

Minutes



Audit Committee

Date: 30 March 2017

Time: 5.00 pm

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

In Attendance: Meirion Rushworth (Head of Finance), Andrew Wathan (Chief Internal Auditor), Dona Palmer (Audit Manager), Robert Squance (Audit Manager), Anthony Veale, Non Jenkins and Gareth Lucey (WAO) and Meryl Lawrence (Overview and Scrutiny Officer)

Apologies: Councillors R Bright, D Davies and R White

1 **Declarations of Interest**

None.

2 **Minutes of the Meeting held on 26 January 2017**

Agreed

To confirm the Minutes of the meeting held on 26 January 2017.

3 **Wales Audit Office Audit Plan 2017**

Anthony Veale introduced himself and Non Jenkins from Wales Audit Office and presented an overview of the Wales Audit Office 2017 Audit Plan which set out the: proposed work; when it would be undertaken; how much it would cost and who would undertake the work. The financial audit risks and proposed audit responses were set out on page 17 of the report and on page 20 work undertaken withdrawing the revaluation by CIPFA.

Members raised a number of issues:

- What about risks unforeseen to date? – Although the risks for financial statements have been identified to date, WAO will continue with observations up until June, reviewing minutes, looking at national issues in relation to accounting agenda and continuously update until sign off of accounts.
- Although the City deal is mainly a risk for next year does WAO anticipate it being a huge risk for this year? – Only major transactions go through the main Joint Committee, hosted by Cardiff and need to see how it pans out. All Councils have set costs for Cardiff to look after this and the accounting is looked after by a technical group with Assistant Head of Finance on it and WAO as an observer, trying to get it right in terms of where the transactions lie and organising payments and receipts. The Joint Committee will consolidate transactions under one house, so not audited twice.
- Why consolidated accounts for Newport Transport are a consolidated risk, given that the accounts were consolidated last year? – They were consolidated last year and not easy due to the timing, but looking at estimates and having the early closing timetable at the back of the mind and really thinking carefully and having discussions around that. Also

the valuation of assets is required every 5 years and it's important that is done as part of a five year rolling programme.

- With one issue of accounting policies and the other of timing, will the accounts be consolidated on an estimated basis and timetables dovetailed accordingly? – Newport Transport have already been informed we are expecting a set of accounts and can estimate, making sure a well thought through process so it a sensible estimate. A valuation was done in 2015 and will be checked that is adequate.
- What is the problem with getting a fully signed off set of accounts required from Newport Transport? – They have been given all the relevant dates and need to meet them.
- Last year's estimated WAO Audit fee increased by £3.5k, if we hit deadlines and meet paperwork will the fee decrease? – Yes, it hasn't been built into the fee.
- Why wasn't the additional charge to recover increased costs with the delay in providing WAO with complete accounts working papers and additional work required brought up in the Lessons Learned report? – A timing issue, the Lessons Learned report came to Committee in November, all issues were in the report but only when the accounts were being closed WAO had a discussion with Head of Finance that need to build it in if needed again the next year.
- If by November the ISA 260 was signed off and issues not known by then, if we can do something in the process to assist we should be made aware as otherwise we've not had sight of the issues. – WAO was comfortable that the document contained all the issues, but could have been brought earlier to align with Lessons Learned report.

Agreed

To note the Wales Audit Office 2017 Audit Plan.

4 Wales Audit Office Certification of Grants and Returns 2015-16

Members considered a WAO report on the Certification of Grants and Returns 2015 -16. The Auditor General had completed the audit work and concluded that the Council had adequate arrangements in place for the production and submission of its 2015-16 grant claims. One claim was submitted late to WAO by seven calendar days (Free Concessionary Travel) which was an improvement from 2014-15, when three claims were submitted late. The final cost of auditing all claims was £71,000 (2014-15 £82,000). Two of the claims were qualified; this compared well against 2014-15 where ten claims were qualified.

