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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, 28th November, 2019 at 2.00
pm

PRESENT: County Councillor P White (Chairman)
County Councillor J. Higginson (Vice Chairman)

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

OFFICERS IN ATTENDANCE:

Mark Howcroft	Assistant Head of Finance
Andrew Wathan	Chief Internal Auditor
Wendy Barnard	Democratic Services Officer
Emma Davies	Performance Officer
Jonathan Davies	Central Accountancy Finance Manager
Richard Jones	Performance Manager
Lesley Russell	Senior Accountant - Fixed Assets and Treasury
Rhodri Davies (WAO)	Wales Audit Office Team Leader
David Jarrett	Accountant

APOLOGIES:

County Councillors P. Clarke, V. Smith and J. Watkins

1. Declarations of Interest

Item 8: Monmouthshire County Council Welsh Church Act Fund Audited Accounts – County Councillor B. Strong declared a personal, non-prejudicial interest as a Panel Member of the Welsh Church Fund for Monmouthshire.

2. Public Open Forum

No members of the public were present.

3. To note the Action List from the previous meeting.

More information will be provided in the next quarter report in January regarding progress on unfavourable internal audit limited assurance opinion given to Castle Park Primary School.

An update of progress on staff appraisal will be provided at the next meeting.

4. Overview of Performance Management Arrangements

The Performance Manager presented a report to inform Members' 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.

Questions and comments were invited, as follows:

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- It was noted that there were two “good” opinions, with the remainder categorised as “adequate”, and queried how much work would be involved to improve from adequate to good. It was explained that services are supported with a framework for improvement. The framework needs to be applied effectively and consistently to raise to a higher score. It was commented that Improvement Plans are sometimes submitted late, noting that Cabinet rely on the plans to monitor performance. It was confirmed that reminders are sent when plans are late.
- In response to a question, it was confirmed that plans are subject to an appraisal process to evaluate, provide feedback and improve quality.
- The Chair noted that Self Evaluation processes were considered “adequate”. It was explained that this year the Future Generations Commission set out a self-assessment process that looks at Future Generations objectives set in 2017/18 and considers how we are working towards them and wellbeing goals. Since then 2018/19 objectives have been reported upon, and have been changed slightly. Some of the feedback is ongoing.

It was agreed to note the recommendations.

5. Audit Committee: Self Evaluation

The Chief Internal Auditor introduced the need to assess the effectiveness of the Audit Committee itself via a self-assessment process (last carried out in 2015) based on good practice and supported by CIPFA. The assessment covers seven themes:

- Rules and responsibilities
- Monitoring and oversight
- Relationships and expectations with external audit
- Relationships and expectations with internal audit
- Committee Membership
- Audit Committee Meetings
- Skills and training of members

It is intended to issue a survey form to committee members. The results will be collated with the opportunity to address any shortcomings.

6. Mid Year Treasury Report

The Senior Accountant, Treasury and Fixed Assets, introduced the Mid-Year Treasury Report, summarising as follows:

The report is based on a template provided by Arlingclose, the Authority’s Treasury Management advisors and is compiled specific to Monmouthshire County Council.

The Authority aims to comply with the CIPFA Treasury Management Code which requires the Authority to approve treasury management semi-annual and annual reports and to have regard to the security & liquidity of its investments before seeking additional returns.

The 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.

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The Treasury Management Code now covers non-treasury investments as well as treasury investments requiring Authorities to show how they provide due diligence in the same way as it does for Treasury investments. 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.

There has been economic uncertainty in the first 6 months of 2019/20 with another 6 months likely 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.

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 2019.

At 31st March 2019 the Authority had a borrowing Capital Financing Requirement of £183.9m and gross external borrowing of £178.3m. 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.

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). 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.

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.

Questions and comments were invited:

Audit Committee understood that future long term borrowing from the Public Works Loans Board (PWLB) will be more expensive.

It was considered that the current level of borrowing is sustainable.

A Member sought clarification on borrowing for specific projects, and it was confirmed that the authority doesn't borrow for specific projects but instead to sustain cash levels and maintain payments for projects. When analysing the profitability of recent large property investments, the borrowing rates available are taken into account, and the borrowing cost built into the life of the project. It was added that this approach is for evaluative processes and to maintain cash flow, and then the most appropriate method of funding is identified, taking into account internal receipts. Affordability is considered before anything other than internal borrowing.

