

# Draft Minutes

## Governance and Audit Committee

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Date: 11 November 2021

Time: 5:00pm

Venue: Microsoft Teams Live Event

Present: Councillor P. Hourahine (Acting Chair), J. Jordan, H. Thomas, R. Mogford,

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

Felicity Collins (Governance Support Officer), Pamela Tasker (Governance Support Officer)

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### 1. Apologies for Absence

The Chair Mr John Baker had technical difficulties joining the meeting and the Committee voted for Councillor P. Hourahine to become Acting Chair for the remainder of the meeting.

Councillor M. Whitcutt, Councillor G. Giles and Councillor R. White

### 2. Declarations of Interest

None

### 3. Minutes of the Last Meeting 29 July 2021

#### Agreed:

That the minutes from the 29 July 2021 were a true and accurate record.

The Chair noted that on page 7 of the minutes there were actions from the last meeting for the Senior Finance Business Partner.

The Assistant Head of Finance confirmed that the accounts had been adjusted.

### 4. Corporate Risk Register (Quarter 1 April to June)

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 Corporate Director -Transformation & Corporate Centre presented the report to the committee and reiterated that the role of the committee was to monitor the arrangements in place and make recommendations to Cabinet based on those arrangements.

The Committee previously received a report regarding the Local Government Elections Act along with the changes to the remit of the Governance and Audit Committee but for this agenda item it remained unchanged, and it involved monitoring the Councils arrangements associated with the Corporate Risk Register and the way that risks were managed.

### **Main points of note:**

- There were 18 corporate risks that were carried into Quarter 1 of this year which remained unchanged from the previous quarter. The one risk that had changed was related to the Covid 19 pandemic and there was a reduction in risk due to the Council's position in Quarter 1. That risk was subject to change that was outside the control of Newport City Council based on the epidemiological transmit of the virus and current mitigations in place from Welsh and Central Government.
- There had been previous recommendations from the Committee around a 'deep dive' approach to some of the risks and the report picked up the first part of that deep dive from the Corporate Management Team into the risks around highway infrastructure.

The Chair mentioned that although there had been a reduction in risks it was still hitting the red zone. The Strategic Director agreed and said that it was being monitored through the Corporate Risk Register and the figures have increased again so the risk would increase in subsequent quarters.

### **Agreed:**

The Committee endorsed the report.

## **5. Audit Wales Regulatory Bodies- 6 Month Update**

In May 2021, the Governance and Audit Committee had updated its Terms of Reference to align with the Local Government & Elections (Wales) Act 2021. In its Terms of Reference one of the Committee's function is to *receive and consider inspection reports from external regulators and inspectors and to make recommendations and where monitor implementation and compliance with agreed action plans*. The Governance and Audit Committee was asked to consider the contents of this report of the regulatory activity completed in the first six months and the assurances that where recommendations have been raised the Council was taking necessary action.

The Corporate Director -Transformation & Corporate Centre presented the report to the Committee.

### **Main Points**

- This was the first report presented to the committee and covered the regulatory activity of Audit Wales, Estyn and Care Inspectorate Wales. On page 64 of the report contained a table which included Audit Wales activity on a national and local level with a series of recommendations and actions around local work in the report.
- In subsequent meetings the Committee would be receiving updates on those actions to monitor progress.

- In relation to Care Inspectorate Wales there have been two inspections on Childrens homes in the last 6 months with final reports yet to be finalised.
- In relation to Estyn, they have undertaken a national thematic review detailed on pages 67-68 of the report.

The Chair stated that the report was for acceptance, and it could not be amended in any way.

The Corporate Director confirmed that the report was a log of inspections undertaken by the regulatory bodies and the actions associated with them. At the next meeting there would be an update so the Committee could query the progress against those actions.

Councillor Jordan observed the same that the report was a benchmark and further updates would be provided at the next meeting.

### **Agreed:**

The Committee endorsed the report.

