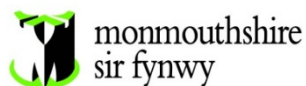


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County Hall
Rhadyr
Usk
NP15 1GA

Wednesday, 20 November 2019

Notice of Meeting

Audit Committee

Thursday, 28th November, 2019 at 2.00 pm,
County Hall, The Rhadyr, Usk, NP15 1GA

AGENDA

Item No	Item	Pages
1.	Apologies for Absence	
2.	Declarations of Interest	
3.	Public Open Forum	
4.	To note the Action List from the previous meeting.	1 - 2
5.	Overview of Performance Management Arrangements	3 - 16
6.	Audit Committee: Self Evaluation	
7.	Mid Year Treasury Report	17 - 30
8.	Q2 update & progress	31 - 38
9.	Monmouthshire County Council Welsh Church Act Fund Audited Accounts	39 - 58
10.	ISA 260 or Equivalent for Trust Funds	59 - 72
11.	To confirm minutes of the previous meeting	73 - 78
12.	To confirm the date of the next meeting as 9th January 2020	

Paul Matthews
Chief Executive

MONMOUTHSHIRE COUNTY COUNCIL
CYNGOR SIR FYNWY

THE CONSTITUTION OF THE COMMITTEE IS AS FOLLOWS:

County Councillors:

P White
P. Clarke
A. Easson
M. Feakins
J. Higginson
M. Lane
P. Murphy
V. Smith
B. Strong
J. Watkins
S.B. Jones
J. Saunders

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Welsh Language

The Council welcomes contributions from members of the public through the medium of Welsh or English. We respectfully ask that you provide us with 5 days notice prior to the meeting should you wish to speak in Welsh so we can accommodate your needs.

Aims and Values of Monmouthshire County Council

Our purpose

Building Sustainable and Resilient Communities

Objectives we are working towards

- Giving people the best possible start in life
- A thriving and connected county
- Maximise the Potential of the natural and built environment
- Lifelong well-being
- A future focused council

Our Values

Openness. We are open and honest. People have the chance to get involved in decisions that affect them, tell us what matters and do things for themselves/their communities. If we cannot do something to help, we'll say so; if it will take a while to get the answer we'll explain why; if we can't answer immediately we'll try to connect you to the people who can help – building trust and engagement is a key foundation.

Fairness. We provide fair chances, to help people and communities thrive. If something does not seem fair, we will listen and help explain why. We will always try to treat everyone fairly and consistently. We cannot always make everyone happy, but will commit to listening and explaining why we did what we did.

Flexibility. We will continue to change and be flexible to enable delivery of the most effective and efficient services. This means a genuine commitment to working with everyone to embrace new ways of working.

Teamwork. We will work with you and our partners to support and inspire everyone to get involved so we can achieve great things together. We don't see ourselves as the 'fixers' or problem-solvers, but we will make the best of the ideas, assets and resources available to make sure we do the things that most positively impact our people and places.

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Agenda Item 4

Audit Committee Actions 12th September 2019

Agenda Item:	Subject	Officer	Outcome
5 (c/f 25 th July 2019)	Performance management	Chief Officer, Resources	Update to be provided at September meeting

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SUBJECT: Overview of Performance Management Arrangements

MEETING: Audit Committee

DATE: 28 November 2019

DIVISIONS/WARDS AFFECTED: All

1 PURPOSE

- 1.1 To ensure that members understand the Council's performance framework.
- 1.2 To present an update on the current effectiveness of the authority's performance management arrangements.

2 RECOMMENDATIONS:

- 2.1 That members use the update provided to inform their understanding of the effectiveness of the operation of the authority's performance management arrangements and identify any areas where they feel action needs to be taken or further information provided.

3. KEY ISSUES:

- 3.1 Performance Management is about establishing a shared understanding of what needs to be achieved and making sure that it happens. The council currently has an established performance framework; this is the way in which we translate our purpose - building sustainable and resilient communities - into action and ensure that everyone is pulling in the same direction to deliver real and tangible outcomes. This is shown in appendix 3.
- 3.2 Our performance framework:
 - Translates our purpose, which we share with our partners on the PSB, into the council's own well-being objectives, which are based on the same well-being assessment as the Public Service Board objectives, and form the backbone of our five priority goals in the corporate plan.
 - Places an expectation on teams to translate these into specific, measurable actions in their service business plans
 - Contains a broad range of data to monitor impact and measure the performance of services
 - Requires employees to receive regular appraisals to demonstrate how they are contributing to the objectives

Other key processes that are part of and/or facilitate aspects of the framework, include the Whole Authority Strategic Risk Assessment and self-evaluation arrangements.

- 3.3 The council's performance framework needs to continue to evolve to reflect and plan for the challenges and opportunities facing council services. The Well-being of Future Generations Act is one example where our framework has been adapted to support services to apply the act and continue to think more about the long-term.
- 3.4 Appendix 1 provides an appraisal of the arrangements that make up the framework to ensure that Audit Committee are able to take an overview of their effectiveness. Each arrangement has been scored based on the council's self-evaluation framework:

Level 6 Excellent; Level 5 Very Good; Level 4 Good; Level 3 Adequate, Level 2 Weak; and Level 1 Unsatisfactory. The committee last received an update providing an overview on performance management arrangements in November 2018.

- 3.5 Cabinet also agreed, as part of the Corporate Plan commitment, an annual report to be received by Audit Committee, on the continued effectiveness of the council's strategic planning framework, ensuring the necessary checks and balances are in place around monitoring, evaluation, decision-making and policy-making. The report in appendix 1 forms the basis of this evaluation for performance monitoring and evaluation; further information assessing the effectiveness of decision-making and policy-making is in appendix 2.
- 3.6 The council also places reliance on regulatory assessments as a vital part of our framework. These are Wales Audit Office (WAO), who examine the authority's corporate arrangements; Estyn, in relation to education provision; and the Care Inspectorate Wales, in relation to social services. Where applicable, the most recent findings of regulatory work have been factored into the appraisal of arrangements.
- 3.7 Audit Committee receive relevant Wales Audit Office performance audit reports throughout the year as they are published, which include any further areas of the council's arrangements where it is considered the authority needs to take action. The conclusion of these reports is consolidated within the regular Proposals for Improvement update report provided to the committee.

4. RESOURCE IMPLICATIONS

- 4.1 There are no additional resource implications as a result of this report. However, there may be resource implications in undertaking further actions as directed by Senior Leadership Team or as recommended by the Audit Committee.

5. AUTHOR:

Richard Jones, Performance Manager

6. CONTACT DETAILS:

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Appendix 1 - appraisal of performance management arrangements

	Well-being Objectives & Improvement Objectives
Purpose:	<p>The Council has a responsibility under the Well-being of Future Generations (Wales) Act 2015 to set well-being objectives. To achieve this we must:</p> <ul style="list-style-type: none"> • Set and publish well-being objectives (initially by 31st March 2017) • Take all reasonable steps to meet those objectives • Publish a statement about well-being objectives • Detail arrangements to publish an annual report of progress <p>The Council is also still required under the Local Government (Wales) Measure 2009 to set annual Improvement Objectives, produce an Improvement Plan and report annually on progress. The Welsh Government is consulting on a proposal to repeal Part 1 of the Measure, which would remove this requirement in future years.</p>
Evaluation Score:	Level 4 - Good
Position October 2019	<p>The council's Corporate Plan 2017-2022, approved in February 2018, sets out the Council's five organisational goals, which also incorporate our well-being objectives, supported by 22 commitments to action we will take and the ways in which they will be measured in the run-up to 2022. The purpose and priorities set for Monmouthshire in the Corporate Plan also reflect our contribution to well-being objectives set for the county by the PSB well-being plan.</p> <p>In February 2019 Council adopted the goals contained in the Corporate Plan 2017-22, as the Council's Improvement Objectives for 2019-20 in order to comply with the requirements of the Local Government (Wales) Measure 2009. Wales Audit Office have issued a certificate of compliance stating the Council has discharged its duties to prepare and publish an Improvement Plan in accordance with statutory requirements of the Local Government Measure 2009.</p> <p>The annual report on progress and performance in 2018/19 on the corporate plans was presented to Council in September 2019 and outlined the progress made to achieve the goals identified in the corporate plan. Our progress against each goal was assessed on a scale of 1 to 6, unsatisfactory to excellent. Three goals were identified as being 'Adequate' and two as being 'Good'. A further evaluation of activity and progress was carried out on each of the 22 commitments to action that sit under each goal, with a progress rating provided for each of either: progressing well, taking steps, attention needed or no activity. Criteria for each rating was identified, there was feedback provided regarding the methodology used for these progress ratings, which will be considered for future reporting. Wales Audit Office have issued a certificate of compliance for the audit of Monmouthshire County Council's assessment of 2018-19 performance.</p> <p>This year utilising a tool provided by the Future Generations Commissioner, we undertook a self-reflection of our progress to date in meeting the requirements of the Well-being of Future Generations Act, how we are embedding these in our corporate plan goals (also our well-being objectives) and to identify further progress we can make to embed the principles of the Act. The Future Generations Commissioner provided feedback on our self-reflection, and identified ways in which we were progressing well, and also areas where could strengthen our contribution to the Act. This provided a helpful perspective on our work to date, and facilitated shared learning with other organisations who have responsibilities under the act. Areas for</p>

	<p>consideration and improvement have been reflected upon and where relevant, incorporated into our most recent annual report. Some of the feedback may take longer to embed and the impact may not be recognised immediately; we continue to work to strengthen the application of the act in our work.</p> <p>A mid-term review of the commitments in the Corporate Plan is being undertaken. This will ensure that the aspirations and activity in the plan remain relevant reflect the latest thinking on issues of importance to our communities such as the recent motion declaring a climate emergency.</p>
Key future actions	<p>Finalise the mid-term review of the Corporate Plan and ensure any amended or new actions are fully embedded into business plans.</p> <p>Continue to utilise feedback from the Future Generations Commissioner's self-reflection tool to strengthen application of the sustainability principles and contribution towards the well-being goals.</p>

Service Plans

Purpose:	<p>Each service sets a Service Business Plan for a three year period (currently 2019-2022). Service Business planning and regular evaluation of our performance is fundamental to how we operate. It allows services to plan for the future, assess what went well, learn from what didn't and measure the impact the service has made on people and places of Monmouthshire. Service Plans ensure clear alignment between the council's priorities and objectives, and detail the actions the service will be undertaking, performance measures to assess progress and risks facing the service and mitigating actions.</p>
Evaluation Score:	Level 3 - Adequate
Position October 2019	<p>The Corporate Plan sets a clear direction for the council up to 2022. To ensure its effective delivery, the role and purpose of service planning was reviewed in 2018 and a revised process established. The revised Service Business Planning (SBP) process ensured services planned for the present and the future as it introduced a three-year duration for all plans.</p> <p>Service planning is based on principles that services must comply with in their plans. The principles are based on six key areas: Purpose, Evaluate, Action, Impact and Alignment, Data and Risks.</p> <p>The principles and template were further updated as part of the 2019/22 planning process. As well as ongoing support, two service business planning workshops have been held. The workshops were developed to provide practical support on business planning.</p> <p>2019/2022 plans have been corporately appraised by the Policy and Performance team against the principles. This demonstrates that there remains variability in the overall quality and completeness of some plans, which limits the effectiveness of these plans as a mechanism through which the service plans, reviews performance and is held to account. Feedback and assistance is being provided to services, where required, to strengthen their planning.</p> <p>Performance against the plans is assessed quarterly by services. The plans are available on the council's intranet, The Hub, and are accessible to officers and members providing increased</p>

	<p>transparency and facilitating challenge, by managers, leaders and cabinet members, of progress and clear alignment to the vision and strategic direction of the organisation. Quarterly updates are not always completed within timescales set, which lessens their ability to be utilised in a timely manner for accountability.</p> <p>Supporting the business planning process, the Council's enabling strategies were refreshed - Digital, People, Asset Management, Procurement and Commercial. The delivery of which is aligned with in the relevant service business plan. Progress made against all strategies will need to continue to be reviewed to ensure timescales are on track and activities are continuing to make progress against set objectives.</p>
Key future actions	Support services to implement feedback from the appraisal of 2019/22 business plans to strengthen the quality of planning.

