideration in arriving at this year's opinion in that there have been no significant systems or staff changes.

The second part of the report relates to the performance of the Internal Audit Section and how well its key targets in the year were met. 71% of the approved audit plan was completed for the year against a target of 82%.

**Proposal** That the Annual Internal Audit Report 2021/22 and overall Audit Opinion be noted and endorsed by the Council's Governance and Audit Committee

**Action by** The Governance and Audit Committee

**Timetable** Immediate

This report was prepared after consultation with:

- Chief Financial Officer
- Monitoring Officer

- Head of People, Policy & Transformation

**Signed**

## Background

1. Internal Audit is an independent, objective, assurance and consulting activity designed to add value and improve an organisation's operations. It helps 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 examines, evaluates and reports on the adequacy of internal control as a contribution to the proper economic, efficient and effective use of resources.
2. In line with the Public Sector Internal Audit Standards, this is the Chief Internal Auditor's formal annual report to the Council which gives an opinion on the overall adequacy and effectiveness of the Council's internal control environment; a summary of the work completed during the year and the performance of the Internal Audit team.

### Overall Audit Opinion

3. The level of assurance that can be placed on the internal controls operating effectively for 2021/22 is "**Reasonable**" (**Appendix A**).

4. The opinion for the internal financial controls operating within the Council in 2021/22 is:

We have undertaken our internal audit work for the year ending 31/03/2022 in accordance with the audit plan agreed by the Head of Finance and approved by the Council's Governance & Audit Committee on 27<sup>th</sup> May 2021. The plan was designed to ensure adequate coverage over the year of the Council's accounting and operational systems.

Our audit work included reviews, on a sample basis, of each of these systems / establishments sufficient to discharge the Head of Finance's responsibilities under section 151 of the Local Government Act 1972 and The Accounts and Audit (Wales) Regulations 2014. The opinion is based upon the work undertaken. We planned and performed our work to obtain the information necessary to provide us with sufficient evidence to give us reasonable assurance of the internal control systems tested.

The audit work undertaken was in line with the audit plan for 2021/22. Audit knowledge of previous systems and processes in place at NCC was also taken into consideration in arriving at this opinion, where there had been very little change to key systems or personnel within the organisation.

Based on this work, in my view the internal controls in operation are **Reasonable**. The opinion expressed relates in part to the systems and areas reviewed during the year.

Andrew Wathan  
Chief Internal Auditor  
April 2022

### Audit Opinions Issued

- The definition of the audit opinions used are shown at **Appendix A**. Internal audit reports provide a balanced view of the controls in place and record strengths and weaknesses.
- The opinions given to individual audit reviews are shown at **Appendix B**. In summary the following opinions were issued following audit reviews:

	2018/19	%	2019/20	%	2020/21	%	2021/22	%
Good	10	22	7	22	5	17	10	29
Reasonable	27	57	19	60	23	80	23	66
Unsatisfactory	10	19	6	18	1	3	2	5
Unsound	1	2	0	0	0	0	0	0
Total	48	100	32	100	29	100	35	100

Overall Opinion	Reasonable	Reasonable	Reasonable	Reasonable
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- In addition to planned work the team also undertook “special investigation” reviews. 10 special investigations were undertaken during 2021/22; some were ongoing from previous years and some are continuing. These reviews are typically time intensive and on occasions difficult to prove.
- Planned work not completed by the year end is noted in **Appendix C**.
- Work was also undertaken during the year which did not warrant an audit opinion on the control environment but demonstrates where Internal Audit is adding value. This is shown at **Appendix D** as Non Opinion Work.

### Key Issues

- Where unacceptable levels of risk have been identified Heads of Services and their service managers have the responsibility for addressing the situation.
- It is pleasing to note that 10 “**Good**” audit opinions were issued during the year:
- 23 “**Reasonable**” audit opinions were issued
- However, 2 “**Unsatisfactory**” audit opinions were issued:
  - Telephony
  - Housing Benefits
- For the third year running there were no “**Unsound**” audit opinions issued during 2021/22.
- A summary of the issues identified in the above **Unsatisfactory** audit reports has already, or will be reported to the Governance and Audit Committee separately:

	Previously reported to Governance and Audit Committee	Due to be reported to Governance and Audit Committee
Telephony	No	2022/23
Housing Benefits	No	2022/23

