

MONMOUTHSHIRE COUNTY COUNCIL

Minutes of the meeting of Audit Committee held at Council Chamber - Council Chamber on Thursday, 5th July, 2018 at 2.00 pm

Reassurance was provided that the accounts process is signed off in September and a draft is scrutinised prior to that time. Members with specific queries were offered assistance from the Assistant Head of Finance prior to consideration of the final accounts in September.

It was queried if the Committee scrutinises the accounts after they are audited and confirmed that Members should take into account the auditor's view.

4. To note the Action List from 24th May 2018

The Action List from the last meeting was noted.

- Unsatisfactory Audit Opinions: Appropriate officers will be invited to attend the Audit Committee meeting on 13th September 2018 regarding compliance with the Bribery Act.
- Peer Review report: This will be presented on the 13th September 2018.
- Annual Governance Statement: This was circulated to all Committee Members following the last meeting and is on the agenda today for challenge and discussion
- Implementation of Internal Audit Opinions: 3 significant opinions were not implemented related to Outdoor Education, Benefits and Community Meals. A verbal update was provided as below and progress will be followed up and reported upon later in 2018/19:
 1. Outdoor Education: The recommendation was that consideration was to be given to the impact of MCC potentially reducing the level of funding; and also not adhering to the agreed funding methodology. Consultation was to be undertaken with other parties over the funding reduction to establish a level of funding going forward. Upon follow up, these discussions had not taken place.
 2. Benefits: The recommendation was that an advanced warning system should be implemented to establish any risk to employees when visiting properties. This had not been implemented.
 3. Community Meals: The recommendation was that training should be up to date so that staff can safely carry out their roles. The Manager couldn't demonstrate any progress.
- 14 Exclusion of Press and Public - minutes of meeting of 18th December 2017 - update on events. This matter has been resolved.

5. Treasury Outturn Report 2017/18

The Assistant Head of Finance introduced the report. Following this, Members asked questions.

A Member asked for clarification about the statement "£5.9m of 3 year debt from a Local Authority was taken out in 2017/18 to reduce interest rate risk to an acceptable level". It was clarified that this is in relation to maintaining a balanced portfolio of an assortment of short, medium and long term investment to protect against variation in interest rates.

A Member asked if the Assistant Head of Finance had full mandate to act as necessary in terms of treasury management in the short, medium and long term. It was confirmed that Officers work within the treasury strategy and agreed performance indicators. These are monitored by Audit Committee in update reports so that Members are satisfied that Officers are working within the criteria and flexibility provided.

In relation to Brexit, it was questioned if the strategy can be altered if more flexibility is needed. It was explained that the strategy is reviewed annually and changes can be considered at that time. The Cabinet Member added that treasury management advisers, Arlingclose will provide advice as required nearer the time.

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The recommendation that Members note the results of treasury management activities and the performance achieved in 2017/18 in the report and appendices was agreed.

6. Draft Statement of Accounts 2017/18

The Assistant Head of Finance/Deputy Section 151 Officer presented the report and answered questions as follows.

A Member questioned the situation regarding school deficits, particularly Caldicot School, Monmouth Comprehensive School and King Henry VIII Comprehensive School and asked what the future strategy will be. It was responded that, technically, at end of the financial year, the schools still had surplus budgets. The Month 2 monitoring reports will be reported to Cabinet with a preferred strategy before the Summer recess. It was agreed that there is a trend of schools using their reserves rather than replenishing them. The Cabinet Member confirmed that the authority is actively monitoring school budgets and discussions are in progress with each of the schools' staff.

He reported that Chepstow School budget is back in surplus, King Henry VIII Comprehensive School is making progress to address the deficit and meaningful discussion is in progress with Monmouth Comprehensive School. Additionally, it was noted that the timescale for recovery plans has been extended from three to five years.

It was explained that Chepstow School resolved the adverse financial position because the governing body took responsibility for the deficit and recovery plan.

A Member questioned the statistic that 93.7% of main roads are in a good or acceptable condition. It was responded that this information is provided by service departments, and noted that there are criteria to define good and acceptable standards. More information is available in performance reports.

As per the recommendations, the draft Monmouthshire County Council Statement of Accounts for 2017/18, as presented for audit, was reviewed and the draft statements of accounts listed below were reviewed:

- Draft Monmouthshire County Council Welsh Church Act Fund;
- Draft Monmouthshire Farm School Endowment Trust Fund; and
- Draft Llanelly Hill Social Welfare Centre Accounts

7. Annual Governance Statement

The Chief Internal Auditor presented the report stating that the draft Annual Governance Statement sits alongside the Statement of Accounts. The draft was circulated to Members prior to the meeting and comments have been incorporated. The draft document will be signed off at the same time as the statement of accounts.

A Member asked if the Annual Governance Statement could be condensed to be a more accessible document.

It was agreed that the Audit Committee had opportunity to contribute to the appropriateness and content of the draft Annual Governance Statement and endorsed it.

8. Review of Reserves Outturn

The Assistant Finance Officer/Deputy Section 151 Officer presented the report.

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A Member queried if the cost of insurance premiums had decreased. It was confirmed that a tendering exercise a number of years ago, splitting an overarching policy into individual elements, resulted in savings in the region of £200,000 at the time. Premiums are also reviewed annually in relation to claims.

It was queried if account had been taken of the Alternative Delivery Model (ADM) and responded that it takes into account the £155,000 facilitation costs. The project plan and related decisions going forward will influence the eventual cost.

The report was noted.

9. Internal Audit Outturn Report 2017/18

The Chief Internal Auditor introduced the report, the purpose of which was for the Audit Committee to receive and consider the Annual Audit Outturn Report for 2017/18. The report is an opportunity to provide feedback on the findings of audit work undertaken in the course of the year and to provide commentary on the performance of the audit team.

