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Neuadd y Sir
Y Rhadyr
Brynbuga
NP15 1GA

Wednesday, 17 May 2017

Hysbysiad o gyfarfod:

Audit Committee

**Thursday, 25th May, 2017 at 2.00 pm,
County Hall, The Rhadyr, Usk, NP15 1GA**

AGENDA

| Eitem ddim | Eitem | Tudallennau |
|-------------------|---|--------------------|
| 1. | Election of Chairman | |
| 2. | Appointment of Vice Chairman | |
| 3. | To Note the Appointment of Lay Member | |
| 4. | Apologies for Absence | |
| 5. | Declarations of Interest | |
| 6. | Public Open Forum | |
| 7. | Introductions to Audit Committee and the role of Internal and External Audit, performance and risk management | |
| 8. | To confirm and sign the minutes of the meeting held on 16th March 2017 | 1 - 8 |
| 9. | To note the Action List from 16th March 2017 | 9 - 10 |
| 10. | Audit Committee Annual Report 2016/17 | 11 - 18 |
| 11. | Implementation of Internal Audit Recommendations | 19 - 32 |
| 12. | Unsatisfactory Audit Opinions | 33 - 44 |
| 13. | Report to Council: Zero Hours Contracts | 45 - 52 |
| 14. | Forward Work Programme | 53 - 56 |

| | | |
|------------|--|--|
| 15. | To note the date and time of the next meeting as Thursday 6th July 2017 at 2.00pm | |
|------------|--|--|

Paul Matthews

Chief Executive / Prif Weithredwr

CYNGOR SIR FYNWY

MAE CYFANSODDIAD Y PWYLLGOR FEL SY'N DILYN:

Cynghorwyr Sir:

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

Gwybodaeth Gyhoeddus

Mynediad i gopiau papur o agendâu ac adroddiadau

Gellir darparu copi o'r agenda hwn ac adroddiadau perthnasol i aelodau'r cyhoedd sy'n mynychu cyfarfod drwy ofyn am gopi gan Gwasanaethau Democrataidd ar 01633 644219. Dylid nodi fod yn rhaid i ni dderbyn 24 awr o hysbysiad cyn y cyfarfod er mwyn darparu copi caled o'r agenda hwn i chi.

Edrych ar y cyfarfod ar-lein

Gellir gweld y cyfarfod ar-lein yn fyw neu'n dilyn y cyfarfod drwy fynd i www.monmouthshire.gov.uk neu drwy ymweld â'n tudalen Youtube drwy chwilio am MonmouthshireCC. Drwy fynd i mewn i'r ystafell gyfarfod, fel aelod o'r cyhoedd neu i gymryd rhan yn y cyfarfod, rydych yn caniatáu i gael eich ffilmio ac i ddefnydd posibl y delweddau a'r recordiadau sain hynny gan y Cyngor.

Y Gymraeg

Mae'r Cyngor yn croesawu cyfraniadau gan aelodau'r cyhoedd drwy gyfrwng y Gymraeg neu'r Saesneg. Gofynnwn gyda dyledus barch i chi roi 5 diwrnod o hysbysiad cyn y cyfarfod os dymunwch siarad yn Gymraeg fel y gallwn ddarparu ar gyfer eich anghenion.

Nodau a Gwerthoedd Cyngor Sir Fynwy

Cymunedau Cynaliadwy a Chryf

Canlyniadau y gweithiwn i'w cyflawni

Neb yn cael ei adael ar ôl

- Gall pobl hŷn fyw bywyd da
- Pobl â mynediad i dai addas a fforddiadwy
- Pobl â mynediad a symudedd da

Pobl yn hyderus, galluog ac yn cymryd rhan

- Camddefnyddio alcohol a chyffuriau ddim yn effeithio ar fywydau pobl
- Teuluoedd yn cael eu cefnogi
- Pobl yn teimlo'n ddiogel

Ein sir yn ffynnu

- Busnes a menter
- Pobl â mynediad i ddysgu ymarferol a hyblyg
- Pobl yn diogelu ac yn cyfoethogi'r amgylchedd

Ein blaenoriaethau

- Ysgolion
- Diogelu pobl agored i niwed
- Cefnogi busnes a chreu swyddi
- Cynnal gwasanaethau sy'n hygyrch yn lleol

Ein gwerthoedd

- **Bod yn agored:** anelwn fod yn agored ac onest i ddatblygu perthnasoedd ymddiriedus
- **Tegwch:** anelwn ddarparu dewis teg, cyfleoedd a phrofiadau a dod yn sefydliad a adeiladwyd ar barch un at y llall.
- **Hyblygrwydd:** anelwn fod yn hyblyg yn ein syniadau a'n gweithredoedd i ddod yn sefydliad effeithlon ac effeithiol.
- **Gwaith tîm:** anelwn gydweithio i rannu ein llwyddiannau a'n methiannau drwy adeiladu ar ein cryfderau a chefnogi ein gilydd i gyflawni ein nodau.

Public Document Pack Agenda Item 8

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 2nd 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 31st 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 25th May 2017.

The meeting ended at 3.50 pm

Audit Committee Actions 16th March 2017

| Agenda Item: | Subject | Officer | Outcome |
|--------------|--|---------------------------|--|
| 4 | Youth Service | Kelly Beirne | 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 - next financial year. Clarification concerning the £70,000 grant from Welsh Government provided purely for youth services for The Zone in Caldicot and specifically, what happens to that value if moved to the Leisure Centre. Also what responsibility there is to ensure that the amount remained with the Council. |
| 4 | Zero Hours Contracts | Tracey Harry/Sally Thomas | Historic information (3 years) to be provided to Committee Update: Information provided to Committee on 10 th April 2017 |
| 4 | Zero Hours Contracts | Chair | Briefing Paper for new Committee – with feedback for Council Update: See agenda for 25 th May 2017 |
| 4 | Risks (Events) | Andrew Wathan | Outcomes of follow-up review to be reported at September meeting |
| 9 | Anti Fraud, Bribery and Corruption | Andrew Wathan | Employees Code of Conduct to be circulated to Committee |
| 10 | Cardiff Capital Region City Deal - charges | Wales Audit Office | Clarification/confirmation (when available) that there would be no charges to Monmouthshire CC |

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**SUBJECT: AUDIT COMMITTEE
 ANNUAL REPORT 2016/17**

**DIRECTORATE: Chief Executive's
MEETING: Audit Committee
DATE: May 2017
DIVISION/WARDS AFFECTED: All**

1. PURPOSE

To present the Chair of the Council's Audit Committee's Annual Report for 2016/17.

2. RECOMMENDATION(S)

On behalf of the Audit Committee I submit this annual report for 2016/2017 for consideration by the Council. I believe that it shows that, over this period, the Committee has fulfilled its role as defined in terms of reference.

The report shows that the workings of the Committee have been both valuable and productive and that it provides assurance to the Council regarding the Committee's activities in the effective governance of financial affairs and other matters by the Authority.

3. KEY ISSUES

4. REASONS

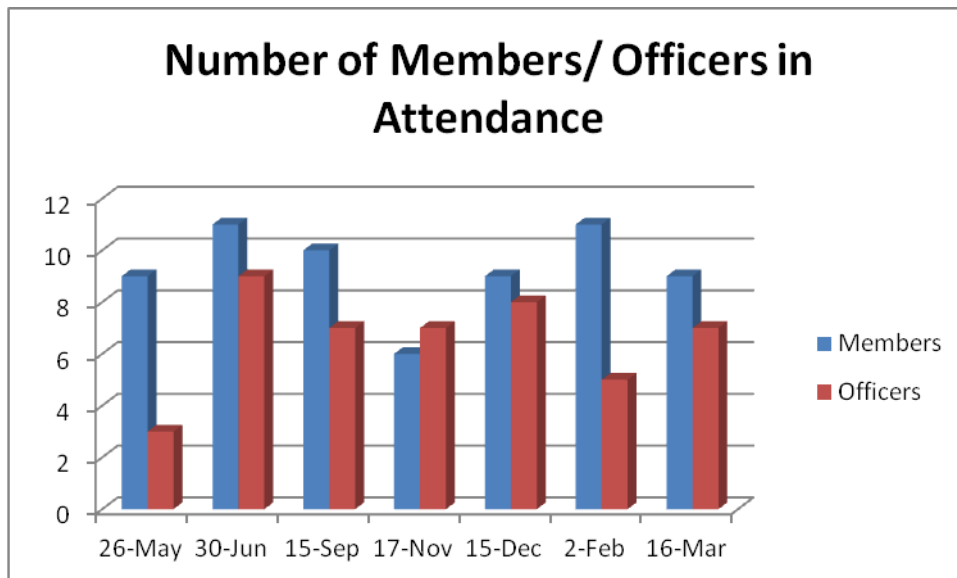
- 4.1 The Council's Audit Committee has responsibility for ensuring that there are procedures in place to guarantee the adequacy and effectiveness of financial control and corporate governance arrangements.