Performance data and information	
Purpose:	<p>Performance data and information is essential to our performance framework. This comprises of nationally set performance indicators and locally set indicators that services have developed to measure the impact of their service.</p> <p>All staff and members need to regularly access and use performance and analysis of performance effectively and efficiently to evaluate the performance of a service.</p>
Evaluation Score:	Level 4 – Good
Position October 2019	<p>The data quality process continues to be strengthened and is continually amended to take account of previous audit feedback. Internal guidance notes on completing national and local performance indicators are produced setting clear requirements for data compilers. There is continued support from the Policy and Performance team with a specific and clearly defined role for Internal Audit to quality assure data and the systems producing the data.</p> <p>In 2019 the internal audit of nationally set indicators has been given a draft control rating of "substantial" assurance and for local performance indicators (those used in the Council's Corporate Plan) provisionally there are no major weaknesses identified in the indicators tested during the audit. There remain recommendations from the internal audit reports that require further attention to ensure data quality processes are improved.</p> <p>The Council's Corporate Plan goals set out a range of measures that are used to evaluate progress. Developing the right metrics of community well-being is a continuing process, to allow us to evaluate the efficiency and effectiveness of current service delivery while also track progress against longer term community well-being objectives. To do this we also continue to work with our Public Service Board partners at a local level as well as across the Gwent area.</p> <p>The appraisal of service business plans demonstrates that there is variability in the overall quality and completeness of performance indicators utilised to assess performance in service business plans. Feedback and assistance is being provided to services, where required, to strengthen their planning. It is recognised that there is a particular difficulty in developing performance measures, targets and risks to data quality when setting up new</p>

	<p>policies, initiatives or arrangements. These areas will be continue to be targeted for performance team support.</p> <p>The “data hub”, the council’s performance measurement area has been streamlined to ensure the information is up to date and focussed on the most pertinent performance data, tracking progress on measures set in the Corporate Plan and national performance indicators.</p> <p>We are continuing to develop a more comprehensive understanding of the authority’s data assets, share experiences about good practice and identify future opportunities that will help turn data into actionable knowledge. Ensuring the organisation makes the best possible use of the information it holds remains a focus and is linked to commitments made in the Corporate Plan to increase the publication and use of open data to increase accountability and revise performance and improvement plans.</p> <p>The technology is being tested to enable the creation of data dashboards, which will make use of automated open data feeds, where possible, and other internal and external data sources. The development of pilot dashboards has begun, including work through Monmouthshire Public service Board exploring displaying selected data items that were used in the well-being assessment. The learning from these pilots will be used to inform the future direction.</p> <p>Work to develop our approach to open data has been progressed and our open data webpage has been refreshed. We are looking at how we can further develop our open data offer to build on existing information that is already published on our website such as council spend data.</p>
<p>Key future actions</p>	<p>Continue to strengthen the data quality process using internal audit feedback</p> <p>Support services to make better use of data to inform service planning and transformation including: data visualisation, data analysis and developing the Council’s use of open data.</p>

Strategic Risk Assessment	
Purpose:	<p>The strategic risk assessment captures the High and Medium level risks that face the council in line with the council's risk management policy. This ensures that:</p> <ul style="list-style-type: none"> • Strategic risks are identified and monitored by the authority • Risk controls are appropriate and proportionate • Senior managers and elected members systematically review the strategic risks facing the authority
Staff Appraisal (Check-In, Check-Out)	
Purpose:	<p>Appraisals enable all staff to understand what is expected of them, to agree how values and behaviours are linked to how we perform at work and to ensure that all of our work links to the wider purpose of the organisation. Managers at every level are expected to set the right standards, coach, motivate, feedback on poor performance and recognise those people who deliver good performance.</p>
Evaluation Score:	Level 3 – adequate
Position October 2019	<p>The employee performance framework, 'Check-In, Check-Out' (CICO) provides a value-based performance assessment approach between staff and line managers.</p> <p>Based on feedback received, the CICO process has been reviewed and rolled out with more robust guidance, video tutorials and supportive training.</p> <p>In December 2016 Wales Audit Office completed a follow up review on the council's Human Resources arrangements, following their corporate assessment in 2015. The review found the council has "improved its approach to staff appraisals but not all staff are having their annual appraisals". Activity to address some of the proposals for improvement from these reports remain ongoing.</p> <p>Work is continuing in order to increase understanding of the CICO process and maximise completion; it has been included in the new manager's Induction training.</p> <p>A longer term, more effective recording module was developed that allowed managers to record the completed CICO directly into the HR system. This has had varying degrees of success due to a number of factors, namely issues with the system preventing the input of CICOs, and also reports from some managers that they prefer to complete the CICOs differently and not utilise the system as they feel it provides a better experience for their staff. To enable managers to complete the reviews in a way that suits them and their teams, all managers have been instructed to input the completed CICO numbers into their quarterly business plan updates. This way, the CICO rate can be recorded without the need to impose the electronic system. Information has been provided via service business plan update guidance to support managers to utilise the plans to record rates of completed CICOs.</p> <p>Furthermore, HR have started the procurement process for a new HR/payroll system and are currently running a series of supplier days for HR/Payroll system providers to present their products. CICO or performance appraisal is on the list of requirements for the new system.</p>
Key future actions	Increase understanding and use of the check-in, check-out process and improve recording mechanisms

	<p>The risk assessment will evolve as new information comes to light. It is available on the council's intranet, the hub, and can therefore be used by select committees throughout the year, it is also specifically reported to audit committee annually and signed off by Cabinet once a year as an accurate record of the risks facing the organisation.</p>
Evaluation Score:	Level 3 – Adequate
Position October 2019	<p>The risk assessment is prepared and updated, in line with the Council's strategic risk management policy, by drawing on a wide range of evidence including service plans, performance measures, regulatory reports and progress on the previous risk assessment.</p> <p>The up-to-date risk log is accessible to members on The Hub. This ensures that select committees are able to re-visit the information at any point in the year to re-prioritise their work plan as appropriate.</p> <p>The latest risk register has been reviewed to ensure it includes risks to the delivery of the Corporate Plan. All service business plans have been reviewed to identify any strategic risks that require escalation to the strategic risk register. The strategic risk register was reported to audit committee in January 2019 and Cabinet in March 2019. The latest risk register identifies 13 strategic risks.</p> <p>The WAO whole authority review of children's safeguarding reported in August 2018 states the strategic risk register reflects ownership of, and responsibility for, risk at an appropriately senior management and cabinet level. The report made a proposal for improvement to re-frame the strategic risk register, to enable a SMART-er approach to measuring impact of actions taken in mitigation of identified risk. The format of the strategic risk register has been updated to include timescales and responsibility holders for each mitigating action and includes an update on the progress and impact of implementing each action identified.</p> <p>An internal audit report on the Council's strategic risk management arrangements identified a number of areas for improvement; work has continued to address these. A refresh of the Council's strategic risk management policy and guidance has been completed. The refresh took account of the feedback from the Internal Audit report. An action plan to address any remaining areas for improvement from the internal audit report on the Council's strategic risk management arrangements continues to be updated and reviewed.</p> <p>Risk assessment is a key principle of service business planning. The appraisal of service business plans shows that risk assessments in plans remains an area that is particularly identified for improvement to strengthen the capture and management of risks facing services.</p> <p>In line with the Well-being of Future Generations Act, identification and mitigation of longer-term risks that will impact on future generations at community level, but will have a lesser impact on the medium term delivery of council services is an area for continued development. Through working with the Public Service Board we are developing our understanding of future risks and opportunities and how we respond to them in</p>

	Monmouthshire.
Key Future Actions	Continue implementation of the action plan to improve risk management arrangements in response to the findings from Internal Audit.
	Support services to implement feedback from the appraisal of 2019/22 business plans to strengthen the quality of planning.
	Ensure risk management arrangements, identify and mitigate, as appropriate, longer-term risks that will impact on future generations at community level, in line with the Well-being of Future Generations Act.

	Self-Evaluation
Purpose:	Self-evaluation allows us to appraise what we have done, assess what went well, learn from what didn't and plan future activity informed by what we did and the impact made.
Evaluation Score:	Level 3 – adequate
Position October 2019	<p>Over the last few years there has been a focus on improving self-evaluation arrangements by continuing to embed self-evaluation within the council's existing arrangements and implementing specific programmes of work and aligning these more closely with the budget setting process.</p> <p>The first annual report on progress and performance in 2018/19 on the Corporate Plan was presented to Council in September 2019 and outlined the progress made to achieve the goals identified in the plan. This report is intended to meet the requirements of the local government measure of publishing an assessment of performance by 31 October 2019, whilst meeting the Well-being of Future Generations Act requirement of reporting performance before 31 March. Wales Audit Office have issued a certificate of compliance for audit of Monmouthshire County Council's assessment of 2018-19 performance.</p> <p>The report also evaluates the progress made in line with the nine expectations set out by the Future Generations Commissioner, in the 'Well-being in Wales: The journey so far' report published in May 2018. The annual report is supplemented with a six-monthly report to Cabinet to ensure ongoing monitoring of progress.</p> <p>The statutory guidance for the Well-being of Future Generations Act states that public bodies need to demonstrate their well-being objectives are contributing to the achievement of the well-being goals; all reasonable steps are being taken to meet the well-being objectives; and well-being objectives are consistent with the sustainable development principle. To ensure continued efforts to meet the requirements of the Act, we have completed a self-reflection tool provided by the Future Generations Commissioner.</p> <p>The tool supported us to assess our progress to date in meeting the requirements of the Act, how we are embedding these in our corporate plan goals (also our well-being objectives) and to identify further progress we can make to embed the principles of the Act. We identified our objectives were making good progress, and assessed that generally we are where we expected to be, whilst recognising that with some objectives the stage reached, or the impact made, has varied. We recognised that over short timescales, it is not always possible to demonstrate progress with longer term and complex changes, and there are factors not always directly in the Council's control to change.</p> <p>The Future Generations Commissioner provided feedback on our self-reflection, and identified ways in which we were progressing well, and areas where could strengthen our contribution to the Act. The feedback provided a helpful perspective and insight on our work to date, and facilitated shared learning with other organisations who have responsibilities under the act. This information has already been utilised to improve</p>

	<p>our arrangements through integration into the Corporate Plan Annual Report 2018/19. The feedback will continue to be used throughout the performance planning framework to improve our contribution to the well-being objectives, as and when appropriate. Some of the feedback may take longer to embed and the impact may not be recognised immediately; we continue to work to strengthen the application of the act in our work.</p> <p>A key principle of Service Business Planning is evaluation. Each service completes an evaluation of service performance annually in their business plan to evaluate impact made and to inform future actions. Managers update Service Business Plans quarterly; this includes evaluating the progress and impact of actions, performance measures and risks. The service business plan appraisal identified that evaluations are mostly comprehensively completed, although the use of data to support them could be improved.</p>
Key Future Actions	Apply the Future Generation's Commissioner's feedback from the self-reflection tool in the council's arrangements.
	Continue to produce an annual report on the continued effectiveness of the council's strategic planning framework
	Support services to implement feedback from the appraisal of 2019/22 business plans to strengthen the quality of planning.

Appendix 2 - Assessing the effectiveness of decision – making and policy making

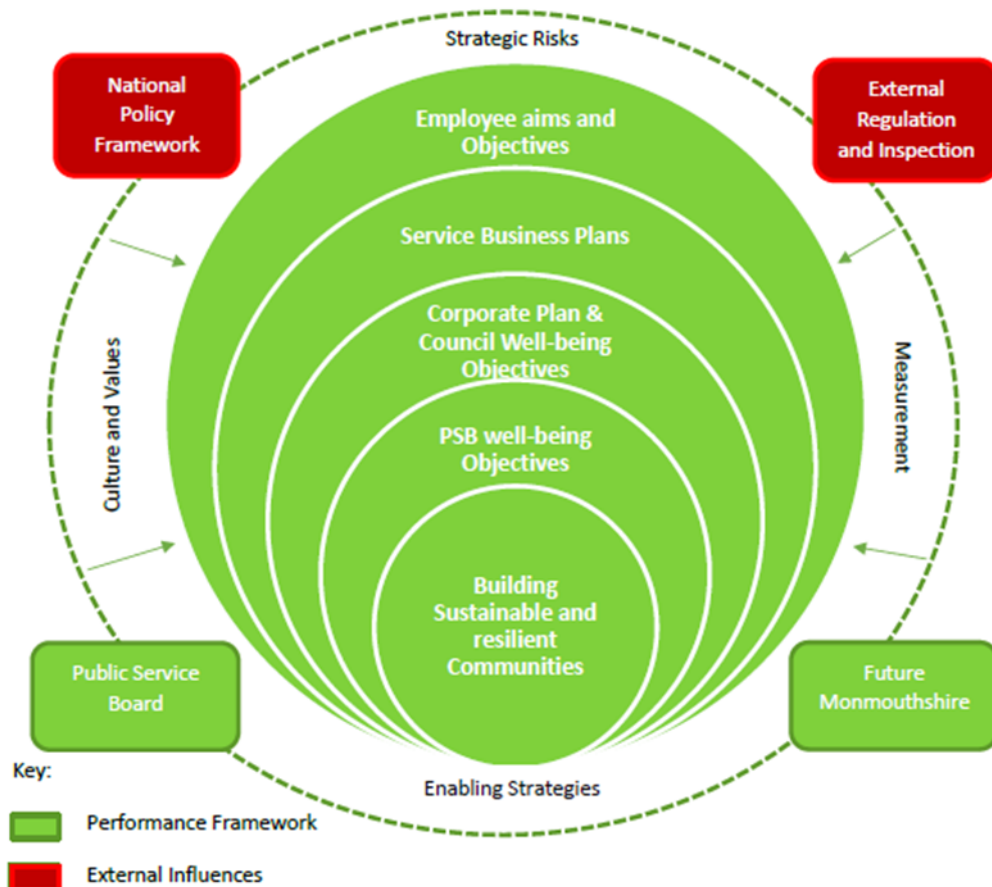
	Decision Making & Policy Making
Purpose:	Decision making and policy making is an important part of our governance arrangements and is about how we ensure we are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. Good governance is essential for the effective use of public money and the continued delivery of efficient and effective public services. The scrutiny process is an integral part of this and ensures openness, transparency and accountability in the council's decision-making.
Evaluation Score:	Level 3 – Adequate
Position October 2019	<p>The council's 2018/19 Annual Governance Statement demonstrates that Monmouthshire has governance arrangements in place to meet the challenges of the governance principles and that a review has been undertaken to assess the effectiveness of those arrangements. We have demonstrated that in most areas, we have effective governance arrangements in place which are continually improving, but also recognise that there is further work to do with areas for improvement identified.</p> <p>An updated report writing template and guidance note for reports to members has been developed and implemented. A new process has been introduced to ensure more timely and complete forward planners. A monthly members bulletin highlighting forthcoming key decisions and significant issues under scrutiny was introduced with limited success and will continue to evolve. A new section on evaluation was incorporated into reports and Democratic Services Committee has endorsed a process to ensure effective oversight of the evaluation of decisions working with Audit Committee and Chairs of Select Committees, although this has yet to be fully implemented.</p> <p>The Democratic Services Committee working group has been exploring proposals to increase public involvement in scrutiny and therefore inform service change proposals put to Cabinet and Council. Scrutiny capacity has been bolstered to provide some of the capacity needed to work in new ways and improvements to the robustness of forward planners will help councillors prioritise the issues where public involvement can add the greatest value.</p> <p>A Wales Audit Office 'Overview and Scrutiny: Fit for the Future?' report completed in August 2018, concluded Monmouthshire County Council is continually developing its scrutiny function and is aware of future challenges, but support arrangements for the Public Service Board scrutiny committee need to be strengthened.</p> <p>The council's scrutiny committees undertake a wide range of scrutiny of council business from ongoing work programmed items, such as Revenue and Capital Financial monitoring and performance monitoring, to specific policy development/review.</p>

