

# Public Document Pack

## MONMOUTHSHIRE COUNTY COUNCIL

Minutes of the meeting of Audit Committee held  
at County Hall, The Rhadyr, Usk, NP15 1GA on Thursday, 16th March, 2017 at 2.00 pm

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

County Councillors: D. Batrouni, P. Clarke, A. Easson, D. Edwards,  
P. Jordan, B. Hayward and B. Strong

### **ALSO PRESENT:**

County Councillor V. Smith

### **OFFICERS IN ATTENDANCE:**

Mark Howcroft	Assistant Head of Finance
Joy Robson	Head of Finance/Section 151 Officer
Andrew Wathan	Chief Internal Auditor
Non Jenkins	Wales Audit Office
Tracey Harry	Head of People and Information Governance
Wendy Barnard	Democratic Services Officer
David Bartlett	HR Support Team Manager
Terry Lewis	Wales Audit Office
Sally Thomas	Interim HR Manager

### **APOLOGIES:**

County Councillors P. Murphy and J. Prosser

#### **1. Declarations of Interest**

There were no declarations of interest made by Members.

#### **2. Public Open Forum**

No members of the public were present.

#### **3. To confirm minutes of the previous meeting**

The minutes of the previous meeting held on 2<sup>nd</sup> February 2017 were confirmed and signed by the Chairman.

#### **4. To note the Action List from 2nd February 2017**

**Youth Service:** An action from the last meeting requested a report detailing the Youth Service (including The Zone and grant funding) element of the whole directorate review to be presented to Committee when the business plan is finalised. This is likely to be in the next financial year. A Member asked for clarification concerning the £70,000 grant from Welsh Government provided purely for youth services for The Zone in Caldicot and specifically, what would happen

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to that value if it moved to the Leisure Centre. It was also questioned what responsibility there was to ensure that the amount remained with the Council.

**Zero Hours Contracts (Casual Hours Contracts):** Information was circulated to all Committee Members on employment practices in schools. Provision of the information concludes all matters arising from discussion of zero hours contracts. It was strongly emphasised that these types of contracts are not issued in the county.

In response to a question, it was clarified that re-employed was different to redeployed and that if redeployment was an option, the staff member concerned would not have been made redundant.

Reference was made to the advice provided to Headteachers concerning break in service regarding the practice of terminating employees in the Spring term and re-employing them in the Autumn Term and the implications for pensions and future redundancies. It was recognised that there might be detriment for the staff member and queried if there would be such implications for schools. It was confirmed that schools are provided with advice that the school holiday period would be likely to be considered as continuous by an Employment Tribunal so there would be no break in service and the practice is not, therefore advised.

In response to a query, it was agreed to provide the previous three years' information to the Committee.

Whilst recognising that Special Educational Needs (SEN) funding can change from term to term, concern was expressed that it is not positive for teaching assistants to be employed on a term by term basis. It was noted that holidays would accrue but the break in the year was a period of unemployment and could be perceived as a way around not employing people on a full time basis. In response, it was explained that the situation described may not be the norm as it would usually be a contract for an academic year but that a teaching assistant on a temporary contract may have a termly contract (or contract for a specific other period e.g. to cover maternity or a SEN pupil) to reflect the available funding and the requirement of the role.

A Member expressed the opinion that further information was required to provide evidence that some employees prefer casual contracts and it was responded that assurance had already been provided by Leisure Managers and HR and there was uncertainty what further information could be supplied.

The Committee's attention was drawn to the expectation of the Council to receive feedback from the Committee on zero hours contracts and whilst accepted that Audit Committee minutes are presented to Council, it was agreed that the Chair would prepare a briefing note for the new Committee to consider.

**Risk (Events):** An update was provided on the Events Audit reported to last Audit Committee. It was reported that a review of events procedures had an outcome of an unfavourable audit opinion. A follow-up review is being undertaken and conclusions will be reported back in September.

#### **5. Demonstration of People Services Dashboard**

A demonstration of the People Services Dashboard was provided noting that it contains basic information from the Payroll system in a graphical representation to provide intelligence about the organisation's staff, broken down by directorate, and service areas. It is suitable for workforce planning and identifying patterns and trends in e.g. length of service, age profile, overtime and sickness absence

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The Dashboard will be on The Hub and available for managers. It will contain live data representing an improvement from the historical quarterly reports currently in use.