The terms of reference are:

- To review and scrutinize the authority's financial affairs
- To make reports and recommendations in relation to the authority's financial affairs
- To review and assess the risk management, internal control and corporate governance arrangements of the authority

- To make reports and recommendations to the authority on the adequacy and effectiveness of those arrangements
 - To oversee the authority's internal and external audit arrangements
 - To review the financial statements prepared by the authority
- 4.2 The Committee consists of 11 councillors and includes one lay member (co-opted) who is not a councillor. During 2016/17, the lay member was the Chair of the Audit Committee as in previous years. The Committee's main responsibilities include:
- Approving the internal audit strategy, plan & performance
 - Review internal audit reports and seek assurances of change where required
 - Consider the reports of external audit and inspection agencies
 - Consider the effectiveness of the authority's risk management arrangements
 - Maintain an overview of the Council's Constitution in respect of contract procedure rules and financial regulations
 - Make recommendations, as appropriate, to Cabinet and Council on any matters reported through the Audit Committee.
- 4.3 The terms and conditions of the Audit Committee are set out in the Council's Constitution amended and agreed by Council in September 2014 which are in accordance with the Local Government (Wales) Measure (2011).
- 4.4 The Audit Committee is supported by Democratic Services with the Head of Finance and Chief Internal Auditor in attendance at all meetings. External Audit (The Welsh Audit Office) are invited to all meetings. During 2016/17 the Council's Audit Committee formally met 7 times, with all meetings being quorate. The Welsh Audit Office was represented at 5 meetings.

| Audit Committee meetings 2016/17 |
|----------------------------------|
| 26 th May 2016 |
| 30 th June 2016 |
| 15 th September 2016 |
| 17 th November 2016 |
| 15 th December 2016 |
| 2 nd February 2017 |
| 16 th March 2017 |



- 4.5 Regular reports were received and endorsed by the Audit Committee throughout the year. All Members contributed to the challenge process where officers were held to account for improving identified systems weakness. Members contributed positively to the process and took the responsibility of being on the Audit Committee seriously.
- 4.6 A standard agenda item for the Audit Committee is an Action List, where named officers are responsible for updating the Committee on previous matters discussed or questions raised. This ensures appropriate responses are received and accepted by the Committee on issues they felt were important enough to challenge and holds officers to account.

To oversee the Authority's internal and external audit arrangements

- 4.7 Reports were received and considered from the Wales Audit Office (WAO). MCC officers were asked to provide responses where appropriate, and Members of the Committee sought assurances on the process of External Audit. Papers presented included:
- Financial Resilience Assessment
 - Governance Corporate Assessment Follow On Review
 - Certificate of Compliance and Feedback on Council's Assessment of Performance 2014/15
 - Corporate Assessment 2015 Action Plan Progress Report
 - MCC Audited Accounts 2015/16 (Formal Approval)
 - ISA 260 Report – MCC Accounts
 - Annual Improvement Report
 - Performance Management Corporate Assessment
 - MCC Response to the Performance Management Report
 - Corporate Assessment Follow On Reviews – Information Technology and Human Resources
 - WAO Proposals for Improvement Progress Report
 - Audited Accounts for the Welsh Church Act Fund 2015/16 (and ISA 260 Report)

- Audited Accounts for the Monmouthshire Farm School Trust Fund 2015/16 (and WAO Independent Examination of the Financial Statements)
 - Joint Progress Report
 - 2017 Audit Plan
- 4.8 The Internal Audit Outturn reports and the annual plans for 2016/17 and 2017/18 were presented to and endorsed by the Committee. Members challenged the performance of the Internal Audit Team and robustness of the planned work in order to satisfy themselves that they were being provided with adequate assurances on the adequacy of the Council's internal control environment and that public money was being used effectively, efficiently and economically. Members challenged the information provided to ensure continual improvement.
- 4.9 Reports presented for consideration included:
- Internal Audit (IA) 2016/17 and 2017/18 Plans
 - IA Report on 2015/16
 - Special Investigations
 - Contract Procedure Rules – Exemptions
 - IA Charter
 - Presentation on Public Sector Internal Audit Standards
 - Unsatisfactory Audit Opinions
 - Review of Anti Fraud and Corruption Policy

To review and assess the risk management, internal control and corporate governance arrangements of the Authority

- 4.10 The Committee continues to have an opportunity to comment on and shape the Annual Governance Statement before it is presented with the Annual Statement of Accounts.
- 4.11 A report on the Whole Authority Complaints, Comments and Compliments 2015/16 was considered and accepted in November 2016.
- 4.12 For the December 2016 meeting of the Committee, the Policy and Performance Manager provided three reports for the Committee's consideration. These were:
- An overview of the Council's Performance Management arrangements
 - A progress report on WAO Proposals for Improvement made after the Corporate Assessment completed by Wales Audit Office in March 2015
 - A report on Strategic Risk Assessment 2016
- 4.13 The Chief Internal Auditor presents six monthly progress reports on previously issued unsatisfactory audit opinions (designated 'limited' from 2016/17). The intention of these reports is to provide assurance to the Committee that previously identified system weaknesses had been appropriately addressed and improvements made by the operational

manager. Where unsatisfactory or very little progress had been made by the operational manager then the Committee, via the Chairman, will invite the operational manager and relevant Head of Service to attend the Audit Committee where Members will hold them to account for future improvements. Although used on a number of occasions in 2014/15 and 2015/16, there were no formal invitations to operational managers in 2016/17. Where IA notified the committee of 'unsatisfactory' (up until 2015/16) or 'limited' opinions (from 2016/17) the Committee was satisfied that IA would be providing follow up reports at a future time which would indicate whether improvements were being made, following on from the internal audit.

- 4.14 In 2015/16, following an unfavourable audit opinion, the Head teacher and Chair of Governors of Chepstow School were invited to attend Audit Committee. Issues following on from these events continued to come before the Committee in 2016/17, in June and November. A member of the public had raised some issues about staffing issues at the school and the management of human resources policy. A response letter was sent from the chair of the Committee to the member of the public covering the issues raised. The Committee was informed in June by County Councillor Murphy that he and County Councillor Hackett-Pain, as Cabinet Members, had called in the new Business Manager, the Chair of Governors, the Temporary Business Manager and some other representatives from Chepstow School and would be meeting them with a view to obtaining further information in respect of a number of issues relating to the school and how the school's budget was likely to be brought under control.
- 4.15 County Councillor Murphy stated that he would be willing to put further points raised by a committee member to the representatives of Chepstow School at this meeting and report back. Councillor Murphy provided his report back to the Committee in November
- 4.16 The Audit Committee also received a six monthly update from the Chief Internal Auditor on any exemptions from the Council's Contract Procedure Rules. The Contract Procedure Rules exist to ensure that the Authority operates a fair, consistent and effective procurement policy to procure works, goods and services on behalf of the Council and to minimise allegations of fraud and corruption against managers. Although exemptions are permissible, Members were given the opportunity to challenge officers where they felt the reasons given were not justifiable.
- 4.17 The Head of People Services and Information Governance presented the People Services Annual Report 2016 to the Committee in November. This was felt to be appropriate as committee members have made a number of queries about personnel issues, such as redundancies, vacancies and sickness rates, often arising from the annual accounts or from assessments of data quality for performance management. A demonstration of the People Services Dashboard, providing information to managers on personnel statistics was given in March 2017. During the year, specific information was requested, and received, on early departures and redundancy costs.