	<p>In place of scrutiny Task and Finish Groups, a scrutiny workshop approach has been established to ensure 'value added scrutiny' that delivers timely outcomes. The workshops provide a timely and effective method of engaging members in shaping the future strategic direction, and help the council to respond more promptly and dynamically to challenges posed.</p> <p>The Public Service Board Select Committee has agreed to a change in title and terms of reference of the committee, which will it to scrutinise wider public service provision and where powers allow, to provide greater accountability of services delivered in collaboration or by external partners. The changes will provide enhanced governance arrangements for services delivered to Monmouthshire citizens.</p>
Key Future Actions	Implement training on the revised report writing template and guidance.
	Implement the process for the evaluation of decisions made by Council and Cabinet
	Continue to produce an annual report on the continued effectiveness of the council's strategic planning framework

Performance Management Framework

Our performance management framework makes sure that everyone is pulling in the same direction to deliver real and tangible outcomes.

Building sustainable and resilient communities is the unifying purpose of the diverse range of services for which we are responsible. We are a partner in the Public Service Board, which is responsible for setting well-being objectives for the county. The council's own well-being objectives are set by the Council based on the same well-being assessment as the PSB objectives and, form the backbone of our Five Organisational Goals in the corporate plan. Each of our teams has a business plan that aligns to these objectives. We have a range of performance measures that we use to keep track of our progress. Our risk management policy enables us to manage strategic risks to our delivery. Our employee aims and objectives show the contributions that individual colleagues make to these objectives and delivering our vision in accordance with our values.





SUBJECT: MID-YEAR TREASURY REPORT 2019/20

MEETING: Audit Committee

DATE: 28th November 2019

DIVISION/WARDS AFFECTED: Whole Authority

1 PURPOSE:

- 1.1 To provide an interim mid-year update on treasury management activity for the first 6 months of 2019/20 in accordance with the Authority's Treasury Management Strategy Statement for 2019/20.

2 RECOMMENDATIONS:

- 2.1 That Members review the treasury management activities in the first half of 2019/20 using this report and discuss with officers any changes to the process that should be considered for incorporation into the 2020/21 Treasury Management Strategy Statement.

3 SUMMARY:

- 3.1 Sections 4 to 13 are based on a template provided by Arlingclose, the Authority's Treasury Management advisors with figures and other details specific to Monmouthshire County Council provided by the Authority's treasury management team.
- 3.2 In March 2005 the Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports to allow scrutiny of the treasury management process. The Cipfa Code requires the Authority to have regard to the security & liquidity of its investments before seeking additional returns (see 8.2).
- 3.3 The Authority's treasury management strategy for 2019/20 was approved at Council on the 7th March 2019. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.
- 3.4 The 2017 Prudential Code requires the Authority to have a Capital Strategy approved by full Council, laying out how to best meet the wide range of objectives the Authority has with limited capital resources. This was approved by Council on the 19th September 2019 and will be updated annually.
- 3.5 The Treasury Management Code which was revised in 2017/18 now covers non-treasury investments as well as treasury investments requiring Authorities to show how they provide

due diligence on these investments in the same way as it does for Treasury investments (see Section 9). The Authority has not increased its holding of non-treasury investments in the first half of 2019/20 but is still looking to spend the full balance of the approved £50m by the end of 2020/21.

- 3.6 The first 6 months of 2019/20 has been another 6 months of economic uncertainty for the UK due to the extension of the Brexit deadline and a deepening slowdown in Europe. Politics abroad has also continued to be a big driver of financial markets for example with continuing tensions between the US and China. The Bank of England maintained rates at 0.75% to support the economy.
- 3.7 Gilt interest rates fell partly due to this uncertainty so the Authority took out £7m of long term borrowing to lock in some longer term benefit from these low rates, a good decision with hindsight as PWLB rates rose by 1% in October 19.
- 3.8 At the 31st March 2019 the Authority had a borrowing CFR (Capital Financing Requirement) of £183.9m and gross external borrowing of £178.3m. As detailed in 5.3, gross borrowing increased marginally up to £180.1m in the 6 months to the 30th September but net borrowing fell from £158.0 m to £148.9m due to a short term increase in investments.
- 3.9 The Authority continues to hold a minimum of £10m of investments to meet the requirements of a professional client under the Mifid II regulations (Markets in financial instruments directive) – see section 8. The investment in strategic pooled funds has now been increased from £2m to £3m. These funds have returned income of £63,000 in the first 6 months of the year. Capital losses of £45,000 including a one off £39,000 will be absorbed by the surplus held in the Financial Instruments revaluation reserve.
- 3.10 As shown in section 10, the Authority is forecasting a saving of £243,000 for 2019/20 in the areas of interest payable and interest receivable against a total net budget of £4.0m.
- 3.11 A new indicator of interest rate risk is detailed at 12.3. It is the % rise in net revenue expenditure which would be caused by a hypothetical increase in interest rates of 1%. This indicator showed an increase of £75,000 to £316,000 from March 19 to September 19.
- 3.12 As reported in Sections 11 to 12, the Authority complied with the Cipfa code of practice on treasury management and the 2019/20 Treasury management strategy, during the year.

4 EXTERNAL CONTEXT

- 4.1 **Economic background:** UK Consumer Price Inflation (CPIH) fell to 1.7% year/year in August 2019 from 2.0% in July, weaker than the consensus forecast of 1.9% and below the Bank of England's target. The most recent labour market data for the three months to July 2019 showed the unemployment rate edged back down to 3.8% while the employment rate remained at 76.1%, the joint highest since records began in 1971. Nominal annual wage growth measured by the 3-month average excluding bonuses was 3.8% and 4.0% including bonuses. Adjusting for inflation, real wages were up 1.9% excluding bonuses and 2.1% including.
- 4.2 The Quarterly National Accounts for Q2 GDP confirmed the UK economy contracted by 0.2% following the 0.5% gain in Q1 which was distorted by stockpiling ahead of Brexit. Only the

services sector registered an increase in growth, a very modest 0.1%, with both production and construction falling and the former registering its largest drop since Q4 2012. Business investment fell by 0.4% (revised from 0.5% in the first estimate) as Brexit uncertainties impacted on business planning and decision-making.

- 4.3 Politics, both home and abroad, continued to be a big driver of financial markets over the last quarter. Boris Johnson won the Conservative Party leadership contest and committed to leaving the EU on 31st October. Mr Johnson prorogued Parliament which led some MPs to put forward a bill requiring him to seek a Brexit extension if no deal was in place by 19th October. The Supreme Court subsequently ruled Mr Johnson's suspension of Parliament unlawful. The bill however was passed into law and Mr Johnson obtained an extension from the EU to the 31st January 2020.
- 4.4 Subsequent to the initial drafting of this report, Mr Johnson successfully negotiated a deal with the EU and MP's accepted the deal in principal but required more time before they would vote formerly on the deal. Following that decision the Government proposed a general election, which will now be on the 12th December. As the political parties still hold radically different views on Brexit, this has brought more / prolonged political uncertainty.
- 4.5 Tensions continued between the US and China with no trade agreement in sight and both countries imposing further tariffs on each other's goods. The US Federal Reserve cut its target Federal Funds rates by 0.25% in September to a range of 1.75% - 2%, a pre-emptive move to maintain economic growth amid escalating concerns over the trade war and a weaker economic environment leading to more pronounced global slowdown. The euro area Purchasing Manager Indices (PMIs) pointed to a deepening slowdown in the Eurozone. These elevated concerns have caused key government yield curves to invert, something seen by many commentators as a predictor of a global recession. Market expectations are for further interest rate cuts from the Fed and in September the European Central Bank reduced its deposit rate to -0.5% and announced the recommencement of quantitative easing from 1st November.
- 4.6 The Bank of England maintained Bank Rate at 0.75% and in its August Inflation Report noted the deterioration in global activity and sentiment and confirmed that monetary policy decisions related to Brexit could be in either direction depending on whether or not a deal is ultimately reached by 31st October.
- 4.7 **Financial markets:** After rallying early in 2019, financial markets have been adopting a more risk-off approach in the following period as equities saw greater volatility and bonds rallied (prices up, yields down) in a flight to quality and anticipation of more monetary stimulus from central banks. The Dow Jones, FTSE 100 and FTSE 250 are broadly back at the same levels seen in March/April.
- 4.8 Gilt yields remained volatile over the period on the back of ongoing economic and political uncertainty. From a yield of 0.63% at the end of June, the 5-year benchmark gilt yield fell to 0.32% by the end of September. There were falls in the 10-year and 20-year gilts over the same period, with the former dropping from 0.83% to 0.55% and the latter falling from 1.35% to 0.88%. 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.65%, 0.75% and 1.00% respectively over the period.

- 4.9 This fall in gilt yields, accompanied by an increase in borrowing by Local Authorities from the PWLB, prompted the PWLB to increase its lending rates by 1% from the 9th October 2019. PWLB rates are set with reference to gilts so that the new PWLB rates in October 19 closely resemble the rates in place a year earlier when gilt yields were 1% higher. Normal movements in PWLB rates result from changes to the rates on gilts. This rise, relative to gilts, was highly unusually being overnight and immediate so no ameliorating action could be taken.
- 4.10 Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth remains a global risk. The US yield curve remains inverted with 10-year Treasury yields lower than US 3-month bills. History has shown that a recession hasn't been far behind a yield curve inversion. Following the sale of 10-year Bunds at -0.24% in June, yields on German government securities continue to remain negative in the secondary market with 2 and 5-year securities currently both trading around -0.77%.
- 4.11 Credit background: Credit Default Swap (CDS) spreads rose and then fell again during the quarter, continuing to remain low in historical terms. After rising to almost 120bps in May, the spread on non-ringfenced bank NatWest Markets plc fell back to around 80bps by the end of September, while for the ringfenced entity, National Westminster Bank plc, the spread remained around 40bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 34 and 76bps at the end of the period.
- 4.12 There were minimal credit rating changes during the period. Moody's upgraded The Co-operative Bank's long-term rating to B3 and Fitch upgraded Clydesdale Bank and Virgin Money to A-.

5 LOCAL CONTEXT

- 5.1 On 31st March 2019, the Authority had net borrowing of £158.0m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. See Table 1 below.

Table 1: Balance Sheet Summary

	31.3.19 Actual £m
General Fund CFR	186.3
Less: *Other debt liabilities	(2.4)
Loans CFR	183.9
External borrowing	(178.3)
Internal (over) borrowing	5.6
Less: Usable reserves	18.1
Less: Working capital	7.9
Net (investments)	(20.4)

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt

- 5.2 The Authority pursued its strategy of keeping borrowing and investments below their underlying levels (by £5.6m), sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.
- 5.3 The treasury management position at 30th September 2019 and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.19 Balance £m	Movement £m	30.9.19 Balance £m	30.9.19 Rate %
Long-term borrowing	106.6	6.2	112.8	3.1
Short-term borrowing	71.7	(4.4)	67.3	0.85
Total borrowing	178.3	1.8	180.1	
Long-term investments	0.0	0.0	0.0	N/A
Pooled Funds	2.0	1.0	3.0	5.2
Short-term investments	9.0	8.3	17.3	0.7
Cash and cash equivalents	9.3	1.6	10.9	Incl above
Total investments	20.3	10.9	31.2	1.1%
Net borrowing	158.0	(9.1)	148.9	

- 5.4 £7.0m of new long term PWLB borrowing was taken out in September 2019 to take advantage of low PWLB rates and reduce the Authority's interest rate exposure. Net borrowing fell due to less demand for cash in the short term but as the decision to take out additional PWLB borrowing was a fairly short term decision, there was a resulting temporary increase in gross borrowing and therefore in investments which are planned to fall in the next quarter.

6 BORROWING STRATEGY DURING THE PERIOD

- 6.1 At 30th September 2019 the Authority held £180.1m of loans, an increase of £1.8m from 31st March 2019, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 30th September are summarised in Table 3 below.