### Impact of Covid-19

16. The disruption caused by the Coronavirus pandemic continued into 2021/22 with the IA team unable to undertake all of their planned work due to services prioritising their staff to deliver front line services and the restrictions imposed on visiting premises as a result of the pandemic. The Audit team was involved with extensive counter fraud work as a result of the Welsh Government business grants which were administered by the Council and also supported the TTP process during 2020/21 with some of this continuing into 2021/22.
17. Original planned audit work for 2021/22 which was not undertaken will be carried forward into the 2022/23 Audit plan.
18. During the year the Internal Audit team continued to work from home. Key staff in some service areas were unavailable due to Covid-19. To minimise the spread of the virus the corporate decision was that staff had to work from home.

### Additional Resource

19. In order to partially cover the back fill for a Principal Auditor acting up to Audit Manager for part of the year and the ongoing Principal Auditor vacancy, an external resource was brought in to undertake specific audits. The Internal Audit team engaged the services of the South West Audit Partnership (SWAP); they were originally contracted to complete 3 audit jobs in the 2021/22 Audit Plan:

Audit Job
Mental Health Service
Carbon Reduction Commitment
Covid-19 Response

Only 1 of these audit jobs (Covid-19 Response) was completed and issued as final during the year. The remaining two have commenced and will be carried forward as part of the 2022/23 audit plan.

### Implementation of Agreed Management Actions

20. During the year the team sought assurance from operational managers that previously agreed management actions to improve the internal control environment and reduce the level of risk had been implemented. This related to 2020/21 finalised audit reports. 82% of agreed management actions had been implemented. This will be reported to the Governance and Audit Committee in 2022/23.
21. There are insufficient resources within the team to follow up all audit reports issued to test that all of the agreed management actions have been implemented at an operational level; the Internal

Audit team therefore have to rely on the integrity of managers to provide accurate feedback on whether or not they have implemented the actions they agreed.

### National Fraud Initiative (NFI)

22. The Internal Audit Team is responsible for co-ordinating the NFI process for the Council, an initiative run by the Cabinet Office. This is a biennial data matching exercise that matches electronic data within and between participating bodies to detect and prevent fraud and overpayments from the public purse across the UK. On an annual basis Council Tax and Electoral Role data is collated and matched.
23. NCC data has been uploaded for the current exercise and matches have been returned from the Cabinet Office. Internal Audit and service areas are continuing to review the matches and verify their legitimacy, reporting any issues as fraud as necessary to the Chief Internal Auditor.

### The Way Forward

24. Managers of the service areas need to ensure that robust internal controls are in place and adhered to in order to ensure that the systems in operation run efficiently and effectively and the scope for misappropriation, theft or error is minimised. Heads of Service have a responsibility to ensure that the Council's Financial Regulations are complied with at an operational level. Staff should be made aware of the Financial Regulations and the requirements therein and the consequences of non-compliance.
25. Internal Audit currently run seminars on what Financial Regulations and Contract Standing Orders mean, why they are in place, what they are about and to whom they relate. 11 sessions were delivered to 192 delegates during 2021/22.
26. Adequate financial procedures need to be put in place and disseminated to all concerned to make sure that they are complied with to ensure systems and processes are run as intended by management. Agreed management actions stated in audit reports should be implemented to eliminate or reduce the weakness and minimise the risk.

### Performance of the Internal Audit Section 2021/22 (Appendix E).

27. Despite not having a full complement of staff for the whole year;
  - 71% of the approved audit plan was completed against a target of 82%;
  - Draft reports were issued within 5 days of completion;
  - Final reports were issued within 3 days of receiving management comments;
28. The Audit Team had an establishment of 7.5 staff (including the Chief Internal Auditor); 1 vacancy in the team and 1 long term sickness.
29. During 2021/22 the team was supported by SWAP (South West Audit Partnership) who undertook planned audit reviews to cover reduced resources.
30. Many of the managers within the Council also call upon the Audit Section for financial advice which is generally reactive. This can have an impact on planned audit reviews.
31. Governance and Audit Committee Members regularly comment on the adequacy of the Internal Audit resources. Audit staff resources have been reduced over the last few years which means

that fewer audit jobs can be undertaken in the audit plan which results in the provision of less assurance across all service areas.