- 4.18 In June Committee members had queried a reported expenditure of £10,000 for a Welsh Speaking Chef at the Eisteddfod. Officers were able to satisfy the Committee that the expenditure was justified and covered a programme of workshops and demonstrations, not just one individual. Funding was provided by the Welsh Government's Rural Communities - Rural Development Programme 2014-2020.
- 4.19 In December, at the request of the Full Council, the Committee considered the terms on which casual or short term workers are employed, with specific reference to the use of 'zero hours' contracts. The Committee was satisfied that the Authority does not make use of 'zero hours' arrangements, as defined as a contract in which an employer does not guarantee set hours of work for an employee and where the employee is contracted to that employer and cannot work for another employer. Officers explained to the committee the terms offered to casual workers and the policy which MCC follows in regard to offering casual, temporary or permanent fixed hours contracts. A written report has been provided to the Full Council.

To review the financial statements prepared by the Authority

- 4.20 The Committee is asked to consider the Council's Statement of Accounts prior to and following the external audit of them; the draft accounts were presented in June with the final audited accounts in September. In addition the Committee received the annual accounts of Monmouthshire County Council Welsh Church Act Fund and the Monmouthshire Farm School Endowment Trust Fund.
- 4.21 The Treasury Outturn Report 2015/16 was presented and noted by the Committee in June with a mid year Treasury Report for 2016/17 presented in November.
- 4.22 In June proposals for changes to levels of earmarked reserves were reviewed by the Committee. Subsequently the Committee has received quarterly reports on the monitoring of reserves.
- 4.23 In September the Committee received the revised and updated Internal Audit Charter for Monmouthshire County Council for approval in line with the expectations of Public Sector Internal Audit Standards.
- 4.24 In November a report was presented to the Committee concerning the Council's Minimum Revenue Provision in relation to supported borrowing (where the credit arrangements attract central government support). Committee members challenged officers on the justification for adopting different approaches for supported and unsupported borrowing.

5 RESOURCE IMPLICATIONS

- 5.1 None.

6 **CONSULTEES**

6.1 Chief Internal Auditor.

7 **Results of Consultation:**

7.1 Report agreed.

8 **BACKGROUND PAPERS**

8.1 Audit Committee Minutes 2016/17

9 **AUTHORS AND CONTACT DETAILS**

Philip White, Chairman, on behalf of the Audit Committee

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SUBJECT: IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS – 2015/16

DIRECTORATE: Chief Executive
MEETING: Audit Committee
DATE: 25 May 2017

DIVISION/WARDS AFFECTED: All

1. PURPOSE

To receive and consider the progress operational managers have made against implementing Internal Audit recommendations made in reports issued during 2014/15 and 2015/16.

2. RECOMMENDATION(S)

That the Audit Committee consider this report, identify any concerns of non-implementation of audit recommendations and where appropriate consider calling-in any managers for further explanation as to why the implementation of actions has not been as productive as expected. Overall, non-implementation of audit recommendations has not led to a significant risk to the Council.

3. KEY ISSUES

- 3.1 The Chief Internal Auditor has to give an overall opinion on the adequacy of the internal control environment operated within the systems and establishments of Monmouthshire County Council. This is based on the opinions given on individual audit jobs undertaken as per the agreed annual audit plan.
- 3.2 Each audit opinion is based on the strengths and weaknesses identified during the course of each audit; definitions of which are shown at Appendix A. Where weaknesses in control have been identified an audit recommendation is made in order to improve the internal control environment which should lead to an overall improvement of service provision or the financial stewardship of the area audited.

- 3.3 Generally operational management agree with the audit recommendations made and agree to implement the action required to make the improvements. In 2014/15 96% of audit recommendations were agreed by operational managers. In 2015/16 97% were agreed.
- 3.4 In order to verify that improvements have been made in the financial stewardship within service areas that have been audited, the Internal Audit team has to check that the agreed actions have actually been implemented by service / operational managers. The Team therefore undertake follow up audit reviews to ensure this is done within 6 to 12 months after the final audit report has been issued.
- 3.5 In 2016/17 all 2014/15 and 2015/16 audit reports which were finalised during 2015/16 were followed up.
- 3.6 Due to limited resources within the Internal Audit Team not all audit recommendations could be physically followed up. Although some audits were followed up by the Internal Audit team and evidence tested to ensure that agreed actions had been implemented, for the majority there was significant reliance on the operational managers' honesty in providing an update on the progress of the implementation of agreed actions back to the Internal Audit Team.
- 3.7 For the audits concerned for this period there were 25 audit jobs which included 284 audit recommendations. 189 (67%) audit recommendations had been implemented, 51 (18%) had not been implemented, with 32 (12%) partially implemented or were ongoing. For 12 (4%) of the agreed audit recommendations, managers had accepted the risk of not implementing the agreed action to make the improvements to the financial stewardship of their system or establishment. This is shown at Appendix B.
- 3.8 The 25 individual audit jobs are shown at Appendix C which identifies the number of implemented audit recommendations along with the status of those that weren't per audit review.
- 3.9 Appendix D shows the recommendations implemented per categorisation. Where the Audit team identify a weakness, the significance of it is categorised by a rating. Previously (2014/15) these were rated as 1 (most significant), 2, 3 or 4 weaknesses; more recently (post 2015/16) these are rated as significant (red), moderate (amber) or minor (yellow) and are colour coded within reports. There were no 1 rated weaknesses identified in the 2014/15 reports; although not all of the agreed recommendations had been implemented this did not result in a significant risk to the Council.
- 3.10 Within the 2015/16 audit reports, 9 significant weaknesses were identified; 67% (6) of which had been addressed by implementing the appropriate action. This left 33% (3) significant weaknesses not

addressed. 2 of these related to Outdoor Education where the provision is currently under a strategic review. The 3rd related to Housing Benefits; this has now been picked up by MCC management and is being progressed.

- 3.11 As a summary, Appendix E shows the status of audit recommendations per directorate.

4. REASONS

- 4.1 Part of what Internal Audit does is to provide assurances to senior management that there are sound processes in place across all service areas to ensure effective, efficient and economic use of public money and to safeguard the assets of the Council. Audit reviews are undertaken to check what controls are actually in place to ensure this against what are expected to be in place.
- 4.2 The Internal Audit Team's work helps to ensure appropriate internal controls, governance arrangements and risk management processes are in place.
- 4.3 Where weaknesses in process or procedure are identified an audit recommendation is made in order to improve the situation.
- 4.4 Although the implementation of agreed actions to address weaknesses identified during the audit review will improve financial management, service provision and governance arrangements, the fact that not all of the recommendations made have been implemented does not represent a significant risk to the Council.

5. RESOURCE IMPLICATIONS

None.

6. CONSULTEES

Head of Finance

7. BACKGROUND PAPERS

Annual Outturn 2015/16
Public Sector Internal Auditing Standards
Internal Audit Management Information System

8. AUTHOR AND CONTACT DETAILS

Andrew Wathan, Chief Internal Auditor
Telephone: x.4243
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Definitions of Internal Audit Opinions Used

| LEVEL OF ASSURANCE | DESCRIPTION |
|--------------------|---|
| SUBSTANTIAL | Very well controlled, with numerous strengths identified and any risks being less significant in nature. |
| CONSIDERABLE | Generally well controlled, although some risks identified which should be addressed. |
| REASONABLE | Adequately controlled, although risks identified which could compromise the overall control environment. Improvements required. |
| LIMITED | Poorly controlled, with unacceptable levels of risk. Fundamental improvements required urgently. |