## **6. Annual Report on Compliments, Comments and Complaints Management 2021**

In May 2021 the Cabinet agreed the new Compliments, Comments and Complaints policy for the Council. As part of the requirements of the Governance and Audit Committee it was now responsible to *Make reports and recommendations in relation to the authority's ability to handle complaints effectively.*

The report was presented to the Committee by the Complaint Resolution Manager. This was the first report to the Committee and provided an overview of how the Council managed compliments, comments and complaints and its performance in the period 2020-2021.

### **Main points**

- Other reports have been completed on the same matter for several years which have gone through Cabinet and all annual statistics have been passed to the Chief Internal Auditor.
- Complaints to schools were reported separately as they were subject to a distinct statutory framework. However, complaints were included regarding education services e.g., administrative processes.
- The policies and procedures in place for compliments, comments and complaints complied with the legislative requirements of the Welsh language measures and standards.
- Social services statutory requirements remained in operation alongside the corporate policy.
- As an overview, customers were able to raise a formal complaint over the phone, online, or using the app on their phone or face to face. Customers were able to submit a complaint 24/7 and it offered increased accessibility and convenience. Feedback and compliments could also be logged.
- The Ombudsman was focused on 'getting it right' and having trained and competent staff, and free staff training was available through the Public Services Ombudsman Wales.

- The Complaints team was in the process of creating their own training which was modular based and complimented with E-Learning linking in with organisational development which was compulsory training.
- There were 174 compliments received, 3111 comments and 222 complaints and through the Councils process 208 complaints were resolved before going to the Ombudsman. Out of those complaints the Ombudsman only intervened with 5 complaints, so this was very low.
- Across all 22 local authorities complaints were down by 12.5% compared with the previous year but were generally up from frontline services with the pandemic playing a role in this as the volume of complaints have gone up.
- However, the Ombudsman's focus was on feedback and having several accessible routes for customers to make a complaint as well as receiving feedback from complainers on how the complaint was dealt with.
- A questionnaire was now sent to people who complained in the hope that feedback would be provided on how well the complaints team was performing.

The Chair asked was there any trends observed.

The Complaint Resolution Manager stated that for the last 12 months it was difficult to see any trends but the main one was that in relation to City Services who offered a lot of services, there was a lot of decision making and policies introduced to keep the public safe. A lot of people made complaints in relation to making appointments to attend the recycling centres.

A lot of complaints were also received in terms of accessibility to the parks in the city.

#### **Questions:**

Councillor Mogford stated that they were interested in the compliments side and asked what the process was to submit a compliment as people were less minded to make a compliment.

The Complaint Resolution Manager stated that there were no compliments received for children's services, but they are out there, and people were able to make complaints and compliments in the same way. There was more work needed to help staff come forward when compliments were received.

Councillor Jordan commented on the cemeteries and the reason for closing cemeteries during the pandemic. The Complaint Resolution Manager explained that the amount of people was limited as to who could attend funerals which was upsetting for loved ones. However, this was not so much an issue now.

Councillor Jordan asked as to whether cemeteries were open completely now. The Complaint Resolution Manager stated that they were not sure on the current guidance.

The Corporate Director stated that if this was an operational question then it was best directed to the service area.

The Chair asked the Chief Internal Auditor whether they had looked at the report.

The Chief Internal Auditor stated that the report would be incorporated into the Annual Governance Statement for next year. The Annual Governance Statement was also part of the Statement of Accounts and the statistics provided by the Complaint Resolution Manager would be incorporated into the Annual Governance Statement.

The Chair remarked that the report was a benchmark and hopefully would not impact on next year.

## **Agreed:**

The Committee noted and endorsed the report

## **7. Statement of Accounts 2020/2021**

The Head of Finance requested that **item 11 Audit of Financial Statements Report 2020/2021** be included in this item.

The Assistant Head of Finance stated that their colleague Mark Howcroft (Assistant Head of Finance) would go through the presentation 7b to give an overview of the accounts. The Audit Wales Manager from Audit Wales would go through the ISA260 report which was Audit Wales view on the accounts.

Then to conclude item 7 would be returned to as the report showed the teams responses to the issues identified within the ISA260 report and a list of misstatements that were identified and corrected.

