

Minutes



Audit Committee

Date: 26 May 2016

Time: 5.00 pm

Present: Mr J Baker (Chair), Councillors H Thomas, J Guy, R White, D Davies and M Spencer

In Attendance: A Wathan (Chief Internal Auditor), D Palmer (Audit Manager), R Squance (Audit Manager), M Rushworth (Head of Finance), O James (Assistant Head of Finance - Technical and Development), S Kelly (Strategic Procurement Manager) and M Lawrence (Overview and Scrutiny Officer)

Apologies: Councillors R Bright

1 Appointment of Chairperson

Nominations for Chair of the Committee were invited.

Agreed:

To appoint John Baker as Chair of the Committee.

2 Expression of Thanks and Condolence

The Chair advised that Members of the Committee were probably all aware of the sad passing of Councillor Ed Townsend and that the Audit Committee would like to place on record their thanks for the work he did on audit and pass on their condolences.

3 Minutes of the Last Meeting

The Minutes of the meeting held on 24 March 2016 were submitted.

Re Minute 4 – Certification of Grants and Returns: a claim form had been qualified which had been submitted late in agreement with Wales Audit Office (WAO), as they didn't have staff available. The Committee had stated that this was unfair and had requested that it be amended.

Members requested that it be included in the minutes and that Wales Audit Office be asked to amend accordingly.

Members were advised by a WAO representative that this would be fed back and considered.

Agreed

To confirm the minutes of the meeting held on 24 March 2016, subject to the above.

4 Internal Audit Annual Report 2015/16

Members considered a report upon:

- a) the overall opinion on the internal controls of the City Council for 2015/16;
- b) Internal Audit's progress against the agreed audit plan;
- c) Internal Audit's performance against local performance indicators.

The report gave an overall opinion on the adequacy and effectiveness of the City Council's internal controls during 2015/16 which was "**Reasonable** – Adequately controlled although risks identified which may compromise the overall control environment; improvements required; reasonable level of assurance."

The second part of the report detailed the performance of the Internal Audit Section and how well its key targets in the year were met. 77% of the approved audit plan was completed in the year against a target of 75%. A big thanks to staff in the team who worked well to achieve this.

During the year, 34 reviews were undertaken, 9 received "Good" audit opinions, 17 received "Reasonable" and 8 received "Unsatisfactory" opinions. 6 Community Centre accounts were audited, 3 were unqualified and 3 qualified.

In addition to planned work, the team also undertook 10 special investigations in 2015/16. These arose for a number of different reasons including information passed straight to the Section regarding allegations against members of Council staff, potential fraud, theft or noncompliance with Council policy/procedures.

Internal audit runs seminars on what Financial Regulations and Contract Standing Orders mean, why they are in place what they are about and to whom they relate. 9 sessions were delivered to 109 delegates during 2015/16.

Despite not having a full complement of staff for the whole year, 77% of the approved audit plan was completed against a target of 75%; (66% completed in 2014/15). A total of 88 audit reviews were planned during the year with 62 being completed to at least draft stage by the end of the year. (The total number of jobs in the plan was adjusted from 88 to 81 to reflect the fact that managers were not able to accommodate the audit during the year.)

Jobs were included in the plan to follow up the implementation of previous agreed management actions relating to audit work in 2014/15.

Although 240 days were planned for special investigations during the year, 140 productive days were actually spent auditing specials, 100 days less than allocated within the plan which meant more planned audit work could be undertaken.

Getting draft reports out this year took 12 days against a target of 10. Final reports were sent out within 3 days of receiving agreed management comments.

In 2015/16 the Audit Section continued to send out evaluation questionnaires to managers after an audit review had been undertaken in their area, which gave them an opportunity to feedback on the performance, professionalism and the audit process in general. Following the finalisation of reviews, only 35% of questionnaires were returned (47% in 2014/15) with the 100% of managers stating they were satisfied with the audit process and that it added value to service provision, which is reassuring.