Following a presentation of the People Services Dashboard, questions were asked as follows:

It was queried if it is possible to compare data year on year to identify changes and trends. In response, it was explained that this is not available yet due to the fluidity of the organisation structure it will not always be possible to compare like with like.

Whilst the dashboard information (types of staff, trends etc.) was welcomed, a Member commented that long term patterns would be more meaningful. In response it was confirmed that the HR and Payroll system can provide historical information for comparison purposes.

A Member noted the high level of absences due to neck and back injury, also due to psychological issues in schools. It was queried if it is possible to refine the reasons to identify trends that should be addressed by managers e.g. liaison with the Health and Safety Manager. It was confirmed that this information is available. The Committee was reminded that the dashboard provides real time information but that reports can also be provided from the dashboard for DMTs to enable analysis of trends, hotspots and for planning purposes. It was added that the HR team also provides managers with templates and guidance, and that there is also an Attendance and Wellbeing Strategic Group that analyses the data on a quarterly basis to provide leadership with information and guidance on absence levels, trends and reasons.

In response to the question about how the information is provided and who inputs it to the system, it was confirmed that it is obtained from the HR and Payroll system. The original data comes from a variety of sources e.g. sickness is input by managers.

A Member questioned how consistency is achieved and it was explained that managers make choices electronically from pre-set drop-down menus. It was confirmed that data quality is part of corporate performance indicators and the Officer's role. It was added that Internal Audit will conduct a review of corporate performance indicators annually on a sample basis and those areas checked will include a check of data quality. It is not Internal Audit's responsibility to check the accuracy of all data entered into this HR & Payroll system. It was acknowledged that there is also an annual payroll audit.

In response to a question it was explained that it is straightforward to provide information to identify patterns of absence to equip managers to effectively manage absence with appropriate advice.

A member queried the definition of long and short term sickness, and if the number of days sickness absence per directorate will be defined. It was explained that absences over 20 days are classed as long term. It was also confirmed that it was possible to identify sickness absence data/days by directorate and that the dashboard includes a thermometer as a visual representation. This is useful as some departments are bigger than others so the results may otherwise appear distorted.

A Member asked if there was too much data being requested and commented that input might not be a priority for managers so may affect accuracy. It was explained that the manager has to take ownership of the data. It was agreed that there is a concern that managers may not add the data correctly or in a timely way. This could lead to potential problems such as under/overpayments; the Dashboard is only as good as the quality of the information input.

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The Officer was thanked for the demonstration of the Dashboard and for answering questions. It was remarked that interpretation and quality of data was key.

### **6. Joint Progress Report**

The Wales Audit Officer introduced the Joint Progress Report, the purpose of which is to track issues identified during the audit of financial statements. These relate to issues reported in September 2016 that arose from the accounts that did not impact on the unqualified opinion, less minor issues that arose from the 2015/16 financial statements and also issues from 2014/15 that were carried forward and remain ongoing. The report includes the Council's responses to the issues.

It was explained that the issues are not greatly significant but it would be beneficial to address them before the audit is undertaken.

A Member queried why some assets, noted in the fleet administration section, have a £1 nominal value which does not appear to reflect the true value. It was responded that the Fixed Asset Register is used for producing balance sheet entries for fixed assets and reconciling to insurable lists for plant and equipment. Operational assets have been recorded as £1 to recognise them as fixed assets that have not been purchased using capital. These assets have no depreciation and consequently no standing in the accounts; the method is used to ensure they are accounted for in a way that has little effect on the balance sheet.

In response to a Member's question, it was explained that operational assets are purchased through leasing or revenue.

Regarding the requirement for the earlier completion of the statement of accounts, it was explained that at present Local Authorities have to draft a statement of accounts for Auditors by the end of June, the auditors complete their report and the Council signs it off by the end of September. In future, both processes will be required earlier; in May and July respectively. It was responded that this change will be a significant challenge as staff are fully committed and have conflicting priorities so it will be a matter of where resources are placed.

