

Minutes

Audit Committee

Date 22 January 2014

Time 5 pm

Present Mr J Baker, Cllrs Townsend, White, Mogford, Davies, Spencer and Ali

Apologies for Absence

Also in Attendance A Wathan (Chief Internal Auditor) D Palmer and R Squance (Audit Managers) M Rushworth (Head of Finance), R Jones (Assistant Head of Finance (Accountancy), D Wood-Lawson (Head of People and Business Change) H Brayford (Performance Management Support Officer) J Sweet and A Barrett (Wales Audit Office) and J Eales (Scrutiny Support and Research Officer).

1. Minutes Agreed

The Minutes of the meetings held on 27 November 2014 were submitted.

Agreed

That the Minutes of the meeting held on 27 November 2014 be confirmed.

2. Council Pay Reserve

Following a request for further information at the September and November 2014 Audit Committee meetings, the Head of Finance gave a brief summary of both the need and use of the Pay Reserve, established at the end of 2010/11 to deal with the Equal Pay Settlement.

He outlined the balance on the reserve over the last three years and the reasons for the fluctuations. The fund was built up over the first two years, given the uncertainty on costs and need for flexibility whilst also funding the Total Reward Project costs. In 2013/14 the main bulk of Equal Pay costs were incurred and these were funded from capitalisation. Progress was made on Total Reward and there was more certainty regarding one off implementation costs and this enabled officers to reduce the value of the reserve.

Members raised a number of issues:

- The understanding was that the reserve was to deal with Equal Pay and when that was sorted the reserve would no longer be required. The Head of Finance explained that following capitalisation of Equal Pay costs it was considered appropriate to keep the reserve intact and use for Total Reward including detriment.

- How much of the reserve was capitalised? This figure was unavailable but would be submitted to the next meeting.
- Members were concerned about changes since the information was originally requested in September 2014, the information that was being given and the need for a report to fully explain the changes.

Members requested that a report be submitted to the next meeting providing a full explanation on the use and value of the fund since it was established at the end of 2010/11.

Agreed

That a report be submitted to the next meeting providing a full explanation on the use and value of the fund since it was established at the end of 2010/11.

3. Corporate Risk Register

Members considered an updated version of the Corporate Risk Register. The Risk Management Strategy was agreed by Cabinet in September 2014. The Register was then updated to reflect a revised approach to risk management and improved processes for identifying and escalating risk.

The Chair reminded Audit Committee of their role in reviewing and assessing the risk management, internal control and corporate governance arrangements of the authority. Processes and Strategies were reviewed by the Committee however the content of the register including setting and changing risks was not the role of Audit Committee.

Nine risks were identified in the register, 3 high, 5 medium and 1 low risk. Since the last update assessments of 7 risks had stayed the same and 2 risks had reduced.

Members raised a number of issues:

- Risk 3, Total Reward, why did the percentage rate of an occurrence increase considerably when comparing the next year to the next three years? The Performance Management Support Officer explained that there was a greater chance of an occurrence over the next three years. Members discussed the benefits of the information being shown in this way and suggested improvements to the layout in future.
- It would be useful if the report identified clearly risks going up and risks going down. The information was available in the text but this was sometimes lost.
- Risk 4, Welsh Language Standards, how could there be a risk of “significant fraud”? The Performance Management Support Officer explained that this was an explanation from the scoring impact table to give context to the level of risk. She accepted that it could be misleading and agreed to reconsider the way the information was provided.
- How were policies and procedures overhauled in those areas identified as requiring attention? Staff were updated by staff bulletins and training and during personal development sessions.

Agreed

That the report be noted.

4. Presentation on the Internal Audit Plan and Progress (Quarter 3)

Members received a presentation on how the Internal Audit Plan was compiled and a report on the progress of work undertaken by the Internal Audit Section against the agreed audit plan. The purpose of the presentation was to inform members how available resources for the internal audit plan were determined, what factors could impact on those resources during the year and how those factors had impacted on completion of the audit plan in 14/15 at the end of quarter 2.