The tables below summarise the ratings used during the review

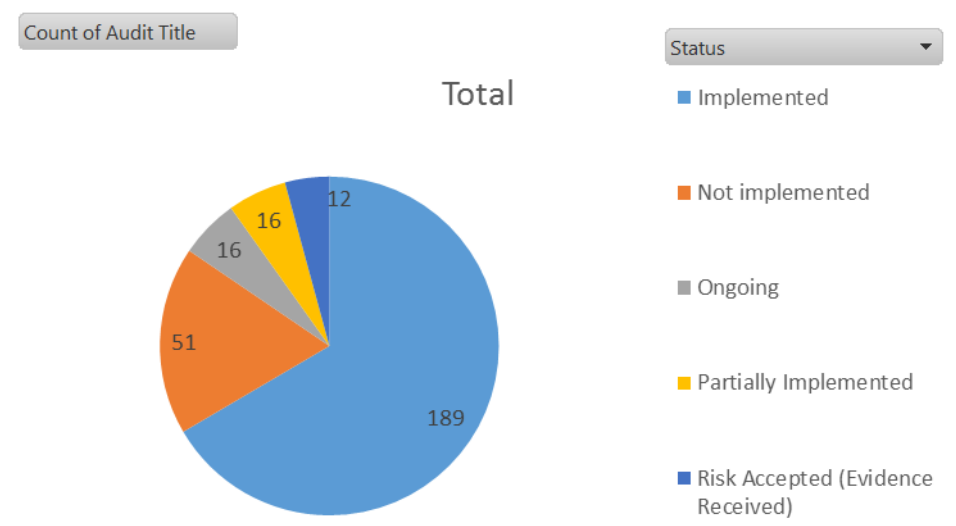
| RATING | RISK DESCRIPTION | IMPACT | TOTAL IDENTIFIED DURING REVIEW |
|--------|------------------|--|--------------------------------|
| 1 | Significant | (Significant) – Major / unacceptable risk identified. Risk exist which could impact on the key business objectives. Immediate action required to address risks. | |
| 2 | Moderate | (Important) – Risk identified that requires attention. Risk identified which are not business critical but which require management 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. | |

Previous opinion definitions:

| Opinion | Description |
|----------------|---|
| Very Good | Very well controlled with minimal risk identified; a few minor recommendations |
| Good | Well controlled although some risk identified which needs addressing |
| Reasonable | Adequately controlled although some risks identified which may compromise the overall control environment |
| Unsatisfactory | Not very well controlled, unacceptable levels of risk identified; changes required urgently |
| Unsound | Poorly controlled, major risk exists; fundamental improvements are required with immediate effect |

Recommendations by Status

| Row Labels | Count of Audit Title | |
|-----------------------------------|----------------------|-----|
| Implemented | 189 | 67% |
| Not implemented | 51 | 18% |
| Ongoing | 16 | 6% |
| Partially Implemented | 16 | 6% |
| Risk Accepted (Evidence Received) | 12 | 4% |
| Grand Total | 284 | |



Recommendation Status per Report

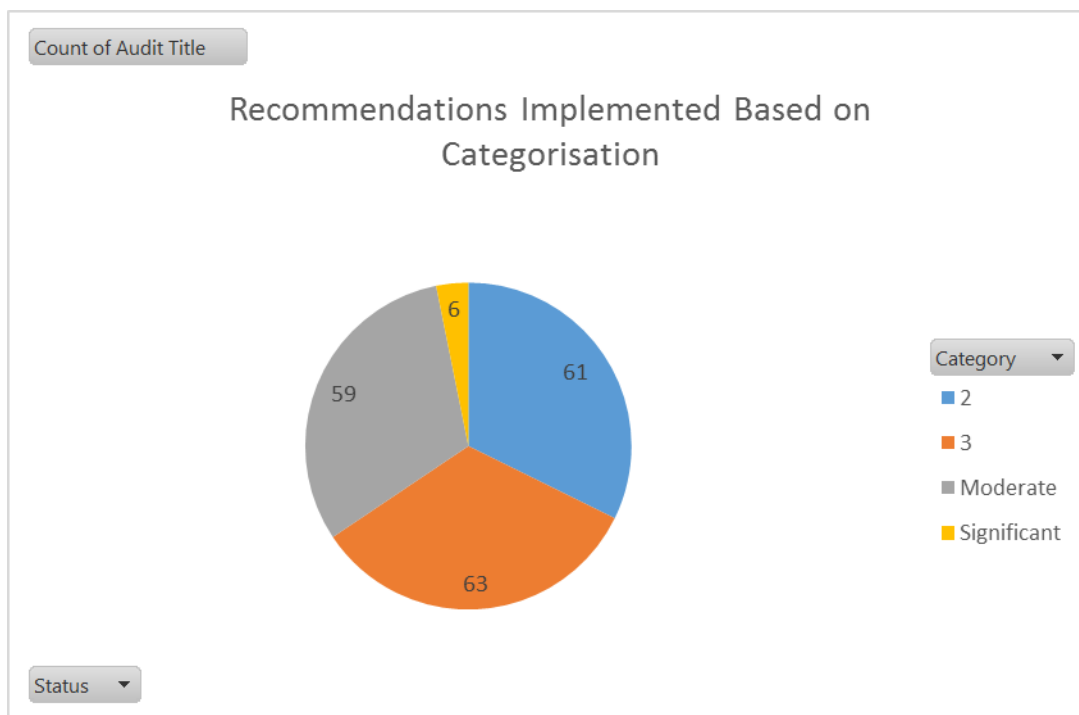
| Count of Audit Title Row Labels | Column Labels | | | | | Grand Total |
|------------------------------------|---------------|-----------------|---------|-----------------------|-----------------------------------|-------------|
| | Implemented | Not implemented | Ongoing | Partially Implemented | Risk Accepted (Evidence Received) | |
| Agresso Systems Admin | 11 | 1 | | | | 12 |
| Archbishop Rowan Williams | 6 | | | | | 6 |
| Benefits | 5 | 3 | | | 2 | 10 |
| Building Control | 8 | 1 | 2 | | 1 | 12 |
| Caldicot Comprehensive School | 14 | 3 | 1 | | | 18 |
| Cantref Primary School | 18 | 1 | | 5 | 2 | 26 |
| Car Park Income | 3 | 18 | 1 | | | 22 |
| Cashiers | 6 | | | 1 | 1 | 8 |
| Castle Park Primary School | 11 | | 2 | | | 13 |
| Chepstow Leisure Centre | 3 | | | | | 3 |
| Dewstow Primary | 4 | 1 | | | | 5 |
| Durand Primary School | 6 | | | | | 6 |
| Fostering (Internal) | 1 | 2 | 2 | | | 5 |
| Grounds Maintenance | 4 | 1 | | | | 5 |
| King Henry VIII | 10 | 5 | 2 | | | 17 |
| Llandogo Primary (Follow-up) | 5 | 5 | | 6 | 1 | 17 |
| Llanvihangel Crucorney | 9 | | | | | 9 |
| Outdoor Education | 6 | 6 | 4 | 1 | 3 | 20 |
| Rogiet Primary | 23 | 2 | 1 | | | 26 |

| | | | | | | |
|--------------------------------|------------|-----------|-----------|-----------|-----------|------------|
| Social Care and Health Debtors | 3 | | | | | 3 |
| Sundry Debtors | 8 | | 1 | | | 11 |
| Treasury Management | 2 | 1 | | | | 3 |
| Usk Primary - Follow up | 8 | | | 2 | | 10 |
| Youth Offending Team | 11 | | | | | 11 |
| Bank Reconciliation | 4 | 1 | | 1 | | 6 |
| Grand Total | 189 | 51 | 16 | 16 | 12 | 284 |

