Minutes

Audit Committee

Date:	22 November 2018
Time:	5.00 pm
Present:	Mr J Baker (Chair) Councillors D Davies, J Guy, J Jordan, H Thomas, K Thomas and R White
In attendance	Robert Squance (Audit Manager), Owen James (Assistant Head of Finance - Technical and Development), Sue O'Brian (Families First Progarmme Manager), Tracy McKim (Partnership Policy & Involvement Manager), Paul Flint (Performance and Research Business Partner), Ben Hanks (Housing & Assets Manager) and Michele Chesterman (Governance Officer)
Apologies:	Councillors H Townsend

1 **Declarations of Interest**

There were none.

2 **Minutes of the Meeting held on 20 September 2018**

The minutes of the meeting held on 20 September 2018 were submitted.

Item 4 – Audit and Adoption of the 2017-18 Statement of Accounts (page 9)

Should read 'sign a letter of representation' not 'recommendation'

Item 5 – Call in Head of Service to respond to Unsatisfactory Audit Opinions within Streetscene (page 10)

The Governance Officer to follow up response from Service Manager, Waste & Cleansing (SGL) regarding an action to email a report of responses, to Audit actions, to Democratic Services for circulation to Audit Committee.

Agreed:

To confirm the minutes of the meeting held on 22 November 2018

3 **Corporate Risk Register**

Members considered an updated version of the Corporate Risk Register. At the end of Quarter 2 there were 14 risks identified in the risk register made up of 5 high risks and 9 medium risks. At the end of this quarter Risk 14 (Recruitment of specialist staff) was closed, the risk rating for Risk 6 (Medium Term Budget) increased from 16 to 20 due to budget pressures and Risk 2 (Capacity & Capability) reduced from 12 to 9 following the implementation of the Talent Management Framework and Management in Action course. All remaining 11 risk ratings remained the same in the last quarter.

At the end of the next quarter there would be a re-evaluation of all risks including the risks and mitigations relating to Brexit and a new risk relating to the city centre security and safety.

Risk 6 (Balancing of the Council's Medium Term Budget) – It was recognised by the Council that there are still significant challenges in balancing the 2019/20 budget and delivering the medium term plan because of ongoing demand pressures, pay awards and funding challenges. As a result of these challenges the impact of this risk has been increased to reflect the importance of setting a balanced budget.

Risk 14 – (Recruitment & Retention of Specialist Staff) – this risk had been closed because of the completion of the two mitigating actions assigned to the risk. It was also recognised that Risk 2 (Capacity & Capability to meet Council's objectives) was also managing aspects in relation to workforce planning, succession planning and the Council's Talent Management Framework.

Risk 2 (Capacity and Capability to meet the Council's Objectives) – During quarter 2, the Council launched two key programmes: Talent Management Framework and the Management in Action Course for all 350 managers. Both of these would enable the Council to provide its existing and future managers with the capability to deliver its objectives. As a result of this work it was agreed to reduce the risk score from 12 to 9.
Risk 4 (Brexit) – the Council had been in discussions with the WLGA and was also in the process of undertaking detailed exercise to identify any gaps across the organisation, which could be directly or indirectly affected by Brexit over the next 5 years. The outcome(s) of this work would enable the Council to reassess the risk and continue to put in place the necessary mitigation actions, which would be reported at the quarter 3 update.

Discussions included the following:-

Risk 4 (Brexit) - The Audit Committee discussed the activity undertaken by the Council's Corporate Management Team in managing this risk. The Committee would like to inform Cabinet Members that the risk had been identified but it was not known the totality of its impact in relation to the different Brexit scenarios and that senior management should be aware of that at the end of quarter two.

Risk 7 (Increased pressure on Demand Led Services) – The Committee noted that the management updates on the progress against the mitigating actions had not fully demonstrated the partnership / collaborative working that takes place between the Council, Health bodies and third sector organisations. This was exemplified in by the Older Persons Pathway (Risk 7.06) not demonstrating the work being undertaken between GP surgeries, and other organisations to reduce the demand on Health and Social Care:

· **Risk 13 (Asset Management: Carriageways and Buildings)** - The Committee discussed the rationale for the risk score of 25 and why this risk has stayed at the same score for the last 9 months and whether the mitigating actions identified in the risk register were effective in reducing risk for the Council. The Committee acknowledged the rationale for the scoring was a reflection on the cost to maintain the highway assets and council buildings and that there is a significant shortfall in the Council's revenue and capital budgets to meet these demands. The Committee also challenged why Highways assets and Council buildings were combined into one risk.