The Audit Managers explained how productive time was calculated and how resources were allocated. They were also able to identify the number of actual days spent on each task compared to the number of days planned and the pressures on achievement of the audit plan.

When resources were reduced high risk reviews had to be prioritised over medium or low risk reviews but this was not always practical, depending on available resources and whether or not operational management could accommodate the audit. Following the presentation, Members were informed of progress against the agreed audit plan for the first nine months of the year.

The team currently operated with 11 audit staff. At the start of the year there were 9 audit staff with two vacancies in the team. As part of the budget pressures, recruitment to these posts was currently on hold and there was a strong possibility that these posts would have to be given up as budget savings.

The performance for quarter 3, 2014/15 indicated that 51% of the audit plan had been achieved so far which was the same as last year's performance and in line with the profiled target of 50%. The promptness of issue of draft report averaged 13 days, above the target time of 10 days. The promptness of report finalisation averaged 2 days which was within the target of 5 days. Coverage of the plan at this stage was in line with expectations, the target being 50%. 40 days had been spent finalising 20 2013/14 audit reviews; 18 of which had now been finalised. 193 days had already been spent on 6 special investigations.

Generally there continued to be positive feedback from service managers (via the evaluation questionnaires) and this would continue to be collated throughout the year and fed into the audit report for 2014/15. Training programmes continued with 5 sessions delivered to 81 delegates up to 31 December 2014.

21 jobs completed to draft report stage by 31 December 2014 warranted an audit opinion: 5 good, 12 reasonable with 4 unsatisfactory and no unsounds. Of the 8 community centre accounts undertaken, 7 were Unqualified and 1 was Qualified. Other work completed related to the Annual Governance Statement, the Council's performance indicators, grant claims, provision of financial advice and financial regulations training and external clients.

Members raised a number of issues:

- If certain areas were under pressure not to fill a post and then that post was cut as part of the savings process, wasn't there a risk that the wrong posts were being cut? The Head of People and Business Change explained that a panel considered all options before any posts were cut or created to ensure that this didn't happen.
- Were there enough staff to run the service without risk to the Council? The Chief Internal Auditor explained that he was currently working with a team of 9 and when compared to the team of 12 in post until recently, there was a greater risk. Coverage across the Council had declined and he now hoped to cover all areas within 6/7 years instead of 4/5 years previously achieved.

- Concerns were raised that if a further post was given up as a budget saving there would be no dedicated resource in the audit team to proactively deal with anti-fraud and corruption issues or to promptly investigate fraud. The Chief Internal Auditor explained that he was looking for a solution to the problem such as sharing a post with another authority

The Chairman thanked the Audit Team for the presentation.

Agreed

That the report be noted

5. Internal Audit – Progress Against Unsatisfactory Audit Opinions Issued to December 2014

Members considered a report on the up to date position of audit reviews previously given an unsatisfactory/unsound audit opinion.

Since bringing this report to Audit Committee there had been 13 reviews which had been given two consecutive unsatisfactory or unsound audit opinions and these had been brought to the attention of Audit Committee. Improvements were made in all 13 areas and they would be picked up as part of the audit planning cyclical review and would be audited as part of the process.

In 2013/14, 41 audit opinions were issued; no Unsatisfactory or Unsound opinions were issued.

To date in 2014/15, 4 audit reviews had been given an Unsatisfactory audit opinion: Amenity Funds, Financial and Administrative Procedures (Flexible Working and Travel and Subsistence Procedures in Adult Services), CCTV/Security (Telford Depot) and Discretionary Charging (Environmental Health).

The Chief Internal Auditor explained that a number of older reviews would be deleted from the next report eg Museum and Tredegar House Income.