### **Main Points**

- The Assistant Head of Finance stated that the presentation explained the summary position as the draft set of accounts were authorised for publication on the 2<sup>nd</sup> July 2021 which was delayed due to Covid, and staff sickness. The necessary notices were published on the website explaining the reason for delay as required by the legislation. The accounts went on display to the public between 26 July 2021 and 20<sup>th</sup> August 2021 with no responses received.
- A separate paper referred to at the start of item 7 detailed the extent of queries raised in respect of the draft account presentations and this covered off the 4 points raised in the minutes of the last meeting by the Chair.
- The final accounts reflected the amendments made during that exercise and in conjunction with the review by Audit Wales whose findings were detailed in the ISA260 report which was to be considered at the end of the presentation.
- Audit Wales concluded that the accounts were a true and fair view.
- The Committee were asked to approve the final accounts which would then result in them being certified by the Head of Finance and the Chair.
- A new copy would be sent to the Acting Chair to be signed.
- There were 5 key statements in the front half of the document that were the Council's core document, and the income and expenditure captured all the revenue activities of the Council. The expenditure of funding analysis was important as members received management information during the year in terms of performance against the budget and this could be different to the comprehensive income and expenditure statement. It was explained that these technical documents included things like fixed asset movements etc, which was in the future of the quarterly monitoring, so that expenditure in funding analysis reconciled between the two documents.
- The Movement in Reserves statement being the health of the organisation to deal with contingencies and unforeseen eventualities.
- The Balance Sheet and fixed assets aspects was a key point as the Council had a lot of assets which auditors would look at because of the significance of the figures involved.
- The Cash Flow statement showed the movements in cash and cash equivalents of the Authority during the year.

The key message was that there was an underspend of £40million as reported to Cabinet in June 2021 and this had not changed from the figure that was reported to the committee in July 2021. The causes were the same in terms of the extent of one-off receipts provided by Welsh Government, the underspend across all services in relation to the costs of general administration and service provision due to changes in working practices and not undertaking planned/normal services, as they were not required or unable to be carried out due to Covid response work being prioritised. It was also due to underspend on its general revenue contingency budget, council tax reduction scheme and council tax income.

- The CIES shows a deficit on provision of services of £8.8m.
- The Capital Spending programme had not changed since July 2021 and the out turn was a £26million spend and £7.1 million was carried forward into the current financial year.
- The revenue underspend of £14million was moved into reserves at the end of the year and the reserve movement was net £21million, schools underspend of £8 million transferred to schools reserve which was an artificial position as towards the end of the financial year Welsh Government were providing schools with additional resourcing for schools maintenance etc.
- The underspend of £14million was transferred to a series of reserves.
- There was a usable reserve balance of £108million split between the council fund balance of £6.5 million, balances held by schools-£10 million and earmarked reserves. Of the £85 million, £42million was made up of the private finance initiative reserve and reflected the fact that there were ongoing liabilities.
- There were receipts reserved whenever the Council sell anything, and that money was ring fenced into a particular reserve for use in future asset investment and forwarding schemes under the capital programme.
- The Council was allowed to put money aside for loan liabilities where there were uncertainties over timing and amounts.

The Assistant Head of Finance concluded that it had been a challenging year and it was satisfactory to receive a true and fair judgement despite changes in personnel and a reduced team capacity. Covid continued to play a part in the accounts presentation in terms of potential complications as a lot of money was received late in the financial year in relation to Covid claims. Agency arrangements, where money and services were organised on behalf of Welsh Government involved showing those accounts in a different way.

- There were also quite significant changes in the accounts presentation this year and as part of the fixed assets work the schools portfolio was revalued.
- A point was picked up on that was raised by the auditors in terms of interest free loan presentations from Welsh Government and this arrangement had been revised and they were now compliant with simple acquirements.
- In relation to interest free loans widened the use of fair value comparators to give the audience a more of an understanding of the financial liabilities the Council faced.

A new contingent asset was created to reflect those outstanding social care debt liabilities. There was now amalgamated NCC and NPT pension transactions.