Discussions included the following:

- Whether the amendments occurring were calculation issues or a variety of issues regarding guidance? – It was explained that Grant instructions received by Officers can be quite ambiguous, there are very few errors, and it is understood how these can occur e.g. apportionment fell over the cap.
- In the past it felt as though there wasn't proper review of grants. Managers signing off grants should be expected to go through the working documents and if there is a process problem it needs to be addressed. – WAO responded that they are generally satisfied with the process and the improvements from the previous year and in comparison with other Local Authorities Newport's issues are more on the margin than deep seated.

Agreed

To note the report.

5 Draft Internal Audit Plan 2017-18

The Chief Internal Auditor introduced his Draft Internal Audit Annual Plan which set out the work to be undertaken by the Internal Audit Section at an operational level for 2017/18. It identified why the Council operates an Internal Audit function, the resources currently available and how they will be applied across Newport City Council's services to give

management assurance that systems are working as intended. It outlined where Internal Audit resources will be focussed over the next year, covering systems and establishments in all service areas of the Council. 1150 productive audit days had been planned for 2017/18 in the draft plan by 8 staff, balancing adequacy of controls with limited resources.

Discussions included the following:

- Whether the Education trips in the Draft Audit plan are charged for or funded and are the grants for each school? – There are educational trip regulations on recording trips whether chargeable or funded and there is one grant for each school. If not compliant then the audits are reported back. 6 Schools a year are scheduled for audit on a rolling programme over 7 to 8 years. Audit cover had gone down 30% and schools follow up audits had decreased to 16 hours for two schools. It was clarified that High Risk is followed up to make sure the agreed recommendations have been implemented, to ensure and get evidence and give a revised positive opinion.
- With the reduction in hours is the time allocated reasonable and achievable? – It's not an exact science, the draft plan is based upon experience but there can sometimes be operational issues or difficult managers.
- Does the reduction in the number of staff and the loss of their knowledge add to the risk? – As the knowledge and experience is removed so the risk increases.
- Concern was expressed that in terms of resources there are just enough in the Audit Team and at what point would there not be enough staff and a control mechanism risk? If school audits are only on a rota every 7 or 8 years, at what staffing level should Members of the Audit Committee start worrying, based on risk profile? - The Audit Plan is based upon a risk assessment across all service areas to give as much assurance as possible on the adequacy of the internal control environment, governance arrangements and risk management processes and largely depends on the Authority's own assurance appetite. There's no exact number of auditors required, but the fewer auditors in place the less assurance can be given. If the Team is reduced any further then the Chief Internal Auditor may need to consider providing a limited overall opinion.
- What are the high risks? - High risks could be new manager, previous issues, frauds, areas of service that handle cash and procurement which every service does.
- IT is a big risk, with government and banks having difficulties. Do we communicate with other Local Authorities? – IT is considered in the Plan / Team, but there isn't a Computer Auditor, nor the expertise in-house. Expertise has been brought in previously and from 2017 Newport IT is part of the IT Shared Resource Service and audited by Torfaen, so there will be greater assurance.
- Given there is 7 years between some audits, what other processes and checks are in place? - Internal Audit is considered the third line of defence: the first being; Policies & Procedures, the second; Managers to check the processes properly, the third; Internal Audit, then External Audit and Regulators. A reduced team does less audit, but there is no exact optimum number of staff.
- It feels like the third line is getting thinner all the time? - All services are managing with less resources. Problems are found especially small inconsistencies in schools. Could have 100 auditors but it won't stop fraud. Joining up forces, Accountancy with Audit drawing up training, tightening up policies, identifying what is needed and training. Trying to work smarter to understand the issue of fraud. Changing the way we work using self-evaluation for medium - low risk issues. Specialist software can be utilised to smarten up. Making the resources go further and adding value, but doesn't completely mitigate the fact that resources are low. The Audit Plan for the IT Shared Resource Service has been passed and its very good so can take comfort from that. Trying to work smarter and differently.
- Shared Services had a good Audit Plan but as reported in shared services management issues need to be audited.
- The level of potential fraud can be assessed by the amount of money, is there a sufficient deterrent to not doing it? - Allegations of potential fraud are investigated and findings generally lead to disciplinary action, ranging from no action to dismissal. If

serious enough can be referred to the Police. Fraud is discovered or reported and investigated, while audit is to prevent.

