

Minutes

Audit Committee

Date: 21 November 2019

Time: 5:00pm

Venue: Committee Room 1

Present: Mr J Baker (Chair), J. Jordan, H. Thomas, K Thomas, R. White and D. Williams

In attendance: Andrew Wathan (Chief Internal Auditor), Dona Palmer (Audit Manager), Jan Furtek (Principal Auditor), Ramim Khan (WAO Audit Lead), Owen James (Assistant Head of Finance), Laura Campbell (Senior Finance Business Partner), Meirion Rushworth (Head of Finance), Anthony Veale (Engagement Director WAO), Paul Flint (Performance & Risk Business Partner), Lana Picton (Headteacher of Caerleon Comprehensive School), Kathryn Bevis (Chair of Governors-Caerleon Comprehensive School) (Pamela Tasker (Governance Support Officer).

Apologies: Councillors L Lacey, J. Guy

1. Declarations of Interest

Councillor D. Williams declared an interest in relation to item 4 on the Agenda.

2. Apologies for Absence

Councillor L. Lacey, Councillor J. Guy

3. Minutes of the Last Meeting

The Chair stated that on Page 9 of the minutes from the last meeting, that in the last paragraph, the Chair confirmed that this advice was erroneous as being caught within IR35 did not mean that a contract of employment existed. IR35 is tax law not employment law. They did not need an employment contract for this individual but the worker was still caught by IR35.

On Page 8 the Chair confirmed that a letter had been sent to the Headteacher of Caerleon Comprehensive School requesting a written response in relation to the audit report and this had been subsequently received by the Audit Committee. Also on page 8 it was agreed at the previous Audit Committee for a verbal update on financial progress of Caerleon Comprehensive School to be provided by the Head of Finance which is to be provided in agenda item 4.

4. Call in of the Headteacher and Chair of Governors of Caerleon Comprehensive School re the Internal Audit Unsatisfactory Opinion.

The Chair reiterated for the Committee that the Headteacher of Caerleon Comprehensive School had requested for the item agenda to be presented first which had been agreed by the Chair.

The Chief Internal Auditor stated that following the presentation of Internal Audit's six monthly update on unfavourable audit opinions in June 2019, Members of the Audit Committee agreed to escalate their concerns and call the Headteacher and Chair of Governors of Caerleon Comprehensive in to provide assurances to the Audit Committee that there were proper controls in place.

The Chief Internal Auditor stated that it was important to note that the Internal Audit Opinion was based on a balance of strengths and weaknesses identified within the internal control environment and that this was the case for all audits undertaken.

It was further stated by the Chief Internal Auditor that various tests were undertaken to verify whether or not there was compliance with Council or School policies/procedures/sound financial management. All of the conclusions within the Internal Audit report were based on evidence, much of which was provided or obtained from the school site at the time when the audit was undertaken.

The Chief Internal Auditor also confirmed that information was requested during the Audit which was not forthcoming and that this itself was a weakness, and this was recorded within the report. Other conclusions within the report were supported by evidence, all of which were previously discussed with the Headteacher and the Internal Audit team. The report presented to Audit Committee contains the Headteacher's comments previously provided to Internal Audit along with her comments provided directly for Audit Committee; these differ slightly.

The draft report was issued on 15th March 2019 to the Headteacher and was subsequently finalised on 17th October 2019; the delay was due to ongoing discussions with the Headteacher who was given every opportunity to provide additional evidence to support the audit findings.

The timeline provided by the Headteacher and included in her comments provided directly to Audit Committee contained inaccuracies.

The Chief Internal Auditor stated that the summary of weaknesses was shown in Appendix B.

The Chair explained to the Committee that the key concerns of the original draft report were presented to the Audit Committee in June 2019 as per normal protocol. Usually the Audit Committee would not call the Manager/Headteacher into Audit Committee unless there were 2 consecutive unsatisfactory audit opinions; however, if the issues identified were potentially

significant then Members could call in the Headteacher to the Audit Committee earlier and this was the case in this instance.

The Chair provided context for the Audit Committee that it considered discussing this school agenda item in September 2019, but it was advised by the Chief Internal Auditor that as it was a new school term the agenda item was moved to October 2019; subsequently this was moved to November 2019.

The Chief Internal Auditor stated that Appendix B showed that there was 1 Critical weakness and 26 significant issues and that the Headteacher's response in Appendix C provided the School's version of a timeline regarding the reporting process.

The third column provided a response to the Audit Committee from the Headteacher and it was noted that there was a slight difference in responses.

The report also contained the original issues identified by the Internal Audit Team along with the Headteacher's original responses

The forecasted financial position as of December 2018 for Caerleon Comprehensive School was a projected amount of £1.6 million deficit. The Headteacher had provided a response for the Audit Committee and Caerleon School welcomed the fact that the School would be re-audited in 6-12 months' time.