Recommendations Status by Categorisation

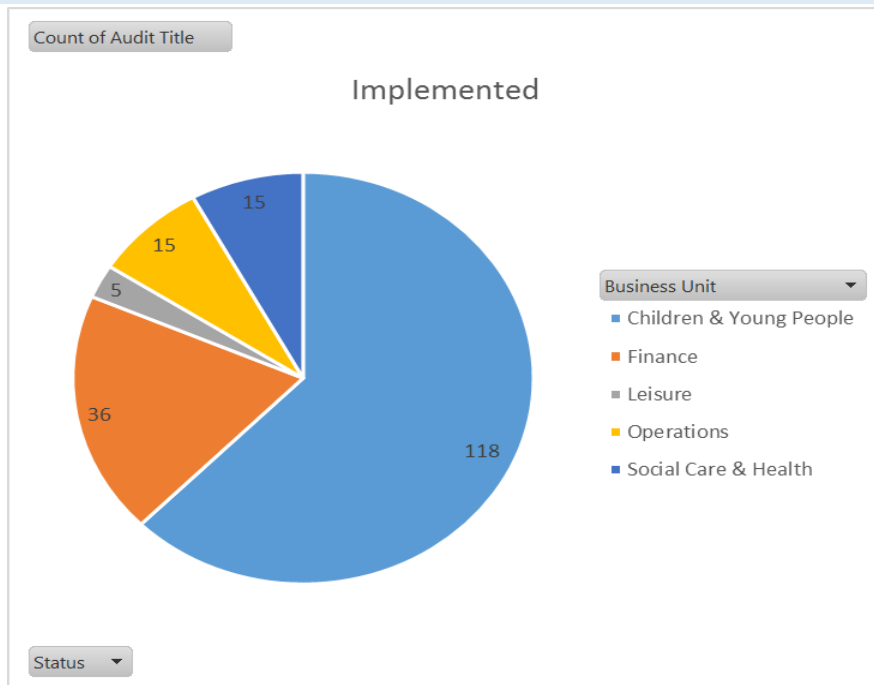
| Count of Audit Title | Column Labels | | | | | | Grand Total | Implemented |
|----------------------|---------------|-----------------|-----------|-----------------------|-----------------------------------|------------|-------------|-------------|
| | Implemented | Not implemented | Ongoing | Partially Implemented | Risk Accepted (Evidence Received) | | | |
| 2 | 61 | 11 | 5 | 11 | 2 | 90 | 68% | |
| 3 | 63 | 22 | 3 | 4 | 4 | 96 | 66% | |
| Moderate | 59 | 15 | 8 | 1 | 6 | 89 | 66% | |
| Significant | 6 | 3 | | | | 9 | 67% | |
| Grand Total | 189 | 51 | 16 | 16 | 12 | 284 | | |

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Recommendation Status by Directorate

| Count of Audit Title | Column Labels | | | | | Grand Total | Implemented |
|-------------------------|---------------|-----------------|-----------|-----------------------|-----------------------------------|-------------|-------------|
| | Implemented | Not implemented | Ongoing | Partially Implemented | Risk Accepted (Evidence Received) | | |
| Children & Young People | 118 | 19 | 8 | 14 | 3 | 162 | 73% |
| Finance | 36 | 6 | 1 | 2 | 5 | 50 | 72% |
| Leisure | 5 | 4 | 2 | | 3 | 14 | 36% |
| Operations | 15 | 20 | 3 | | 1 | 39 | 38% |
| Social Care & Health | 15 | 2 | 2 | | | 19 | 79% |
| Grand Total | 189 | 51 | 16 | 16 | 12 | 284 | 67% |



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**SUBJECT: INTERNAL AUDIT SECTION
PROGRESS REPORT ON UNFAVOURABLE
AUDIT OPINONS**

**DIRECTORATE: Chief Executive's
MEETING: Audit Committee
DATE: 25th May 2017
DIVISION/WARDS AFFECTED: All**

1. PURPOSE

To update Members on the progress of unfavourable (Unsatisfactory / Unsound/Limited Assurance) audit opinions issued since 2012/13 by the Internal Audit team.

2. RECOMMENDATION(S)

2.1 That the Audit Committee note the improvements made by service areas following the original unfavourable audit opinions issued.

Or

2.2 That if the Audit Committee are concerned about any of the audit opinions issued or lack of improvement made after the follow up audit review, consideration be given to calling in the operational manager and the Head of Service to provide justification for lack of progress and hold them to account for future improvements.

3. KEY ISSUES

3.1 The number of unfavourable audit opinions issues by Internal Audit is not that significant compared to the total number of audit opinions issued in any one year, but nonetheless, they are issued where serious weaknesses in internal control have been identified.

3.2 All of the systems / establishments issued with an unfavourable audit opinion originally which have been followed up, have improved to some extent prior to the audit team undertaking a follow up review. The majority of reviews were given a more favourable opinion which

recognises that issues identified originally were subsequently addressed by management.

- 3.3 During 2015/16 the audit opinions were reviewed to better reflect the level of assurance that could be gained from the review of internal controls in operation. The new audit opinions in use from April 2016 are Substantial, Considerable, Reasonable, Limited; the definitions of which are shown at Appendix 1.

4. REASONS

- 4.1 The audit opinions previously used within the team were introduced into the audit reports at the beginning of 2008/09 and are as set out in Appendix 2. The opinion gives an indication of the adequacy of the internal control environment of the system or establishment under review. During the audit planning process the reviews are risk assessed as High, Medium or Low.
- 4.2 The previous report was presented to Audit Committee November 2016; this information is updated and presented to Audit Committee on a six monthly basis.
- 4.3 The following unfavourable audit opinions have been issued since 2011/12:

| | Unsatisfactory | Unsound |
|---------|----------------|---------|
| 2011/12 | 4 | 1 |
| 2012/13 | 2 | 0 |
| 2013/14 | 0 | 0 |
| 2014/15 | 6 | 0 |
| 2015/16 | 7 (see 4.6) | 0 |

| | Limited (Assurance) |
|---------|------------------------|
| 2016/17 | 7 |
| | |

- 4.4 In 2013/14, no audit reports were issued with an Unsatisfactory or Unsound audit opinion. The team did audit some grant claims during the year; one of which resulted in a qualified audit opinion being issued.
- 4.5 In 2014/15, 6 audit reports were issued with an Unsatisfactory audit opinion:
- a) Passenger Transport Unit
 - b) Procurement - Off Contract Purchasing

- c) Llandogo Primary (13/14) – Revised opinion issued in August 2015 was Reasonable
- d) Chepstow School (13/14)
- e) Llanfair Kilgeddin Primary School – school subsequently closed
- f) Monmouthshire Enterprises

4.6 In 2015/16, 7 audit reports were issued with an Unsatisfactory audit opinion, 4 of which were carried forward from 2013/14 and 2014/15;

| | Assignment | Risk H/M/L | Rating | Revised Opinion | Date Issued |
|----------------|---|-----------------------|----------------|------------------------------|------------------------|
| 2015/16 | Procurement Cards | Medium | Unsatisfactory | In progress | |
| | Magor Primary | Low | Unsatisfactory | Reasonable | 31-3-17 |
| | Markets | Medium | Unsatisfactory | To be followed up in 2017-18 | |
| | Passenger Transport Unit (14/15) | Medium | Unsatisfactory | In progress | |
| | Procurement - Off Contract Purchasing (14/15) | Medium | Unsatisfactory | In progress | |
| | Chepstow School (13/14) | Medium | Unsatisfactory | In progress | |
| | Monmouthshire Enterprises (Social Care) (14/15) | Medium | Unsatisfactory | To be followed up in 2017-18 | |
| | | | | | |

4.7 Chepstow School concerns have been reported to Audit Committee previously (March 2015) and members of the School management team have attended to respond to concerns raised in the audit report. A follow-up draft audit report on the School is due to be issued in May 2017.

4.8 Officers from Passenger Transport Unit and Monmouthshire Enterprises have previously been invited to and subsequently attended Audit Committee in order to respond to Members' questions and to provide assurances that appropriate actions would be taken to improve the financial control environment.

4.9 Ideally these audit reviews will be followed up by the audit team within 9 to 12 months of the final report being issued to ensure that action has

been taken to address the weakness identified. Some delays may have arisen as a result of the operational manager deferring the follow up audit. These reviews will be followed up in 2017/18.