In response to a question, it was confirmed that the rate of interest on PWLB loans is fixed on the day for the duration of the loan. There is only one variable rate loan, and this has proved beneficial.

A Member asked, regarding the Solar Farm investment, if it is devalued over the twenty-year term and it was confirmed that the Estates Team value all assets annually. The Solar Farm is predicted to maintain its value which is also related to the income generated. With regard to

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commercial assets, consideration is given to how long the asset will last for and there is a principle to not to take out loan funding for longer than the expected life of the asset.

A Member referred to external influences, particularly the tensions between the USA and China, and asked how the evolution of the global economy will affect investment. It was agreed that these are difficult and unpredictable times and that the Authority relies on forecasts and advice from its Treasury Advisers.

In response to a question, it was confirmed that there have been many changes, since the collapse of the Icelandic Banks, to mitigate future problems that banks have to comply with. Additionally, diversification in investments is key in spreading the risk. The Committee's role in scrutinising the treasury strategy is key in assessing risk factors.

A Member asked if the authority specifies a triple A rating, and questioned if the UK Government was downgraded, would assets be moved around. It was explained that the key point is to ensure that counter parties are rated A minus or above adding that Arlingclose advice is closely followed.

A Member sought clarification regarding capital losses of £45,000 due to bid offer spread and commented that the loss would not be crystallised until sold and suggested that the statement could be open to misinterpretation. It was explained that there is investment in three pooled funds that can be bought and sold at the same rate on any day. £500,000 has been invested in a property fund that consistently yields 8%. These will be kept for 3-5 years.

The Committee reviewed the treasury management activities in the first half of 2019/20 using this report and considered if any changes to the process should be considered for incorporation into the 2020/21 Treasury Management Strategy Statement.

7. Q2 update & progress

The Audit Committee received the report 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. Also, to consider the performance of the Internal Audit Section over the first six months of the current financial year.

The Chief Internal Auditor referred to the opinion on Castle Park Primary School and commented that the final report is available, and has been distributed to the Headteacher and a summary to the Governors. The concerns centred around data protection registration, risk assessments for school trips and the availability of financial and administrative records. There were two significant weaknesses, 21 moderate weaknesses and 7 minor weaknesses with 35 strengths. Further detail will be brought to the Committee at a future meeting.

A Member queried high and a medium, unqualified opinions on financial and outcome data in Integrated Care Services. It was explained that these relate to two Supporting People grant claims, where income is received from Welsh Government. They require certification from Internal Audit to check if financial and outcome expectations have been delivered. The deadlines are different for the two. It was explained that the outcomes data risk relates to previous difficulties in obtaining the necessary information. The grant met the conditions of the grant provider, hence the unqualified opinion.

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Members were pleased with the report and the Committee resolved to accept the recommendations:

- 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 month stage of the financial year.

8. Monmouthshire County Council Welsh Church Act Fund Audited Accounts

Items 8 and 9 were considered together.

The report was introduced by the Finance Manager, Welsh Church Fund. No significant issues were reported.

The Wales Audit Office agreed it was a straightforward report. The draft financial statements were completed ahead of schedule and the Auditor General will award an unqualified audit report on receipt of a letter of representation.

There were no uncorrected misstatements.

Those that must be reported (between trivial (£1000 and material £20,000) were available in the report.

Questions were invited:

The Finance Manager, Central Finance, was pleased with the report and the early completion. The accounts will now be lodged with the Charities Commission as required.

County Councillor B. Strong declared a personal, non-prejudicial interest as a member of the Panel.

It was confirmed that the Welsh Church Fund follows Arlingclose investment advice.

The Committee noted and commented on the accounts and its external audit.

9. ISA 260 or Equivalent for Trust Funds

Items 8 and 9 were considered together.

10. To confirm minutes of the previous meeting

The minutes of the previous meeting were confirmed as an accurate record.

11. To confirm the date of the next meeting as 9th January 2020

The meeting ended at 3.10 pm

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