

Minutes



Audit Committee

Date: 20 September 2018

Time: 5.00 pm

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

In attendance: Laura Campbell (Senior Finance Business Partner), Andrew Wathan (Chief Internal Auditor), Rhys Cornwall (Head of People and Business Change), Silvia Gonzalez-Lopez (Waste Recycling Strategy Manager), Paul Jones (Head of Streetscene and City Services), Dona Palmer (Audit Manager), Robert Squance (Audit Manager), Paul Flint (Senior Performance Management Officer), Owen James (Assistant Head of Finance - Technical and Development), Shaun Powell (Newport Intelligence Hub Manager) and Michele Chesterman (Governance Officer)

Apologies: Councillors D Davies, J Guy, J Jordan, L Lacey and K Thomas

1 **Declarations of Interest**

None.

2 **Minutes of the Meeting held on 21 June 2018**

The minutes of the meeting held on 21 June 2018 were submitted.

At the last meeting the Housing and Assets Manager had informed Committee that he had informed the client manager of the issue of double invoices from Newport Norse in order to raise it at the next board meeting in September 2018. The Assistant Head of Finance to contact the Housing and Assets Manager to confirm this had taken place.

The Head of Finance confirmed he had circulated guidance criteria on Urgent Reports as requested at the last meeting.

Agreed:

To confirm the minutes of the meeting held on 21 June 2018.

3 **Corporate Risk Register Update**

Members considered an updated version of the Corporate Risk Register which identified 14 risks; made up of 5 high risks and 9 medium risks. The rating for 8 of the risks had remained the same and 4 risk ratings had been reduced as a result of the mitigating actions in place.

During this quarter the risk rating for Risk 12 – Increasing Risk of Cyber Attack had increased from 9 to 12 following recent Home Office advice. There was a major concern around the increasing risk of cyber attack. The threat of cyber attack had previously been based on the

impacts of fraudulent and illegal activity. However recent Home Office advice suggested that there needed to be further consideration of cyber attack originating from another State or terrorist organisation.

The risk of Brexit – that the financial implications of leaving the European Union have a negative impact on the Council's financial position had a score of 9. The risk remained constant primarily because of the uncertainty until decisions were made next month. The working group was headed by the Strategic Director, Place. The risk was likely to move.

Discussions included the following issues:-

- Some wording, formatting issues and spelling mistakes were referred to.
- Has there been any information from the government to say what is happening with Brexit. The concept seemed difficult to grasp with no-one having total knowledge of implications of it? – The Head of People and Business Change responded that the Council was aware of the potential of Brexit linking in with the Welsh Local Government Association and central government. As far as the other side about impact on business continuity there was a whole suite of mitigating risk falling under civil contingencies planning. There was a tie in with operational delivery. The Head of People and Business Change led on counter terrorism and was Chair of the Prevention Panel and received a lot of information on a regular basis which he fed into the system.
- The Council had lost about 2000 staff over the last 10 years. Are those staff taking that knowledge with them or is the Council taking on board what they used to do and is that a factor, ie staff doing extra work others used to do? – The Head of People and Business Change responded that compared with 6 years ago the Council had 28% less staff in place. A significant portion of that work had been outsourced to Newport Norse, Newport Live. It was not about stripping away 28% of staff but delivering things in a different way. Over that period there had been some voluntary redundancies and some compulsory redundancies. In each case risks had been identified in connection with changes to services. They had not been individually identified in the risk register but the information had been included in the business cases. There was a risk involved with losing any Council resources in terms of the person and knowledge being identified and mitigating factors put in place to reduce the risk. It was not possible to deliver a service with reduced resources without losing staff. The Council had improved its ability to re-organise services that there were not as many single points of failure. Recruitment and retention of specialist staff (Ref 14) had improved. This particularly impacted on Finance and HR. Some restructuring work had been undertaken to manage that risk.

Agreed

1. To note the contents of the Corporate Risk Register Update.

4 Audit and Adoption of the 2017-18 Statement of Accounts

Members considered a report on the results of the external audit of the 2017-18 Statement of Accounts, which highlighted the changes since they were initially published at the end of June 2018 and sought their formal adoption as required by the Accounts and Audit (Wales) Regulations 2014.

