

**SUBJECT: AUDIT COMMITTEE
 ANNUAL REPORT 2015/16
 ANNUAL REPORT 2014/15**

**DIRECTORATE: Chief Executive's
MEETING: Audit Committee
DATE: April 2016
DIVISION/WARDS AFFECTED: All**

DRAFT 03

1. PURPOSE

To present the Chair of the Council's Audit Committee's Annual Report for 2015/16 and 2014/15.

2. RECOMMENDATION(S)

That the report be noted

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. The Lay member is the Chair of the Audit Committee. The Committee’s main responsibilities include:

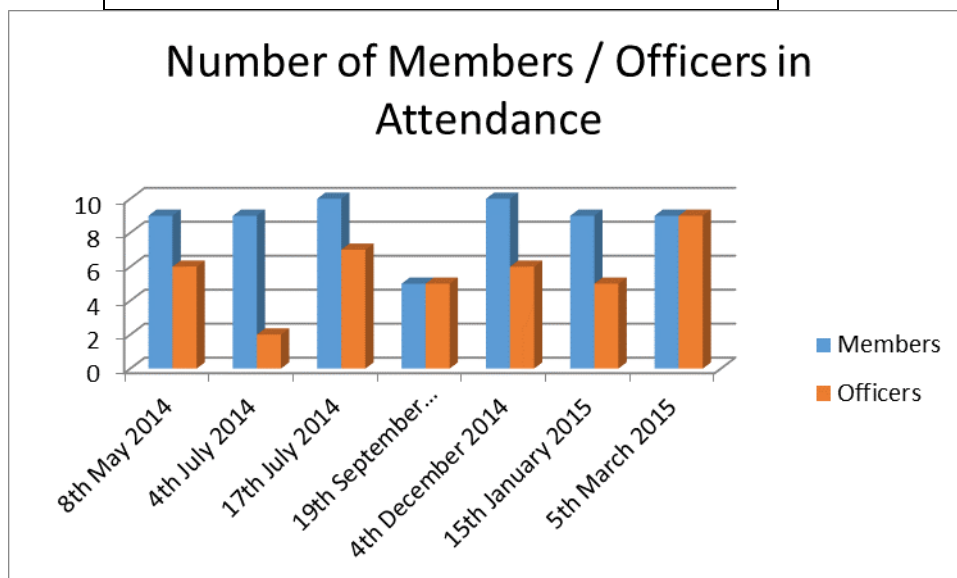
- Approving the internal audit strategy, plan & performance
- Review internal audit reports and seek assurances of change where required
- Consider the reports of external audit and inspection agencies
- Consider the effectiveness of the authority’s risk management arrangements
- Maintain an overview 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, Chief Internal Auditor and External Audit in attendance at all meetings. During 2014/15 the Council’s Audit Committee formally met 7 times, with all meetings being quorate.

2014/15

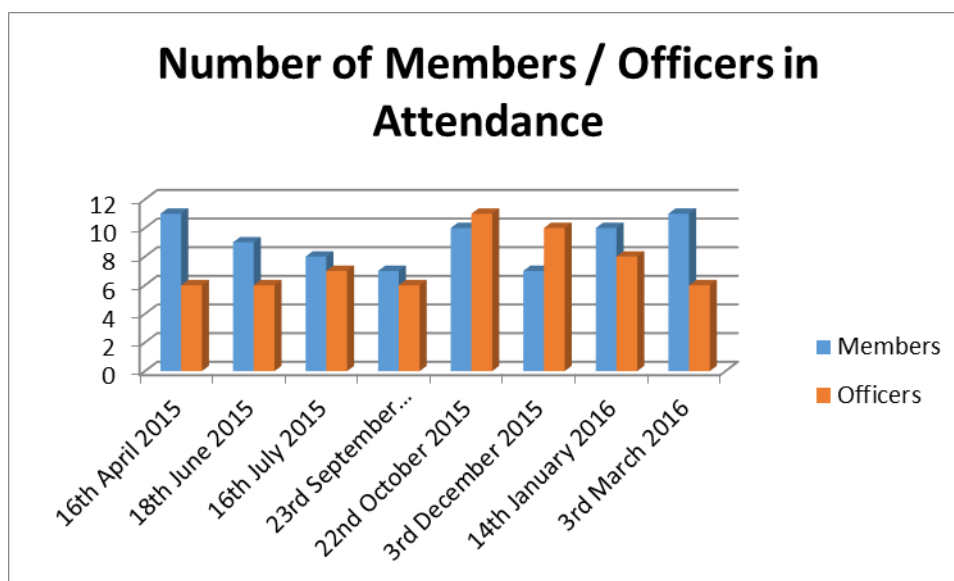
Audit Committee meetings 2014/15
8 th May 2014
4 th July 2014
17 th July 2014
19 th September 2014
4 th December 2014
15 th January 2015
5 th March 2015