4.10 During 2016/17, 6 reports were issued with a **Limited** opinion. This is the equivalent of the previous Unsatisfactory opinion. 2 had been finalised by the year end (31st March 2017) with 5 being in draft, to be finalised. These were as follows:

| | Assignment | Risk H/M/L | Rating | Revised Opinion | Date Issued |
|----------------|-----------------------------|---------------|---------|--------------------|----------------|
| 2016/17 | School Meals (Final) | Medium | Limited | | |
| | Ysgol Y Ffin Primary School | Low | Limited | | |
| | Events (Final) | Medium | Limited | In progress | |
| | HR Policy Review | Medium | Limited | | |
| | External Placements | Medium | Limited | | |
| | Compliance with Bribery Act | Medium | Limited | | |
| | Mobile Phones | Medium | Limited | | |
| | | | | | |

4.11 The main issues were:

a. School Meals

- Previously reported to Audit Committee

b. Ysgol Y Ffin Primary School

- No Collection & Deposit (C&D) returns or Income Analysis sheets were subject to review and copies were not retained at the School; income collection records were inadequate.
- For the sample of 10 bankings viewed there was no evidence that these had been subject to a secondary check.
- The School was forecasting a significant budget over spend for 2016/17 (as at month 9 forecast) which, if realised, would lead to a significant budget deficit at year end.

c. Events

- Signed contracts for goods and services procured were not available to view at the time of the audit.
- Income reconciliation did not incorporate a physical check of stock of tickets, as per each point of sale location and therefore stock remaining was unknown.
- Lack of record keeping for staff time in lieu and no evidence that time was taken within one month of being accrued, as per Policy.
- No evidence of tender and selection exercise for the professional management of the Status Quo event.
- Final position for Three Choirs event could not be established (the event took place in June 2016). Income recorded on Agresso was low compared to expected sales. Associated costs were placed in a different cost centre and therefore final position could not be assessed.

d. HR Policy Review

- Future Generations Evaluations were not fully completed for policies taken to Committee, Cabinet or for Individual Member Decision.
- The recruitment/new starter and induction processes did not make potential employees aware of relevant key policies from the start of their employment.
- Offer of employment acceptance slips were not received from new starters to confirm their agreement to the terms and conditions of the role.
- No evidence was available to demonstrate HR informed staff of new/ revised policies in the sample of policies tested.
- Processes to demonstrate that staff have read and understood policies were not in place.
- Policies were not reviewed on a timely basis.

e. External Placements

- The accreditation process for dealing with off framework providers was not fully developed and some key checks were not evident at time of review
- Signed individual placement contracts were not consistently in place for the sample reviewed. Children's Services in-house review identified that contracts were not in place as expected.
- Contract management not fully developed in Children's Services.
- The PLANT system reported the number of Social Worker visits for whole of Children's Services; this showed overdue cases (LAC Stats visits and LAC Stats Visits Overdue).

f. Compliance with the Bribery Act

- Most new members of staff were not receiving corporate induction training despite this being considered a mandatory requirement.
- There was no designated officer within the Authority with responsibility for compliance with the Bribery Act 2010.
- The Anti-Fraud and Corruption Strategy Policy Statement had not been reviewed or updated to reflect the principles of the Bribery Act 2010. Employees were not made aware that bribery is a criminal offence and the potential repercussions of non-compliance with the Bribery Act.
- The Authority had not performed risk assessments to ascertain the likelihood or impact of potential bribery.
- Limited information was in place for employees to guide them on the disclosure of financial interests, potential conflicts of interest and the receipt of gifts and hospitality.
- No authorised signatory list was maintained for procurement decisions. Contracts were being agreed and purchases made that were non-compliant with section 16.2 (Contract Formalities) of the Authority's Contract Procedure Rules.

g. Mobile Phones

- Lack of evidence of MCC approval for the EE contract;

- Absence of a signed copy of the final contract
- The contract had expired at the time of the audit with a delay in securing a new corporate contract;
- A 'tech fund' included as part of the terms of the EE contract allowed for new or upgraded devices to be claimed from the contractor free of charge, but the Authority had yet to utilise the credit available, which would expire when the EE service was terminated;
- A significant proportion of the phones being paid for had no current registered user recorded and so could not be confirmed as appropriate expenditure;
- Actions to address high cost use of mobile phones were applied inconsistently; and
- The Mobile Phone Policy was lacking detail of the Confidential Data Agreement, managers' responsibilities in relation to mobile phone use by their staff and did not make clear that wilful or negligent misuse of mobile phones could lead to action under the Authority's Disciplinary Procedures.

4.12 As part of all audit reviews, the issues identified at the previous audit are followed up to ensure that they have been adequately addressed, which should provide assurance on the effectiveness of the internal control environment for that particular service, system or establishment.

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. RESOURCE IMPLICATIONS

None.

7. CONSULTTEES

Head of Finance

8. BACKGROUND PAPERS

Audit management Information 2013/14, 2014/15, 2015/16, 2016/17

9. AUTHOR AND CONTACT DETAILS

Andrew Wathan, Chief Internal Auditor

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Email: andrewwathan@monmouthshire.gov.uk

Internal Audit Opinions (wef 2016/17)

| | |
|---------------------|---|
| SUBSTANTIAL | Substantial level of assurance. Well controlled although some minor risks may have been identified which require addressing. |
| 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 immediately. |

The table below summarises the ratings used during the review:

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

Previous Audit Opinions

Each report contains an opinion which is an overall assessment of the control environment reviewed. The full list of audit opinions used is shown below:

| Opinion | Description |
|-----------------------|--|
| VERY GOOD | Very well controlled with minimal risk identified; a few minor recommendations. |
| GOOD | Well controlled although some risk identified which needs addressing. |
| REASONABLE | Adequately controlled although some risks identified which may compromise the overall control environment. |
| UNSATISFACTORY | Not very well controlled; unacceptable levels of risk identified; changes required urgently. |
| UNSOUND | Poorly controlled; major risk exists; fundamental improvements are required with immediate effect. |

Recommendation Ratings

Each recommendation contained within the Internal Audit report has a 2 part priority rating. The number refers to Internal Audit assessment attached to the relevant weakness identified, whilst the letter relates to the urgency with which we believe the recommendation should be implemented (see tables below).

| Rating | Assessment of the Weakness Identified |
|---------------|--|
| 1 | Fundamental weakness. |
| 2 | Highly significant weakness. |
| 3 | Significant weakness. |
| 4 | Minor weakness. |

| Rating | Proposed Timescale for Implementation |
|---------------|--|
| A | Should be actioned immediately |
| B | Should be implemented as soon as possible but within 3 months. |
| C | Ongoing requirements or within 12 months. |

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SUBJECT: MONMOUTHSHIRE CC ZERO HOURS CONTRACTS

SOURCE: Audit Committee

MEETING: Council

DATE:

DIVISION/WARDS AFFECTED: All

1. PURPOSE

To provide a report, as requested, to the Council, from the Audit Committee, on the use of non guaranteed hours/casual contracts used by the Council with specific regard to the use of 'Zero Hours Contracts'.

2. RECOMMENDATION

2.1 The County Council should note that the Audit Committee is satisfied that MCC does not use Zero Hours Contracts for anyone it employs according to the definition: 'A flexible contract where an employer does not guarantee set hours of work for an employee. The employee is contracted to that employer and cannot work for another employer'.

2.2 MCC does employ casual workers who are not obliged to do any work for the Authority if they choose not to. It is accepted that this is helpful both to the Authority, when organising work patterns and suits many of the casual workers who have other commitments or do not wish to be committed to fixed hours.

2.3 It is recommended the use of casual employment should continue to be monitored. Managers and Service Areas should take ownership of this for their own areas. The Human Resources Business partnering approach will help, making use of annual information on the use of casual employment.

2.4 Where appropriate, MCC should continue to offer casual employees fixed term contracts, if the work has become a regular commitment, for example.

3. KEY ISSUES

3.1 Council, at its meeting of 20th October 2016, received a report from the Head of People Services and Information Governance outlining the use of zero hours/non-guaranteed hours/casual contracts across the organisation.

3.2 Following debate a motion was put and agreed that "Audit Committee look at the zero hour contracts within Monmouthshire County Council and a report be presented to Council at the earliest time possible".

3.3 This paper is intended to provide the Council with an account of the enquiries which the Audit Committee carried out into the matter, to provide an account of the conclusions arrived at, and to highlight any issues of concern.

4. CONSIDERATIONS

4.1 Members of the Council were concerned that the Council may be employing individuals in such a way that could be to the detriment of the employee. Council asked for information regarding the number of employees who were employed on zero hours/casual hour contracts within the council.