The Accounts were published at the end of June 2018 by the Head of Finance and added to the Council's website at that time. The Accounts were available for public scrutiny, as

required by the Accounts and Audit (Wales) regulations 2014, for a 20 working day period ending 10 August 2018. The Council received no requests to review the Accounts from the public during the public scrutiny period.

Auditors had reviewed the 2017/18 Statement of Accounts in detail, and a number of required changes had been identified. The Wales Audit Office's (WAO) accompanying report showed a summary of the agreed changes. Appendix A presented the revised Accounts which members were invited to review and subsequently approve in accordance with the Council's standing orders.

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

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

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

There was only one uncorrected misstatement included in the ISA260 report which was the same misstatement which was included in the ISA260 report in 2016/17 – value of Newport Transport Ltd Depot being understated by £376,000. The reason was related to the accounting treatment used by Newport Transport Ltd and those required to be used as per the accounting policy for the group. Due to the small value and complex nature of the transactions that would need to be put through the accounts it had been decided an adjustment would not be made for this.

The Audit had been undertaken earlier this year - the deadline for the 2018/19 draft Accounts was 15 June (signed) and final accounts by 15 September. In 2020/21 the draft accounts would need to be signed by 31 May. Newport Transport had been notified of the earlier deadlines.

Discussions included the following issues:-

- With regards Tredegar House (Page 64/150) does the Council own it? - The Senior Finance Business Partner responded that the Council leased Tredegar House. The Council had a number of collections in heritage, paintings, books but the property was on lease.
- The introduction appeared to be written as spoken not a statement – The Head of Finance responded that it was written in the sense of his personal message which was why it was in that style.
- It was felt there is a lack of consistency with in house style, for example referring to thousands in ks and then 1000s.
- It was felt the wording in Page 92 third bullet point was quite long and confusing – The Assistant Head of Finance noted that this was the wording direct from the joint agreement that went to Cabinet. It was factually correct but could be written differently.

- Page 95 in relation to impact of pension deficit on reserves the passage stating ‘the deficit and liability would not arise in any single year’ was queried. The reality was appreciated but was it technically correct and should it not read ‘in normal circumstances the deficit and liability would not arise in any single year’? – The Head of Finance commented that as it was an ongoing scheme it would not crystallise and that was why it was in there. If Newport City Council were to stop and a successor did not take over it could happen but it was felt national government would then pick up the liabilities in the sector.
- There was still confusion on Friars Walk (page 97 Point 2) ‘at 31/3/2018, following the sale, the Council’s own borrowing was repaid, thereby reducing the short term borrowing value on the balance sheet from c£56.5m to c£5.4m’ – If the report was saying borrowing was repaid the implication was that it would go from £65m to nothing? - The Head of Finance noted that the figures on the balance sheet did not refer to Friars Walk in isolation. It explained Friars Walk in relation to the balance sheet. It did reduce the short term borrowing in relation to Friars Walk but the Council had additional short term borrowing. However it was noted the heading was debtors and borrowing (Friars Walk).
- In relation to Page 137/223 ‘The Group Statement of Accounts and associated notes have been prepared using unaudited draft accounts provided by Newport Transport. The final version of this document will be updated for the final published accounts’ – The final version of this document would be published for the final accounts.

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

The accounts were unqualified or clean opinion – the accounts were true and fair and properly prepared for accounting purposes. It was noted that there had been a good working relationship with Finance with any requested papers supplied on time. Members’ declarations were incomplete or not returned in time for Audit. This did not affect the work of audit.

There was just one uncorrected misstatement – the value of Newport Transport which was the same as in last year’s accounts. It became more complex to amend so it was not worth amending and leaving uncorrected aligning in future years.

Appendix 3 – summary of the higher level amendments made as a result of the audit of accounts was raised for the Committee’s attention. One of the amendments was to bring in the Newport share of the Cardiff Deal.