- 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 During 2015/16 the Council's Audit Committee formally met 8 times, with all meetings being quorate.

2015/16

Audit Committee meetings 2015/16
16 th April 2015
18 th June 2015
16 th July 2015
23 rd September 2015
22 nd October 2015
3 rd December 2015
14 th January 2016
3 rd March 2016



- 4.7 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

- 4.8 Reports were received and noted from the external audit, the Wales Audit Office (WAO) including Audit Fees, Financial Audit Outlines, Assessment of MCC Performance, Certificate of Compliance 2014/15 (July 2015), Performance work and fees 2014/15, MCC / WAO Joint progress report 2012/13, ISA 260, Progress against WAO Proposals for Improvement, Review of Whistleblowing, Annual Audit Letter 2013/14 (December 2014), Financial Position Assessment, Managing Early Departures Across Public Bodies in Wales (April 2015), Certification of Grants and Returns 2013/14 (April 2015), Financial Resilience of Councils in Wales (June 2015), Review of the Shared Resource Service (July 2015), Improvement Plan Audit (July 2015), SRS Strategy Report and update on WAO recommendations (October 2015), MCC / WAO Joint Progress 2014/15 (December 2015), Annual Audit letter 2014/15 (December 2015), Wellbeing of Future Generations Act - WAO commentary on our preparedness (December 2015), Wales Audit Office - Certification of Grants and Returns 2014-15 (March 2016),
- 4.9 The Internal Audit Outturn reports and the annual plans 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.
- 4.10 Quarterly progress reports on the performance of the Internal Audit Team and the audit opinions issued were presented to the Committee regularly by the Chief internal Auditor. Members have challenged the data and performance provided to ensure continual improvement.

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

- 4.11 Partnership and Collaboration Audit reports were received from the Policy and Partnership team (May 2014 and July 2014) which clarified the governance arrangements of the Council's partnership arrangements. This tied in with the Committee receiving and endorsing the Code of Corporate Governance as the framework for the Council's governance arrangements. The Committee also continued to have an opportunity to comment on and shape the Annual Governance Statement before it is presented with the Annual Statement of Accounts (draft April 2015).
- 4.12 A report on the Whole Authority Complaints 2013/14 was considered and accepted in January 2015. A report on the Whole Authority Complaints 2014/15 was considered and accepted in October 2015.
- 4.13 Information Governance, Management and Security arrangements were considered by the Committee in March 2015 following a presentation from the Digital and Technology Manager.

- 4.14 An overview of the Council's Performance Management arrangements were presented to the Committee by the Head of Policy and Engagement in March 2015. Members received a presentation from the Policy and Performance Officer to provide an update on the effectiveness of the Authority's performance management arrangements in December 2015.
- 4.15 The Policy and Performance Manager introduced the published Annual Improvement Report 2014-15, incorporating the Corporate Assessment to the Committee in January 2016.
- 4.16 The Chief Internal Auditor presented six monthly progress reports on previously issued unsatisfactory audit opinions. The intention of these reports was 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, invited that operational manager and relevant Head of Service to attend Audit Committee where Members held them to account for future improvements.
- 4.17 During 2014/15 and 2015/16 operational managers were invited to attend Audit Committee which gave Members the opportunity to challenge why significant action had not been taken following the initial audit report and secure a commitment for future improvements.
- 4.18 Following concerns raised in the Internal Audit report and an unfavourable audit opinion, the Headteacher and Chair of Governors of Chepstow School were invited to attend Audit Committee. They presented how they were addressing the issues raised and were subject to robust challenge by Members in June 2015.
- 4.19 Members requested an update from the Council's Strategic Procurement Manager following concerns raised in the Internal Audit report in October 2015. The Strategic Procurement Manager attended December 2015 Audit Committee and provided an update on progress against internal audit recommendations. Members raised further questions and held the officer accountable for future improvements.
- 4.20 The Committee welcomed the Passenger Transport Unit Manager in January 2016, who had been invited to present to the Committee, following concerns expressed by Members regarding an unsatisfactory audit opinion, relating to areas within the service. The Committee were reassured that actions were being taken to address the unsatisfactory audit opinions within the Passenger Transport Unit. The Passenger Transport Unit Manager advised the Committee of the steps taken in each area. Members were invited to comment.
- 4.21 The Head of Adult Services attended the Committee in March 2016 following concerns raised in previous Internal Audit reports regarding Monmouthshire Enterprises. Assurance was given that the