Table 3: Borrowing Position

	31.3.19 Balance £m	Net Movement £m	30.9.19 Balance £m	30.9.19 Weighted Average Rate %	30.9.19 Weighted Average Maturity (years)
Public Works Loan Board	85.6	3.8	89.4	3.2	16.1
WG Interest free loans	4.7	0.0	4.7	0.0	7-12
Banks (LOBO)	13.6	0.0	13.6	4.8	22.3
Local authorities (short-term)	68.5	(2.0)	66.5	0.87	0.4
Local authorities (long-term)	5.9	0.0	5.9	Incl above	Incl above
Total borrowing	178.3	1.8	180.1		

- 6.2 The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.
- 6.3 In the 2019/20 Treasury Strategy, the Authority forecast its CFR to be increasing by £21m through 2019/20 due to its 2019/20 budgeted capital programme funded by borrowing. A significant part of this CFR increase related to budgeted acquisitions of property investments. Long term borrowing required to fund these will be taken out once any such deals have been entered into.
- 6.4 With short-term interest rates remaining much lower than long-term rates, the Authority considered it to be more cost effective in the near term to continue with the practice of using short-term loans instead of long term loans up to 50% of total net borrowing excluding those relating to Property investments. As this 50% limit was seen to be approaching and long term PWLB rates were low, £7.0m PWLB maturity loans were acquired in September split between 5 and 10 year maturity. The resulting movement in long and short term loans is shown in table 3 above.
- 6.5 **LOBO loans:** The Authority continues to hold £13.6m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the year. If a bank did exercise this option, the Authority's position would be to repay and replace with PWLB loans which are cheaper.

7 OTHER DEBT ACTIVITY

- 7.1 Total debt other than borrowing stood at £2.4m on 30th September 2019, taking total gross debt to £180.1m. The most significant elements are the outstanding liability brought on balance sheet relating to the Monnow Vale PFI scheme (£0.7m) and Welsh Government Funds held by Monmouthshire CC pending lending onto external parties (£1.3m).

8 TREASURY INVESTMENT ACTIVITY

8.1 The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the first half year, the Authority's investment balances ranged between £10 and £37 million. Of this £7-8 million is invested in longer term investments to achieve higher returns while at the same time meeting the Authority's minimum investment balance of £10 million to satisfy the requirements under the Mifid II directive. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.19 Balance £m	Net Movement £m	30.9.19 Balance £m	30.9.19 Income Return %	30.9.19 Weighted Average Maturity Days
Banks & building societies (unsecured)	4.0	4.0	8.0		62
Government (incl. local authorities)	12.9	0.4	13.3	0.7%	11
Money Market Funds	1.5	5.4	6.9		Overnight
Multi asset income Pooled Funds	2.0	0.5	2.5	5.2%	NA
Property Pooled Funds	0.0	0.5	0.5		NA
Total investments	20.4	10.8	31.2		

8.2 Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

8.3 Credit risk associated with investments is managed by placing deposits with banks with a credit rating A- or above & keeping duration within advised levels (£8m), using Government backed counterparties (£13.3m) and by diversification within the investment instrument (£9.9m). The risk of low returns is managed by lending for longer durations (£4m) and strategic pooled funds (£3m).

8.4 The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking - Treasury investments managed in-house including money market funds, excluding pooled funds

	Credit Score #	Credit Rating	Bail-in Exposure %	Weighted Average Maturity (days) *	Rate of Return %
31.03.2019	3.84	AA-	35	36	0.69
30.09.2019	3.81	AA-	46	24	0.62
Similar LAs	4.46	AA-	52	96	0.78
All LAs	4.28	AA-	62	28	0.83

*Weighted average maturity # Lower values are a higher credit worthiness

- 8.5 £3m of the Authority's investments are held in externally managed strategic pooled funds, either multi-asset or property based where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated an income return of £63,000 in the first 6 months of the year. Due to total capital losses of £45,000, the resultant total return was £18,000. £39,000 of these losses were due to the bid offer spread on units purchased in year in the property fund which is a one off loss at purchase date. Total capital gains of £46,000 were brought forward from 2018/19 in the Financial Instruments revaluation reserve which will absorb the total loss so far. Gains and losses going through this reserve will not affect the Council Fund until units are sold by which time it is probable that the losses from the bid/offer spread would have been reversed. The average return for these funds during the first 6 months was 3.4% total return made up of a 5.2% income return less a 1.8% capital loss (0.5% excluding the one off bid offer spread). The income return will be fed through the Council fund and can be used to support services.
- 8.6 Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down over months, quarters and even years; but with the confidence that over a three- to five-year period total returns will exceed cash interest rates.
- 8.7 **Readiness for Brexit:** At the 30th September, the scheduled leave date for the UK to leave the EU was 31st October 2019 and there remained little political clarity as to whether a deal would be agreed by that date and there was a possibility that the exit date would be pushed back yet again. As 31st October approached the Authority ensured there were enough accounts open at UK-domiciled banks and Money Market Funds to hold sufficient liquidity required in the near term and that its account with the Debt Management Account Deposit Facility (DMADF) remained available for use in an emergency.
- 8.8 The Welsh Government is consulting on proposed changes to its Statutory Guidance on Local Government Investments to be effective from the 2020/21 financial year. This involves a complete re-write along the lines of the guidance issued last year by the Ministry of Housing,

Communities and Local Government (MHCLG) for local authorities in England. The definition of investments is widened to include “all of the financial and non-financial assets a local authority has invested money into primarily or partially for the purpose of generating a surplus including investment property” providing it has been made using the power to invest contained in the Local Government Act 2003. In addition, loans to wholly-owned companies or associates, to a joint venture, or to a third party count as investments, irrespective of the purpose or legal power used. The deadline for responses to the consultation was 30th September.

9 NON-TREASURY INVESTMENTS

- 9.1 The definition of investments in CIPFA’s revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return.
- 9.2 At the 30th September, the Authority held £34m of such non-financial asset investments:
- Oak Grove Solar Farm £5.3m NBV
 - Castlegate Business Park & service loan £7.7m NBV
 - Newport Leisure Park & service loan £21.0m NBV
- 9.3 The rest of the Authority’s Investment Properties have been held for over a decade and are retained purely for income or capital gain and at 31st March 2019 consisted of:
- Agricultural Properties £26.4m NBV
 - Industrial Properties and Retail Units £2.7m NBV
- 9.4 These investments generated approximately £1m of investment income in 2018/19 for the Authority after taking account of direct costs. In comparison to the total expenditure budget for the Authority for 2019/20 of £161m, this net income is important but not highly significant. £50m of new investments in Commercial Property was approved by council for 2018/19-2020/21. So far £31m of this budget has been spent.

10 Treasury Performance

- 10.1 The Authority measures the financial performance of its treasury management activities in terms of its impact on the revenue budget as shown in table 6 below.

Table 6: Performance

Interest Payable	Forecast @ Month 6 £'000	2019/20 Budget £'000	Over/ (Under)	Explanation
PWLB	2,798	2,916	(118)	£50k - rate on variable rate PWLB loan is less than budgeted, £85k – budgeted loan used to fund Newport leisure park less £17k - additional LT loans taken out to reduce int rate risk
Market loans	652	652	0	On target
Short term loans	584	616	(32)	Better ST borrowing rates than budgeted
Total Interest payable on borrowing	4,034	4184	(150)	

Interest Receivable	Forecast @ Month 6 £'000	2019/20 Budget £'000	Over/ (Under)	Explanation
Invested cash short term	(111)	(85)	(26)	Increase in rates following increase in Bank of England base rate plus higher levels of cash investments held
Pooled Funds	(123)	(120)	(3)	About 4% return on investment
Finance lease income	(64)	0	(64)	Interest element of lease payments not budgeted
Income from Investments	(298)	(205)	(93)	
Net Over/ (Under)spend	3,736	3,979	(243)	

11 COMPLIANCE

11.1 The Chief Finance Officer reports that all treasury management activities undertaken during the reporting period complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy.

11.2 Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 8 below.

Table 7: Debt Limits

	Maximum In period	30.9.19 Actual	2019/20 Operational Boundary	2019/20 Authorised Limit	Complied? Yes/No
Borrowing	180.1	180.1	189.7	220.0	Yes
PFI, Finance Leases & other LT liabilities	2.4	2.4	3.0	4.5	Yes
Total debt	182.5	182.5	192.7	224.5	Yes

11.3 Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

Table 8: Investment Limits

Investment type	Half year Maximum	2019/20 Limit	Complied? Yes/No
Local Authorities per counterparty	nil	£2m or 10%	Yes
Banks per counterparty, rating A- or above	£2m	£2m	Yes
Money Market Funds	£2m	10% and £2m	Yes
Any group of strategic pooled funds under the same management	£1m	£2m	Yes
Limit per non-UK country	nil	£4m	Yes
Investments over 1 year	nil	£6m	Yes
Non-specified investments other than pooled funds	nil	£6m	Yes

12 TREASURY MANAGEMENT INDICATORS

12.1 The Authority measures and manages its exposures to treasury management risks using the following indicators.

12.2 **Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating / credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the

arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	30.9.19 Actual	2019/20 Target	Complied?
Portfolio average credit rating / score	AA-/3.84	A-/ 5.0	Yes

- 12.3 **Interest Rate Exposures:** This indicator informs the reader of the value of the impact of a 1% rise in interest rates on the revenue account for the 12 months starting the 30th September 2019 and compares that impact to that calculated when the treasury strategy was set. For the impact of a 1% fall in rates reverse the direction of the movement.
- 12.4 Please note that this indicator does not relate specifically to the 1% increase in PWLB rates noted in 4.9. This indicator relates mainly to short term loans or variable rate loans which the Authority currently acquires from the Market place rather than the PWLB. Our existing PWLB variable rate loan was not affected by the increase in rates although it could not be replaced at such a good rate through the PWLB at maturity.

Interest rate risk indicator	30.9.19 level	31/3/19 Level	+ve impact is punitive
Forecast impact on revenue over the next 12 months of a 1% <u>rise</u> in interest rates	£316,000	£241,000	£75,000

- 12.5 The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates plus 1%. The punitive impact of £75,000 is mainly due to an increase in short term borrowing levels. Although not set as a limit, 10% of the Council fund balance, £690,000 is a useful comparator for this potential call on reserves.
- 12.6 To supplement this indicator, the treasury team also set a limit on the ratio of net variable rate debt to total net debt. £13.5m of PWLB variable rate debt is included in variable, whereas £13.6m of LOBO loans which could be called in under one year are classed as fixed as they are unlikely to be called and could be replaced with PWLB loans at a lower rate if this occurred.

Limit on net variable rate debt as a % of total net debt	Actual 30th September 2019 £m		Limit £m
	All debt & investments	Excluding debt for Property Investments	
Variable rate debt	81.4	80.4	
Variable rate investments #	28.2	28.2	
Net variable rate debt	53.2	52.2	
Fixed rate debt	98.8	68.8	
Fixed rate investments	0.0	0.0	
Net fixed rate debt	98.8	68.8	
% net variable rate debt to total net debt	35.0%	43.1%	50%

#This table excludes Strategic Pooled Fund investments as they do not contain significant interest rate risk

12.7 **Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

Refinancing risk indicator	Actual 30 th Sept 2019 £m / %		Lower limit	Upper limit
Under 12 months – LOBO loans	£13.6	7.5%	0%	60%
Under 12 months – short term loans	£66.5	36.9%		
Under 12 months – maturing LT loans	£1.3	0.7%		
Under 12 months – variable rate LT loans	£13.5	7.5%		
12 months and within 24 months – other	£10.8	6.0%	0%	20%
24 months and within 5 years	£12.5	6.9%	0%	40%
5 years and within 10 years	£14.1	7.8%	0%	30%
10 years and above	£47.8	26.5%	0%	100%

12.8 Time periods start on the 30th September 2019. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

12.9 **Principal Sums Invested for Periods Longer than a year:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2019/20	2020/21	2021/22
Actual principal invested beyond year end	£0m	£0m	£0m
Limit on principal invested beyond year end	£6m	£6m	£6m
Complied?	Yes	Yes	Yes

13 OUTLOOK FOR THE REMAINDER OF 2019/20

13.1 The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased dramatically.

13.2 There appears no near-term resolution to the trade dispute between China and the US, a dispute that the US appears comfortable exacerbating further. With the 2020 presidential election a year away, Donald Trump is unlikely to change his stance.

13.3 Parliament appears to have frustrated UK Prime Minister Boris Johnson's desire to exit the EU on 31st October. The probability of a no-deal EU exit in the immediate term has decreased, although a no-deal Brexit cannot be entirely ruled out for 2019 and the risk of this event remains for 2020. The risk of a general election in the near term has, however, increased.

13.4 Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.

13.5 Our treasury advisor Arlingclose expects Bank Rate to remain at 0.75% for the foreseeable future but there remain substantial risks to this forecast, dependant on Brexit outcomes and the evolution of the global economy. Arlingclose also expects gilt yields to remain at low levels for the foreseeable future and judge the risks to be weighted to the downside and that volatility will continue to offer longer-term borrowing opportunities.

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Downside risk	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75



**SUBJECT: INTERNAL AUDIT SECTION
Progress Reports for 6 Months into 2019/20**

DIRECTORATE: Resources
MEETING: Audit Committee
DATE: 28 November 2019
DIVISION/WARDS AFFECTED: All

1. PURPOSE

To consider the adequacy of the internal control environment within the Council based on the outcomes of audit reviews and subsequent opinions issued to the 30th September 2019.