The key points were:

- 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.
- The audit opinions were revised at the beginning of 2016/17 to reflect a better understanding of the level of assurance obtained; these are shown at Appendix A.
- 40 audit opinions were issued during 2017/18 ranging from Substantial to Limited (the opinion categorisation changed in 2016/17 to provide a more meaningful level of assurance). The overall opinion was Reasonable, which indicates the systems were adequately controlled, although risks identified which could compromise the overall control environment. Improvements required.
- 8 reviews were given Limited assurance.
- The Internal Audit team achieved 82% of the agreed 2017/18 audit plan against a target of 80%.

Members asked questions and responses were supplied as follows:

- Referring to the 8 limited opinions, it was commented that 3 of the limited opinions had a high risk rating and an update was requested in respect of:
 1. Borough Theatre, Abergavenny;
 2. Events; and
 3. Compliance with Bribery Act

It was responded that the next scheduled six monthly Unsatisfactory Audit Opinions report to Audit Committee will provide the detail requested.

In response to a further question about when the status of the opinion changes, it was explained that the level of risk is determined annually, based on a range of factors, as either high, medium or low. The status will be changed when the follow up report has been actioned and the agreed recommendations have been implemented. An "Implementation of Audit Recommendations" report is also supplied to Audit Committee to track follow up work. Any unfavourable opinions will have a second audit in 2018/19 to ensure matters of concern have been improved. This will be reported back to Audit

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Committee. Where there has been no improvement, the Committee may invite the responsible officers to attend a meeting to justify why there has been no improvement.

A Member asked if, on this basis, the Borough Theatre Trust should be invited to attend a meeting. It was confirmed that an Audit follow up would take place in the first instance.

The committee endorsed the report.

10. Internal Audit Plan 2018/19

The Chief Internal Auditor presented the report. There were no questions and the Internal Audit Plan for 2018/19 was approved.

11. Governance Arrangements for Proposed Alternative Delivery Model for Tourism, Culture, Leisure and Youth

The ADM Project Team – Finance Lead provided a presentation. Gayle Monk, Anthony Collins (Solicitors), was available to answer questions from Committee Members.

A Member asked if there was confidence that HMRC wouldn't criticise this arrangement as a tax avoidance scheme. It was confirmed that there is confidence that it is not the intention behind this structure as there are other good reasons unrelated to tax, noting that there has been recent scrutiny of local authorities and public bodies to ensure that they are not avoiding tax. The intention behind the two vehicles is to work in a way that is appropriate for the services that will be delivered. The charity is tax efficient but appropriate for genuinely charitable services delivered for public benefit. The Teckal part enables a company structure to change culture and change the way services are delivered but in a way that is in line with the procurement rules.

The Member noted that there is jointly chaired senior management instead of separate management for each entity for tax and legal reasons. Clarification was provided that the intention is to ensure there is consistency in service delivery recognising that when the charity is set up, the key delivery vehicle will be the grant funding agreement. It was speculated that in the future that the charity, being independent from the council, may separate out.

The Member expressed concern that it could appear to be a group structure or holding company and it could be asked what its purpose is - potentially leading to an answer of tax. He suggested separate management for each side. He asked if the cost of governance been explored. It was explained that there is an additional post built into the Company Secretary role for both companies and additional support in terms of democratic support in the authority and externally. Trustee expenses have also been taken into account and it is believed that there is enough capacity within existing structures to deliver. Some central support is sought as well.

The Member added that the cost of running dormant companies is expensive and it may be prudent to set up the minor companies later to save the cost until needed. It was agreed that advice would be sought accordingly.

A Member asked a question about the articles of association; the assets for the charitable arm e.g. Caldicot Castle, Tintern Station etc. and if there would be a trading arm for buying into the assets. It was clarified that the Nelson collection is considered to be part of Monmouth Museum. It was questioned which physical assets will be owned by the charity and clarified that the assets will remain in the ownership of the county. The companies will run the services on behalf of the authority. The new companies will not be in a position to buy assets. There will be negotiation with the Council around leasing agreements making clear that the ADM will not be able to sub-let without the permission of Council.

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It was questioned why they had been classed as an asset if they are in the ownership of the Council. The Cabinet Member agreed that the articles of association could convey the impression that the assets would be transferred to the company and suggested that this point needs to be addressed. It was explained that the proposal is that the council would lease the asset to the charity. The lease would be an asset of the charity.

A Member questioned the leasing aspect and asked for assurance that residents will retain access to the Country Park. It was confirmed that there will no change for residents. The Member asked about the Teckal company and scrutiny arrangements. It was responded that there was an expectation that the Teckal company will visit relevant select committees e.g. for statutory services, the same as any executive function. It was added that there will be a management agreement in place to add to the annual monitoring process.

The Chief Internal Auditor noted that this arrangement is within a public sector environment and questioned the statement that, in terms of governance and strategic association, a shareholder agreement will be used "to avoid transparency", and questioned why this is necessary. It was responded that the intention is not to avoid it being a public document but to make it a more flexible arrangement as it is a more straightforward process to change a shareholder's agreement than to change the company's articles of association. The shareholder's agreement can be made a public document.

In response to a question, it was explained that implementation will be in December as long as all the documentation is in place.

A Member asked if all the entities will be VAT registered and it was confirmed that they would have separate VAT registrations.

The recommendation was for Members to reassure themselves that the draft Governance arrangements for the ADM are as expected and are satisfied with the process to date was accepted subject to the amendments arising from comments today. The Recommendation was approved.

12. Forward Work Programme

The Forward Work Programme was noted.

13. To note the date and time of the next meeting as 13th September 2018 at 2.00pm

The meeting ended at 3.35 pm