32. With a full complement of staff, the audit resource is 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 will have to monitor the situation closely and use a range of options to ensure appropriate audit coverage is provided. The Chief Internal Auditor will endeavour to provide adequate and appropriate audit coverage throughout the Council although prioritisation is required, given the reduced resources within the team.
33. The current level of resources is just about adequate to meet the continuing needs of service led demands. However, the level of resources needs 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.

### Developments

34. The Chief Internal Auditor has continued in his dual role acting in that capacity for Newport City Council and Monmouthshire County Council. This is a permanent arrangement.
35. Where unfavourable audit opinions are issued it is the Head of Service's responsibility to inform their respective Cabinet Member of the situation and ensure that appropriate action is taken to address the issues identified.
36. During 2017/18 the Internal Audit team had its self-assessment against the Public Sector Internal Audit Standards externally validated. The outcome was that the team is Generally Compliant, which is the highest level of achievement. The report and subsequent action plan was reported to Governance and Audit Committee in September 2018; progress against this action plan will be reported to Governance and Audit Committee separately.

### **Financial Summary**

37. There are no financial issues related to this report.

### **Risks**

38. If Members are not involved in the endorsing the Annual Audit Report it would weaken the overall governance arrangements of the Council and be non-compliant with the Public Sector Internal Audit Standards, which therefore, could be subject to adverse criticism from the external auditor, currently Audit Wales.

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Members not involved with audit reporting process	M	L	Internal Audit attend all Governance and Audit Committee meetings and present reports on a regular basis	Chief internal Auditor

\* Taking account of proposed mitigation measures

## **Links to Council Policies and Priorities**

39. Giving management assurance on systems in operation gives them confidence that there is sound financial management in place, that more effective services can be provided and the risk of theft, fraud and corruption is minimised. Better service provision, looking after the public pound makes our City a better place to live for all our citizens, hence Improving People's Lives.
- To make our city a better place to live for all our citizens
  - To be good at what we do
  - To work hard to provide what our citizens tell us they need

## **Options Available**

40. This is a factual report and therefore there are no specific options to be considered. The annual report provides a mechanism for monitoring the performance and progress of the Internal Audit team and the adequacy of the Council's internal control environment to ensure the public pound is spent wisely and appropriately and that fraud, theft and corruption is minimised.
41. The Governance and Audit Committee is asked to note progress on delivery of the audit plan and the annual audit opinion given to date and ask questions, make observations and recommendations, as necessary.

## **Preferred Option and Why**

42. Option (1) as it is requirement of the Public Sector Internal Audit Standards and ensures good governance.

## **Comments of Chief Financial Officer**

43. I can confirm that I have been consulted on the Annual Audit Report 2021/22 and have no additional comments.

## **Comments of Monitoring Officer**

44. The Annual Report is in accordance with the Accounts and Audit Regulations and the Public Sector Internal Audit Standards. The report confirms that adequate and effective internal financial controls are in place to ensure that the Council complies with its financial duties. The second part of the report puts the work of the Audit Section into context within the Council's Performance Management Framework and again highlights the effectiveness of the work undertaken by this service area.

## **Comments of Head of People, Policy & Transformation**

45. There are no other specific HR issues arising as a result of the report. In terms of Corporate Policy & Performance, the report presents a review of audit activity during the period concerned and is set out in the context of performance framework. Clearly the work of the audit team is critical in giving assurance that the work of the Council is being undertaken within the set policies and procedures and meets the requirements of the Well-being of Future Generations Act (2015). Efficient and effective use of resources within agreed parameters is required if the Council is to operate in a sustainable way and within the principles of the Act – long term, integration, prevention, collaboration and involvement. Audit activity should ensure that the Council is

working to achieve the correct balance between meeting these requirements, managing short and medium term financial challenges and well managed risk.

## **Comments of Cabinet Member**

46. Not applicable.

## **Local issues**

47. No local issues.

## **Scrutiny Committees**

48. Not appropriate.

## **Equalities Impact Assessment**

49. Not required.

50. The Equality Act 2010 contains a Public Sector Equality Duty which came into force on 06 April 2011. The Act identifies a number of 'protected characteristics', namely age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; sexual orientation; marriage and civil partnership. The new single duty aims to integrate consideration of equality and good relations into the regular business of public authorities. Compliance with the duty is a legal obligation and is intended to result in better informed decision-making and policy development and services that are more effective for users. In exercising its functions, the Council must have due regard to the need to: eliminate unlawful discrimination, harassment, victimisation and other conduct that is prohibited by the Act; advance equality of opportunity between persons who share a protected characteristic and those who do not; and foster good relations between persons who share a protected characteristic and those who do not. The Act is not overly prescriptive about the approach a public authority should take to ensure due regard, although it does set out that due regard to advancing equality involves: removing or minimising disadvantages suffered by people due to their protected characteristics; taking steps to meet the needs of people from protected groups where these differ from the need of other people; and encouraging people from protected groups to participate in public life or in other activities where their participation is disproportionately low.