The faster closing deadlines for the Council were mentioned. Over a couple of years the timeline would come forward by 6 weeks.

Discussions included the following:

- The issue with Newport Depot had been ongoing for two years. It was not understood why the policy was not being aligned – Newport Transport had been notified of the dates next year with the expectation that policy will be aligned by April 2019.
- Thanks to the Finance team for a good job and congratulations to Laura Campbell and her colleagues for excellent work.

Agreed

1. To note the contents of the 2017/18 Accounts and the WAO's Financial Statements (ISA260) report on the 2017/18 Accounts and comments.
2. To authorise the Chairman to adopt the Accounts 2017/18 in accordance with the Accounts and Audit (Wales) regulations 2014 and to sign the letter of recommendation.

5 **Call in Head of Service to respond to Unsatisfactory Audit Opinions within Streetscene**

Members were reminded that following the presentation of the Internal Audit six monthly update on unfavourable audit opinions in June 2018, the Audit Committee had agreed to call in the Head of Streetscene to provide assurance that action would be taken to make the necessary improvements and how the implementation of actions would be followed up. This was in relation to the audit of the Agency/Overtime – Refuse which resulted in a second Unsatisfactory audit opinion.

The Head of Streetscene noted that he had been called in to Audit Committee just over a year ago in a background of 7 heads of service in 5 years. At last year's Audit Committee he had explained that there would not be a change straight away. The whole area had now been restructured – 4 managers with new job descriptions. The Service Manager, Waste & Cleansing had put together responses to Audit actions. A new Team Manager was in place under the role. The four team managers' roles had been changed with more accountability, more emphasis on the budget, health and safety and compliance. Team manager and supervisor roles had been amended so it was explicit they did not get overtime.

There needed to be some recognition that some of the central policies did not work. Overtime had always been historically high with Saturday working but within that there was some need for overtime – eg bank holidays, trucks breaking down. Overtime had reduced by 80% in the last 2 years which was felt to be a good improvement. However, that has led to issues as there has been a need to employ an additional supervisor as it is not possible to do the work without overtime. Miscollections were going up as there was no overtime which needed addressing.

The budget was a major concern. When the Head of Streetscene started in post the budget was over by £2m. Last year it was broadly level. He was optimistic that good strides had been made over the first year but was also aware of historic problems with his department and had been provided with support to address that. Stability was needed. Progress had been made but there was still a lot to do and it was felt the changes would be made over the next two years.

Discussions included the following:

- What does the Head of Streetscene mean when he says policies were not suitable? - The Head of Streetscene responded by saying perhaps not suitable but a discussion with HR was needed as in some areas some of the policies may need to reflect nuances on direct operational services.
- Policy should be there but as a guide – if overtime is needed as long as there is a budget the policy should enable things to be done. If the policy is stopping the department doing things Audit Committee could provide support.
- It was appreciated that things would take a while to have an effect but the two year timescale was queried. It was noted there were issues in the department but having said that the Head of Streetscene had agreed where the weaknesses were and it

came to a point where the critical items audit had identified could be prioritised? – The Head of Streetscene responded that over the next two years he was still expecting Audit would still be going into areas where not everything was perfect. Areas were being targeted but there was a natural lag but it should be possible to address follow up actions better.

- Are the issues more monetary or systems/people issues? – The Head of Streetscene responded that the issue was that there had been a lot of changes and not all the systems were in place which took time. It was felt there was now a better structure. Now the structure was in place the focus was on systems to get them all working effectively.
- In order to support going forwards the Audit Committee could propose issues being escalated to the Chief Executive in order to provide more support on a day to day basis to stop repeatedly calling in the Head of Streetscene.

Agreed

1. The Service Manager, Waste & Cleansing (SGL) to email a report of responses to Audit actions to democratic services for circulation to Audit Committee.

6 Call in Head of Regeneration, Investment & Housing - SO24/Waiving of Contract Standing Orders: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract Standing Orders

This item was deferred until the Audit Committee meeting on 22 November 2018.