recommendations had been addressed and that service provision had improved.

- 4.22 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.
- 4.23 In July 2014, the Manager of the Passenger Transport Unit was invited to attend Audit Committee due to the numerous exemptions requested and the then Head of Innovation was requested to provide further information on the governance structure for the engagement of consultants. A response re the Procurement of Consultancy Services was presented to the Committee in December 2014. The Passenger Transport Unit Manager presented a case study to the Committee in June 2015 re the purchase of used vehicles for use within the PTU through a fair and objective process.
- 4.24 In July 2015, the Committee welcome questions from a member of the public re Chepstow School challenging comments made by the School's management when they attended a previous Audit Committee meeting. Members agreed that the questions would be investigated further and appropriate responses provided through the Audit Committee.
- 4.25 The Chief Officer for Enterprise presented a draft Income Generation Strategy to the Committee in September 2015. Members were recommended to consider any comments or changes on the draft Income Generation Strategy before Cabinet considered the strategy.
- 4.26 The Head of People and Commercial Development presented a report in September 2015 to provide Audit Committee Members with supplementary information on early departures and vacant posts in response to queries previously raised by the Committee.
- 4.27 Members received a report from the Policy and Performance Officer to provide Audit Committee with an update on the Authority's progress against the Wales Audit Office (WAO) proposals for improvement up to the end of October 2015 (December 2015).
- 4.28 In January 2016 the Committee received a report from the Scrutiny Manager to present the Scrutiny Service Plan 2015-2018 (updated for Quarter 2) in order for Members to monitor the performance of the function and assess the fitness of purpose of the Council's Scrutiny arrangements. Members questioned and challenged the Scrutiny Manager around the robustness of the process and welcomed a positive response.

To review the financial statements prepared by the Authority

- 4.29 The Committee is asked to consider the Council's Statement of Accounts prior to and following the external audit of them; the draft accounts are presented in July with the final in September. In addition the Committee receive the annual accounts of Monmouthshire County Council Welsh Church Act Fund, Monmouthshire Farm School Endowment Trust Fund, Llanelly Hill Social Welfare Centre Accounts.
- 4.30 Proposed changes to Accounts and Audit Regulations 2014 were presented to the Audit Committee by the Head of Finance in October 2015.
- 4.31 The Treasury Outturn Report 2013/14 was presented and noted by the Committee in July 2014 with a mid year Treasury Report for 2014/15 presented in December 2014. The Council's Treasury Management Advisors, ArlingClose Ltd, gave Members a presentation on Treasury management in June 2015 which helped support their understanding of the information they were being presented by Finance Officers.
- 4.32 The Treasury Outturn Report 2014/15 was presented and noted by the Committee in July 2015 with a mid year Treasury Report for 2015/16 presented in October 2015.
- 4.33 In March 2016 the Committee received a report in which Members were provided with details of the proposed annual Treasury Management Policy Statement and the Treasury Management Strategy Statement including the Investment and Borrowing Strategies for 2016/17 to 2019/20 and the Minimum Revenue Provision (MRP) Statement for 2016/17 for deliberation by the Committee in advance of Full Council consideration.
- 4.34 A Proposal to revise the Policy on Minimum Revenue Provision (MRP) for 2016/17 was presented to the Committee by the Assistant Head of Finance in December 2015. Members considered the proposal, challenged the officer and then formally voted on the recommendation within the report.