51. As this is an annual report on performance and audit opinions there is no need for an Equalities Impact Assessment. All audits are undertaken in a non-discriminatory manner.

## **Children and Families (Wales) Measure**

52. Not appropriate.

## **Wellbeing of Future Generations (Wales) Act 2015**

53. The role of Internal Audit supports the Council in complying with the principles of the Wellbeing Act and providing assurance on the activities undertaken across the Council. In compiling this report the principles of this Act have been considered:

**Long term** - The Internal Audit workload is based on an annual operational plan supported by a 5 year strategic plan that is aligned to the Council's Corporate Plan.

**Prevention** - Internal Audit identify strengths and weaknesses within the control environment of Newport City Council; addressing the weaknesses gives management the opportunity of

preventing gaps in service provision getting worse. This should also minimise the potential for fraud, theft, loss or error.

**Integration** - Internal Audit opinions provide an objective opinion on the adequacy of the Council's corporate governance, internal control and risk management environment in operation and support sound stewardship of public money.

**Collaboration** - Internal Audit work with delivered in collaboration with operational managers to develop an appropriate action plan in order to address identified concerns.

**Involvement** - Heads of Service and Senior Managers are invited to contribute to the audit planning process each year in order to prioritise audit resources. The involvement of the Governance & Audit Committee

## **Consultation**

54. Not applicable.

## **Background Papers**

55. 2021/22 Approved Internal Audit Plan.

Dated:

## Appendix A - Audit Opinions used in 2021/22

	<b>GOOD</b> (Green)	Well controlled with no critical risks identified which require addressing; substantial level of assurance.
	<b>REASONABLE</b> (Yellow)	<b>Adequately controlled although risks identified which may compromise the overall control environment; improvements required; reasonable level of assurance.</b>
	<b>UNSATISFACTORY</b> (Amber)	Not well controlled; unacceptable level of risk; changes required urgently; poor level of assurance.
	<b>UNSOUND</b> (Red)	Poorly controlled; major risks exists; fundamental improvements required with immediate effect.

Unqualified	<p>The Financial Statement is free from material misstatement and presents fairly the activities of the organisation.</p> <p>The terms and conditions of the grant funding have been complied with.</p>
Qualified	<p>There is a lack of supporting information or documentation to verify that that figures quoted in the Financial Statement fairly represent the activities of the organisation.</p> <p>The terms and conditions of the grant funding have not been fully complied with.</p>

## APPENDIX B

Overall Council Opinion for 2021/22 is **Reasonable**

	18/19	19/20	20/21	21/22
<b>Good</b>	10	7	5	10
<b>Reasonable</b>	27	19	23	23
<b>Unsatisfactory</b>	10	6	1	2
<b>Unsound</b>	1	0	0	0
	48	32	29	35

### Internal Audit – Management Information 2021/22

Job number	Service Area	Section or Team	Job Title	Risk Rating / Priority	Final / Draft	Opinion given
P2122-P3	Finance	Income Collection	National Non Domestic Rates (NNDR)	Medium	Final	Good
P2122-P13	People & Bus Change	Human Resources	iTrent (System Security)	High	Draft	Good
P2122-P32	Adult & Comm Services	Service Development & Commissioning	Non-Residential Care Provider Payments	High	Draft	Good
P2122-P39	Law & Regulation	Legal	Insurances	Medium	Final	Good
P2122-P40	Law & Regulation	Legal	Litigation	Medium	Draft	Good
P2122-P42	Law & Regulation	Public Protection	Licensing (Taxi)	Medium	Final	Good
P2122-P48	RI&H	Development Services	Building Control	Medium	Final	Good
P2122-P58	City Services	Highways & Engineering	Street Works	Medium	Final	Good
P2122-P77	Education Services	Secondary Schools	Caerleon Comprehensive (Follow up)	High	Final	Good
P2122-P84	People & Business Change	Policy & Partnership	Covid-19 Response	High	Final	Good
P2122-P1	Finance	Accountancy	Budgetary Control (Revenue)	High	Final	Reasonable
P2122-P2	Finance	Accountancy	Place & Corporate Accountancy	Medium	Final	Reasonable
P2122-P4	Finance	Strategic Procurement	Gateway Process	High	Final	Reasonable
P2122-P5	Finance	Strategic Procurement	Creditors CAATs	Medium	Draft	Reasonable

