

# Minutes



## Audit Committee

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Date: 1 December 2016

Time: 5.00 pm

Present: Councillors Mr J Baker (Chair), E Garland, J Guy, R Mogford, H Thomas and R White

Owen James (Assistant Head of Finance - Technical and Development), Andrew Wathan (Chief Internal Auditor), Dona Palmer (Audit Manager) and Meryl Lawrence (Overview and Scrutiny Officer)

In Attendance:

Apologies: Councillors D Davies

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### 1 Declarations of Interest

Councillor H Thomas declared an interest as the Chair of Newport Transport, the accounts of which are included in Newport City Council's consolidated accounts.

### 2 Minutes of the Meeting held on 22 September 2016

The Minutes of the meeting held on 22 September 2016 were submitted.

A Member referred to page 5, sub paragraph 3, Brexit and asked whether this was still being monitored? – *It was clarified that Brexit remained on the Risk Register.*

#### Agreed

To confirm the minutes of the Meeting held on 22 September 2016.

### 3 Lessons Learned 2015-16

Members considered a report presenting the findings of an initial lessons learned review carried out by finance officers following the 2015/16 accounts closedown. It gave an assessment on the findings of the lessons learned review and the plans in place to implement for 2016/17 and the key risks to the close down process for 2016/17.

Following the closedown of the 2015/16 accounts, a lessons learned log was required to put into place improvements for the closedown of the accounts process. This lessons learned review should be taken as a matter of course, and with the issues that arose from the audit of the 2015/16 accounts, this review is of high importance to ensure improvements are delivered for 2016/17.

While there was a number of positives that came out of the closedown process in 2015/16 which can be taken forward into future years, there are a number of areas where weaknesses have been identified and improvements can be made. Processes, timetables and communication are essential in delivering these.

Discussions included the following:

- Improving the information provided.
- The future requirement to close the accounts earlier by 2018 and the need to bring the timetable forward to address and have corporate buy in to the revised process as good practice.
- The statutory requirement of an annual audit.
- A typographical error was identified on page 13, first bullet point should read “..as *capital* expenditure...”.
- The request that an amendment list be provided at the time of presentation of the accounts to the Audit Committee for requested sign off.
- The need to have corporate buy in to take management with you to achieve the required early closure in July 2018 with a fully supported timetable.

### **Agreed**

To note the lessons learned process that has been carried out to date and agree the proposed plan for 2016/17 closedown.

## **4 Financial Memorandum on 2015-16 Financial Audit**

Members considered the Wales Audit Office report: Final Accounts Memorandum 2015-16 for Newport City Council, which summarised the conclusions on the audit of Newport City Council's 2015-16 financial statements and Whole of Government Accounts return and contained recommendations to Newport City Council's management and summarised performance against agreed measures.

Wales Audit Office had issued an unqualified auditor's report on the financial statements and made the following five recommendations:

1. The process for compiling of the Whole of Government Accounts needs to improve in future years.
2. A detailed review of leases should be undertaken to identify those that may meet the definition of Finance Leases.
3. A detailed review of the Provision for Landfill Capping and Aftercare costs should be undertaken.
4. Decisions regarding the approval of pay grades and market supplements of Senior Officers should be documented.
5. Procedures over the preparation of Group Accounts should be improved.

Discussions included the following:

- With regard to the approval of pay grades for senior officers, we don't want to be in the position a neighbouring Authority is in as reported in the press.
- Are the minutes the only audit trail or is there separate correspondence? – Appointment Committee is the record of an appointment. At Head of Service level, the letter of appointment indicating the level and grade would be signed off by the Head of Human Resources.
- Need an audit trail or could have criticism, or a mistake could be made. Also the Authority is paying higher pension contribution. – The Head of HR would have signed it off.
- Whether the situation had been regularised by the report to Council in September on Heads of Service Pay? – The issue was about the rate appointed at and the decision to appoint at the top of the scale as there were issues with Head of Service posts for a number of years. In order to recruit in 2016-7 offered the top of the scale, the issue is

around the minuting of the decision not the lack of decision. HR Manager fully recognised the need to minute this in future.