4.2 Information on the number of those employed with no contracted hours was provided by the Head of People Services and Information Governance to the Council at the meeting on 20 October. There were 318 persons employed with no contracted hours (9% of the workforce). These statistics included 67 Exam Invigilators and 35 Supply Teachers. If these were removed the figures would be 216 or 6%

4.3 Members of the Audit Committee asked for trend information for previous years. The Audit Committee were told that historic trend information was not available, but that People Services could monitor the position annually using the information provided as a baseline.

4.4 The Head of People Services told the Audit Committee that a Zero Hours Contract is a flexible contract where an employer does not guarantee set hours of work for an employee. The employee is contracted to that employer and cannot work for another employer. The Committee was told that Zero Hours Contracts of this type are not used in Monmouthshire County Council. The Audit Committee found no reason to dispute this.

4.5. The Committee was informed that the Council uses specific contracts that are either temporary or permanent for a set number of part time or full time hours. If an employee is not employed on that basis they are issued with a casual letter and the employee has no obligation to work. When offered work, the individual can choose whether or not to take up the offer. This arrangement allows the Council flexibility to employ people on a casual basis, where appropriate, e.g. play scheme workers who are typically students looking for summertime employment. The Audit Committee did not dispute that there would be casual workers for whom it is mutually beneficial to the individual and the organisation to operate in this way.

4.6 The Head of People Services had informed the Council, at the 20th October meeting, of the principles for the employment of persons on non guaranteed hours arrangements as provided by The Public Services Commission for devolved public services in Wales.

4.7 The principles in the guidance, which the Audit Committee have been informed are adhered to by MCC, are:

1. Where organisations need to introduce new non-guaranteed hours arrangements or consider changes to their current arrangements they will engage at the earliest opportunity with their recognised trade unions.
2. Organisations will make clear which non-guaranteed hours arrangements they use and for what purposes
3. Staff engaged through non-guaranteed hours arrangements will have access to appropriate induction, training and development support to enable them to undertake their roles effectively.
4. Organisations will ensure that they comply with employment law and collective bargaining agreements and provide their staff with the required rights, terms and benefits.
5. Staff engaged through non-guaranteed hours arrangements will have terms and conditions of service broadly similar to those of their permanent staff

4.8 These principles include a regular review of the appropriateness of arrangements for organisations and staff, to involve both the individuals involved and the Trade Unions. When the review leads to a change in the contractual relationship a revised contract setting out the new arrangements will need to be issued. This will set out in a clear accessible language the revised relationship between the organisation and the individual. It was understood by the committee that where an individual is employed on a basis without guaranteed hours, but where the nature of the arrangements suggests that a fixed hours contract would be appropriate, then a fixed hours contract should be arranged. In all cases, subject to the particular hours worked and pattern of work, arrangements for holiday pay, sickness pay, pension and other employment terms should be comparable to employees with fixed hours contracts.

4.9 Information had, however, been supplied to the Council and to the Audit Committee in the People Services document 'Employing People & Contracts of Employment Protocol Guidance for Managers' which contains the following reference to casual employment:

Casual / Relief Employees

Casual/ Relief employees should be recruited as a way of dealing with a variable need for work - which can often not be predicted or planned for by the business or service area. Employees recruited on this basis should only be used on an ad hoc basis and will not work regularly and consistently. No contractual or implicit hours should be stipulated as part of relief or casual work.

Casual/Relief employees will not be entitled to annual leave, sick pay or bank holiday entitlements. Casual/Relief employees do not benefit from the range of entitlements to which other employees of the Local Authority are entitled, due to the fact that they do not work a regular pattern of hours.

Managers should regularly monitor the hours that are worked by any casual/relief employees employed in their business/service area and termination paperwork completed routinely when the employee is no longer required, to ensure there is an accurate record of all current employees. If casual/relief employees start to work a regular and consistent pattern of hours then a manager needs to review the requirement for the work being undertaken, and if necessary, a temporary contract of employment be issued. If casual/relief employees build up regular and consistent hours then this will mean that they will be entitled to annual leave, sickness pay and a redundancy liability may be incurred for the business area.

4.10 The second paragraph from this extract implies that casual employees do not benefit from many of the entitlements which a contracted employee would expect, although the third paragraph does suggest that the Public Services Commission guidelines (fifth principle, see 4.7, above) could be met by issuing a temporary contract of employment. Indeed the paragraph implies that failure to do this might result in a liability being incurred should, for example, an employment tribunal rule that a worker without contracted hours would be entitled to holiday pay, redundancy rights or other rights under employment law.

4.11 The Guidance for Management document also contains the following reference to agency workers:

The Local Authority has a contract to source all agency workers. All requests for agency workers must be approved by the relevant DMT. All administration relating to annual leave and sick pay will be administered by the contractor directly. It should be understood that Agency Workers are not employees of the Local Authority.

The Chair of the Audit Committee offered his opinion that the employment practices of employment agencies could cause a risk to the reputation of MCC if the agency were found to be using certain employment practices. It is understood that MCC does use agency workers in some roles, such as supply teachers.

4.12 The Audit Committee has noted that People Services HR has introduced a business partnering approach with managers (using a specific template for meetings held between HR and Managers/Head-teachers) which will provide challenge on a range of people management issues, and which will provide a 'governance' framework which will enable regular review of the type and use of contracts of employment.

4.13 In the course of obtaining evidence from People Services, a number of issues were discussed, or further information requested. Some of the issues raised were covered in correspondence between the Head of People Services and Councillor Frances Taylor, which was made available to members of the Audit Committee. Other information was provided directly to the Audit Committee. Matters considered included:

Two posts identified as having no contracted hours were nevertheless described as '600 hours' posts. In practice the Audit Committee was told that

only one is current. The post is based in Tourism, Leisure and Culture and is casual and there is no obligation for the employee to work. The post title is understood to be a reference to a possible requirement when the post was set up, but is now considered to be an outdated reference. Other job titles may not be up to date.

The rights of some Teaching Assistants were queried, raising the question of term time only employees with no pay in school holidays and re-employed for the next term. The Head of People Services has advised that best practice is for bank holidays and annual leave entitlements to be honoured (on a pro rata basis for part time employees) but that a very limited number of schools will attempt to end temporary contracts at the end of Summer Term, i.e., in July and re-employ in September, resulting in a break in service and a saving to the school budget. HR advisers have advised Head Teachers that there may be implications regarding pension entitlement and redundancy entitlements arising from such 'Break in Service' arrangements, creating an obligation for the schools.

Some schools employ Teaching Assistants on a school term basis due to special needs funding. As the funding doesn't cover the full year, schools can only afford to employ them until the end of the school term. Most employees are believed to understand the position and agree to the employment.

Audit Committee members queried if the casualization of workers was due to budget constraints. Some information was provided on redundancies in schools, where schools found themselves with a deficit. The Committee has been told that none of these staff were re-employed.

4.15 Examples have been provided of the use of casual employees in Leisure Services, which illustrate the position in that department. Information provided by the Manager of Leisure Services is attached at annex 1.

4.16 A Member asked if the Trade Unions were satisfied with the Council's arrangements. It was noted that part of the guidance suggests that negotiation with Trade Unions is undertaken. It was noted that two Members of the committee attend a national joint employer and trade union seminar twice a year and nothing about Zero Hours Contracts has been raised. One trade union has raised the issue of casual contracts of employment at a Joint Advisory Group meeting some time ago. This was in relation to the Alternative Delivery Model and making sure that the Authority knows the position in relation to contract of employment position of all staff affected. A member pointed out that many people on such contracts would not be members and that unions would not necessarily be sighted on the matter.

5 CONCLUSION

5.1 The author offers the following conclusions on behalf of the Audit Committee.

MCC does not use Zero Hours Contracts for anyone it employs according to the definition: 'A flexible contract where an employer does not guarantee set

hours of work for an employee. The employee is contracted to that employer and cannot work for another employer’.

MCC does employ casual workers who are not obliged to do any work for the Authority if they choose not to. It is accepted that this is helpful both to the Authority, when organising work patterns and suits many of the casual workers who have other commitments or do not wish to be committed to fixed hours.

