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MONMOUTHSHIRE COUNTY COUNCIL

**Minutes of the meeting of Audit Committee held
at County Hall, The Rhadyr, Usk, NP15 1GA on Thursday, 30th June, 2016 at 2.00 pm**

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

County Councillors: D. Batrouni, P. Clarke, G. Down, A. Easson,
D. Edwards, P. Murphy, P. Jordan, J. Prosser and B. Strong

ALSO PRESENT: County Councillor V.E. Smith
Mr. T. Lewis – Wales Audit Office
Mr. D. Wilson – Wales Audit Office

OFFICERS IN ATTENDANCE:

Peter Davies	Chief Officer, Resources
Joy Robson	Head of Finance/Section 151 Officer
Will McLean	Head of Democracy, Engagement and Improvement
Andrew Wathan	Chief Internal Auditor
Mark Howcroft	Assistant Head of Finance
Jonathan Davies	Finance Manager
Matthew Gatehouse	Policy and Performance Manager
Richard Jones	Improvement Support Officer
Richard Williams	Democratic Services Officer

APOLOGIES:

None

1. Declarations of Interest

There were no declarations of interest made by Members.

2. Public Open Forum

There were no members of the public present.

3. Confirmation of minutes

The minutes of the meeting held on 26th May 2016 were confirmed and signed by the Chairman.

4. Action List from the previous meeting

We received the Action List from the meeting held on 26th May 2016. In doing so, the following points were noted:

- A progress report on unsatisfactory / Unsound Audit opinions will be presented to Audit Committee on a six monthly cycle.

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- The Chair had reported the Audit Committee Annual Report to Full Council on 16th June 2016.
- The Chair had sent a letter of response in respect of the issue raised by a member of the public regarding Chepstow School. However, County Councillor Easson had emailed the Chair indicating that he had some additional questions in respect of this matter. As the Committee would not be meeting again until September 2016, the Chair had agreed to present County Councillor Easson's motion as follows, with a view to the committee voting on whether to discuss this matter further.

County Councillor Easson's motion:

"I propose that in the light of my concerns raised below, that the Audit Committee invite the responsible officers to provide a response to these queries at a future meeting of this Committee."

Firstly, I questioned the phraseology used to illustrate the reduction of "6 FTE posts" at Chepstow School. It does not indicate the total FTE complement at the school which will demonstrate the actual % age reduction in posts. I request that this statistic be provided.

Secondly, in relation to the employment of an outside HR agency at Chepstow School, was the procurement process open and transparent? Were there opportunities for other applicants to apply via a tender process? Why was the Local Authority HR department not able to command such work?

I understand that the same agency has been employed to carry out the HR function at Monmouth School, if my understanding is correct, was the employment of such an agency also carried out under an open procurement process? Does this agency have any connection with organisations in England with links to schools with Academy status, for example "E S Management Services". Could this information be sourced?

Thirdly, does the Wales Audit Office have a view on the use of school finances to allow the use of interest free loans as "golden hellos" when employing teaching, or any other staff? Would the same criteria apply, for example, in the employment of ancillary staff? In the reported instance full repayment of the loan has, I understand, been accounted for, however, what legal measures are, or were in place, should such loans be defaulted upon?

The motion was seconded by County Councillor Batrouni.

County Councillor Murphy informed the Committee that he and County Councillor Hacket-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 shortly with a view to obtaining further information in respect of a number of issues relating to the school and how the school's budget is likely to be brought under control.

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County Councillor Murphy stated that he would be willing to put the points raised by County Councillor Easson to the representatives of Chepstow School at this meeting and report back to County Councillor Easson.

The Chair asked the Committee to indicate their support for the motion. In doing so, the following votes were recorded:

In favour of the motion:	2
Against the motion:	7
Abstentions:	2

The motion was denied.

We resolved that County Councillor Murphy presents the points raised by County Councillor Easson to the representatives of Chepstow School with a view to obtaining answers to these questions.

- Annual Governance Statement – The Chief Internal Auditor stated that a summary has been incorporated into the final version of the report. However, this had not been put onto the draft set of accounts yet. He informed the Committee that he will send a separate summary to Committee Members in the following days.

5. 2015/16 Treasury Outturn Report

We considered the Annual Treasury Outturn report for 2015/16. In doing so, the key aspects at outturn were as follows:

<u>Capital Financing Requirement</u>	£114.1 million	
<u>Funded by External Loans</u>		
Short Term	£23.0 million	Avg rate 0.57%
Long Term	£69.4 million	Avg rate 4.30%
Sub Total	£92.4 million	Reduction of £6.9 million on 2014-15 outturn Average interest rate of 3.45%, with no change from the previous year profile

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<u>Other Long term Liabilities</u>	£3.8 million	PFI and finance lease obligations, plus contractor bonds and deposits
Total Debt	96.2 million	
<u>Investments</u>		
Short Term	(£11.4 million)	Reduction of £0.8 million on 2014-15 outturn Avg rate 0.44% Avg investment period 8 days
Long Term	0	
Net Investments @ outturn	(£11.4 million)	

Having received the report, the following points were noted:

- Annual updates are received by Treasury Advisors but dialogue was available throughout the year, if required.
- The Sovereign rate for the U.K. generally, has dropped one bracket. However, it was noted that Arlingclose would be content with continued investment in those companies not exceeding four years.