To consider the performance of the Internal Audit Section over the first 6 months of the current financial year.

2. RECOMMENDATION(S)

That the Committee note the audit opinions issued.

That the Committee note the progress made by the Section towards meeting the 2019/20 Operational Audit Plan and the Section's performance indicators at the 6 months stage of the financial year.

3. KEY ISSUES

3.1 The Section has started to undertake its programme of audits in accordance with the 2019/20 agreed Operational Audit Plan.

3.2 This report gives brief details of the work undertaken in the year to date. The report also gives details of the Section's performance indicators for the 6 months to 30th September 2019.

3.3 The Public Sector Internal Audit Standards came into force in April 2013 (updated March 2017) which the Internal Audit team needs to demonstrate it is compliant with; these replaced the former Code of Practice for Internal Audit within Local Government.

3.4 A requirement of the PSIAS is for the Internal Audit team to be externally assessed once every five years to ensure compliance with these Standards. The Welsh Chief Auditors' Group proposed an option of a peer review in order to meet the requirements of this external

assessment, which has been agreed by respective S 151 Officers of local authorities in Wales. Monmouthshire's peer review took place during 2017/18 with the outcome being that the team is generally compliant; no significant areas of non compliance.

- 3.5 The 2019/20 Draft Audit Plan was agreed by the Audit Committee on 14th March 2019; final approved on 13th June 2019.

4. REASONS

- 4.1 Since the start of the financial year, the Internal Audit Section has completed 24 audit jobs to draft stage from its 2019/20 Operational Audit Plan; 2 of these being opinion related and these are shown in the table at Appendix 1. The team was involved with grant claim certification during Q2.
- 4.2 In relation to the normal audit opinion related reports, 2 have been issued in draft by the end of the 2nd Quarter; 1 provided *Substantial Assurance*, 1 *Limited Assurance*. One report related to the AGS where no opinion was given, but this forms part of the Council's annual financial statements and financial advice was given in several areas; work was also undertaken on the National Fraud Initiative (NFI). The team was involved with auditing grant claims which they have certified as either *qualified* or *unqualified*.
- 4.3 The definitions of the four internal audit opinions and the finding ratings used by the Section are provided at Appendix 2 for Members' information.
- 4.4 Finalisation work from 2018/19 continued; of the 26 reviews at draft report stage at 31 March 2018, 17 have subsequently been finalised; 1 x Substantial opinion, 7 x Considerable opinions, 5 x Reasonable opinions, 3 x Limited opinions and 1 unqualified grant claim.
- 4.5 Audit management have also been involved with 3 ongoing special investigations to date this year, some of which have continued from 2018/19; these are often very sensitive and time consuming. Work has been undertaken on 3 unplanned areas, providing additional advice and support for service managers.
- 4.6 Appendix 3 of the report gives details of the Section's performance indicators as at 30th September 2019.
- 4.7 Of the finalised audit reviews, the acceptance of audit recommendations was good at 98%.
- 4.8 Draft reports have taken 2 days to issue following completion of audit work and the review process. It has taken 23 days to issue final reports following the receipt of management comments.

- 4.9 Getting audit reports out to service managers are key indicators. The audit management will endeavour to continue to turnaround the work within the target time set for draft and final reports.
- 4.10 The percentage coverage of the audit plan at 27% (30% 2018/19) is slightly lower than the same period of the previous year and just below the profiled target of 28% at this stage of the financial year. Management will keep this indicator under careful review for the rest of the year to ensure that the audit coverage by the year end is as comprehensive as possible. The operational plan will be re-prioritised to ensure the higher risk areas are covered by the year end if resources become an issue.
- 4.11 The team started the year with a full complement of staff in the team.
- 4.12 In Quarter 1 the team was involved with the verification and validation of the Council's annual performance indicators before they were submitted to Welsh Government. The team is also involved with the administration of the National Fraud Initiative (NFI) data sets on behalf of the Council.

5. SERVICE MANAGEMENT RESPONSIBILITIES

- 5.1 Heads of Service and service managers are responsible for addressing any weaknesses identified in internal systems and demonstrate this by including their management responses within the audit reports. When management agree the audit action plans they are accepting responsibility for addressing the issues identified within the agreed timescales.
- 5.2 Ultimately, managers within MCC are responsible for maintaining adequate internal controls within the systems they operate and for ensuring compliance with Council policies and procedures. All reports, once finalised, are sent to the respective Heads of Service for information and appropriate action where necessary.

6. FOLLOW UP AUDIT REVIEWS

- 6.1 Where 'Limited Assurance' opinions are issued, they are followed up within a twelve month timescale to ensure that the agreed actions have been taken by management and that the internal control systems are improved. These will be reported separately to the Audit Committee.

7. RESOURCE IMPLICATIONS

None.

8. CONSULTTEES

Chief Officer Resources

Results of Consultation:

N/A

9. BACKGROUND PAPERS

Operational Audit Plan 2019/20

10. AUTHORS AND CONTACT DETAILS

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AUDIT COMMITTEE NOVEMBER 2019

INTERNAL AUDIT SECTION PROGRESS REPORT 2019/20 – 6 MONTHS

APPENDIX 1

Internal Audit reviews from the 2019/20 Operational Audit Plan where fieldwork has been completed and/or final reports issued since 1/4/19 are listed in the table below.

Internal Control Opinions give the auditor's overall conclusion on the control environment operating in each system/establishment under review. Opinions range from Substantial Assurance through to Limited Assurance.

Draft issued indicates that a draft report has been issued and a response is awaited from the client before the report can be finalised.

Status of reports as at 30th September 2019

Internal Audit Services - Management Information for 2019/20 – Quarter 2

Job number	Directorate	Service	Job Name	Risk Rating / Priority	Opinion given
P1920/28	Enterprise	Policy & Governance	National Performance Indicators	Medium	Substantial (Draft)
P1920/10	Children & Young People	Schools	Castle Park Primary School	Low	Limited (Final)
P1920/03	Children & Young People	Standards	Pupil Deprivation Grant	Low	Unqualified
P1920/04	Children & Young People	Standards	Outside School Childcare Grant	Low	Unqualified
P1920/68	Social Care & Health	Integrated Services	Supporting People Grant - Outcomes Data (July)	High	Unqualified
P1920/69	Social Care & Health	Integrated Services	Supporting People Grant - Financial Data (Sept)	Medium	Unqualified
P1920/02	Children & Young People	Standards	Education Improvement Grant	Medium	Qualified

Non – opinion / Added Value Audit Work

Job number	Directorate	Service	Job Name	Opinion
P1920/14	Children & Young People	Schools	Monitoring Implementation of Audit Recommendations	Not applicable
P1920/15	Children & Young People	Schools	Audit Advice	Not applicable
P1920/20	Enterprise	Business Growth & Enterprise	Audit Advice	Not applicable
P1920/27	Enterprise	Tourism, Leisure & Culture	Audit Advice	Not applicable
P1920/32	Enterprise	Planning, Housing & Place Shaping	Monitoring Implementation of Audit Recommendations	Not applicable
P1920/36	Enterprise	Passenger Transport Unit	Audit Advice	Not applicable
P1920/42	Enterprise	Waste & Street Operations	Audit Advice	Not applicable
P1920/44	Enterprise	Highways & Flood Management	Audit Advice	Not applicable
P1920/50	Resources	People	Audit Advice	Not applicable
P1920/51	Resources	Digital Programme Office	Audit Advice	Not applicable
P1920/58	Resources	Finance	Monitoring Implementation of Audit Recommendations	Not applicable
P1920/59	Resources	Finance	Audit Advice	Not applicable
P1920/65	Resources	Business Planning & Redesign	Audit Advice	Not applicable
P1920/70	Social Care & Health	Integrated Services	Audit Advice	Not applicable
P1920/72	Social Care & Health	Children's Services	Audit Advice	Not applicable
P1920/75	Social Care & Health	Public Protection	Audit Advice	Not applicable
P1920/79	Corporate	Cross Cutting	Annual Governance Statement	Not applicable

Internal Audit Opinions

Each report contains an opinion which is an overall assessment of the control environment reviewed.

SUBSTANTIAL	Substantial level of assurance. Very well controlled, with numerous strengths identified and any risks being less significant in nature.
CONSIDERABLE	Considerable level of assurance Generally well controlled, although some risks identified which should be addressed.
REASONABLE	Reasonable level of assurance. Adequately controlled, although risks identified which could compromise the overall control environment. Improvements required.
LIMITED	Limited level of assurance. Poorly controlled, with unacceptable levels of risk. Fundamental improvements required urgently.

The table below summarises the finding ratings used during our audits:

RATING	RISK DESCRIPTION	IMPACT
1	Significant	(Significant) – Major / unacceptable risk identified. Risks exist which could impact on the key business objectives. Immediate action required to address risks.
2	Moderate	(Important) – Risk identified that requires attention. Risks identified which are not business critical but which require management attention as soon as possible.
3	Minor	(Minimal) – Low risk partially mitigated but should still be addressed. Audit comments highlight a suggestion or idea that management may want to consider.
4	Strength	(No risk) – Good operational practices confirmed. Well controlled processes delivering a sound internal control framework.

For grant claim audits:

Unqualified opinion - the terms and conditions of the grant were generally complied with;

Qualified opinion - the terms and conditions of the grant were not fully complied with; the identified breaches of terms and conditions will be reported to the grantor and internally to relevant Head of Service/Chief Officer.

AUDIT COMMITTEE NOVEMBER 2019

INTERNAL AUDIT SECTION PROGRESS REPORT 2019/20 – 6 MONTHS

APPENDIX 3

Performance Indicators

	2018/19	Q1	Q2	Q3	Q4	Target
1	Percentage of planned audits completed	17%	30%	53%	84%	82%
2	Percentage of audits completed within planned time	N/A	100%	67%	64%	67%
3	Average no. of days from audit closing meeting to issue of a draft report	3 days	4 days	10 days	9 days	17 days
4	Average no. of days from receipt of response to draft report to issue of the final report	12 days	17 days	16 days	18 days	5 days
5	Percentage of recommendations made that were accepted by the clients	100%	98%	99%	98%	95%
6	Percentage of clients at least 'satisfied' by audit process	100%	100%	100%	100%	95%
7	Percentage of directly chargeable time (actual v planned)	112%	108%	108%	107%	100%
8	Number of special investigations	2	4	5	5	

N / A – not available

	2019/20	Q1	Q2	Q3	Q4	Target
1	Percentage of planned audits completed	11%	27%			28% (84% pa)
2	Percentage of audits completed within planned time	N/A	70%			60%
3	Average no. of days from audit closing meeting to issue of a draft report	2 days	2 days			12 days
4	Average no. of days from receipt of response to draft report to issue of the final report	26 days	23 days			5 days
5	Percentage of recommendations made that were accepted by the clients	98%	98%			90%
6	Percentage of clients at least 'satisfied' by audit process	N/A	100%			90%
7	Percentage of directly chargeable time (actual v planned)	90%	98%			100%
8	Number of special investigations	2	3			

The Monmouthshire County Council Welsh Church Act Fund

Annual Report and Financial Statements for the year ended the 31 March 2019

Registered Charity Number: 507094

**The Monmouthshire County Council Welsh Church Act Fund
Annual Report for year ended 31 March 2019**

Contents

Trustee, Officers and Advisors	1
Report of the Trustee	2
Independent Auditors' Report	5
Statement of financial Activities	7
Balance Sheet	8
Cashflow Statement	9
Notes to the Financial Statements	10

**The Monmouthshire County Council Welsh Church Act Fund
Annual Report for year ended 31 March 2019**

Trustee, Officers and Advisors

Trustee

Monmouthshire County Council

Secretary

Matthew Phillips

Monitoring Officer

Monmouthshire County Council

Registered Office

Innovation House

Magor

PO Box 106

NP26 9AN

Auditors

Wales Audit Office

24, Cathedral Road

Cardiff

CF11 9LJ

Solicitor

Matthew Phillips

Head of Legal Services

Monmouthshire County Council

Investment Custodian

Monmouthshire County Council

General Management

Mr Peter Davies

Director of Resources

Monmouthshire County Council

Bankers

Barclays Bank

1-5 St David's Way

St David's Centre

Cardiff

CF10 2DP

The Monmouthshire County Council Welsh Church Act Fund Annual Report for year ended 31 March 2019

Report of the Trustee for the year ended 31 March 2019

The Trustee presents its annual report and the audited financial statements for the year ended 31 March 2019 of The Monmouthshire County Council Welsh Church Act Fund ('the Charity').

The information with respect to the Trustee, officers and advisors set out on page 1 forms part of this report.

The financial statements have been prepared in accordance with the Statement of Recommended Practice: Accounting and Reporting by Charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) issued on the 16th July 2014 and the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland (FRS 102) and the Charities Act 2011 and the UK Generally Accepted Practice as it applies from the 1st January 2015.

The financial statements have been prepared to give a 'true and fair' view and have departed from the Charities (Accounts and Reports) Regulations 2008 only to the extent required to provide a 'true and fair view'. This departure has involved following Accounting and Reporting by Charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) issued on 16 July 2014 rather than the Accounting and Reporting by Charities: Statement of Recommended Practice effective from 1 April 2005 which has since been withdrawn.