In relation to pension reporting changes there had been a decision by NCC members (Sept 20) to support NPT and its financial challenges. As a result of this Newport transport had shown its pension deficit liability within its accounts. The draft accounts were prepared on the basis that the detail of agreement was still to be struck, but provisions recognised a likely

change in liability. There was a recognition that probably the liability of that arrangement would change and that was anticipated accordingly. During the Newport Transport audit, their auditors queried the admitted body status that Newport Transport had versus the original intention of the transfer agreement, and as there was already an appetite to help Newport Transport out financially, it was decided that the original agreement could be used in place of devising a new agreement. Therefore, pension entries have been consolidated.

There were some changes around where Newport Transport historically would have had the responsibility to pay the pension fund the contributions that were owned in respect of its members. That primary responsibility now falls to the Council and instead Newport Transport has a contractual liability to the Council to pay us for those costs.

It was also noted that there was an increased use of estimates.

Lessons Learned would be brought back to the January 2022 meeting as it was more pertinent to the next audit.

The Assistant Head of Finance requested members to view item 7a which was a response to the ISA260 report and Statement of Account authorisation.

### **Questions:**

Councillor Jordan remarked on page 122 regarding the total expenditure where in 2021/2022 there was a significant jump from £26.2 million to £100.2million and £62 million The Assistant Head of Finance stated that this reflected the level of spend that was historically spent on capital and things like slippage have moved costs forward

Councillor Jordan commented on the Head of Finance certificate on page 127 and enquired on the term Newport City Group and the Assistant Head of Finance confirmed this was Newport City Council and Newport Transport.

Councillor Jordan commented on page 140 in relation to Stage 1 2020/2021 the number of complaints figure was 1,129 whereas in the Complaint Resolution Managers report the complaint number was 221.

The Chief Internal Auditor confirmed that this was information provided for 2020/2021 and if there was a difference this would be verified and confirmed for the committee.

Councillor Thomas commented on the pension issue in relation to Newport Bus and stated that they were satisfied that it had been resolved.

The Chair thanked the staff for all their hard work and asked whether there was any claw back of grants from Welsh Government.

The Head of Finance confirmed that there was no claw back.

The Chief Internal Auditor clarified that in relation to the earlier question on the Annual Governance Statement 7.4 related to Freedom of Information Act requests rather than complaints and compliments and as they were separate items the figures were different.

### **Audit of Financial Statements Report 2020/2021**

The Audit Wales Manager presented the report to the committee.

### **Main points**

- Audit Wales were proposing an unqualified audit opinion on the financial statements which was good news for Newport City Council.

- There were material valuation uncertainties regarding the valuation of building assets and investment properties this year because of the Covid 19 pandemic.
- In relation to the audit certificate an emphasis of matter paragraph was raised.
- There have been several corrections made as a result of the audit process as set out in Appendix 3.
- There were some uncorrected misstatements which the Council have not corrected in the final accounts in paragraph 15 which were minor in value.
- In paragraph 18 there were 3 further matters: consolidation of Newport Transport Pension provision into the Newport Council single entity accounts.
- This was a very technical exercise with a lot of work involved.
- There was a review on Members Declaration of Interest, and it was flagged that out of 50 Members, 9 Members did not return any updated declarations of interest for the year.
- There was a follow up on an issue raised last year on the testing of creditors in the account where a number of sample items were incorrectly accrued in the financial year and this year the level of testing was increased and there was one further item found which was incorrectly accrued.

The Audit Wales Manager stated that it was proposed to issue an unqualified opinion on this set of financial statements and thanks was given to all staff involved who were hugely committed to the task.

The Chair stated that when the Declarations of Interest were reported last year there was to be a template or procedure introduced that would help.

The Head of Finance stated that a procedure was introduced but it did not work and that Members who did not disclose their Declarations would be written to by the Head of Finance to remind them of the importance of submitting these declarations. Finance would be working with Democratic Services to encourage Members to complete both declarations of interest at the same time.