We resolved to note the results of the treasury management activities and performance achieved in 2015/16.

6. Statement of Accounts 2015-16

We considered the annual accounts for the Authority for 2015-16. The accounts are presented for information. However, once the External Audit process is complete, the Audited Statement of Accounts will be approved by Council in September 2016.

Having considered the report, the following points were noted:

- A full complement of staff were now in place and were on target to meet the audit plan.

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- In response to a Member's question regarding Modern.Gov, it was noted that Member's had been provided with a password to allow them to access the system. Access to Modern.Gov via Members' laptops was easily accessible. However, officers were working to overcome access issues via other devices. There will also be further additions to the Modern.Gov programme over the summer months.
- Concern was expressed that the risk management reserve might be a little high. However, it was noted that in the accounts last year, the auditors had highlighted issues. Officers had indicated that an actuary review had been undertaken. Therefore, last year's balance had a figure of £2.2m. This year, the balance against insurers of risk management is £1.2M.
- CMC2 £122,000 liability – Whilst CMC2 remains an active concern, Cabinet last year approved £140,000 to CMC2 in order to guarantee its overdraft. It is unlikely that that liability exists this year and its trading account is largely a break even account. However, the income figures are not yet available.
- Remuneration bands – This refers to pay and benefits for loss of office, i.e., redundancy costs.
- Monmouthshire's markets – The assistant Head of Finance would investigate whether any of the markets are making a profit.
- Business Rates Debtors – We, as an Authority collect these debts on behalf of the Welsh Government.

We resolved that the Statement of Accounts be forwarded to the Wales Audit Office.

7. Review of Earmarked Reserves

We reviewed the level of earmarked reserves held by the Council at the end of 2015/16, the rationale for each reserve and the protocols for using them.

Having received the report it was considered that the Audit Committee should receive a report on the review of earmarked reserves on a quarterly basis.

We resolved:

- (i) to receive the report and note its content;
- (ii) that the Audit Committee receives a report on the review of earmarked reserves on a quarterly basis.

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8. Internal Audit Section Contract Procedure Rules - Exemptions

We considered the adequacy and appropriateness of the exemption process from the Authority's Contract Procedure Rules since the previous report in December 2015.

In doing so, the following information was noted:

EXEMPTIONS – November 2015 to May 2016

- Of the 15 requested exemptions, 4 have not been returned to Internal Audit.
- All officers who request an exemption will be reminded to return the form to Internal Audit by the Chief Internal Auditor.
- 10 out of 11 returned forms had been appropriately authorised. This is reassuring in that the managers who are aware of the process are following the correct process. Exemption form 193 was requested and approved by the same officer and was signed off and dated prior to the form being sent out by the Internal Audit team.
- Although Heads of Service and operational managers were made aware of the revised Contract Procedure Rules at the time, the main concern is that current operational managers may be non-compliant because they are not seeking the appropriate exemptions.
- An additional 2 exemptions have been received which will be reported to the next Audit Committee meeting.

In response to a Member's question regarding £10,000 being spent to hire a Welsh speaking chef and compare for the Eisteddfod, the Chief Internal Auditor will investigate the matter with a view to seeking clarification.

We resolved:

- (i) to accept and acknowledge the justifications for the exemptions provided by operational officers;
- (ii) that the Committee receives an update report in six months' time to include any further responses obtained by the Chief Internal Auditor;
- (iii) that the additional two exemptions received will be reported to the next Audit Committee meeting.
- (iv) The Chief Internal Auditor will investigate why £10,000 has been spent to hire a Welsh speaking chef and compare for the Eisteddfod.

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9. Financial Resilience Assessment

We received the Wales Audit Office (WAO) financial resilience assessment for Monmouthshire County Council. We were informed that a piece of work had been carried out by the Wales Audit Office across each Council in Wales. The focus was on answering the question is Monmouthshire County Council managing financial reductions effectively to ensure financial resilience?

In carrying out this piece of work, the WAO looked at financial planning, financial control and financial governance to assess whether the authority was effectively supporting financial resilience.

For each council, the WAO risk rated each of these three areas being low, medium and high and in the case of Monmouthshire County Council, each element was rated as follows:

Financial Planning	-	medium
Financial Control	-	medium
Financial Governance	-	low

The WAO concluded that Monmouthshire County Council has generally effective financial governance but its financial planning and control arrangements are not fully embedded or delivering effectively in the face of some significant financial challenges. In respect of the three themes, financial planning, it was concluded that the Council's financial planning arrangements continued to improve, although, the Medium Term Financial Plan was not fully balanced. Some budget mandates did not define how savings would be achieved and some planned savings were unlikely to deliver.