Structure, Governance and Management

The Charity is governed by the Welsh Church Act 1914 and the Welsh Church Act (Designation and Specification) Order 1996 and is registered with the Charity Commissioners under charity number 507094. A model scheme for the administration of the fund has been prepared and has been submitted to the Welsh Government for approval.

The Trust covers the Council administrative areas of Blaenau Gwent, Caerphilly, Monmouthshire, Torfaen and the City of Newport, with Monmouthshire County Council being designated as the host Authority. The Monmouthshire Welsh Church Act Fund was established on 1 April 1996, from the former Gwent Welsh Church Act Fund and part of the former Mid Glamorgan Welsh Church Act Fund.

Monmouthshire County Council as the Corporate Body is the Trustee for the Welsh Church Fund and therefore there are no policies and procedures adopted for the induction and training of trustees. The trustees also have regard to the Charity Commission's guidance on public benefit.

The management of the Fund is undertaken by officers of the Council and a calculated proportion of their time is charged to the Fund.

Objectives

The primary object of the Charity for each year, as stated in its governing document, is to assist public groups and individuals for educational, social, recreational and other charitable benefit purposes. Grants are available from the Fund for capital or revenue purposes. Capital grants may be awarded to assist organisations in the furnishing and upkeep of buildings. Revenue grants are designed to further the aims of societies and to assist individuals in their various pursuits.

Grants allocation policy

An annual budget set by the Trustee for grant payments is split between the administrative areas of Blaenau Gwent, Caerphilly, Monmouthshire, Torfaen and Newport on a population basis.

A Committee set up by the Trustee approves grant applications on a basis in line with full Council meetings or as deemed required by the participating authorities. Grants are made in pursuance of the Charity's objectives.

The grant allocation of each financial year is considered in line with the long term financial viability of the trust and to maintain the ability to generate funds in future years for distribution by maintaining sufficient capital assets.

The Monmouthshire County Council Welsh Church Act Fund Annual Report for year ended 31 March 2019

Review of activities and future developments

The statement of financial activities for the year is set out on page 7 of the financial statements. A summary of the financial results and the work of the Charity are set out below.

The Fund has decreased in value by £117,776 (£21,654 increase in 2017/18); this decrease is due to the allocation of previously unspent grant allocations by Caerphilly Borough Council that had been carried forward.

Income is principally comprised of investment income of £210,597 (£216,152 in 2017/18). The Trust has utilised the Trustee's own investment managers to manage the fund, thus, controlling management fees and therefore maximising returns whilst at the same time maintaining a balanced capital risk strategy.

Charitable resources expended during the year amounted to £369,772 (£173,430 in 2017/18) and principally comprised grant payments of £355,400 (£159,481 in 2017/18). The increase in charitable expenditure was primarily due to Caerphilly Borough Council utilising a large majority (£155,007) of their brought forward balances from previous years.

Net gains on investments held amounted to £41,399 (£21,068 net loss in 2017/18). These non-realised investment gains have been as a result of the Trusts' current investment strategy, diversifying the portfolio across several investment categories in the last couple of financial years amid the current volatility in the financial markets. The long term projections on these charity based investments as indicated by the Trustees' Treasury consultants continue to offer a balanced risk portfolio between income generation and asset growth.

Income generation

The Charity's income was £210,597, compared to £216,152 in 2017/18. The diverse market investment strategy that mainly replaced the pooled investment strategy with Monmouthshire County Council has continued to produce consistent returns in the financial markets due to investment in more specific charitable investment funds. This income generation forms the main basis of the following years grant allocations to ensure continuity and non-degradation of the funds capital assets and to perpetuate the charity as a 'going concern'.

Bad debt provision

There are no bad debts arising in the year of account.

Investment powers, policy and performance

Under the terms of the Trust Deed, the Trustee has general powers of investment, subject to the provisions of The Trustee Act 2000. The investment policy of the Trust is to maximise the rate of investment return, whilst employing a risk strategy that minimises any potential reduction in the capital value of the Fund.

The Trustee has reviewed its investment strategy and produced an investment and fund strategy for 2018/19, which was approved by Monmouthshire County Council in its capacity as sole and corporate trustee, on March 7th 2018.

Changes in fixed assets

The fixed asset investments were re-valued in the 2018-19 financial year in line with the Investment Asset policy of revaluation every year.

Reserves

The Trustee's policy is to maintain the level of investments at a level that provides sufficient annual income to fund the Charity's charitable expenditure. The level of funds held at 31st March 2019 is £5,374,556 (£5,492,332 in 2017/18). The Trustee has reviewed its Fund strategy and produced an investment and fund strategy for 2018/19 which states that the purpose of reserves is to maintain investments such that they realise sufficient income to provide grants to organisations at a consistent level. Whilst, the strategy is to ensure that there is no long-term detrimental effect on overall reserve balances, recommendations made by the Charity Commission has resulted in grants allocations being made in line with investment returns.

Governance of the Charity

Representative Councillors from each of the five administrative areas of Blaenau Gwent, Caerphilly, Monmouthshire, Torfaen and Newport are appointed by their respective councils annually to form a committee

The Monmouthshire County Council Welsh Church Act Fund Annual Report for year ended 31 March 2019

to oversee fund management. Members are appointed to the committee for the term of the Council.

Risk management

The Trustee has undertaken a review of the major risks to which the Charity is exposed and its risk management and internal control procedures should be updated to ensure that systems are in place to mitigate the risks identified. The risk assessment was considered by Monmouthshire County Council on 7th March 2018 and no risks were identified.

Auditors

The Wales Audit Office was appointed as auditors to the Welsh Church Act Fund in 2007/08.

Statement of Trustee's responsibilities

The Trustee is responsible for preparing financial statements for each financial year which give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the charity and its financial activities for that period.

In preparing those financial statements, the Trustee is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards and statements of recommended practice have been followed, subject to any departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in operational existence.

The Trustee confirms that it has complied with the above requirements in preparing the financial statements.

The Trustee is responsible for keeping accounting records which disclose with reasonable accuracy at any time the financial position of the charity and to enable it to ensure that the financial statements comply with the Charities Act 1993. It is also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Trustee certifies that:

- as far as it is aware, there is no relevant information of which the Charity's auditors are unaware; and
- as Trustee of the Charity, it has taken all the steps that it ought to have taken in order to make itself aware of any relevant audit information and to establish that the Charity's auditors are aware of that information.

By order of the Trustee

Mr Peter Davies

Director of Resources (Acting S151 Officer), Monmouthshire County Council

Date:

Report of the Auditor General for Wales to the Trustee of the Monmouthshire County Council Welsh Church Act Fund

Report on the audit of the financial statements

Opinion

I have audited the financial statements of The Monmouthshire County Council Welsh Church Act Fund for the year ended 31st March 2019 which comprise the Statement of Financial Activities, the Balance Sheet, Cash Flow Statement and related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In my opinion the financial statements:

- give a true and fair view of the state of affairs of the charity as at 31st March 2019 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Charities Act 2011.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the charity in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you were:

- the trustee use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the trustee has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the charity's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Report on other requirements

Other information

The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. The trustee is responsible for the other information in the annual report and accounts. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

The Monmouthshire County Council Welsh Church Act Fund Annual Report for year ended 31 March 2019

Matters on which I report by exception

I have nothing to report in respect of the following matters in relation to which the Charities (Accounts and Reports) Regulations 2008 require me to report to you if, in my opinion:

- the information given in the financial statements is inconsistent in any material respect with the trustee report;
- sufficient accounting records have not been kept;
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit.

Responsibilities

Responsibilities of the Trustee for the financial statements

As explained more fully in the Trustee Responsibility Statement set out on page 4 of the Trustee Report, the trustee is responsible for preparing the financial statements in accordance with the Charities Act 2011, for being satisfied that they give a true and fair view, and for such internal control as the trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustee is responsible for assessing the charity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

I have been appointed as auditor under section 144 of the Charities Act 2011 and report in accordance with regulations made under section 154 of that Act.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Ann-Marie Harkin
On behalf of the Auditor General for Wales
Date:

24 Cathedral Road
Cardiff
CF11 9LJ

The Monmouthshire County Council Welsh Church Act Fund
Annual Report for year ended 31 March 2019

Statement of financial activities (Sofa) for the year ended 31 March 2019

	Notes	2019 Unrestricted Funds £	2019 Total Unrestricted Funds £	2018 Total Unrestricted Funds £
Income & Endowments from:				
Investment income	2	210,597	210,597	216,152
Other incoming resources		0	0	0
Total income & Endowments		210,597	210,597	216,152
Resources Expended				
Raising funds:				
Investment Property Professional fees		(679)	(679)	(749)
Management and administration		(2,000)	(2,000)	(3,000)
		(2,679)	(2,679)	(3,749)
Charitable expenditure				
Costs of activities in furtherance of the Charity's objects				
Grants payable	3,4	(355,400)	(355,400)	(159,481)
Management and administration		(5,813)	(5,813)	(4,511)
Other				
Governance Costs	5	(5,880)	(5,880)	(5,689)
Total Resources Expended		(367,093)	(367,093)	(173,430)
Gains/(losses) on investment assets	9,10	41,399	41,399	(21,068)
Net Income /(Expenditure)		(117,776)	(117,776)	21,654
Transfers between funds	13	0	0	0
Net movement in funds		(117,776)	(117,776)	21,654
Fund balances brought forward April 2018		5,492,332	5,492,332	5,470,678
Fund balances carried forward 31 March 2019	13	5,374,556	5,374,556	5,492,332

All incoming resources and resources expended are derived from continuing activities. There are no recognised gains or losses other than those disclosed above.

The Monmouthshire County Council Welsh Church Act Fund
Annual Report for year ended 31 March 2019

Balance Sheet as at 31 March 2019

	Notes	2019 Unrestricted Funds £	2018 Unrestricted Funds £
Fixed assets			
Investment Land	9	394,000	418,000
Investments	10	4,871,730	4,806,332
		5,265,730	5,224,332
Current assets			
Debtors: amounts falling due within one year	11	52,052	54,518
Cash at bank and in hand		395,958	368,539
		448,010	423,057
Current Liabilities			
Creditors: amounts falling due within one year	12	(339,184)	(155,058)
Net current assets or liabilities		108,826	268,000
Net assets or liabilities		5,374,556	5,492,332
The Funds of the Charity:			
Unrestricted Funds	13	5,374,556	5,492,332
Total Charity funds		5,374,556	5,492,332

The accounts on pages 7 to 16 were approved by the Trustee on 28 November 2019, and signed on their behalf by:

By order of the Trustee

Mr Peter Davies
Director of Resources – Monmouthshire County Council

Date:

**The Monmouthshire County Council Welsh Church Act Fund
Annual Report for year ended 31 March 2019**

Statement of Cash flows as at 31 March 2019

		Total Funds	Prior Year Funds
	note	£	£
Cash flows from operating activities			
<i>Net cash provided by operating activities</i>	<i>7</i>	(183,180)	(59,882)
<hr/>			
Cash flow from investing activities			
Dividends and rents from investments		210,597	216,152
<hr/>			
<i>Change in cash and cash equivalents in the reporting period</i>		27,417	156,270
Cash and cash equivalents at the beginning of the reporting period		368,541	212,271
<hr/>			
<i>Cash and cash equivalents at the end of the reporting period</i>		395,958	368,541
<hr/>			

Notes to the financial statements for the year ended 31 March 2019

1 Principal accounting policies

The financial statements have been prepared in accordance with the Statement of Recommended Practice: Accounting and Reporting by Charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) issued on 16 July 2014 and the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland (FRS 102) and the Charities Act 2011.

The trust constitutes a public benefit entity as defined by FRS 102.

The trustees consider that there are no material uncertainties about the Trust's ability to continue as a going concern.

A summary of the principal accounting policies, which have been applied consistently, are set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention, as modified by the inclusion of investments and tangible fixed assets at market value. During the year the Charity reviewed its accounting policies in accordance with FRS 102 'Accounting Policies'. No accounting policies have been changed as a result.

Incoming Resources

All income is accounted for on an accruals basis.

Resources expended

All expenditure is accounted for on an accruals basis. Where costs cannot be directly attributed to particular headings they have been allocated to activities on a basis consistent with use of the resources.

Grants payable

Grants payable are accounted for in full as liabilities of the Charity when approved by the Trustee and accepted by the beneficiaries.

Management and administration

Management and administration costs include expenditure on administration of the Charity and, an appropriate apportionment of overheads based upon a time allocation.

Governance Costs

Governance costs comprise costs involving the compliance with constitutional and statutory requirements. These costs relate to audit fees payable to the appointed external auditor.

Irrecoverable VAT

Any irrecoverable VAT is charged to the statement of financial activities, or capitalised as part of the cost of the related asset, where appropriate.

Recognition of liabilities

Liabilities are recognised when an obligation arises to transfer economic benefits as a result of past transactions or events.

Debtors/ Creditors

Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

The Monmouthshire County Council Welsh Church Act Fund

Annual Report for year ended 31 March 2019

Fund accounting

Funds are unrestricted funds which are available for use at the discretion of the Trustee in furtherance of the general objectives of the Charity and which have not been designated for other purposes.

Investment Land and Property

Capitalisation, Replacement and Valuation

The Trust's policy is to revalue its Investment land on an annual basis in line with the Charities SORP. Valuations will also be undertaken where it is identified that there have been material movements between formal valuations, this has been changed from a five-year valuation cycle due to the Land assets being deemed to be Investment Land not tangible fixed assets.