- This happened more than once and it needs to be documented. IT is worrying if not being minuted.
- The need to close the Group Accounts in July 2018 and the new process to close the accounts earlier.
- What happens if a body like Newport transport didn't comply with the deadlines? – Estimates could be used and can negotiate with Audit if they think its reasonable information to rely upon.
- Why would they be late and why were there a high level of adjustments? – There were errors in the draft accounts and Newport Transport work to different timescales as they area company not a Council, they work to Company deadline of December.
- If the errors are not material its not an issue, however, the Council own and control 51% Newport Transport so has to publish the accounts and should have the accounts when requested.
- Its commercially sensitive if the accounts are published too early.
- If they are not provided on time there is no time to correct by the deadline.
- To avoid a qualified audit report need to have consolidated accounts on time, don't have to be published then. If we have estimates and material errors no time to address. – In terms of practicalities, it's about the Council's Finance Team working with Newport Transport finance team and advising why we need the draft accounts and the importance of them. Although the controllors, we are still dealing with another body.
- As an Audit Committee need to ensure an unqualified audit. The Council and Newport Transport need to resolve to ensure we don't have a qualified audit.
- Is the principle that the Council has to produce the consolidated accounts.
- There is no reason why an arm's length company can still publish its accounts in December and consolidated accounts to include draft estimates in accounts in September (or in the future in July). – The main reason was the pension note didn't tie up to the balance sheet. At that point we needed to make estimates and assumptions on what we received from Newport transport. The quality of the draft accounts is really important for us to get good estimates. This is the first year and there will be improvement next year. For audit to take a view they need to see draft accounts. Will be under more time pressures in the future, with less time to improve.

## **Agreed**

To note the Wales Audit Office Final Accounts Memorandum 2015-16.

## **5 Treasury Management Report**

Members considered a report on treasury activities undertaken during the period to 30 September 2016. Treasury Management was defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

The Council continues to be both a s/t investor of cash and borrower to manage day-today cash-flow's. Current forecasts indicate that in the future, temporary borrowing will continue to be required to fund normal day to day cash flow activities and to fund borrowing for the City Centre Redevelopment. Discussions around the sale of the redevelopment are currently underway and are of a commercial and confidential nature. The successful conclusion of a sale will have a significant impact on the treasury activities of the authority. The outcome of the sales discussions will be known in the near future and the impact on treasury management will be updated for the '2017/18 Treasury Management Strategy', which will come to Audit Committee in January 2017.

Following the result of the BREXIT referendum there were no immediate changes to our advisor's credit advice on UK banks and building societies. However, the report provides a counterparty update which details the various indicators of credit risk which have reacted negatively to the result of the referendum.

The Authority measures and manages its exposures to treasury management risks using various indicators contained in Appendix B. In the main in the first half of the year the Authority had stayed within the limits set. However, due to the borrowing undertaken for Queensberry the amount of borrowing "due within 12 months" has exceeded the percentage limit set.

In setting the percentage limit for borrowing due 'within 12 months', there was the expectation that the loan outstanding from Queensberry would be repaid, therefore further borrowing in relation to this would remain under the 12 month limit. However, as the loan was not repaid earlier in the year, borrowing has still been required in relation to this as detailed earlier in the report. The level of borrowing undertaken has been taken over a short period (under 12 months), therefore exceeding the percentage limit, as there is the possibility that we would not need to re-finance the majority of these loans in the long-term therefore avoiding a cost of carry.

Audit Committee are being asked to note the request to Council to approve the requirement to increase the Percentage limit of total borrowing with a maturity date within 12 months to 80%.

Discussions included the following:

- Bank of Scotland performance got worse. – It was clarified that any changes after the half year won't be reflected. There are very few investments and short term investments and receive regular and daily or weekly emails from the Authority's Treasury advisors.
- How quickly do the advisors react to changes? – If the Chancellor says something in the morning, advisors email that afternoon.
- The Strategy will be presented to Audit Committee in the January Meeting and before we get the report please bear in mind that we would like to know what the strategy is and what happens if we don't agree the strategy. – Can take on board views on percentages.
- It could be that the strategy is we have no debt. – The parameters are taken to Corporate Management Team to see if they agree.
- Who decides who we borrow from and how much? - How much we borrow is a Cabinet budget discussion. Treasury Management and Public loan board, what's safe and what's low e.g. local authorities are safe as a public body, which will be in the Strategy.
- Selecting a single "A" rated body if that's cheaper is part of the policy but on a wider basis: should we have debt and how much debt. If we are asked to agree a strategy need more than the previous report statements that "We are borrowing x".
- With regard to Queensberry there is a focus on getting the loan paid, but perhaps if its such a good investment the Authority should keep it. Don't know if that's in the business case but there are other examples where Local Authorities have done similar.

### **Agreed**

1. To note the report on treasury management activities for the period to 30 September 2016.
2. To note the request to Council to approve the increase in the percentage limit of total borrowing with maturity date within 12 months to 80%.

Members considered a report on the Internal Audit Section's progress against the 2016/17 agreed audit plan for the first six months of the year and information on audit opinions given to date and progress against key performance targets.