- The Head of Finance provided a verbal update to the Audit Committee that Caerleon School had a forecasted overspend of £1.2 million which would change between now and March 2020.

The Headteacher commented that in relation to the critical risk 6.01 on page 19 showing a projected deficit of £1.6 million, that they did not know where this figure came from or that it was the figure projected deficit at the time.

The Chief Internal Auditor confirmed that the details contained in the audit report were a result of what was provided to the Internal Audit Team at the time of the audit from the School. This evidence was used to forecast this projected figure and that there was no recovery plan in place.

The Headteacher suggested that a working spread sheet was provided to the Audit team at the time of the Audit taking place.

The Headteacher stated that this figure of £1.6 million deficit had not been reported to the school or to the local Authority.

The Chief Internal Auditor confirmed to the Committee that in March 2019 this deficit was reported to the School Governors and that they had been made aware of what had been projected and were kept aware through deficit recovery plans. The Chief Internal Auditor showed the Headteacher an email she had sent to his team following the audit with an attachment which showed an extract of a report to the Governors which stated that the School was forecast to have a £1.63 m deficit position at the end of 2019/20.

The Headteacher explained that Caerleon Comprehensive School was the lowest funded school in Wales and had received more budget cuts between the years 2017-2019. The Headteacher confirmed that the school was working with the Local Authority, the Chief Education Officer and the Finance team to work with a restructure plan

A Member questioned the school's loan repayment of £500,000 and it was confirmed that this loan repayment had not been paid by the school but did not form part of the deficit balance. It was questioned as to whether this figure would be added to the £1.2 million deficit and it was also questioned that if it was a separate balance how the school paid for it, and does the Local Authority ask for it. It was confirmed that this figure was a separate figure and was not part of the school balance.

A Member commented on the statement that Caerleon Comprehensive School had the seventh lowest pupil funding in Wales. The Headteacher confirmed that these were recent national figures from the 'My Local School' government website.

The Chair stated that there was a plan agreed at the start of the year and questioned why this plan was not delivered, as this is what the Audit team looked at.

The Headteacher confirmed that there was a recovery plan in place but due to budget cuts and unforeseen costs such as rising staff costs and costs of employing existing staff, full recovery was not possible.

The Chair stated that they did not understand these unforeseen costs, and would the education team not see these incremental costs.

The Headteacher stated that they had not received any report from Finance about these increased staff costs.

- The Headteacher stated that the issues at point 1.05 have been addressed.

The Chief Internal Auditor stated that in relation to the recovery plan in place the Headteacher's comments on the report did not state what actions were being taken to address the situation.

The Headteacher confirmed that these details were being discussed with the Education department and the Finance team but that it could not be discussed at this time due to people's jobs being involved. There was a meeting at the end of this month to look at updating the deficit every 3 months. The Headteacher confirmed that there would be regular meetings and phone calls so there was an increased level of support.

- Issues at 1.06 had been agreed

- At issue 1.07 a new business manager was now appointed and at the time they did not have the relevant documents. The Business manager now meets the needs of the school and the policy was approved
- At point 2.09 in relation to procurement, the School Governors were presented with options, but the options were not put forward and minutes were not detailed. The Chair commented that minutes should be present from previous meetings and key issues and actions should be noted and that there were quite a few gaps present.
The Headteacher stated that minute takers were not trained at the time but that they were now satisfied with the training. The Appendix papers were not enough previously, and the Audit team had pointed this out.
- There were no questions on point 2.10.
- Point 3.04 the staffing structure was requested and a spreadsheet was provided. The Headteacher stated that the staffing structure was not asked for and a list of names was not provided as structures could change with different staffing levels and post changes. The Chair commented that if the Audit report stated that the staff structure was not available then it should have been made available to the Audit team at that time. The Chief Internal Auditor stated that if the staff structure had been made available to Audit then it could have been looked at in full as Audit could have examined names, supporting documents, and teacher responsibilities, for example; how many teachers in a certain department. However, this information was not forthcoming. The Chief Internal Auditor also stated that this was a normal request of information and had been readily provided by all other schools which had been audited.
- A Member questioned whether the school's large deficit was down to the unexpected increase in costs regarding staffing and if the staff structure was made available to Audit this would have been helpful to the audit team. The Headteacher commented that costs were a small part and structures were made available to the Audit team, but the information was kept in two places and the business manager in post at the time was new in post and gave out what information they thought was correct. This was put into a flow chart form by the Project Team and the schools kept it in a list. The Chief Internal Auditor confirmed that conversations were ongoing between Audit and the Headteacher about this issue.

