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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

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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

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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.

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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.

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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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