The Audit Team had an establishment of 10 staff (including the Chief Internal Auditor) which reduced to 9 during the year. The section is split into two teams which cover the whole of the Council's systems, establishments and staff, each managed by an Audit Manager. During

the year the team was supported by a secondment from Grant Thornton to help achieve the plan.

The Policy Finance Committee (1998) requested that on-going consideration be given to the sufficiency of internal audit resources. With a full complement of staff the audit resource is sufficient to provide assurance on the Council's internal control environment, but given the experiences of staff changes in the last couple of years, the Chief Internal Auditor will have to monitor the situation closely and use a range of options to ensure appropriate audit coverage is provided. The Chief Internal Auditor is confident that adequate and appropriate coverage will be provided throughout the Council although prioritisation is required, provided the resource is maintained to at least the current level and vacancies need to be filled as soon as possible to minimise the impact.

Members raised a number of issues:

- Whether any unsatisfactory opinions are longstanding? –Members were advised that further details on Ysgol Gymraeg Casnewydd and CCTV/ Security would be reported upon in the 6 monthly report; where the opinion resulted in a second consecutive unsatisfactory opinion, the Chief Internal Auditor would include a recommendation that Audit Committee calls them in.
- Whether the reasons unsatisfactory opinions remain are linked to shortness of resources and in particular whether staffing is an issue for Audit and a possible risk? – Members were advised that recent recruitment campaigns had generally resulted in unsuitable applicants, other Local Authorities and WAO had struggled to recruit. Apprenticeships were being examined and an informal arrangement with firms whose graduate trainees could have some internal adult experience. WAO were looking at graduate trainees due to similar issues.
- The problem with getting apprenticeships is that Audit staff have to train them and also the risk to controls. Is there a need to see what is the minimum number of staff needed, not the establishment?– 34 opinions issued last year, 9 posts at present, 8.6 FTE, if reduced any further the team will not be able to provide adequate assurances.
- When you get a special investigation you need to drop everything so need to build in a contingency? Plan for 100% of the audit plan to be completed but a job can take longer and have to decide as a Management Team to allow more work.
- Can staff in other areas been asked to audit other service areas? – Secondments have been offered in the past and vacancies are advertised internally and externally; but need to consider training time and potential conflicts of interest.
- Concern was expressed at the marked increase in unsatisfactory opinions in 15-16 compared to other years. Does it reflect on reduction in staffing impacting on services delivery? – Whilst it could be a reflection, only a percentage of services are audited over each year. Also organisational changes and staffing changes can impact, for example when compilers of PI's move on or leave?
- Community Centres 3 of which were qualified from previous years have an increased greater expectation for them to be self-sufficient when they are not. Volunteers are expected to manage accounts with limited accounts knowledge and we need to avoid centres folding due to resource issues. Can we train them? –They were audited traditionally for a long time but are seen as a very low risk for the Internal Audit team but the Chief Internal Auditor appreciates the point. We've provided an account template to community centres in order to get reliable accounts and a guide had been developed; if the template is completed properly, it then becomes the accounts. Training was provided to Treasurers a few years ago. Members of Community Centres get comfort from the audit of accounts.
- Trading Standards Scambusters Team was unqualified? – Operated from Newport but Welsh Government funded, unqualified is good, qualified is bad.
- Bearing in mind the discussions around the required number of staff in the Audit Team, concerns highlighted and the increased number of unsatisfactory opinions requiring more work in the future to revisit them, Members requested that work is done to calculate the

minimum number of staff sufficient to get reassurance and provided in a future report to the Committee.

Agreed

1. To note and endorse the Annual Audit Report 2015/16 and overall Audit Opinion.
2. To undertake work to assess and provide the minimum number of staff sufficient to get reassurance to the Audit Committee.

5 Internal Audit Annual Plan 2016/17

Members considered a report containing the work to be undertaken by the Internal Audit Section at an operational level for 2016/17. The report identified a draft operational internal audit plan for 2016/17 and 5 year Strategic Plan and outlined where internal audit resources will be focussed over the next year, covering systems and establishments in all service areas of the Council. 1187 productive audit days had been planned for 2016/17.