### **Statement of Accounts**

The Assistant Head of Finance returned to Item 7 Statement of Accounts and introduced the covering report to the Committee.

### **Main Points:**

- Appendix A and Appendix B was the bulk of the report.
- There was a section on initial lessons learned but a more detailed lessons learned would return to Committee in January 2022.
- Appendix A referenced the impact of the pandemic which played a part in the teams ability to work through the accounts closure process and this manifested in resource impacts within the team.
- The £40million underspend also added time to the process as it needed to be determined how this underspend would be allocated across the marked reserves.
- There was a delay in the draft accounts however the Assistant Head of Finance gave thanks to the team who were able to complete the accounts with only a small delay.
- In relation to corrections identified there were 16 areas identified but this was consistent with the previous years.
- The uncorrected misstatements were detailed on page 93 and explanations were included as to why they occurred. Newport Transport Pension was due to timing



differences between the accounts being produced in draft and the decision taken as to how the company would be supported.

- The main reason for those misstatements not being corrected is due to the impact upon the general fund balance, and these amounts would have needed to be moved to ear marked reserves which wasn't feasible. This was in Lessons Learned as to what could be done to address this next year.
- In terms of Member declarations, of those that were received a number were not of sufficient quality. It was critical to have compliance and the members would be written to about this matter as previously mentioned.
- In terms of corrected misstatements Finance have added comments as to why these have happened.
- In Appendix A the Lessons Learned section there were 4 identified that needed to be reviewed: process for internal recharges, process for ear marked reserves approval and those that arise as part of the audit process, and these will be looked at to correct these misstatements.
- In relation to Provisions there was technical understanding that needed to be improved.

The Assistant Head of Finance requested that the Committee give their authorisation and recommend approval of the accounts and therefore the Chair and the Head of Finance would be able to sign off the accounts and the Letter of Representation to be submitted to Audit Wales.

The Assistant Head of Finance explained that the Committee needed to take a vote on whether to approve the accounts to be signed off along with the Letter of Representation. This needed to be done electronically so a copy of the accounts would be sent out to Members to receive their approval of the accounts and the Letter of Representation and Members would need to provide their electronic signature.

If this could not be completed Members could send an email to say they approved the accounts in lieu of being able to sign the document in person.

This needed to be done as soon as possible as the accounts were to be reviewed and signed off by the Auditor General next Tuesday.

#### **Agreed:**

The Committee approved the accounts and agreed that an email was to be sent out to the Chair of the committee for their signature.

### **8.Treasury Management Report**

This report is to inform Governance & Audit Committee of treasury activities undertaken during the period to 30 September 2021 and it confirmed that all treasury and prudential indicators have been adhered to in the first half of the financial year.

The Assistant Head of Finance presented the report to the committee and explained that this report was one of two compliance reports received by the Committee during the year regarding the Treasury Strategy that was set at the start of the financial year, and it was part of the role strategy document. It sought to reassure that performance measures have been met.

#### **Main Points:**

- The bank base rate remained at 1%.

- There was still a long-term borrowing need mitigated by internal borrowing.
- Borrowing levels have decreased by £9million on the previous year end figure, due to a proportion of loans redeemed through equal instalments of principle and the principle reduced the loans outstanding.
- There was also a large maturity loan that was redeemed which was not replenished.
- Investments also increased by £4.1 million to £28.9 million against the equivalent year end position.
- Regarding LOBOs, no loans were called during the period.
- There was a revision to the financial code which constrained local authorities that use their treasury function to invest more yield or returns. This meant that they're no longer able to use the Public Works Loan Board as a cheap source of funding and that wherever the authority is in that condition that there were quite significant and punitive penalties.
- This report would then go to Cabinet and Council.

Committee members did not wish to add any comments to the report.

**Agreed:**

The Governance and Audit Committee noted and endorsed the report.

**9. Audit Wales Financial Sustainability Report**

The Head of Finance presented the report to the Committee.