It is proposed that a draft statement is produced by 31<sup>st</sup> May 2017.

The Wales Audit Officer confirmed that it was correct to be challenging the new standards and emphasised the requirement for complete and accurate records. He drew attention to the likelihood of more joint arrangements and consequently more recharges and accounting outside the authority. It was confirmed that a degree of estimation will be expected, within accounting standards, to be materially correct, due to the earlier closing of the accounts.

It was explained, regarding the early closure of accounts, that there was no additional audit resource but the challenge for WAO will be that all local authority audits will take place at the same time. To address the challenges, more work will be completed earlier in the year to flag up important issues to be aware of, and any potential implications.

The Joint Progress Report was noted by the Committee.

### **7. Internal Audit 2017/18 Plan - draft**

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The draft Internal Audit Plan for 2017/18 was received and the Committee was informed that the finalised version would be presented in the new year with the annual report.

It was explained that the plan clarifies where to allocate audit resources (886 days available) using a comprehensive risk assessment to cover as much of the authority as possible, noting that Heads of Service and their DMTs have provided input to the process to assist in drawing priorities. Consideration has also been given to what has not been completed 2016/17.

It was agreed to review the plan in the new year.

### **8. Quarterly Monitoring of Reserves - Qtr 3**

A Report on the quarterly monitoring of reserves was presented. It was explained that the level of reserves is reducing per annum and, consequently, there is little headroom for reengineering of services.

General reserves for financial planning have a target of 4-6% and is currently close to 4% which reflects that we are utilising reserves appropriately. Attention was drawn to the fact that the reserves held are not significant and also that sizeable contributions will be withdrawn in future years. A key reserve is the Priority Investment Reserve and noted that it will move to a deficit position. Consequently, the recommendation, on closing, will be to consider replenishment.

Regarding earmarked reserves, a Member questioned if the reducing amount was the absolute minimum that should be held as earmarked reserves. It was clarified that financial planning assumptions are on the basis of a general reserve which is the amalgamation of surpluses and deficits (totalling approximately £8 million). It was explained that earmarked reserves are money put aside for specific purposes. It was added that the authority has tended to use Invest to Save or the Priority Investment Reserve to facilitate change within the council.

A Member referred to the general reserve being at the lower end of the 4-6% target and questioned why there was no recommendation to increase council tax. It was confirmed that if the reserve fell below 4%, a recommendation would be made to Council to budget to contribute to reserves.

The report was accepted for information.

### **9. Review of Anti-Fraud and Corruption Policy**

An updated version of the Anti Fraud, Bribery and Corruption Policy Statement was presented. The purpose of the policy is to encourage a culture in the organisation that deters fraud, bribery and corruption that provides a strong message that any allegations will be dealt with in a firm and consistent way.

This policy statement embodies a series of measures designed to frustrate any attempted fraudulent or corrupt act and the steps to be taken if such action occurs.

The policy takes into consideration the Fraud Act 2006 and the Bribery Act 2010; both of which carry a custodial sentence if employees are found guilty.

The policy includes specific responsibilities for officers and members. It also defines fraud and corruption, outlines how the Council deters (e.g. internal controls) and report such activities, and potential consequences.

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Work is undertaken to raise awareness of the policy and appropriate training is offered. The policy is subject to continuous review and is updated every three years.

A Member questioned hospitality and how to define the difference between bribery and hospitality, and asked if an addition should be made. In response it was explained that employees and Members sign a Code of Conduct, within which guidance on hospitality and gifts is provided.

It was agreed that Members of Audit Committee would be to be circulated with the Code of Conduct for employees. It was explained that perceived contravention of the Members' Code of Conduct would be referred to the Standards Committee and potentially to the Ombudsman.

A Member referred to third party organisations, providing the example of the proposed Alternative Delivery Model for Leisure and Youth and it was confirmed that the policy would be relevant to third parties as well. It was considered that Internal Audit would probably not be responsible for routine audit activities and the new organisations would have their own audit arrangements. The Chief Auditor may be permitted to examine financial records within the constitution of the partner organisation.