The Chief Internal Auditor introduced the report and explained how the plan is compiled from a long list of all areas which could be audited, by discussion with Heads of Service, Risks identified, identified resources which is then developed into a shorter prioritised list based on the audit resources available, with the aim to give the Audit Committee appropriate and adequate assurance. Training on Financial Regulations will continue to be provided and Special Investigations will be undertaken as and when they arrive. He referred to the structure and resources in the Team discussed in the previous report above and detailed list of work planned.

Members raised the following questions:

- The point that “..in particular in Social Services and Education it was evident that a lot more coverage was required”, was queried? – Members were given an example that Education would like more schools to be audited etc.
- Are service areas prepared to pay for more coverage? – It hasn’t been discussed.
- Financial Regulations require a purchase order to be given to order. Are you being proactive in the audit plan with regard to this? – Members were advised that using a new electronic system, the Procurement Manager can pick this up and there is a big push on: “No P.O. no Pay” to get the message to all our suppliers and internally with service areas and requisitioners. Training is on-going and a list of Invoices without Purchase Orders is followed up and will shortly be reported to Senior Management Team. The Strategic Procurement Manger advised that they are working hard to address this issue.
- If staff bypass the Financial Regulations there should be a disciplinary, as the books need to balance and if they can’t, from an Audit Committee point of view our systems cannot be relied upon. How big a problem is it, going forward do we need reassurance of whether its material amount? – Training is included in the Audit Plan on-going.
- **It would be good to know how long ago the previous audit was for each Service listed in this year’s Strategic Plan? – Officers can look at refining the table to include that.**
- **Proposed minimum level of resource to be identified for next time.**

Agreed

To note the report, subject to the above.

6 Standing Order 24 / Waiving of Contract Standing Orders: Quarterly report reviewing Cabinet / Cabinet Member urgent decisions or waiving of Contract SOs (Q4: January - March 2016)

Members considered a report on the use of Standing Order 24 and the Waiving of Contract Standing Orders in a recent decision taken by a Cabinet Member. Members were asked to consider whether the reasons for the urgency/waiving of contract standing orders was properly reflected in the documentation supporting the decision.

The Cabinet Member for Education and Young People took an urgent decision relating to the Welsh Medium School; Ysgol Gyfun Is Coed, Newport, which meant the decision was not subject to "call in".

The comments of the Chief Internal Auditor stated that the justification for the urgent decision revolved around statutory requirements for legally establishing a school at a specific location. Further clarification was provided specifying specific timescales for a statutory consultation period for the school to open in September 2016, both of which would have been missed if the normal process had been followed. The reason for urgency is therefore justified.

A Member stated that while it was understood why it had been done, they felt that the Education Department didn't plan for the possibility of the plans not being passed by the Planning Committee.

Agreed

The report contained sufficient justification for the urgent decision.

7 Treasury Management Report

Members considered a report on treasury activities undertaken during the financial year 2015/16. During the year to 31 March 2016, the Council continued to invest surplus funds with its own bankers (Santander) and institutions with long-term credit ratings in at least the "A-" Category.

As at 31 March 2016, the Council had short-term investments of £3.10m and over the financial year the Council has been both a short term investor and borrower across most months, as expected. All longer term borrowing was as expected and within the Council's agreed limits.

The report presented the following information:

- details of capital financing, borrowing, debt rescheduling and investment transactions
- reports on the risk implications of treasury decisions and transactions
- details of the outturn position on treasury management transactions in 2015/2016
- confirms compliance with treasury limits and Prudential code.

In recent years the Council's Strategy has been to fund capital expenditure from reducing investments rather than undertaking more expensive new long term borrowing.

The Assistant Head of Finance advised that during the year the Council met all of its pre-set Prudential Indicators and apart from Queensbury loans there hadn't been any long term borrowing and the Council followed the Strategy for the year.

