

**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

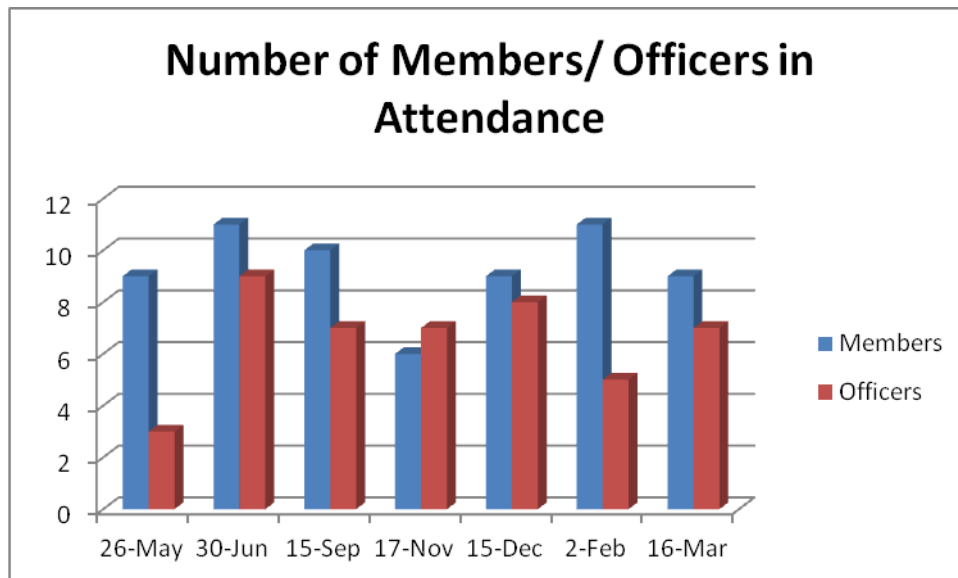
4.2 The Committee consists of 11 councillors and includes one lay member (co-opted) who is not a councillor. During 2016/17, the lay member was the Chair of the Audit Committee as in previous years. The Committee's main responsibilities include:

- 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 <sup>th</sup> May 2016
30 <sup>th</sup> June 2016
15 <sup>th</sup> September 2016
17 <sup>th</sup> November 2016
15 <sup>th</sup> December 2016
2 <sup>nd</sup> February 2017
16 <sup>th</sup> 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