Job number	Service Area	Section or Team	Job Title	Risk Rating / Priority	Final / Draft	Opinion given
P2122-P6	Finance	Strategic Procurement	Purchasing Cards (Transactions)	Medium	Draft	Reasonable
P2122-P15	People & Business Change	Partnership Support	Performance Indicators (Data Quality)	Medium	Draft	Reasonable
P2122-P23	Children & Young People Services	Resources	Forest Lodge	Medium	Final	Reasonable
P2122-P24	Children & Young People Services	Resources	Oaklands (Replaced Rose Cottage)	Medium	Final	Reasonable
P2122-P25	Children & Young People Services	Safeguarding, Quality Assurance & Child Protection	Independent Reviewing Officer (IRO)	High	Draft	Reasonable
P2122-P26	Children & Young People Services	Youth Justice & Preventions	Youth Justice Service	Medium	Draft	Reasonable
P2122-P27	Children & Young People Services	General	Children & Families Imprest Account (Follow-Up) 2020/21	High	Final	Reasonable
P2122-P28	Children & Young People Services	General	Control Risk Self-Assessments	Medium	Final	Reasonable
P2122-P35	Adult & Comm Services	Residential Services	Blaen-y-Plant	Medium	Draft	Reasonable
P2122-P36	Adult & Comm Services	General	Control Risk Self-Assessments	Medium	Final	Reasonable
P2122-P50	RI&H	Housing, Regeneration & Property	Newport Norse (Joint Venture) Follow Up 2020/21	High	Draft	Reasonable
P2122-P56	City Services	Highways & Engineering	Highways (Follow-up) 2020/21	High	Final	Reasonable
P2122-P57	City Services	Highways & Engineering	SDR Contract	Medium	Final	Reasonable
P2122-P61	City Services	Waste & Cleansing	Landfill Site	Medium	Draft	Reasonable
P2122-P65	Education Services	Inclusion	Pupil Exclusions	Medium	Final	Reasonable
P2122-P68	Education Services	Nursery Schools	Kimberley Nursery Closure / Amalgamation	Medium	Final	Reasonable
P2122-P79	Education Services	General	Control Risk Self-Assessments	N/A	Final	Reasonable
P2122-P86	Education Services	Schools	Replacement Job - School Coverage		Final	Reasonable

Job number	Service Area	Section or Team	Job Title	Risk Rating / Priority	Final / Draft	Opinion given
			Audit Work (x7 pri, x1 comp, x1 spec)			
P2122-P87	City Services	Environment & Leisure	Replacement Job - Countryside & Conservation		Draft	Reasonable
P2122-P11	People & Business Change	Digital Services	Telephony	Medium	Final	Unsatisfactory
P2122-P54	City Services	Customer Services	Housing Benefits	High	Draft	Unsatisfactory
P2122-P33	Adult & Comm Services	Service Development & Commissioning	Housing Support Grant	Medium	Final	Unqualified
P2122-P34	Adult & Comm Services	Service Development & Commissioning	Homelessness Prevention (Rough Sleeping) Grant	Medium	Final	Unqualified
P2122-P43	Law & Regulation	Public Protection	Scambusters Grant Claim 2020/21	Medium	Final	Unqualified
P2122-P66	Education Services	Education Grants	Education Improvement Grant (SIG) 2020/21	Medium	Final	Unqualified
P2122-P67	Education Services	Education Grants	Pupil Development Grant 2020/21	Medium	Final	Unqualified

CAATS - Computer Assisted Audit Techniques  
SGO - Special Guardianship Orders  
LADO - Local Authority Designated Officer  
SIG - School Improvement Grant