A Member observed that hospitality can be declared on a hospitality register. It was added that whilst it is possible to add an item to the register, it may not necessarily be acceptable especially if there is any perceived influence relating to the award of a contract.

There was a general understanding that for Members gifts or hospitality under the value of £25 are generally considered as acceptable.

The policy was endorsed by the Committee.

### 10. WAO 2017 Audit Plan

The Wales Audit Officer introduced the WAO 2017 Audit Plan and explained that the plan covers the audit of the financial statements and performance audit.

Risks of material misstatement considered to be significant were identified as follows:

- The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur;
- Risk of material misstatement due to fraud in revenue recognition and as such is treated as a significant risk;
- Risk of material misstatement in the financial statements arising from error or omission of transactions, balances and disclosure;
- Risks associated with Accounts preparation. The preparation of the Statement of Accounts will involve the estimation of a number of account figures such as provisions for the Council's liabilities.
- Sensitive Disclosures: The Council's 2016-17 financial statements will include a number of disclosures which are material by nature. These include the disclosure of Related Parties, Senior Officer's Remuneration and Members' Allowances. These figures have to be accurately recorded.
- Joint Progress Document (JPD): A number of issues were identified during our 2015-16 audit which the Council agreed to address for 2016-17 including:
  - classification of Creditor balances;
  - retention of payroll records;
  - transferring legal title of Osbaston School;

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- ensuring Agency income and Expenditure is excluded from the financial statements;
- cash flow statement is supported by comprehensive working papers; and
- removal of assets held under operating leases from the fixed asset register.
- Cardiff Capital Region City Deal arrangements are negotiated with government that give greater accountability for actions in return for new powers to help encourage growth and jobs. The ten South Wales' local authorities have established a joint committee (the Regional Cabinet) to oversee delivery of a range of programmes which will have financial, governance and delivery risks that need to be managed. There will also be a number of accounting issues to address. It is envisaged that there will be central scrutiny and no local audit work this year.
- Early Closing of year end accounts: As considered earlier, the scale of the changes required for the Council and WAO means that planning needs to start now.

Committee were reminded that WAO audits the Welsh Church Fund and Monmouthshire Farm School Endowment Trust.

The fees are held at same level as last year, any additional services will be billed separately and refunds will be issued for fees not used.

A Member queried if the charges relating to the City Deal would be directed to Cardiff City Deal. It was confirmed that there would be no charges to Monmouthshire Council. The central charges are undecided at present. Clarification was requested when that information is available.

With regard to the Performance Audit, it was explained that there is a significant amount of change in local government at present due to the White Paper, the requirements of the sustainable principles of the Wellbeing of Future Generations Act and continuation of the Local Government Measure.

The Committee was reminded that WAO had consulted on a programme of studies over three years and a progress report is included.

Additionally included is the Performance Audit Programme for this year consisting of the improvement plan audit and assessment of performance audit (requirements of Local Government Measure) which have to be prepared and certificated.

It was announced that a baseline assessment of wellbeing of future generations is to be completed across all councils and other public bodies. The scrutiny of wellbeing of future generations will also be under consideration. For the latter, it is hoped that this element will be supportive to help facilitate how best to provide effective scrutiny of decisions from Public Service Boards (PSB). There will also be a service user perspective review.

A Member commented that performance is being studied and asked how audit would be undertaken e.g. linking housing to pupil attainment when targets may not be met. It was responded that this would also be for councils to scrutinise, and attention was drawn to the establishment of more joint committees and arrangements that will create a new arena and the opportunity to design appropriate and accountable programmes.

A Member suggested that WAO could provide an observer role for the scrutiny of all councils' PSBs and also for scrutiny of the City Deal. The importance of sharing ideas was expressed.

The report was noted.

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### **11. Forward Work Programme**

The Forward Work Programme was received and noted.

A Member commented that the next Council should consider the business plan for the change of leisure services and suggested that the Audit Committee should consider this matter. It was confirmed that this matter was included in the plan.

The Chair took the opportunity to thank the Committee for the efficient and effective discharge of its duties.

### **12. To note the date and time of the next meeting**

The next meeting was confirmed as the 25<sup>th</sup> May 2017.

**The meeting ended at 3.50 pm**