In terms of financial control, the Council has established financial control arrangements, but the Council was uncertain whether it would remain within its 2015/16 revenue budget due to pressures in Social Services and non-delivery of parts of the savings plan.

In respect of financial governance, the Council, generally has effective financial governance arrangements in place.

The Head of Finance informed the Committee that she welcomed the report and it was pleasing that there was only one recommendation arising from it. In terms of the Authority's risk rating in respect of financial control that was recorded at a time when the Authority didn't know whether the forecast would come in on budget. The 2015 financial year is now closed and the Authority drove a surplus out of that arrangement last year. The Authority will take on board the recommendation made by WAO.

Having received the report and the views expressed, the following points were noted:

- In response to a Member's question regarding the level of savings and the level of understanding of Members when they make such decisions, the WAO representative stated that the WAO would hope that Members had clear information so that they understood the impact of the decisions that they were

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undertaking. It was considered that Members did not have that level of understanding of the detail.

- In response to a Member's question regarding underspends and overspends, as outlined in paragraph 21 of the report, the WAO representative stated that what was being reflected in that paragraph was a considerable overspend in Social Services and considerable underspends in other services. Therefore, in terms of financial control there is a question for the WAO regarding the Council's level of financial control.
- It was noted that if a post had been vacant for some time, then it would not be unreasonable for councils to put this post forward as a potential saving.
- It had been recognised that some mandates had not been clear and the Authority had struggled last year in formulating its mandates. The Future Monmouthshire review will address these issues.

We resolved to receive the report and noted its content.

10. Governance Corporate Assessment follow on review

We received the Wales Audit Office (WAO) Governance - Corporate Assessment follow on Review for Monmouthshire County Council.

This review was a follow on from the Corporate Assessment made in 2015. The WAO had concluded that the Council has made progress in improving its Governance arrangements although more work is needed to strengthen the transparency of decision making and recording.

Officers welcomed the report and informed the Committee that the Authority was working to address the issues raised in the report.

Having received the report, the following points were noted:

- Pre-scrutiny of meetings – some concern has been raised that one of the Select Committees had been undertaking pre-decision scrutiny of a decision already taken by Cabinet. However, it was noted that it was a difficult process to map out because the decision was made in Cabinet with regard to the treatment of a specific issue, the subsequent review of the funding formula by the Select Committee which is an ongoing process annually. The Committee had taken the view to revisit this matter. Greater clarity will be made available in future.
- In response to questions raised by a Member of the Committee, it was noted that papers are presented to Audit Committee outlining progress. However, given the gaps in the receipt of reports the WAO expressed concern that Members might not be able to maintain the level of challenge. It was noted that reports were brought back to Committee on a regular basis if not frequently. A six monthly reporting cycle could be established if it was considered beneficial.

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- The font size on the fees and charges schedule was too small making it difficult for members to read the information and therefore it was unclear whether Members had had the appropriate information to come to a decision. However, it was noted that large hard copy versions have been made available for Members to aid in their decision making.
- Cabinet maintains its position that decision logs are appropriate to its decision making process with the addition of live streaming of its meetings.
- The WAO stated that the Council knew how it was going to make the savings in Education but were unsure of the impact that these savings would create and how the schools were going to deliver the savings.
- It was considered that the Council has no mechanism for reporting back to the public on issues having received the views of the public via consultation. Though the Council consults with the public on a regular basis there was a need to establish a better means of feeding back information to the public.

We resolved to receive the report and noted its content.

11. Certificate of compliance and feedback on the Council's assessment of performance 2014/15

We received a report in which the Committee received the Wales Audit Office certificate of compliance and feedback on the Council's assessment of performance 2014/15 contained in the Stage 2 Improvement Plan 2014/15 published in October 2015.

It was noted that there were discrepancies in the ranking data relating to Monmouthshire's position in Wales and the same data supplied by Data unit Wales. The reason for the discrepancy related to further information being made available whilst the plan was being written, which had not been identified in the Improvement Plan.

We resolved to receive the Wales Audit Office certificate and feedback for consideration in future improvement Planning.

12. Corporate Assessment 2015 Action Plan Progress report

We received a report outlining the progress made against the actions committed in response to the proposals for improvement issued in the Wales Audit Office Annual Improvement Report 2014-15, incorporating the Corporate Assessment.

Having received the report, the following points were noted:

- The majority of staff have had an appraisal with their line manager (Check in, Check out). However, the recording of some of the appraisals has not been undertaken. It was the Council's intention for all of its staff to undergo the Check in, Check out process.

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- A Select Committee has been established to scrutinise the Local Service Board (LSB). The first meeting had been held earlier this month.

We resolved to note the current progress against proposals for improvement and future actions committed in response to the proposals.

13. Audit Committee Work Plan 2016/17

We resolved to receive and note the Audit Committee Work Plan 2016/17.

The meeting ended at 3.51 pm