**Main Points**

- This was the second year that Audit Wales report was completed and would now be an annual assessment.
- Report was very positive and showed the Council was in a strong position.
- Challenges were noted and the Council were starting to put in resources and one is the development of a sustainable medium term financial plan. The Councils new Corporate Plan would also be developed with the new administration after next May 2022.
- Another issue in the report was high levels of borrowing and the higher levels of commitment to borrow that the Council had with a potential future sustainability challenge that could bring if there was a downturn in funding.
- The Audit Manager of Audit Wales added that these local reports were being issued to each of the 22 authorities and this fed into a national summary which was published in September 2021 and was available on the Audit Wales website.

**Agreed:**

The Committee noted and endorsed the report.

## 10. Progress Against Internal Audit Plan 2021/22 Quarters 1 & 2

The Chief Internal Auditor presented this report to the committee.

### Main points:

- This reported related to the first 6 months of the year.
- The report was in two parts in relation to the performance of the team and the opinions which were given to committee members to provide the assurance that there were adequate arrangements in place across all Council services in terms of internal control, governance, and risk management.
- There were 8 staff members with 7 staff working at the moment supported by an external provider to help complete the plan.
- Covid was still having an impact on audit delivery as site visits and school visits were on hold; discussions were being held with education management to revisit schools which would probably be in Quarter 4 of this financial year. This would be reported back to Committee in due course.
- In terms of performance, the main indicators were that the team completed the agreed audit plan in accordance with the target. This was set out in paragraph 15 which showed that 30% of the plan was achieved as of the 30th of September.
- Issuing of draft reports was 6 days against a target of 10 days and the issuing of finalisation reports was 4 days with a target of 5 days which was reassuring.
- In terms of the outstanding reports that were in draft at the end of March 2021, 12 out of the 14 were finalised.
- To give members reassurance the team were still promoting financial management across all service areas in the training they provided and raised awareness of the expectations of the financial regulation of the organisation.
- There were 9 Audit opinions issued at the end of September: with 3 good, 6 reasonable and no unsatisfactory opinions.
- There were 5 grant claim audits all of which were unqualified and compliant with the grant provider.
- The team were also involved in the collation and publication of the Annual Governance Statement.
- Members were referred to the appendices which set out a year-on-year comparison and a quarter-by-quarter comparison on the key performance indicators for information.
- Audit work was limited as the team were occupied with counter fraud issues in relation to Welsh Government grants and TCP as a support, so the PI's were not reported until 2021 and this would pick up in 2022.
- 30% completion of the plan was on track with the target of 30%.
- Appendix D sets out some definitions of what audit opinions related to in terms of the level of assurance and what unqualified and qualified means in terms of the reports which the team were involved with.

The Chair asked whether the team were able to cover out the workload for the rest of the year and the Chief Internal Auditor confirmed that this would need to be reassessed as there was a long-term sickness in the team so management would be consulted in the next few weeks to see what could be achieved. This would be reported to Committee in January 2022.

**Agreed:**

The Governance and Audit Committee noted and endorsed the report.

**11. Audit of Financial Statements Report 2020/2021**

As discussed under item 7.

**12. SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 2, July to September)**

The Chief Internal Auditor presented the report to the Committee.

This report was in relation to urgent reports which is Standing Order 24 or waiving of Contract SO's. For the quarter July to September there was one report that went through as an urgent decision. This related to Post 16 home to school transport costs.

A Cabinet member made the decision and within the report there was an appropriate justification for the urgent decision that was recorded appropriately.

The Chief Internal Auditor was satisfied with that recording.

**Agreed:**

The Governance and Audit Committee noted and endorsed the report.

**13. Work Programme**

The Chair stated that there was a Committee in May 2022 during the next Council election and whether this committee would go ahead.

The Governance Support officer stated that future dates for all committees were agreed at Council AGM in May so this would be checked and confirmed as to whether the May committee would go ahead.

The Chief Internal Auditor stated that the Progress against the Internal Audit Plan (Quarter 2) would need to be removed for January 2022 as it was reported at this meeting.

**Agreed:**

The Governance and Audit Committee noted and endorsed the report.

**14 Date of Next Meeting**

27 January 2022 at 5pm