An Independent Valuer of Williams Associates, a qualified Land Valuer and Chartered Surveyors, re-valued all Investment Land as at 1st March 2019 and all assets held at year-end are included in the accounts at valuation. Vacant properties are valued at open market value.

Depreciation

Land is not depreciated. The Fund currently has no buildings on the fixed asset register.

Investments

Any realised and unrealised gains and losses on revaluation or disposals of investments are included in the statement of financial activities. The Authority is authorised to invest any surplus income or dispose of any investments when it deems appropriate. Investments are strategically placed in investment funds specifically designed for charitable organisations. Investment performance is reviewed periodically in light of prevailing economic changes.

Fees and similar income

Fees receivable and charges for services and use of premises are accounted for in the period in which the service is provided.

Cash flow statement

The Charity has produced a cash flow statement under Financial Reporting Standard 102 under section 7 on the basis that it meets the relevant conditions and size criteria specified in the Companies Act 1985.

2 Investment income

	2019	2018
	£	£
Investments with Monmouthshire County Council	3,975	1,351
Investment Property Rental Income	6,214	3,835
External Investments	200,408	210,966
	210,597	216,152

The Monmouthshire County Council Welsh Church Act Fund
Annual Report for year ended 31 March 2019

3 Grants Payable

	2019	2018
	£	£
Grants have been paid to the following administering Local Authorities for them to make to groups and individuals on behalf of the Fund:		
Monmouthshire County Council	42,025	35,054
Torfaen County Borough Council	38,425	30,106
Newport City Council	33,943	49,694
Blaenau Gwent County Borough Council	24,400	27,697
Caerphilly County Borough Council	216,607	16,929
	355,400	159,480

The management and administration cost of the fund and grants distributed were £5,813 during the year.

4 Analysis of Grants

	Grants to Organisations	Grants to Individuals
	£	£
The Advancement of Education	8,703	1,300
The Advancement of Religion	163,494	0
The Relief of Poverty	250	38,425
Other Purposes Beneficial to the Community	143,228	0
Total	315,675	39,725

Caerphilly Borough Council, Newport City Council, Torfaen County Borough Council and Monmouthshire County Council have under spent their allocations for 2018/19 by £108,233, £17,303, £14,372 and £772 respectively which will be carried forward for distribution in 2019/20. Grants to Churches and other Religious establishments totaled £163,494 and Community Organisations £143,278 respectively during the financial year. Grants of essential equipment and furnishings to the value of £38,425 were made to individuals for the relief of families in deemed to be in poverty. Oakdale Community Centre was awarded more than 1 award during the 2018/19 financial year totaling £7,972.

5 Governance Costs

	2019	2018
	£	£
Auditor's remuneration	5,880	5,689
	5,880	5,689

No indemnity insurance for Trustee's liability has been purchased by the Charity. Though no specific indemnity

The Monmouthshire County Council Welsh Church Act Fund Annual Report for year ended 31 March 2019

insurance has been purchased by the Charity, the Fund is covered by Monmouthshire County Councils' fidelity guarantee insurance. Insurance covers financial losses incurred as a result of fraudulent acts conducted by Authority employees but does not cover the Trustee for any wrong decisions that may have been made. Governance costs have increased during the year as a result of the Public Audit Wales Act and in particular the duty placed on the Wales Audit Office to ensure full cost recovery in its audit fees.

6 Taxation

The Charity is a registered charity, and as such is entitled to certain tax exemptions on income and profits from investments, and surpluses on any trading activities carried on in furtherance of the Charity's primary objectives, if these profits and surpluses are applied solely for charitable purposes.

The Charity is not separately registered for VAT because it falls within the Local Authority's VAT Registration as Corporate trustee and accordingly, all their expenditure is recorded exclusive of any VAT incurred.

7 Reconciliation of net income/ (expenditure) to net cash flow from operating activities as at 31 March 2019

	Current Year £	Prior Year £
<i>Net income/(expenditure) for the reporting period (as per the statement of financial activities)</i>	(117,776)	21,654
Adjustments for non-cash transactions		
(Gains) /losses on investments	(41,399)	21,068
Dividends, Interest & Rents from investments	(210,597)	(216,152)
Increase/(decrease) in Provisions	0	0
(Increase)/ decrease in debtors / bad debts	2,466	125,503
Increase/(decrease) in creditors	184,126	(11,955)
Net cash provided and (used in) operating activities	(183,180)	(59,882)

The Monmouthshire County Council Welsh Church Act Fund
Annual Report for year ended 31 March 2019

8 Analysis of cash and cash equivalents as at 31 March 2019

	Current Year	In Year Movement	Prior Year
	£	£	£
Cash in hand	395,958	27,417	368,541
Overdraft facility repayable on demand	0	0	0
Total cash and cash equivalents	395,958	27,417	368,541

The Monmouthshire County Council Welsh Church Act Fund
Annual Report for year ended 31 March 2019

9 Investment Land and Property

	Total
	£
Valuation	
At 1 April 2018	418,000
Disposals	0
Revaluation	(24,000)
At 31 March 2019	394,000
Depreciation	
At 1 April 2018	0
Charge in year	0
Disposals	0
At 31 March 2019	0
Net book Value	
At 1 April 2018	418,000
At 31 March 2019	394,000

Tangible Investment Assets solely consist of freehold land. All land held by the Fund had been revalued as at 01st March 2019. Valuations were carried out in accordance with the valuation policy. A further valuation will be carried out within 2019/20 financial year and on thereafter on an annual rolling basis.

10 Investments

	2019	2018
	£	£
CCLA - COIF Property Fund	1,050,649	1,038,108
UBS Multi Asset Income Fund	687,279	694,458
M&G Charibond Fund	689,393	689,617
Schroders Income Maximiser	422,246	436,285
M&G Charifund	535,509	531,403
CCLA - COIF Investment Fund	1,025,599	957,143
Treasury Stock 2024 2.5%	111,055	109,318
Invested with Monmouthshire County Council	350,000	350,000
	4,871,730	4,806,332

The Trust has investments held with UBS, M&G, Schroeder's, CCLA, HM Treasury and Monmouthshire County Council which are generally managed by the trusts treasury management advisors. Returns from Monmouthshire County Council are generated on a "pooled" basis. The average rate of interest generated on the pooled funds from Monmouthshire was 0.5839% for 2018/19 (0.2449% for 2017/18). The basis of valuation on the market based investments held with CCLA, M&G, UBS and Schroder's, is the

The Monmouthshire County Council Welsh Church Act Fund

Annual Report for year ended 31 March 2019

open market value of the unit holdings on the 31st March 2019 multiplied by the units held. There were no additions or disposals of investments during the financial year. The Treasury Stock 2024 valuation is based upon the market value of the Treasury Gilt at the 31st March 2019 as listed on the dmo.gov website. The value of the 'pooled' investment with Monmouthshire County Council is the cash value as at the 31st March 2019. None of the Investments are held outside of the territorial limits of the United Kingdom and the cost of the revaluations is contained within the charity management fee charged annually from Monmouthshire County Council.

11 Debtors

	2019 £	2018 £
Amounts falling due within one year		
<i>Prepayment & accrued income</i>		
Investment Income	52,052	51,143
Other Debtors		
MCC Bank Transfer	0	0
<i>Trade debtors</i>		
Rental income	0	0
Bad debt provision for loss of rental income	0	0
<i>Other Debtors</i>		
HM Revenue and Customs	0	1,375
Other Debtors	0	2,000
	52,052	54,518

All investment interest due from the trustee was paid in year in 2018-19.

12 Creditors

	2019 £	2018 £
Amounts falling due within one year		
Grant creditors	327,931	138,821
Other creditors	11,253	16,237
	339,184	155,058

Grant creditors are recognised on the amounts awarded by the five constituent authorities of the Welsh Church Fund unpaid at the financial year-end. Other creditors are fees reimbursable for professional services utilised during the financial year by the Charity.

13 Funds

	Balance 1 April 2018 £	Incoming resources £	Resources Expended £	Other Recognised Gain / (Loss) £	Balance 31 March 2019 £
Unrestricted funds	5,492,332	210,597	(369,772)	41,399	5,374,556

There were no transfers between funds during the 2018-19 financial year.

**The Monmouthshire County Council Welsh Church Act Fund
Annual Report for year ended 31 March 2019**

14 Related party transactions

During the year transactions with related parties arose as follows:

	2019		2018	
	Receipts	Payments	Receipts	Payments
	£	£	£	£
Monmouthshire County Council	3,975	4,785	1,352	4,886

Members of the Authority have direct control over the Welsh Church Fund's financial and operating policies. Where work or services have been commissioned, or where grants were made during the financial year in which members had an interest, members have a duty to declare such an interest. The Welsh Church Fund must ensure that grants allocated were in full compliance with the Authority's standing orders and that grants were made with proper consideration of declarations of such interests.

During the financial year, members who declared an interest did not take part in any discussion or decision relating to grants made or works or services commissioned. Details of all interests declared are recorded in minutes or relevant meetings and recorded in the Register of Members' Interest, open to public inspection at County Hall, Usk.

There are outstanding balances for expenditure of £4,785 and income of £3,525 at the year-end with Monmouthshire County Council. The Trust also held a £350,000 investment fund balance with Monmouthshire County Council at the year-end.

15 Trustee's Expenses, Remuneration and Benefits

No Expenses, Remuneration or Benefits were incurred during the year of account

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WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Audit of Financial Statements Report and Management Letter – **The Monmouthshire County Council Welsh Church Act Fund**

Audit year: 2018-19

Date issued: November 2019

Document reference:

This document has been prepared as part of work performed in accordance with statutory functions.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000.

The section 45 code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at

infoofficer@audit.wales.

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

The team who delivered the work comprised Ann-Marie Harkin, Jeremy Saunders, Rhodri Davies, Dafydd Parker and Gillian Howells.

Contents

This document summarises the conclusions on the 2018-19 audit including our recommendations for the year. The Auditor General intends to issue an unqualified audit report on your financial statements. There are some issues to report to you prior to their approval.

Summary report

Introduction	4
Status of the audit	4
Proposed audit report	4
Significant issues arising from the audit	5
Independence and objectivity	5

Appendices

Appendix 1 – Final Letter of Representation	6
Appendix 2 – proposed audit report of the Auditor General to the Trustee of Monmouthshire County Council Welsh Church Act Fund	9
Appendix 3 – summary of corrections made to the draft financial statements which should be drawn to the attention of the Trustee of Monmouthshire County Council Welsh Church Act Fund	12

Summary report

Introduction

- 1 The purpose of this report is twofold:
 - to set out for consideration the matters arising from the audit of the financial statements of The Monmouthshire County Council Welsh Church Act Fund for 2018-19, that require reporting to those charged with governance, in time to enable appropriate action; and
 - to formally communicate the completion of our audit and capture the recommendations arising from our audit work for the year.
- 2 The Auditor General is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of The Monmouthshire County Council Welsh Church Act Fund at 31 March 2019 and its income and expenditure for the year then ended.
- 3 We do not try to obtain absolute assurance that the financial statements are correctly stated but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
- 4 The quantitative levels at which we judge such misstatements to be material for The Monmouthshire County Council Welsh Church Act Fund is £20,000. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.

Status of the audit

- 5 We received the draft financial statements for the year ended 31 March 2019 on 12 September and have now substantially completed the audit work.
- 6 We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with management.

Proposed audit report

- 7 It is the Auditor General's intention to issue an unqualified audit report on the financial statements once you have provided us with a Letter of Representation based on that set out in [Appendix 1](#).
- 8 The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

- 9 There are no misstatements identified in the financial statements, which remain uncorrected.

Corrected misstatements

- 10 There are misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. They are set out with explanations in [Appendix 3](#).

Other significant issues arising from the audit

- 11 In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were no issues arising in these areas this year:
- **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.**
 - **We did not encounter any significant difficulties during the audit.**
 - **There were no significant matters discussed and corresponded upon with management which we need to report to you.**
 - **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**
 - **We did not identify any material weaknesses in your internal controls**
 - **There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.**

Independence and objectivity

- 12 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 13 We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office and The Monmouthshire County Council Welsh Church Act Fund that we consider to bear on our objectivity and independence.

Appendix 1

Final letter of representation

Auditor General for Wales
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

28 November 2019

Representations regarding the 2018-19 financial statements

This letter is provided in connection with your audit of the financial statements of Monmouthshire County Council Welsh Church Act Fund for the year ended 31 March 2019, for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

We confirm that, to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

Management representations

Responsibilities

We have fulfilled our responsibilities for:

- the preparation of the financial statements in accordance with legislative requirements and Charities SORP 2015; in particular the financial statements give a true and fair view in accordance therewith; and
- the design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

Information provided

We have provided you with:

- Full access to:
 - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
 - additional information that you have requested from us for the purpose of the audit; and
 - unrestricted access to staff from whom you determined it necessary to obtain audit evidence.

- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- Our knowledge of fraud or suspected fraud that we are aware of and that affects The Monmouthshire County Council Welsh Church Act Fund and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
- Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
- Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
- The identity of all related parties and all the related party relationships and transactions of which we are aware.

Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions.

