

Audit Committee

Meeting Venue
**Committee Room A - County Hall,
Llandrindod Wells, Powys**

Meeting Date
Friday, 7 February 2020

Meeting Time
10.30 am

For further information please contact
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County Hall
Llandrindod Wells
Powys
LD1 5LG

31 January 2020

Mae croeso i chi siarad yn Gymraeg neu yn Saesneg yn y cyfarfod.
Rhowch wybod pa iaith rydych am ei defnyddio erbyn hanner dydd, ddau ddiwrnod
gwaith cyn y cyfarfod.
You are welcome to speak Welsh or English in the meeting.
Please inform us of which language you wish to use by noon, two working days
before the meeting.

AGENDA

1.	APOLOGIES
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To receive apologies for absence.

2.	DECLARATIONS OF INTEREST
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To receive declarations of interest from Members.

3.	DISCLOSURE OF PARTY WHIPS
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To receive disclosures of prohibited party whips which a Member has been given in
relation to the meeting in accordance with Section 78(3) of the Local Government
Measure 2011.

(NB: Members are reminded that under Section 78 Members having been given a
prohibited party whip cannot vote on a matter before the Committee.)

4.	MINUTES
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To authorise the Chair to sign the minutes of the previous meeting.

(Pages 3 - 12)

5.	WAO ANNUAL AUDIT SUMMARY 2019
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To consider the WAO Annual Audit Summary 2019.

6.	STRATEGIC RISK MANAGEMENT
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To consider the report of the Portfolio Holder.

(To Follow)

7.	INTERNAL AUDIT
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To consider Q3 performance monitoring report.

(To Follow)

8.	TREASURY MANAGEMENT
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To consider the report of the Portfolio Holder.

(Pages 13 - 32)

9.	CLOSURE OF ACCOUNTS
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To consider the report of the Head of Finance.

(Pages 33 - 34)

10.	THEATR BRYCHEINIOG
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To receive an oral progress report.

11.	AUDIT COMMITTEE SELF EVALUATION
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To consider the Audit Committee's self-evaluation.

(Pages 35 - 52)

12.	WORK PROGRAMME
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To consider the forward work programme and whether any additional items should be included.

(Pages 53 - 54)

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD AT COUNCIL CHAMBER, COUNTY HALL - COUNTY HALL ON THURSDAY, 19 DECEMBER 2019

PRESENT

County Councillors JG Morris (Chair), D R Jones, M J Jones, WD Powell, D A Thomas, T J Van-Rees, A Williams, J M Williams and R Williams and Mr J Brautigam,

Cabinet Portfolio Holders In Attendance: A W Davies

Officers: Jane Thomas, Head of Finance, Dan Paley, Financial Reporting and Policy Accountant, Emma Palmer, Head of Transformation and Communication and Ness Young, Corporate Director, Resources and Transformation

Other Officers In Attendance: Messrs Ian Halstead and Dave Hill, SWAP, and Phil Pugh, WAO

1.	APOLOGIES
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Apologies for absence were received from County Councillors K Laurie-Parry, K Lewis and R G Thomas

2.	DECLARATIONS OF INTEREST
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There were no declarations of interest.

3.	DISCLOSURE OF PARTY WHIPS
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There were no disclosures of party whips.

4.	MINUTES
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Two errors in the minutes were noted. The WAO had suggested alternative wording which would be incorporated prior to the Chair signing the minutes. The Chair was authorised to sign the minutes of the previous meeting, held on 6 September 2019 once the two amendments had been made.

5.	COMBINED IMPROVEMENT PLAN 2019-20 AND ANNUAL PERFORMANCE REPORT 2018-19
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Documents:

- WAO Audit Certificate combined Corporate Plan and Annual Improvement Report

Discussion:

- In line with the requirements of the Measure there is a requirement to publish the Corporate Plan and Annual Improvement Report
- The WAO have issued a certificate confirming that this has taken place
- The WAO Annual Improvement Report will be considered by Audit Committee at its February meeting

Outcomes:

- **Noted**

6. REVIEW OF MISSTATEMENTS AND ERRORS
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Documents:

- Guidance for those charged with governance when evaluating misstatements identified through the audit – report of the Head of Financial Services

Discussion:

- As part of the annual consideration of the Statement of Accounts, the Committee review and approve any uncorrected misstatements
- At the last meeting in September, the WAO informed the Committee that guidance had been produced to show the process which is followed if there is an uncorrected misstatement
- The Committee were provided with a summary of this guidance to aid their understanding of the process
- With earlier closing and tighter deadlines, it may not always be possible to amend misstatements. But this is a decision for the Committee, and they must consider the reasons provided by officers for not correcting the accounts including materiality and whether the clarity and understanding of the accounts is affected
- Audit Committee needs to understand what these misstatements are and why they have occurred. Challenge to the process is critical.