The Chief Internal Auditor stated that the information requested was not made available to Audit on an Audit visit in December 2018 and January 2019. It was commented that this information was always obtained from other schools during the Audit process.

The Chair questioned as to whether the list of school staff positions would all be on a spread sheet somewhere in the school and that the data should be there to be analysed. It was commented that the budget was wrapped up in staffing and so this was a very important issue and questions should be asked about how this information is kept on a staff level. The Chair also commented that this would be part of the normal dialogue between the Audit team and the

school and were the auditors not making themselves clear or was it the school?

A Member asked as to whether there was any requirement for this to be done as since 2015 the Teaching and Learning Responsibility (TLR) job roles in the school would have changed and would this be part of the sub-committee term meetings.

The Headteacher commented that to review the entire structure would be very different and there had been an agreement with unions that it would not be reviewed. The Headteacher also confirmed for the Audit committee that the TLR roles were being reviewed at the school now.

A Member remarked that the school received a budget every year but since 2016 the school was getting into debt every year following but was stable in 2016 and there have been 3 budgets since then; was there £250,000-£500,000 lost or misplaced? The Headteacher confirmed that there were half termly sub-committee meetings held where there were finance statements and a report on every line of budget, this involved government money coming into school as well as money going out and every line of the budget was interrogated. A Member commented that it was expected that the school was aware of this problem that needed to be resolved and it was the governing body that needed to be sorting this deficit, to make difficult decisions and for staff to be let go. The Headteacher confirmed that cleaners, Learning Support Staff and other staff had left Caerleon School and cuts have been made where possible.

A Member felt that cuts needed to be done and it was a difficult thing to do but that this was not being done by Caerleon Comprehensive School.

The Headteacher confirmed that 8 teachers have been lost and the National Figures showed that Caerleon Comprehensive School has the 8th biggest set of class sizes in Wales and the school was working on different models to address this. The school was trying to reduce the deficit and they were getting advice from the local authority and that not a penny was being wasted.

The Chair commented that all the relevant points had been made and that the Audit Committee needed more feedback on these points in future.

- The Chair referred the Committee to point 3.05 regarding DBS checks in relation to Employee A. The Headteacher confirmed that the employee was not in class with children until their DBS was in place and a risk assessment was also in place at that time.

The Chair commented that a DBS covered everyone that was working in a school and the Headteacher stated that it was a late appointment. It was pointed out by the Chief Internal Auditor that the risk assessment was dated the same date as the DBS check so it was not in place prior to the employee starting with the School. The Headteacher stated that the DBS check for Employee B was straightforward.

In relation to Employee C their DBS check should have been checked within 4 weeks of the employee's arrival. The Chief Internal Auditor stated that a check was required and was not in place at the time of starting employment.

- In relation to point 3.06 the Headteacher confirmed for the Committee that the toilet policy was developed after the Audit team visited.
- A Member expressed their concern regarding point 3.09 and said that they found that staff taking out young people in fleet vehicles who did not have their licenses reviewed very worrying. The Headteacher confirmed that the Business Manager has acted on this and checks have been carried out.

The Chair commented that the Audit of Caerleon Comprehensive School was carried out in December 2018 with the Draft report being issued in March 2019. The Chair asked why the final Audit report took so long for it to be agreed and the Headteacher stated that communications were staggered. The Headteacher also stated that their responses for the Audit Committee still stand. The Chief Internal Auditor stated that although responses were provided to Internal Audit they were justifications of why things were wrong as opposed to the expected management actions to take in order to address the weaknesses identified.

The Chair mentioned that in the Internal Audit plan the outliers got reported to the Audit Committee and could the Audit team explain the delay in finalising. The Chief Internal Auditor stated that after the draft report was issued there was a lot of going back and forth with the school as the school produced additional information for the Audit team. The Headteacher stated that there were management actions provided which changed but there were no significant changes in the final report. The Chief Internal Auditor repeated that responses to the draft report provided by the Headteacher were mainly justifications of the situations identified rather than management actions to address the identified weakness.

The Chair expressed disappointment at the length of time it took to finalise the Audit report.

Summary:

- The Chair stated that they were satisfied with the responses from the Headteacher and the Chief Internal Auditor and with plans going forward, enquired as to whether enough progress had been made.
- The Chief Internal Auditor stated there would be a follow up Audit in 2020/21 which would be undertaken early in that financial year. This would review the issues identified in this School report to determine if expected improvements had been made by the School and reported back to Audit Committee.
- The Chair requested a regular update to be provided to the Audit Committee on the progress of Caerleon Comprehensive School.