Comments made included:

- Will Queensbury right that £70Million loan by end of March.
- Currently Members looking at the 6 month update. A couple of months ago Members had training on Treasury Management and will be asked to approve the Treasury

Strategy in a future meeting. With that in mind will there be some clarification for Members to understand the role. Will there be enough time to comment or impact on the Plan, need to build enough time into the timescales for reports. – In response it was confirmed that bespoke training will be provided with particular reference of roles and responsibilities. It is for Council to approve, for Audit Committee to a challenge, comment, recommend and scrutiny to give to Council that degree of review. This will be clarified really well in that meeting. The report today is a summary level report whereas the 6 monthly report does go into detail and is a good opportunity and basis for setting the 2017-18 Treasury Management Strategy.

- Previously Members asked “What if the Audit Committee doesn’t endorse the report” and were told no timescale to consider it in another meeting. Members are in a difficult position if they can’t endorse in the timescale. It was proposed that the extra training, timing of the six month report and the Treasury Management Strategy report be brought forward a little, to avoid getting into that position. – It was clarified that if at the end of the process Audit Committee were unsure, Council would be made aware of this in the report.
- £40M External Borrowing Newport City Stock Issue (Bonds paying interest at 8.8% with a maturity date of 2019) was queried – It was explained that we pay a bond holder to stop paying interest and this should be a lot cheaper.
- It was queried whether with little interest available, it’s better to use our reserves than borrow? – It was confirmed that’s what the report is saying and in some cases its difference between getting 0.1% interest.
- In the past there had been problems with Treasury Management refinancing was too easy? –It was clarified that the Council gets a long term view of borrowing from advisors and has started to look at individual loans as they arise and the rates help at the moment. It was further clarified that with a strategy of holding little cash and avoiding borrowing, when it comes to refinancing there isn’t the cash to finance it and with interest rates low for short term, by default debt is rolling forward.
- If interest rates go up, then do an interest appraisal.

Agreed

1. To note the Annual Report on Treasury Management for the Financial Year 2015/16.
2. To note that the 2015/16 Prudential Indicators for Treasury Management were in line with those initially set.
3. To request appropriate dates for training from the Chair of the Committee.

8 Revised Financial Regulations and Contract Procedure Rules

The Head of Finance introduced a report presenting revised Contract Standing Orders and Financial Regulations in light of recent changes to legislation and updated internal governance and processes and an update of job titles and other minor amendments to update the document. He advised that the Financial Regulations had been reviewed by the Assistant Head of Finance and that the Contract Standing orders had been reviewed by the Strategic Procurement Manager. Both revised documents will be presented to Council for consideration and this was an opportunity for members of the Audit Committee to comment beforehand.

Members comments included:

- It was a good idea that the revised documents be presented to Audit Committee and the structures within them had needed amending.
- Some parts were bureaucratic with too much control which could be streamlined and looking at resources around the Council there was an opportunity to take away bureaucracy and frustration without much risk e.g. Financial Regulations 3.17 Virements: *“Following appropriate consultation with Head of Finance, any Head of Service, shall have the authority to vire any budget within their control to an aggregate total of £100,000*

or 5% per annum (whichever is the lower).” – In response the Assistant Head of Finance advised that there was an expectation that if a budget is set in February appropriately there shouldn't be much virement.

- It was questioned whether there were any European Directive problems? – In response the Strategic Procurement Manager advised that they had known the Directive was coming into force, had qualified staff and had reviewed the Contract Standing Orders to ensure compliance across the Authority. She advised that contracts above £100,000 must go through the Gateway Board for consideration, they have monitored and tightened up portals and also tightened processes. The Head of Finance advised that they were pretty confident they hadn't got an issue with European Directives in procurement.

Agreed

To note the revised Contract Standing Orders and Financial Regulations and provide the Committee's comments to Council for consideration with the revised documents.

9 Work Programme

The Head of Finance advised that at the next meeting in June the Committee would receive the draft accounts (3 weeks earlier than usual).

Members asked whether they were on target for the final sign off of the accounts in September? – In response, a Wales Audit Office representative advised that resources were ready awaiting receipt of the accounts and potentially they could be signed off early.

Agreed

To note the report.

10 Date of Next Meeting - 23 June 2016