- Is there an attempt to recoup losses? – Where possible but the Council doesn't have the jurisdiction, a court has to recoup the losses.
- The Authority takes part in the National Fraud Initiative, which is a UK wide data matching exercise that indicates potential fraud returned to us to investigate, e.g. creditor payment to a member of staff, Housing Benefit fraud, etc.
- Can risk areas be identified from services attacked by litigation? – Audit isn't involved, but the Insurance Team would defend robustly. Litigation and insurance claims are also examined a part of the National Fraud Initiative. The Insurance Manager and Litigation Manager are a line of defence, they review and talk to other Local Authorities to determine if they are being hit, and ensure the systems in place to defend it.
- The Council as a whole could look at insurance risk.
- What is done to check compliance with the need for an order to pay an invoice? Issues include the accounts are not accurate, but also items are being purchased without Council authorisation and what value is added by the Manager if they don't see the order until the invoice arrives? – It was clarified that this is checked by Audit and Contract Procedure Rules and Financial Regulations training has been provided to Officers in the Authority. If invoice received and no order exists, the order isn't just paid, it's investigated and relevant Officers advised. The Strategic Procurement Manager monitors this information and could work with Audit upon a report if requested.
- The levels of procurement spending delegated to different tiers of Officers and controls on exercising their delegation.
- If Members were aware of an issue then they should raise it with the Chief Internal Auditor.

Agreed:

To note and endorse the Draft Internal Audit Plan 2017-18.

6 Internal Audit Progress against Unsatisfactory Audit Opinions

Members considered a report upon the current status of audit reviews previously given an unsatisfactory or unsound audit opinion and bringing their attention to any areas which had not demonstrated improvements within the financial control environment.

In July 2015 it was reported that 5 audit reviews had been given an Unsatisfactory audit opinion during 2014/15.

In 2015/16, 34 audit opinions had been issued; 8 were Unsatisfactory, no Unsound opinions were issued. This was reported to Audit Committee in June 2016. The Head of Street Scene & City Services was called into Audit Committee in September 2016 to respond to two consecutive Unsatisfactory Audit Opinions relating to CCTV / Security (Telford Depot).

As at 31 December 2016 during 2016/17, 23 audit opinions had been issued; 3 were Unsatisfactory, 1 was Unsound. Following discussion regarding these audit opinions, the Audit Committee:

Agreed

1. To note and endorse the report.
2. To call in the Strategic Director - Place to respond to the Unsatisfactory Audit Opinions within Street Scene at the meeting scheduled for 25 May 2017 (as the post of Head of Street Scene & City Services was vacant).

7 Audit Committee Self Evaluation Exercise

The Chief Internal Auditor advised the Committee that the Self Evaluation Exercise had demonstrated effective audit and asked that the next report be deferred until after the election, for the induction of new Audit Committee Members.

Agreed

To defer a report upon the Audit Committee Self Evaluation Exercise until after the local government election, for the induction of new Audit Committee Members.

8 Work Programme

Members' attention was drawn to the proposed work programme for the Audit Committee for 2017-18. Council and WAO Officers were asked to advise of any subsequent amendments to the schedule.

The Head of Finance advised Members that Treasury Management Training was proposed for all Council Members after the election, to be held in late June or early July at 5.30pm for half an hour. He stressed the importance for Audit Committee Members to attend the training.

Agreed

To note the Work Programme.

9 Date of Next Meeting - 25 May 2017

Agreed

To confirm the date of the next meeting as 25 May 2017.