Agreed

Risk 4 (Brexit):

- There should be more visibility at a higher level bringing together the knowledge and information from individual service areas;
- There should be more reflection on the Partnership working being undertaken to address the Brexit Risk; and
- The Brexit risk in the Corporate Risk Register should be re-examined and provide a more comprehensive overview of the mitigating activity being undertaken across the Council to address the risk.

Risk 7: (Increased pressure on Demand Led Services)

That Risk Owners and Action Owners consider the collaborative working being undertaken between the Council and its partners to help reduce the risk on the Council in delivering services.

Risk 13: (Asset Management: Carriageways and Buildings)
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- That Cabinet should take action to raise these concerns with the Welsh Government over the funding levels to maintain Council assets;
- Senior Management re-evaluate this risk and determine whether the risk effectively covers both risk areas relating to highways / building assets and if mitigating actions are sufficient to address the risk;
- That if the risk cannot be mitigated that the annual governance statement and accounts reflect this risk on the Council.

4 Treasury Management Report (April - September)

Members considered a report on treasury activities undertaken during the period to 30 September 2018 and confirmed that all treasury and prudential indicators had been adhered to in the first half of the financial year.

The Council continued to both a short term investor of cash and borrower to manage day-to-day cash flows. Current forecasts indicated that in the future, temporary borrowing would continue to be required to fund normal day to day cash flow activities. All borrowing and investments undertaken during the first half of the year was expected and within the Council's agreed limits.

As shown in Appendix B, during the first half of the year the amount of borrowing had reduced by a small amount of £0.7m to £146.8 m. This related to loans which had been taken out on an interest and principal repayment basis.

No further long term loans had been taken out in the first half of the financial year. However, it was anticipated that the Council would need to undertake additional borrowing on a short term basis for the remainder of the year in order to cover normal day to day cash flow activity. With current estimates it was not expected that any additional long-term borrowing would be required in this financial year. However, the £40m stock issue was maturing on 10 April 2019, therefore it was deemed beneficial to do so with advice from the Council's external advisors that borrowing would be taken out early if the cost of carry was favourable.

Appendix B summarised the Council's debt position as at 30 September 2018. The changes in debt outstanding related to the raising and repaying of temporary loans.
With regards Investments Activity/Position the Council's strategies were (i) to be a short term and relatively low value investor and (ii) investment priorities should follow the priorities of security, liquidity and yield, in that order.

Appendix A outlined the underlying economic environment during the first half of the financial year, as provided by the Council's Treasury Management Advisors Arlingclose.

The Authority had complied with the Prudential Indicators for 2018/19, set in March 2018 as part of the Treasury Management Strategy. Details of the treasury-related Prudential Indicators were found in Appendix B (Tables 5 and 6). The economic outcomes such as Brexit had been touched upon in the report. There would be more discussion around the risk in connection with Brexit in the Budget Strategy Report in December 2018 and the Treasury Management Report in January 2019. Finance would welcome any comments which would be taken to Cabinet before going to Council.

Comments from Members included:

- Page 90 Appendix B, Table 2 – the net borrowing figures in Tables 1 and 2 appeared to be different – The Assistant Head of Finance responded that Table 1 included cash and cash equivalents and was based purely on capital borrowing for capital purchases. Table 2, however, included everything. The true net borrowing figure was £123.3m. It was suggested that this be clarified in the tables.
- Page 92 Table 6 – (Debt Limits) – On 30.9.18 the operational boundary total debt was £192m. What was the Council's preferred debt level? – The Assistant Head of Finance responded that the debt level was at the minimum level – a mix of capital expenditure and borrowing. The Council was borrowing to a minimum to deliver the capital programme. The operational boundary was based on the estimate for capital expenditure to the end of the year. It was inevitable that the Council would undertake more borrowing and in the future there would be an increase in the pressure of borrowing. The Capital Strategy would soon be produced which would address borrowing over the longer term. The issues the Council would be concerned about in terms of borrowing were whether it was prudent, affordable in the current climate and over a longer term (20/30 years) and ratios around debt and expenditure. It was currently 6% excluding PFI 9%.
- The Council has one of the highest reserves in Wales. How much of the reserves was identified to be used as spend? - The Assistant Head of Finance responded that there was very little that was not earmarked for specific purposes. The reasons for the high reserve was PFI. There was £45m in reserves to fund PFI in the future. If the reserves were utilised for anything now it would put a pressure on future generations. There were a number of invest to save reserve and general reserves (£6.5m). Invest to save reserve was in place to facilitate cost savings in the future. To fund budgets from reserves was not prudent.
- The PFI was £45m total. Why was it not possible to pay that off? - The Council had engaged Treasury Management Advisers to assess whether it was cost effective to do that. Because of the interest rate on the contract the premium was so significant that it would be costly to do so.
- What impact would the stock issue release in 2019 have? – The Assistant Head of Finance noted that a decision could be made to go out of the operational boundary earlier if the interest rate rose but the advice from Treasury Management was that the interest rate was not going up. A number of Local Authorities in England had used reserves to fund budgets and were now finding themselves in difficulties. The Capital Strategy would address those issues.

Agreed:

To note the report on Treasury Management activities for the period to 30 September 2018

5 **Lessons Learned 2017/18**

Members considered a report presenting the findings of an initial lessons learned review carried out by Finance officers following the 2017/18 accounts closedown. It gave an assessment on the findings of the lessons learned review and the plans in place to implement for 2018/19 and the key risks to the closedown process for 2018/19. A meeting had already taken place with Wales Audit Office (WAO) to discuss what needed to be put in place to meet the earlier closing deadline and which areas of the accounts could be audited early.

The Assistant Head of Finance informed Members that the lessons learned process was carried out annually after the statement of accounts. This year there was greater importance due to the closing timetable coming forwards for draft accounts and audit for final accounts.

Whilst there was significant progress made again within 2017/18 there were still a number of improvements that needed to be made to ensure a better process and completion of accounts by an earlier closing deadline in the near future.
2018/19 year end would be the first year where the final date on which the accounts must be signed and published would be brought forward from 30 June to 15 June with an audited statement completed 15 September.

Early discussions had taken place with Wales Audit Office, and a meeting had already taken place to discuss lessons learned with Finance Officers, as well as discussing work that could be undertaken early by both the Accountancy Teams and WAO to ensure that the revised deadline could be met.

The opinion from the Independent Auditors report was that the accounts gave a true and fair view and had been properly prepared in accordance with the Code of Practice. This was in relation to both the single entity accounts and group accounts.

The process for challenge and improvement for 2017/18 accounts closedown and financial statements had already begun. Classification and coding of expenditure and income needed to be improved. Also improving the process in terms of efficiency in terms of the working audit with what can be done earlier. It built on what had been done in the last two years with Audit. The aim being to build on improvements each year. The early work on provisions had gone well and a couple of capital items, disposals had been dealt with early. A timetable had been drawn up in terms of what needed to be done.

A review of certain provisions such as accumulated absence was undertaken by finance staff during early 2018 to enable WAO to review early prior to the end of the year. Building on the work that was completed early, the same work was planned for early 2019. All other provisions and lease reviews would be completed within the same timescales.

This review would be especially important in regards to leases due to the new IFRS 16 standard which replaced the earlier leasing standard IAS 17. Whilst the new standard did not come into force until the 2019/20 financial year, IFRS 16 could lead to major changes in the way local authorities accounted for assets used under lease arrangements and the obligations under those leases. Early review of leases would not only be important for 2018/19 year end, but would provide a solid foundation for the change to the new standard in 2019/20.

Comments made included:-

- The document could benefit from the sorts of questions that Audit Committee would ask.
- The style of narrative and quality of writing was not as good as it could be with a lot of tables.
- It was noted that last year's working paper was not the same as the published document.
- Given that the Audit Committee was being asked to sign off assessed on the style of the document and how well it looked with regards the quality of the review, the review of Draft 1 in June and the final accounts and Audit Committee picked up on a number of spelling and grammatical errors. This raised questions in relation to the review process of the document.
- In the timetable there was no mention of the Annual Governance Statement.

Agreed:

To note the lessons learned process that had been carried out to date.