The team currently operated with an establishment of 9 audit staff. At the start of the year there were 5 audit staff with 4 vacancies in the team. An Auditor was appointed and started in the team during Quarter 1, a Principal Auditor was appointed in Quarter 2. In order to take account of the budget savings contribution and the delayering exercise required by senior management following the job evaluation exercise, the Internal Audit team was restructured during Quarter 1. The previous and the revised organisation charts were shown in Appendix A. The relationship with Monmouthshire County Council (for sharing of the Chief Internal Auditor) continues.

The performance for Quarter 2 2016/17 has been compared to the same period of the previous year (shown in brackets). The figures (**Appendix B**) are cumulative and show that:

- 35% (32%) of the audit plan has been achieved so far which is slightly better than last year's performance and higher than the profiled target of 30%;
- The promptness of issue of draft report (comparing timescale between finalising all fieldwork and issuing the draft report to management) averages at 9 day (10 days) which is within the target time of 10 days;
- The promptness of report finalisation (comparing timescale from meeting with client to discuss issues raised in the draft report to issue of finalised report to management) averages 3.5 days (3 days) which is within the target time of 5 days.
- Coverage of the plan at this stage of the year is above expectations; the target being 30% for Quarter 2.
- 50 (51) days have been spent finalising 18 (15) 2015/16 audit reviews; 17 of which have been finalised.
- 80% positive feedback has been received from service managers via evaluation questionnaires and these will continue to be collated throughout the year and fed into the annual audit report for 2016/17.
- 6 financial training sessions were delivered to 83 delegates up to and including Quarter 2. The training programmes will continue throughout the year.
- 12 jobs completed to at least draft report stage by 30 September 2016 warranted an audit opinion: 2 x *Good*, 8 x *Reasonable*, 1 x *Unsatisfactory* and 1 x *Unsound*. Of the 1 community centre accounts undertaken, the opinion was *Unqualified*. Other reports have been completed which did not warrant an audit opinion or related to audit certification work. Other work completed related to the Annual Governance Statement, the Council's performance indicators, grant claims, provision of financial advice and external clients.

Discussions included the following:

- The Streetscene qualified opinions and overtime. Whether it's worth altering the Audit Plan to do more work on the area? – Would need to consider along with what's already in the plan and other Heads of Service views.
- Why only 2 Community Centres accounts audited? – They don't all submit them, the onus is on them to supply and some are supplied late. The accounts are quite low risk and only involvement is historical, the accounts are prepared by volunteers so a pack has been developed to help them build the accounts.
- *There was concern that Community Centres will not bother to submit their accounts and that they needed auditing to ensure accuracy and that as a Council we should be doing this. The Audit Committee would support a letter to Community Centres to say please supply accounts. – It was clarified that Community Centres are supported by another service area of the Council who could be contacted and the Internal Audit Team are better placed working on other priorities. It was suggested that the issue could be referred to the Regeneration Investment and Housing Service Area to raise at a General*

*Community Centres Committee (which comprises the Chair and another Member of each Community Centre.)*

**Agreed**

To note the progress against the 2016-17 Audit Plan for the first six months of the year.

**7 SO24 / Waiving of Contract Standing Orders: Quarterly report reviewing Cabinet / Cabinet Member urgent decisions or waiving Contract Standing Orders (Quarter 2, July to September 2016)**

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

The Cabinet Member for Adult and Housing Services took an urgent decision relating an application for Capital Grant Funding for the Gypsy and Traveller site on 5 September 2016, which meant that the decision was not subject to "call-in".

The comments of the Chief Internal Auditor stated that his further enquiries with Officers involved had identified the timing of events and that given the timing would also have been during the Members' summer recess, it would have been reasonable to apply Standing Order 24 - Urgent Decision.

In addition, a Member commented that the planning permission had not been granted until mid-August.

**Agreed**

To confirm that there was reasonable justification for the urgent decision.

**8 Audit Committee Self Evaluation Exercise**

The Chief Internal Auditor gave a presentation upon the previous self evaluation exercise responses to 46 questions and demonstrated the hyperlinks to key documents including: the Council's Constitution and the Committee's Terms of Reference, the report establishing Audit Committee, the Anti-Fraud and Corruption Policy and the contact details for the Chief Internal Auditor and Wales Audit Office.

Following the meeting, the paper would be circulated to Members electronically so that hyperlinks contained within the document could be viewed. Due to changes in the membership of the Committee, the questionnaire would be issued to Members in the coming year for completion.

**Agreed**

To note the self evaluation exercise update.

**9 Work Programme**

**Agreed**

To note the Work Programme.

The meeting terminated at Time Not Specified