It is the policy of MCC to monitor the use of casual employment and, where appropriate, offer fixed term contracts, if the work has become a regular commitment, for example.

It is recommended the use of casual employment should continue to be monitored. Managers and Service Areas should take ownership of this for their own areas. The Human Resources Business partnering approach will help, making use of the annual information described at 4.3.

Few concerns have been raised through Trade Union channels about the use of casual workers at MCC. It has been queried, however, whether casual workers are effectively represented through such channels.

Although the Authority aims to provide equivalent working conditions to casual workers as apply to employees on fixed hours contracts it is acknowledged that casual arrangements can result in there being differences in terms and conditions of employment e.g. annual leave, sick pay or bank holiday entitlements if hours worked/pattern of work do not entitle the worker to same terms and conditions of employment.

A small number of schools may be using temporary contracts to cause a break in service in order to reduce the cost on the school budget. Advice is that this may create financial obligations for the school (e.g., redundancy and pension entitlements payments, if challenged).

6 RESOURCE IMPLICATIONS

None.

7 CONSULTEES

Head of People Services and Information Governance
Audit Committee

8 AUTHOR AND CONTACT DETAILS

Philip White, Chair, Audit Committee 2016/17
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Email: philiphwhite@btinternet.com

ANNEX 1

Information provided to Head of People Services by H Dymond, leisure Manager.

“Leisure services have casual leisure assistants that work in the 4 leisure centres across the authority, less now in Monmouth as there is no swimming pool in operation.

- These attendants are virtually all education based students either completing A Levels, BTEC's or Degrees at University. The casual position offers them flexibility that they can have a couple of weeks off to complete school work, go on field trips or work placements that they are required to do.
- Some have other part time jobs and are looking for an extra bit of money and some have retired from other careers but do not wish to have the commitment of another post as enjoy the flexibility of their retirement without the constraints of only so many days/weeks holiday per year.
- These staff are not looking for a regular set pattern to enable them to pay rent/take out mortgages or start families but to help pay their ways through education or semi-retirement
- We regular review work patterns on site and ensure that they have regular breaks if they wish to continue as a casual employee and where necessary ensure they have a break in service.
- The posts are beneficial for suiting the business when we require staff but more importantly benefits the staff as they are not obligated to work and can say no (something a contracted shift they wouldn't be able to do). Take the following example last Saturday 8 members of staff went to Winter Wonderland in Cardiff and didn't work and had the opportunity to say no when asked. In September 10 went on a long weekend to West Wales in a Cottage and all had the weekend off they didn't work and turned down shift, they enjoy this freedom so they can do this. If they were contracted only 1 or 2 would have been able to have the shift off on a day in line with all out FT and PT contracted staff.
- This sometimes is a pain for us as it means that we have on occasions had to have a number of FT and PT staff work extra or come in on days off to cover and open a building/facility. Even Nick and Myself have had to cover weekends different roles outside our remit to ensure that service still operates – this Saturday I will be serving in a bar and stripping down after an event as staff are having a Christmas party so aren't available.
- Where possible we have asked the staff if they wish to have some fixed contracts and they have been given that opportunity those that wanted have taken it up, but as for the reasons above there are several that do not wish to commit. One example is a member of staff who is student doctor and doesn't want anything except casual employment, she will leave if we say she needs to be contracted.

- As a service we invest in our staff, the leisure assistant post requires a specific qualification that is not readily available and attracts a younger member of staff, as managers we spend time inducting them in to the site and taking them through Safeguarding training, Manual Handling and other H&S training, Emergency planning training etc. It's not a question of giving them a mop and bucket with no guidance/mentoring and qualifications and letting them loose in a leisure centre.
- We allow them to be casual to fit in with their lives and also allow us to run a service without them the service would probably cease to exist in the same way as we wouldn't have enough members of staff to open services or we would be required to limit numbers to areas such as swimming in the pool.
- In many ways all shifts being contracted would be easier for Nick and I as less time would be spent on rotas, checking payroll against rotas and uploading casual hours as not contracted.”

| AUDIT COMMITTEE WORKPLAN 2017/18 | |
|---|-------------------|
| 25TH MAY 2017 | |
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| <i>Deadline for finalised reports to Cheryl – 12 noon 15th May 2017</i> | |
| <i>Finalised reports to Committee Section – end of day 15th May 2017</i> | |
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| Unsatisfactory audit Opinions | Andrew Wathan |
| Annual Governance Statement | Andrew Wathan |
| Implementation of Audit Recommendations | Andrew Wathan |
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| 6TH JULY 2017 | |
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| <i>Deadline for finalised reports to Cheryl</i> | |
| <i>Finalised reports to Committee Section –</i> | |
| Review of Reserves Outturn | Mark Howcroft |
| 2016-17 Treasury Outturn Report | Mark Howcroft |
| Draft Statement of Accounts (as a prelude to audit process) | Mark Howcroft |
| Review of Reserves Qtr 1 | Mark Howcroft |
| Internal Audit Outturn Report 2016/17 | Andrew Wathan |
| Internal Audit Plan 2017/18 - Update | Andrew Wathan |
| Wales Audit Office Proposals for Improvement Progress report | Richard Jones |
| Good Governance when determining significant service changes & Monmouthshires management response | WAO |
| Savings planning & Monmouthshires Management response | WAO |
| Annual Improvement report 2016-17 - to be confirmed | WAO |
| 19TH SEPTEMBER 2017 | |
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| <i>Deadline for finalised reports to Cheryl –</i> | |
| <i>Finalised reports to Committee Section –</i> | |
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| SUBJECT | AUTHOR |
| Audited Statement of Accounts | Mark Howcroft |
| ISA260 Response to Accounts | WAO/Mark Howcroft |
| Internal Audit Progress report 2017/18 quarter 1 | Andrew Wathan |
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| 12TH OCTOBER 2017 | |
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| <i>Deadline for finalised reports to Cheryl</i> | |
| <i>Finalised reports to Committee Section-</i> | |
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| CPR Exemptions 6 monthly | Andrew Wathan |
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| 23RD NOVEMBER 2017 | |
| <i>Deadline for finalised reports to Cheryl –</i> | |
| <i>Finalised reports to Committee Section</i> | |
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| Review of Reserves - Qtr 2 | Mark Howcroft |
| Half Yearly Treasury compliance monitoring | Jon Davies/Lesley Russell |
| Internal Audit Progress report 2017/18 quarter 2 | Andrew Wathan |
| Overview of Performance Management arrangements | Richard Jones |
| Strategic Risk Assessment | Richard Jones |
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| 11TH JANUARY 2018 | |
| <i>Deadline for finalised reports to Cheryl –</i> | |
| <i>Finalised reports to Committee Section –</i> | |
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| Audited Trust Fund Accounts (Welsh Church Fund & Mon Farms) | Dave Jarrett/ Nikki Wellington |
| ISA260 or equivalent for Trust Funds | WAO |
| Treasury Strategy 2018-19 | Jon Davies/Lesley Russell |
| Unsatisfactory Audit Opinions | Andrew Wathan |
| Wales Audit Office Proposals for Improvement Progress report | Richard Jones |
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| 8TH MARCH 2018 | |
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| Deadline for finalised reports to Cheryl – | |
| Finalised reports to Committee Section – | |
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| Joint Progress Report - Statement of Accounts Refinements | Mark Howcroft/WAO |
| Review of Reserves Qtr 3 | Mark Howcroft |
| Internal Audit Progress report 2017/18 quarter 3 | Andrew Wathan |
| Internal Audit Draft Plan 2018/19 | Andrew Wathan |
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| 12TH APRIL 2018 | |
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| Deadline for finalised reports to Cheryl – | |
| Finalised reports to Committee Section - | |
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| Annual Governance Statement 2017/18 Draft | Andrew Wathan |
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| 3RD MAY 2018 | |
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| Deadline for finalised reports to Cheryl – | |
| Finalised reports to Committee Section | |
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| Review of Reserves Outturn | Mark Howcroft |
| Implementation of Audit Recommendations | Andrew Wathan |
| CPR Exemptions 6 monthly | Andrew Wathan |
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