6 **Wales Audit Office - Final Accounts Memorandum**

Members considered the Wales Audit Office – Final Accounts Memorandum. The report followed on from the Audit of Financial Statements which was presented at the last meeting raising some of the less critical issues arising from the Audit.

The Auditor General had issued an unqualified opinion on the 2017-18 financial statements of Newport City Council and Newport City Council Group and pages 4 and 5 contained a summary of the report. Appendix 1 to 3 contained the main recommendations, all of which had been accepted by management. It followed the same theme as the Lessons Learned document. The group accounts and working papers had been completed in good time and looking ahead to an adjusted misstatement. In terms of coding of expenditure items in the accounts service areas the correct procedure was being followed and was correctly represented in the financial statement.

Agreed

To note the Wales Audit Office – Final Accounts Memorandum.

7 **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**

Michaelstone y Fedw Village Hall – Urgent Decision - 22 March 2018

Members were made aware that at the last meeting it had been agreed to call in the Head of RIH in relation to SO24 Urgent Decisions. It was understood that he was not available to attend today but had nominated two Managers to respond on his behalf.

The Chair confirmed he had no objections to the managers responding on behalf of the Head of Service.

The urgent decision to grant lease to Michaelstone y Fedw Village Hall had been listed from page 113 onwards in the papers. The Welsh Government had provided funding for installation of High Speed Broadband for communities at this location (MyFi). The project was underway and would entail installation of service hubs and 25 kilometres of cabling by the end of 2018. At Michaelstone y Fedw, the location of the server hub was within the subject land. This was the first element of the construction project and installation must start during the first week of April 2018. Based on discussion, the MyFi project had committed contractually and facilitating work would start physically before the end of February 2018. To protect both parties and to facilitate the Broadband installation, it would be necessary to complete the new lease before the facilitating work commenced.

The Chief Internal Auditor had commented that there was no clear justification for the urgency of this decision recorded in the papers presented. A timeline of key events for the project programme was not included in the papers

A briefing note had now been prepared and included in the papers on page 117 setting out the timeline of events. The Chief Internal Auditor now believed this was better. The Housing and Assets Manager had been asked to attend the meeting by the Head of RIH to answer any queries members may have.

The Housing and Assets Manager explained that the justification for the urgent decision was on the basis that there had been insufficient time to use the normal course of action. He had tried to capture the situation in the timelines of the briefing note. Ultimately the broad band was required in village hall. In order for the upgrade to take place, Virgin Media required details of the lease. They wished to have certain terms agreed and the decision had to be taken by the Cabinet Member hence the need for the urgency of the report.

Members raised the following queries:

- Was it a funding issue? – No it related to the lease. There was a deadline of 12 February 2018 which was then brought forwards to 9 February. The risk could have been taken to operate on the previous lease but it was felt that it was more appropriate to update the lease so there was no liability for any further costs. It was felt to be more appropriate to follow the urgent report process as the normal process would have taken longer.
- Michaelstone won an EU Award for this system as it showed how communities worked together to get things done. Members felt it was a great scheme.
- The Chair asked if the Committee was satisfied the urgent process had been followed but that there was a need for more information at an earlier stage? – The Chief Internal Auditor had now contacted corporate directors to emphasise the need for valid reasons why an urgent report is required to allow the Audit Committee to decide whether it was due to external factors (as in this case) or whether it was due to internal systemic issues.

Families First Programme – Urgent Decision 16 May 2018

The reason for urgency was that in October 2017 Newport discovered it was to become an early adopter of Welsh Government's new grant funding initiative Flexible Funding from 1 April 2018. Little information however, was made available on how this new fund was to operate and the recommissioning of Families First, which was already in progress, was put on hold until a fuller understanding of how the funding would impact the service was understood. The current Families First contracts were due to expire on 31 March 2018 and as all extensions within the existing contract terms were exhausted it was being requested that Contract Standing Orders be waived so an extension for a further year be granted. This extension would allow a further review of the programme in accordance with the Flexible Funding guidance and result in either recommissioning services or commissioning new services from 1 April 2019.

The Chief Internal Auditor had stated in his report that there was no appropriate justification within the report to support the CM's decision to waive the Council's CSOs. However, there is very little justification in the report to support the urgency of the decision. The report was dated 16 May 2018, as was the CM decision even though action was required by the 1 April 2018; there is no valid reason within the report why the CM was asked to make a retrospective decision. The report clearly states that WG issued new guidance in April 2017 to become effective from April 2018 and that NCC had been notified of their Pathfinder status in October 2017. This would give ample time to request that the CM waive CSOs for the reasons stated in the report and therefore the need for an urgent decision was not required. The request to make an urgent decision should be justified.