The Chief Internal Auditor stated that the school had accused the Internal Audit Team of filing an inaccurate Audit report but that in 70-80% of the Headteacher's responses to the Audit Committee, stated that the actions were

agreed so this suggested issues identified were accurate despite what the Headteacher had previously stated.

As stated above other comments from the Headteacher were justifications for the situations identified. The Headteacher agreed that the report was not full of inaccuracies.

The Chair stated that it was concurred that the Internal Audit report was not inaccurate and expressed thanks to the Chief Internal Auditor and his team for the hard work completed.

5. Internal Audit Plan 2019/20- Progress (Quarter 2)

The Chief Internal Auditor requested the Committee to view the Internal Audit Plan. The report's aim was to inform Members of the Audit Committee of progress of work undertaken by the Internal Audit Team against the agreed Audit plan as at 30th September 2019.

The attached report identified that the Internal Audit Section was making good progress against the 2019/20 audit plan and internal performance indicators.

- Appendix A on page 46 showed that in 2019/20, 33% of the planned audits were completed which was ahead of the 30% target.
- The promptness of issuing draft reports averages at 6 days which was well within the target time of 10 days.
- The promptness of report finalisation averaged 1 day which was well within the target time of 5 days.
- It was flagged up that this year depended on sufficient audit resources being available to complete the audit plan.

Audit opinions issued so far in 2019/20 were shown at Appendix B. It was explained to Committee Members that the term 'unqualified' and the full set of opinion definitions was explained in Appendix D and that an unqualified opinion was favourable as it meant that the terms and conditions have been complied with.

Questions:

A Member questioned Appendix A regarding work planned and whether this was chargeable time and it was confirmed that this was charged work. The Chief Internal Auditor explained that planned audits to be completed was 84% and 80% was achieved due to staff not taking leave in the first half of the year but in the second and that there had been a lot of sickness leave taken this year and interim support had been taken on board.

The target would be updated in the following 2 quarters.

Agreed:

The Audit Committee noted and endorsed the Internal Audit report.

6. Treasury Management Report

The Committee was requested to view the Treasury Management report and it was explained that the report indicated that during the first half of the financial year, the Council continued to be a short-term investor of cash and borrower to manage day to day cash flows.

- As shown in Appendix B, Table 2, during the first half of the year the amount of borrowing was reduced by £42million to a balance of £150.8million.
- Early borrowing was completed and as this loan was taken a few weeks earlier than needed it was temporarily invested and then used to repay the bond which led to a small net reduction which was a small amount of borrowing.
- A small amount of long term borrowing of £1.5million was taken out in the first half of the financial year. The Council would also need to undertake additional borrowing on a short term basis to cover normal day to day cash flow activity. It was estimated that the Council would also need to take on some long term borrowing in this financial year.

The Treasury Management report to be presented to January's 2020 Audit Committee would aim to inform how risks were taken and the benefits of doing so.

A Member asked about long term investments and money left and the Assistant Head of Finance confirmed that it involved the cash that we hold in terms of how it affects the budget which is what this item was discussing.

The Chair commented that this report looked at mid-term, so will be examined further in January 2020's Audit Committee.

Agreed:

The Audit Committee noted and endorsed the Treasury Management Report.

7. Lessons Learned 2018/19

This report presented the findings of an initial lessons learned review carried out by finance officers and examined what went well and what didn't.

- Draft accounts came to the Audit Committee on the 6th June 2019 which were signed by the Head of Finance.
- Early testing was carried out which helped to reduce the burden allowing the team to meet tighter timeframes.
- Early discussions have taken place with the Wales Audit Office and a meeting has taken place to discuss lessons learned and to review work that could be undertaken earlier.

- There was an improvement in the coding of expenditure and income from 2017/18.
- There were a number of risks highlighted- with changes to accounting policies- IFRS 16 leases and work has started on this on the 2020/21 accounts.
- A quality review was being completed every year.

External Audit also picked up on a number of Declaration of Interests from Council Members which were not received so this needed to be improved. The Chair stated that this needed to be challenged on the day of the accounts and that Audit were not involved in this process and so the Committee did not know what Audit thought about this process and this could be fed into the self-evaluation exercises.

A Member stated that the Declaration of Interests was mentioned in a recent Standards Committee previously and the Audit Team would be involved with the Head of Law and Regulation to address the matter.

8. Financial Memorandum on the 2018/19 Financial Audit

The Engagement Director of the Wales Audit Office confirmed that a report was not completed for this item as it has been reported in the previous item of Lessons Learned 2018/19 and as there was a full engagement by Finance officers with the WAO it was felt that it was the case of producing a document for the sake of it.

9. Date of Next Meeting

The Chair requested for the meeting date to be put back one week to the 30 January 2020.