7 Progress Against Internal Audit Plan 2018/19 - Quarter 1

Members considered a report on the Internal Audit's progress against the 2018/19 agreed audit plan for the first three months of the year and for information on audit opinions given to date and progress against key performance targets.

The team currently operates with an establishment of 8 audit staff. At the start of the year there were 8 audit staff in the team.

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

The performance for Quarter 1 2018/19 was summarised:

- a. 20% of the audit plan had been achieved so far which was higher than the profiled target of 10%
- b. The promptness of issuing draft reports (comparing timescale between finalising all fieldwork and issuing the draft report to management) averaged at 3 days which was well below 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) averaged 2 days which was within the target time of 5 days.

Coverage of the plan at this stage of the year was above expectations; the target being 10% for Quarter 1. The team had had very little involvement with special investigations. Although performance may dip throughout the year, historically things had picked up in the final

quarter; this year would depend on sufficient audit resources being available to complete the audit plan. All key financial systems would be reviewed by the year end.

Agreed

To note the progress against the 2018-19 Audit Plan for the first three months of the year.

8 Public Sector Internal Audit Standards - External Review

Members considered a report on the outcome of the external assessment undertaken to ensure compliance with the PSIAS.

The report presented was the external assessor's report on how compliant the Newport City Council's Internal Audit Team was with the PSIAS; a requirement of the Standards themselves. The overall conclusion was that the IA team generally conformed with the PSIAS and the impact of non-conformance was not considered to be significant. The assessment was undertaken by the former Chief Internal Audit of Swansea City Council. An Action Plan had been developed to monitor the progress of further improvements.

The Public Sector Internal Audit Standards (PSIAS) became effective from 1 April 2013 and introduced a requirement for an external assessment of all internal audit services, which must be conducted at least once every five years by a qualified, independent reviewer from outside the organisation.

The report from the assessor was attached as Appendix A. Paragraph 3.4 page 286 tabled the standards (over 300). Overall hopefully the Committee could see how the Council is very much compliant. The Assessor indicated some areas where IA can improve in the Action Plan on Page 290. It had not been updated as yet but could be brought back to Audit Committee in six months with an update on actions undertaken.

Discussions included the following:

- The report was generally good but on looking at the recommendations they seemed quite minor. Out of the 21 recommendations are they all minor or are there a couple that need to be addressed? – An update of the Internal Audit Charter was required which would be reviewed, updated and presented to a future Audit Committee. In addition it was recommended that the Chief Internal Auditor should bring the existing process together to form a Quality Assurance and Improvement Programme (QAIP). This was being addressed.
- Was there anything in particular that was a gap? – The Chief Internal Audit noted it was a good result. There were a couple of things such as the way IA dealt with fraud. They are picked up but there isn't a standalone approach for fraud. The external assessment said that a formal evaluation of the fraud risk across the Council should be undertaken including how the fraud risk is managed. The results of the evaluation should be used as part of the annual audit planning process about that.
- The Head of Finance and the Chief Internal Auditor had met to discuss the assessment. There were some things resource levels did not allow but IA were already compliant.

Agreed

- To note the report on the External Assessment of the Council's Internal Audit Team.

9 **SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 1, April - June 2018)**

It was noted that the SO24/Waiving of Contract SOs: Quarterly Report Reviewing Cabinet/CM Urgent Decisions or Waiving Contract SOs (Quarter 1, April – June 2018) was relevant to Item 8 as it was the same Head of Service.

Families First Programme - The Chief Internal Auditor had commented that there was appropriate justification within the report to support the CM's decision to waive the Council's CSOs. However, there was very little justification in the report to support the urgency of the decision.

Agreed

1. To defer the item until the Audit Committee on 22 November 2018.
2. Call all in Head of Regeneration, Investment and Housing to discuss this report in addition to Item 8.
3. The Chief Internal Audit to send an email to all heads of service, and Chief Executive specifying criteria for Urgent Reports and that it is not acceptable for Heads of Service to come to Audit Committee unprepared.

10 **Work Programme**

Members' attention was drawn to the Work Programme.

Agreed

To note the Work Programme.

The meeting terminated at 7.00 pm.