The Preventative Services Manager explained that Families First came to Newport in 2012 with the contract running until April 2017. The then Cabinet Secretary, Carl Sargeant, decided to refocus the Families First Programme and gave the deadline of April 2018 to refocus. All throughout 2017 Families First recommissioning group meetings took place looking at assessing the needs of Newport in terms of the Future Generations assessment. In October 2017 it was announced there would be pathfindiner for flexible funding. Families First has had £2.4m of flexible funding which would join together 10 grants – £16 -17 mil to one large grant. In October the only information was that there was an intention that this was going to happen. In October a series of meetings took place with Welsh Government. It was necessary to meet to discuss duplication of work and funding between the 10 programmes. Then it was commission a full review in 2018/19 by an independent consultant (currently ongoing). The new flexible funding framework would then be introduced. Although it looked like there would be a lot of time it did not happen that way. A great deal of work had taken place at the end of October to Spring 2018. External contracts with all projects were expected to be recommissioned. It was necessary to tell them the Programme would be rolled over under the refocussing that the Cabinet Secretary had put into place occurred. One of the projects had to be decommissioned.

Members raised the following queries:

- At what stage in the writing of the report was it known that it would be necessary to waive standing orders? – January/February.
- In the summary it felt like there was a possible lack of planning in the process. Normally there was a robust planning process to avoid going outside standing orders. Was there a lesson that can be learned around the planning of these things? – This would be taken on board. There had been conflicting information from the Welsh Government and flexible funding.
- Timelines with dates would have been very helpful.
- With regards the decision taken to extend the programme for a year, were those processes now in place to ensure the Council would not be in the same position again? Consultation was due to go back next month to the Community Board and processes were now in place.

Agreed

To note the reasons for the urgency/waiving of contract standing orders reflected in the documentation supporting each decision and from the officers in attendance.

8 **Internal Audit Plan 2018/19**

Members received a report on the Internal Audit – Progress against audit plan 2018/19 (Quarter 2) to inform Members of the Internal Audit Section's progress against the 2018/19 agreed audit plan for the first 6 months of the year and for information on audit opinions given to date and progress against key performance targets. The report identified that the Internal Audit Section was making good progress against the 2018/19 audit plan and internal performance indicators.

The performance for Quarter 2 (2018/19) was summarised with the details shown at Appendix A:

- 36% of the audit plan had been achieved so far which was higher than the profiled target of 30%
- the promptness of issuing draft reports (comparing timescale between finalising all fieldwork and issuing the draft report to management) averaged at 9 days which was below the target time of 10 days;
- 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 3 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 30% for Quarter 2. The team had lost one member of the Audit staff in Quarter 2. The post had been advertised for the third time as no suitable candidates had been found. Other options were being investigated such as agency/secondments, contract audits.

Audit opinions issued so far in 2018/19 were shown at Appendix B. The definition of audit opinions currently given was shown at Appendix D.

17 jobs had been completed to at least draft report stage by 30 September 2018 warranting an audit opinion: 2, *Good*, 11 *x Reasonable*, 3 x *Unsatisfactory* and 1 x *Unsound*. Further details would be provided on unsatisfactory and unsound jobs in the 6 monthly report to 24 January Audit Committee.

Work had been undertaken on grants, annual governance statement, national fraud initiative, provision of financial advice and training (Appendix 2).
Audit Committee was asked to note progress and if they had any comments.

Discussions included::

- Was Internal Audit content with staffing levels? – Subject to a vacancy being filled staffing levels were just about sufficient to deliver the plan to bring the audit opinion for the annual report. If the vacancy was not filled on a long term basis options were being explored for the short term. Beyond that if the post could not be filled it was cause problems.

Agreed

To note the Internal Audit Plan 2018/19

9 **Work Programme**

Members' attention was drawn to the Work Programme.

Agreed

To note the Work Programme

10 **Date of Next Meeting - 24 January 2019**

The date of the next meeting was confirmed as 24 January 2019

The meeting terminated at Time Not Specified