Representations by those charged with governance

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by The Trustee on 31 March 2019.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:

Signed by:

Date:

Date:

Appendix 2

Proposed audit report of the Auditor General to the Trustee of Monmouthshire County Council Welsh Church Act Fund

The independent auditor's report of the Auditor General for Wales to the Trustee of Monmouthshire County Council Welsh Church Act Fund

Report on the audit of the financial statements

Opinion

I have audited the financial statements of The Monmouthshire County Council Welsh Church Act Fund for the year ended 31 March 2019, which comprise the Statement of Financial Activities, the Balance Sheet, Cash Flow Statement and related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In my opinion the financial statements:

- give a true and fair view of the state of affairs of the Charity as at 31 March 2018 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Charities Act 2011.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the charity in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the trustees' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the charity's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

Report on other requirements

Other information

The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. The Trustee is responsible for the other information in the annual report and accounts. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Matters on which I report by exception

I have nothing to report in respect of the following matters in relation to which the Charities (Accounts and Reports) Regulations 2008 require me to report to you if, in my opinion:

- the information given in the financial statements is inconsistent in any material respect with the trustees' report;
- sufficient accounting records have not been kept;
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit.

Responsibilities

Responsibilities of the Trustee for the financial statements

As explained more fully in the Trustee Responsibility Statement set out on page 4 of the Trustee's report, the trustee is responsible for preparing the financial statements in accordance with the Charities Act 2011, for being satisfied that they give a true and fair view, and for such internal control as the trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustee is responsible for assessing the charity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

I have been appointed as auditor under section 144 of the Charities Act 2011 and report in accordance with regulations made under section 154 of that Act.

My objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Ann-Marie Harkin
On behalf of the Auditor General for Wales
Date:

24 Cathedral Road
Cardiff
CF11 9LJ

Appendix 3

Summary of corrections made to the draft financial statements which should be drawn to the attention of the Trustee of Monmouthshire County Council Welsh Church Act Fund

During our audit we identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

Exhibit 1: summary of corrections made to the draft financial statements

Value of correction	Nature of correction	Reason for correction
£20,000	Net Cash provided by operating activities decreased by £20,000.	Value from 2017-18 incorrectly brought forward.
£1,176	<ul style="list-style-type: none">Other Incoming Resources has decreased by £1,176, andGovernance costs decreased by £1,176.	VAT recoverable on audit invoice incorrectly included in incoming resources, instead of being netted off against Governance costs.
£4,075	<ul style="list-style-type: none">Accrued investment income increased by £4,075, andInvestment income increased by £4,075.	Accrued income for a few investments was estimated at the time of preparing the accounts. At the time of the audit the Tax vouchers were received, and an adjustment made for the difference.
Presentation	Inclusion of outstanding investment fund balance with Monmouthshire County Council (£350,000) within the related party disclosures.	The related party note was updated to include a missing disclosure.
Narrative	A number of narrative corrections made to the accounts, mainly in terms of information that had not been updated from 2107-18.	To ensure consistency with the 2018-19 Financial Statements.

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Public Document Pack Agenda Item 11

MONMOUTHSHIRE COUNTY COUNCIL

**Minutes of the meeting of Audit Committee held
at County Hall, The Rhadyr, Usk, NP15 1GA on Thursday, 12th September, 2019 at 2.00
pm**

PRESENT: County Councillor P White (Chairman)

County Councillors: A. Easson, M. Feakins, M. Lane, P. Murphy,
B. Strong and J. Watkins

OFFICERS IN ATTENDANCE:

Mark Howcroft	Assistant Head of Finance
Andrew Wathan	Chief Internal Auditor
Peter Davies	Chief Officer, Resources
Wendy Barnard	Democratic Services Officer
Ann-Marie Harkin	Wales Audit Office Director
Emma Davies	Performance Officer
Jonathan Davies	Central Accountancy Finance Manager
Richard Jones	Performance Manager
Lesley Russell	Accountant
Rhodri Davies (WAO)	Wales Audit Office Team Leader

APOLOGIES:

County Councillors P. Clarke, J. Higginson, V. Smith and S. Woodhouse

1. Declarations of Interest

No declarations of interest were made by Members.

2. Public Open Forum

No members of the public were present at the meeting.

3. To note the Action List from the previous meeting

Performance Management: The Chief Officer, Resources, provided an update on staff appraisals explaining that the required data is not currently being collected effectively. Some departments provide responses and others currently do not. This leads to difficulty in defining a cross authority picture

The introduction of a Performance Indicator to the corporate improvement planning process has been completed. Additionally, it was explained that the guidance needs strengthening as practice varies across the authority aligned to the wide variety of roles undertaken and the need to adopt an appropriate style of appraisal accordingly.

It was agreed that this matter would remain on the Action List and that a further report would follow after the next quarter.

4. ISA 260 response to Accounts

MONMOUTHSHIRE COUNTY COUNCIL

Minutes of the meeting of Audit Committee held at County Hall, The Rhadyr, Usk, NP15 1GA on Thursday, 12th September, 2019 at 2.00 pm

Wales Audit Officers introduced the ISA260 report on the authorities audited accounts for 2018/19. It was confirmed that it is proposed to award an unqualified audit opinion.

Reference was made to significant issues arising from the audit as follows:

- Uncorrected misstatements: Those set out below have been discussed with management but remain uncorrected. It was requested that these are corrected, if not, reasons for non-correction were requested. Non-correction will not affect the unqualified audit opinion.
 - i) Pension Liability understated by £1,941,000 following the McCloud ruling recorded as a contingent liability.
 - ii) Non-consolidation of related business and operations
 - iii) Expenditure overstated by £178,705 as prepayment journal not posted at year-end
- Misstatements corrected by management were reported because they were over the trivial level.
- Other significant issues arising from the audit included:
 - i) Some concerns were voiced about the qualitative aspects of accounting practices and financial reporting; specifically a significant number of rounding errors (in excess of 100). It was noted that management has decided not to adjust for these errors. Additionally a number of high value casting errors were noted.
 - ii) Some areas for improvement included a 'Schedule of Deliverables' as not all appropriate working papers were available at the commencement of the audit.

The Wales Audit Officers were grateful for the close co-operation of the Finance Team during the audit process.

This and the following item were considered together.

5. Audited Statement of Accounts

The Assistant Head of Finance provided the authority's response to the ISA 260 Report and reminded the Committee that the authority is trialling a new process this year where the Council Leader will sign off the Audited Statement of Accounts following verification by Audit Committee to assist with the new, shortened timescales.

Referring to uncorrected misstatements, a joint progress document for 2018/19 was presented but it was also explained that:

- **Pension Liabilities:** In 2015, there was a change to public sector pension regulations that required provision of protection to a small group of people approaching retirement (firefighters and judges). Legal challenges centring on possible age discrimination resulted in further appeals by the government being ruled out. Whilst it is currently unclear where the cost of the additional pension liability will rest, the authority has calculated the possible effect of providing a remedy to eligible staff members accordingly.
- **Non- consolidation of business and other operations:** It was explained that the authority's accounting policies don't require consolidation of joint concerns. The Cardiff City Deal appears in the statement of accounts as an adjusted entry as the figure exceeded the

MONMOUTHSHIRE COUNTY COUNCIL

Minutes of the meeting of Audit Committee held at County Hall, The Rhadyr, Usk, NP15 1GA on Thursday, 12th September, 2019 at 2.00 pm

materiality level. Consideration will be given to the best method of presenting future consolidation of accounts for better clarity.

- **Expenditure overstated by £178,705 as prepayment journal not posted at year-end:** This was explained as a consequence of shortening the timescales to finalise accounts. The process has been reduced by four weeks and work is in progress to remove a further four weeks from the process which will involve more estimation and work with other areas of the Council to meet deadlines for the earlier closure of accounts.

Comments and questions were raised by Committee Members as follows:

- Regarding the uncorrected misstatements, it was questioned if the language in the report is too negative and complex for a lay person to understand. It was requested that more thought could be given to this aspect and the inclusion of explanations to avoid misconception.
- In response to a question, it was clarified that there are in excess of 100 rounding errors in excess of £1000 and commented that this is unclear in the report.

Wales Audit Officers confirmed that drawing attention to uncorrected misstatements is a requirement of auditing standards and they have been presented in a balanced way proportionate to the total being above the trivial level. The amount is not material and there is no requirement to address it.

- In response to a question, it was confirmed that the level of materiality is £2.9m consistent with all Welsh authorities. This reflects the level of error that users of the accounts would not be willing to accept.
- It was queried if adjustments will be necessary due to the activity of the Investment Committee during 2019/20. It was confirmed that feedback from the previous year accounts will be used to inform and refine process.
- It was questioned if there was a possibility that the accounts could be materially misstated as a result of fraud. It was confirmed that this is a standard question asked of all authorities and public organisations; the answer was provided that there was nothing of concern to report. It was added that the authority is consulted on this and reassurance was provided.

The recommendations were noted as:

2.1 That the final Monmouthshire County Council Statement of Accounts for 2018/19 (Appendix 1), be accepted as a True and Fair view of the Council's Statement of Accounts and approved for publication by the statutory deadline of 15th September 2019.

2.2 That the year-end financial reporting refinements outlined in the Joint progress document (Appendix 2) are accepted and implemented where agreed by the Authority in preparation for the 2019/20 statement of accounts.

The Committee accepted the accounts as presented and expressed gratitude to the Finance Manager, Assistant Head of Finance and the Finance Team for preparing the accounts and concluding the audit successfully.

6. Treasury outturn report

The Finance Manager presented the new, easier to read report. This was the second report for 2018/19.

MONMOUTHSHIRE COUNTY COUNCIL

Minutes of the meeting of Audit Committee held at County Hall, The Rhadyr, Usk, NP15 1GA on Thursday, 12th September, 2019 at 2.00 pm

A Member, in relation to the activity of the Investments Committee, questioned the statement that "Total debt rose above the operational boundary when the loan was taken out to pay for the purchase of Newport Leisure Park which had not been allowed for in the operational boundary included in the 2018/19 treasury strategy" and enquired if treasury strategy will be adjusted next year if the recommendations of the Investments Committee are to be continued.

The difference between operation boundary and absolute limit was explained. The expenditure of nearly £30m exceeded the operational boundary but not the absolute limit of £50m for three years. Spending on Castlegate and Newport Leisure Park is within the absolute limit.

The recommendation that Members note the results of treasury management activities and the performance achieved in 2018/19 as part of their delegated responsibility to provide scrutiny of treasury policy, strategy and activity on behalf of the Council was agreed.

7. Wales Audit Office proposals for improvement for Audit Committee

The Performance Manager presented the Wales Audit Office proposals for improvement to September 2019 following a performance audit work programme with the Council.

A Member referred to open actions in respect of Democratic Services and Scrutiny and questioned if the timetable is ambitious due to the amount time being taken to introduce forward work planners. The Head of Policy and Governance was confident on timescales going forward.

The recommendations were agreed:

- That members consider the current position of proposals and future actions being taken to address them seeking assurance that adequate progress is being made.
- That members refer on any issues contained within WAO national studies to other committees for consideration where they identify there are findings of particular relevance to the council. No issues were identified.

8. Internal Audit Progress report

The Chief Internal Auditor presented the first quarterly report on the performance of the internal audit team and progress against the 2019/20 agreed audit plan as at 30th June 2019.

30% of the planned work has been started with 11% being at draft report stage. There has been one substantial assurance opinion and limited assurance opinion issued. Work has included finalising draft reports outstanding at 31st March 2019, performance indicators, grant claims, special investigations and provision of financial advice to services. The 11% of the plan completed is just below the target of 12%.

The jobs that have been issued with opinions are National Performance Indicators and Castle Park Primary School.

In response to a question, it was confirmed that there is a Limited opinion in respect of Castle Park Primary School and more information will follow in the next quarter report.

The Committee noted the audit opinions issued and the progress made by the Section towards meeting the 2019/20 Operational Audit Plan and the Section's performance indicators at the 3 months stage of the financial year.

MONMOUTHSHIRE COUNTY COUNCIL

Minutes of the meeting of Audit Committee held at County Hall, The Rhadyr, Usk, NP15 1GA on Thursday, 12th September, 2019 at 2.00 pm

9. Anti bribery Risk Assessment

The Chief Officer for Resources gave a presentation providing an update on the recommendations subsequent to receipt of two subsequent limited audit opinions regarding Anti Bribery Compliance and Annual Risk Assessment.

Following the presentation, a Member asked for clarification of the level required for a fraud to be considered material. It was explained that there is no set level but there is a consistent and firm approach taken to fraud, and the consequences rely on the investigative work undertaken. Chief Officers will be kept informed of the progress of special investigations and, if fraud is uncovered, a decision will be taken on whether or not to deal with the matter internally or to refer the matter to the Police.

The Member asked if the authority relies on whistleblowers or what is discovered during audit work. It was confirmed that fraud can be exposed from use of the whistleblowing policy, through audit processes and also from anonymous allegations. Internal Audit will investigate the facts to substantiate or refute an allegation.

It was also explained that Internal Audit co-ordinate for the National Fraud Initiative (NFI) for the whole authority and submit data to the Cabinet Office which is compared with other public organisations. Matches are returned to the team to check and refer on as necessary.

A Member queried if there is sufficient staff in the team and it was confirmed that, when planning work, a decision will be taken on level of risk and necessary action will be taken to ensure key aspects of the audit plan are covered.

10. Forward Work Planner

The Forward Work Planner is to be populated as fully as possible.

11. To confirm minutes of the previous meeting

The minutes of the meeting held on the 25th July 2019 were confirmed and signed as a correct record.

12. To confirm the date of the next meeting as 17th October 2019.

The meeting ended at 3.30 pm

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