## APPENDIX C

### 2021/22 audit jobs in the plan which were not completed by 31.03.22 (x26)

Job number	Service Area	Section or Team	Job Title	Risk Rating / Priority
P2122-P12	People & Bus Change	Digital Services	Payment Card Industry Data Security Standards (PCI DSS) (Follow Up)	High
P2122-P14	People & Bus Change	Human Resources	HR/Payroll CAATs	Medium
P2122-P16	People & Bus Change	Partnership Support	Risk Management	High
P2122-P17	People & Bus Change	General	Corporate Governance (Follow-Up)	High
P2122-P21	Children & Young People Serv	Childrens Teams	Children with Disabilities	Medium
P2122-P22	Children & Young People Serv	Child Protection & Family Support	Integrated Family Support Service	Medium
P2122-P31	Adult & Comm Serv	Integrated Teams	Mental Health Service	High
P2122-P41	Law & Regulation	Public Protection	Neighbourhood - CSW	Medium
P2122-P44	Law & Regulation	Public Protection	Newport City Dogs Home Follow Up	High
P2122-P47	RI&H	Community Regeneration	TBC	High
P2122-P49	RI&H	Housing, Regeneration & Property	Private Sector Housing (Leasing)	Medium
P2122-P51	RI&H	Housing, Regeneration & Property	Carbon Reduction Commitment	High
P2122-P55	City Services	Environment & Leisure	Gwent Crematorium	Medium
P2122-P59	City Services	Highways & Engineering	Vehicle Usage & Trackers (follow up)	High
P2122-P60	City Services	Highways & Engineering	Passenger Transport Unit - Taxi Contracts Follow Up	High
P2122-P64	Education Serv	Resources & Planning	21st Century Schools Capital Programme	High
P2122-P69	Education Serv	Primary Schools	Gaer Primary	Medium
P2122-P70	Education Serv	Primary Schools	Malpas Park Primary	Medium
P2122-P71	Education Serv	Primary Schools	Rogerstone Primary	Medium
P2122-P72	Education Serv	Primary Schools	Marshfield Primary	Medium
P2122-P73	Education Serv	Primary Schools	St Mary's RC Primary	Medium
P2122-P74	Education Serv	Primary Schools	Malpas Church in Wales Primary	Medium

<b>Job number</b>	<b>Service Area</b>	<b>Section or Team</b>	<b>Job Title</b>	<b>Risk Rating / Priority</b>
P2122-P75	Education Serv	Primary Schools	St Joseph's RC Primary	Medium
P2122-P76	Education Serv	Secondary Schools	Ysgol Gyfun Gwent Is Coed	Medium
P2122-P78	Education Serv	Special Schools	Ysgol Bryn Derw	Medium
P2122-P83	Ext Audits	SWCAG Training Programme	SWCAG Training Programme	Not Applicable

CSW - Community Safety Wardens  
SWCAG – South Wales Chief Auditors Group

## Appendix D – Non opinion audit work 2021/22

Job number	Service Area	Section or Team	Job Title
P2122-P7	Finance	General	Annual Governance Statement
P2122-P8	Finance	General	National Fraud Initiative (NFI)
P2122-P9	Finance	General	Financial Advice
P2122-P10	Finance	General	Follow up of Agreed Management Actions 2020/21
P2122-P18	People & Bus Change	General	Financial Advice
P2122-P19	People & Bus Change	General	Financial Regulations Training
P2122-P20	People & Bus Change	General	Follow up of Agreed Management Actions 2020/21
P2122-P29	Children & Young People Serv	General	Financial Advice
P2122-P30	Children & Young People Serv	General	Follow up of Agreed Management Actions 2020/21
P2122-P37	Adult & Comm Serv	General	Financial Advice
P2122-P38	Adult & Comm Serv	General	Follow up of Agreed Management Actions 2020/21
P2122-P45	Law & Regulation	General	Financial Advice
P2122-P46	Law & Regulation	General	Follow up of Agreed Management Actions 2020/21
P2122-P52	RI&H	General	Financial Advice
P2122-P53	RI&H	General	Follow up of Agreed Management Actions 2020/21
P2122-P62	City Services	General	Financial Advice
P2122-P63	City Services	General	Follow up of Agreed Management Actions 2020/21
P2122-P80	Education Serv	General	Schools Financial Regulations Training / Cluster Meetings
P2122-P81	Education Serv	General	Financial Advice
P2122-P82	Education Serv	General	Follow up of Agreed Management Actions 2020/21