Self Assessment

- 4.35 The Audit Committee itself agreed to undertake a self assessment exercise led by WAO in March 2015 to gauge its effectiveness in line with good practice. This involved a workshop and a self assessment questionnaire which took place in April 2015; feedback was provided to the Committee in July 2015. The attached Appendix 1 'Audit Committee Self Assessment Workshop on 16 April 2015' summarises the recommendations made and the Committee's considered response.

5 RESOURCE IMPLICATIONS

5.1 None.

6 CONSULTEES

6.1 N/A

7 Results of Consultation:

7.1 N/A

8 BACKGROUND PAPERS

8.1 Audit Committee Minutes 2014/15 and 2015/16

9 AUTHORS AND CONTACT DETAILS

Philip White, Chairman, on behalf of the Audit Committee

Appendix 1

Audit Committee Self Assessment Workshop on 16 April 2015.

In the course of this review a number of proposals were made by those attending for improvements in the way the committee carries out its functions. The proposals were considered at the meeting of the Audit Committee held on 16 July. The committee's assessment of each proposal is given below.

- 1 Consider a pre-meeting among Members immediately prior to each Audit Committee.

The committee did not feel this was appropriate for a statutory committee as any discussions would not be made available to the public. Members can, however, request occasional meetings to discuss possible new agenda items and new business.

- 2 Obtain greater clarity on roles
- 3 Review the terms of reference in regard to the following:
 - a. What does 'scrutinise' actually mean in practice
 - b. Check requirements against the measure

In discussion, it was felt that an initial step would be to obtain training for Members on the role and function of the Audit Committee. This was organised via the Welsh Audit Office and took place on 10 November 2015.

- 4 Consider extending the Terms of Reference of the Audit Committee to allow the committee to invite feedback from Select Committees and subsequent scrutiny.

The Members of the Audit Committee felt that whilst it was appropriate for the committee to ask for the attendance of chairs or other members of Scrutiny Committees at meetings where concerns had been identified, this should not amount to a regular review of the activities of the other committees.

- 5 The Council should increase communication with the Chair so (as to make him) better aware of Council wide matters.

It was suggested that the Chairman could receive agendas for all Council meetings, and have the opportunity to attend any meetings, but it was noted that much of the relevant material is currently available from the MCC website, including live streaming of meetings.

- 6 The Committee should be held to account and an Annual Report should be produced to facilitate this.

Accepted. A report has been drafted for 2014/15 and 2015/16 combined.

- 7 Members should not be concerned about asking questions that may be considered as 'naive'.

Noted.

- 8 The Committee should consider holding occasional private meetings with the external auditors.

Accepted. The Committee may request briefings if the need arises.

- 9 Consider how the Audit Committee can help shape the programme of work of the external auditor.

Not accepted. The Committee Members considered it was proper for the external auditors to determine their own programme.

- 10 Assess the merits of appointing another lay member to the Committee.

The concern is that as the lay member of the Committee has been elected to be the Chair, his skills as an impartial adviser may not be being used to best effect. Council should consider whether they wish to appoint another lay member. Up to one third of the Committee could, in principle, be lay appointees.

- 11 Split the agendas into what is statutory, essential business and what is for noting etc.

Not considered practical as there is no overall editor who can make these judgements. Not considered in practice a significant issue.

- 12 Formalise the decision making arrangements, e.g., introduce a voting system.

Standing orders for Rules of Procedure already exist. The Chair will make use of them as appropriate.

- 13 Consider whether summary introductory papers should be consistently provided.

Accepted as good practice, but noted that this already happens in general.

- 14 Consider more detailed training on the Accounts to 'demystify' them.

The Committee members welcome opportunities to obtain further training, such as that proposed above on the role of the Audit Committee and a recent session on Treasury Management.

15 Undertake a skills audit on a regular basis.

Committee members will propose topics for further training, as appropriate.

16 Consider setting up sub-groups of Committee members to look at particular areas.

Committee Members noted that this was already possible but the Chair has been informed that secretarial support would not be available.