Agreed

That the report be endorsed by Audit Committee

6. Accounts Close-down and Financial Statements Preparation Timetable

The Assistant Head of Finance apologised for the delay in publishing the papers. Members considered the lessons learned from the 2013/14 Accounts Close-Down and Financial Statements Preparation and action points for improvements. The preparation of the Statement of Accounts was completed to a good standard with good quality Financial Statements and the audit was completed within the statutory deadline. However concerns were raised about minor adjustments within the Statement of Accounts not included in the Final Statement presented to Audit.

Upon completion of the audit, detailed discussions were held between finance staff and the WAO in order to identify any areas of improvement for both the accounts preparation and audit processes. A Project Plan had been developed including the action points for improvement.

Communication was a key factor in making the process work and regular formal closure of accounts meetings would be held with officers. Key dates had been set in the timetable to give the best chance of getting correct documentation on time. Two dates had been set in the diary for the sign off of accounts. The Assistant Head of Finance would aim for 17 September but he was not able to commit to that date as it would require a significant level of resource to change the way reconciliations were currently undertaken and depend on resources available at the time.

A Barrett (WAO) confirmed that he would be looking to certify the accounts at the end of September to allow for any last minute issues and that most authorities were in the same position. Proposals were in hand for accounts to be completed by the end of July from 2017/18 so all authorities needed to think differently in future.

Agreed

That the report be noted.

7. Treasury Management Report

The Chairman raised concerns that because the report had been sent out late, Members had not had enough time to read it before the meeting. The Committee confirmed that they had read the report and were happy to consider it at the meeting. The Head of Finance apologised for the delay and explained that Treasury Advisors were called in at short notice to ensure the information in the report was accurate and up to date and this was the reason for the delay.

Members considered the report on the Council's 2015/16 Treasury Management Strategy, Prudential Indicators, Investment Strategy and Minimum Revenue Provision (MRP) policy. Both the Prudential Code and Welsh Government required these items to be reviewed and considered by Audit Committee prior to their approval by full Council.

The strategies within the report set the Council's approved borrowing and investment limits, based on planned capital spending. The report was prepared in line with the Council's draft Medium Term Revenue Plan and would be presented to full Council as part of the overall budget report for approval in February 2015.

It was anticipated that new borrowing of approximately £35 million would be required before the end of 2014/15 financial year, of which £16m would cover normal council activities and the balance of £19m related to the Friars Walk Development. Taking into account a previous loan of £17.9m the total amount of additional borrowing since the previous treasury management report to the 31 March was projected to be £53m.

In December 2013 the Council approved a loan of up to £90 million to Queensbury Real Estates (Newport) Ltd (QRE) to fund the building of the Friars Walk Development. This borrowing was kept separate from the Council's other borrowing requirements and would be incurred on a monthly spend basis up to a maximum of £90 million. A further £53 million was likely to be required by the end of the 2015/16 financial year to cover Friars Walk capital spending.

Members raised a number of concerns:

- Was short term borrowing automated? The Assistant Accountant explained that this was a daily task that she performed.

- The summary regarding the loan to Queensberry was confusing and could be improved to clearly explain the maximum loan of £90 million and the further £53 million likely to be required by the end of 2015/16.
- The reduction in the total amount invested in any individual counterparty from £8 million to £4 million had been reported previously and members were under the impression this was already being done.
- The report referred to Queensbury but the correct name was Queensberry.

Agreed

That the Prudential Indicators, Minimum Revenue Provision Policy, the Treasury Management Strategy and the Annual Investment Strategy as detailed in the report, be recommended to Cabinet for approval.

8. Financial Memorandum on the 2013-14 Financial Audit

Members agreed that consideration of this item would be deferred to the next meeting.

Agreed

That consideration of the report be deferred to the March meeting.

9. Work Programme

Members requested that reports on the Council Pay Reserve and Financial Memorandum on the 2013-14 Financial Audit be submitted to the March meeting

Agreed

That subject to the above, the report be noted.

10. Date of Next Meeting

The date of the next meeting was confirmed as 26 March 2015.