**Appendix E - Performance Indicators 2021/22 - Newport City Council - Internal Audit Section**

	2019/20 Actual	2020/21 Actual	2021/22 Target	2021/22 Actual
Proportion of planned audits complete	76%	78%	82%	71%
Directly chargeable time against total time available	58%	N/A	55%	53%
Directly chargeable time against planned	88%	N/A	100%	80%
Proportion of Special Reviews responded to within 5 days	100%	N/A	100%	100%
Continue to train staff in all Service Groups/Areas on best financial practice – Number of sessions delivered	7	6	6	11
Staff turnover	0	0	0	1
Promptness of draft report issue: end of fieldwork to draft report issue date	5 days	8 days	10 days	5 days
Promptness of report finalisation: client response to final report issue date	2 days	3 days	5 days	3 days

N/A - Due to the disruption of Covid -19 during 2020/21, data was not recorded to enable these PIs to be calculated.



# Report

## Governance and Audit Committee

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### Part 1

Date: 26 May 2022

**Subject** Draft Work Programme

**Purpose** To report the details of this Committee’s work programme.

**Author** Democratic & Services Officer

**Ward** General

**Summary** The purpose of a forward work programme is to help ensure Councillors achieve organisation and focus in the undertaking of enquiries through the Governance & Audit Committee function. This report presents the current work programme to the Committee for information and details the items due to be considered at the Committee’s next two meetings.

**Proposal** **The Committee is asked to endorse the proposed schedule for future meetings, confirm the list of people it would like to invite for each item, and indicate whether any additional information or research is required.**

**Action by** Governance and Audit Committee

**Timetable** Immediate

### Background

The purpose of a forward work programme is to help ensure Councillors achieve organisation and focus in the undertaking of enquiries through the Governance & Audit Committee function. Attached at Appendix 1 is the forward work programme for this Committee. Below are the items scheduled to be presented at the Committee’s next two meetings. Committee Members are asked to endorse this schedule, confirm the list of people they would like to invite for each item, and indicate whether any additional information or research is required.

<b>28 July 2022</b>
Corporate Risk Register Quarter 4
Annual Report on Compliments, Comments and Complaints Management 2022
Statement of Accounts 2020/21
Audit of Financial Statements Report 2021/22
Audit Wales Annual Report on Grants Works 2021-22 Draft

SO24/Waiving of Contract Sos: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract Sos (Quarter 1, April to June)
Member Development Self Evaluation Exercise
Referrals to Audit Committee

<b>29 September 2022</b>
Progress Against Internal Audit Plan 2022/23 Quarter 1
Corporate Risk Register (Quarter 1 April to June)
Audit Wales and Regulatory Bodies 6-month update
Audit Enquiries Letter 2021/22
Referrals to Governance and Audit Committee

### **Comments of Chief Financial Officer**

There will be financial consequences for some of the reviews undertaken. These will be commented upon as the reports are presented. The preparing and monitoring of the work programme is done by existing staff for which budget provision is available.

### **Comments of Monitoring Officer**

I have no comments, as there are no legal implications.

### **Staffing Implications: Comments of Head of People and Business Change**

There are no staffing implications within this report. Any staffing implications of the reviews in the work programme will need to be addressed in individual reports.

### **Background Papers**

None.

### **Appendix 1**

***(Audit Committee to meet every other month unless circumstances dictate otherwise)***

<b>27 October 2022</b>
Internal Audit Plan 2020/21– Progress (Quarter 2)
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 2, July to September)
Corporate Risk Register (Quarter 2)
Treasury Management Report
Audit of Financial Statements Report 2021/22

**26 January 2023**

Internal Audit Plan – Progress (Quarter 3)

Financial Memorandum on the 2021-22 Financial Audit

Internal Audit Unsatisfactory Audit Opinions (6 monthly report)

Annual Report on Compliments, Comments and Complaints Management 2023

Referrals to Audit Committee

Lessons Learned 2021/22

**30 March 2023**

WAO Annual Report on Grants Works 2022-23

Annual Corporate Self Assessment

Audit Wales and Regulatory Bodies 6-month update

Annual Governance Statement (draft statement)

Referrals to Audit Committee

**25 May 2023**

Appointment of Chairperson

Treasury Management Year End Report 2022/2023

Corporate Risk Register Quarter 4

Annual Report on Compliments, Comments and Complaints Management update

SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 4, January to March)

Audit Wales Annual Report on Grants Works 2022-23 Draft

Internal Audit Annual Report 2022-2023

Internal Audit Annual Plan 2023-2024

Referrals to Audit Committee

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