Outcomes:

- **Noted**

7. RISK MANAGEMENT

Documents:

- 2019/20 Quarter 2 Performance Management Report
- Strategic Risk Register Report Quarter 2 2019/20
- Public Accountability Measures 2018/19 analysis

Discussion:

- The Q2 performance report to the end of September 2019 has been approved by Cabinet
- 88% of Corporate Improvement Plan measures are on track
- There has been a decrease in performance since Q1 due mainly to Education issues. The service is now being supported via the

- Improvement and Assurance Board and additional resources are being discussed.
- Under performing are Children's Services, Delayed Transfers of Care and Homelessness
 - Improved performance is noted in supporting adults in their home, supporting migrants and fewer sickness absences
 - The Committee noted that the number of children's assessments had fallen from 94% to 51% despite increased funding. Detailed discussions are ongoing with the Improvement and Assurance Board and the Leader. The Corporate Director is receiving weekly updates. A new manager has been recruited and data is starting to improve. A more in-depth report should be considered by the relevant scrutiny committee.
 - Two risks have been identified and included on the Strategic Risk Register
 - The council will be unable to manage the school budget without additional resources and finance and this will affect every individual school in Powys that has a deficit budget
 - The council fails to make the necessary improvements in response to Estyn recommendations
 - All services have moved to JCAD except for Finance and Legal and Democratic Services
 - There are 11 risks associated with Brexit – plans are in place with the appropriate service leads. Members asked for greater details around these 11 risks and officers would be asked to provide this in the new year.
 - In response to a question, the Head of Finance outlined what would happen if a school's delegation was removed. The Authority would take over the financial management of the school and the Governing body would no longer take financial decisions although would continue with the day to day management of the school. An executive board could be put in place or other alternative interventions were available.
 - The Head of Transformation and Communications reminded Members that data had been shared with all members regarding the schools' position. Overall, there were sufficient funds to run Powys schools but the traditional infrastructure and the way in which money is distributed is causing issues. The need for transformational change was highlighted.
 - The Portfolio Holder noted that there were significant pressures in the schools' system which must be addressed. There was some mitigation in the current budget round to address these issues. There had been an extra £1M in each of the last three budgets for schools but this had not covered the pay and pension pressures entirely. Funding is delivered via the Funding Formula. The question remains as to how to move to a new schools' structure whilst continuing to meet current educational needs.
 - 19 of the 22 Public Accountability Measures were reported – three relating to social care data have not been broken down
 - Powys County Council is ranked 5th out of 22 authorities in Wales with 69% of measures improved or maintained
 - The Authority was ranked first for number of visits to sports and leisure facilities, third for working days lost due to sickness absence, and second for all repairs. However, the Authority was ranked 22nd for the number of empty units – a Voids Working Group has been established to address this issue.

Outcomes:

- **The report was noted**
- **Further detail regarding risks associated with Brexit would be provided in the new year**

8. ECONOMIC AND FINANCIAL ASSESSMENTS- REVIEW OF PROGRESS
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Documents:

- Assessing the Economic and financial Standing of Suppliers

Discussion:

- In August 2019 the Audit Committee received a report on the Council's process of assessing the economic and financial standing of companies including the work undertaken when Dawnus Ltd and Jistcourt Ltd were assessed. At that time, Committee was informed of a new Policy Guidance Note that had been issued in July 2019 by the Government Commercial Function titled 'Assessing the Economic and Financial Standing (EFS) of Suppliers'.
- The Audit Committee recommended that the Council review its procedures against the Guidance Note with a view to improving the assessment and monitoring of the economic and financial standing of suppliers. This report responds to this recommendation.
- It was highlighted that assessments of bidders' EFS should be proportionate, flexible, contract specific and not overly risk averse, while ensuring protection of taxpayer value and safety and compliance with relevant procurement law. Every contract will be considered differently depending on the type of contract
- The report identified each point of guidance and highlighted what the Authority was doing against that guidance followed by recommendations for improvement.
- The Vice Chair noted the excellent guidance issued by the Welsh Government but further noted that the issues specific to both Dawnus and Jistcourt were that both companies had taken short term loans to cover cash flow problems which had been ignored.
- Disclosure clauses for financial events were noted but it was suggested that this should also include changes to senior management or directors
- Issues had also arisen as the processes undertaken at the time only looked at the company in question and not the entire group that they were part of
- Construction Line is used to assess all construction projects, Dunn and Bradstreet are used for all non-construction projects
- The same weighting had been given to all three previous years with insufficient emphasis on the last year
- It was acknowledged that implementing the guidance represented a significant improvement, but all processes must be approached with rigour
- The new guidance will cover all contracts not just construction contracts
- Executive Management Team will have responsibility to monitor the implementation

Outcomes:

- **Audit Committee supported the implementation of the new guidance and requested an update in June 2020**

9.	TRANSFORMING CONTRACT MANAGEMENT
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Documents:

- Transforming contract management in Powys – report by the Interim Professional Lead, Commercial Services

Discussion:

- Consideration had been given by Executive Management Team to understanding how contract management processes were undertaken
- A light touch review had been undertaken of current services particularly the top spending contracts and those relating to social care
- The review was undertaken under the National Audit Contract Management Framework and covered eleven areas including planning and governance arrangements
- The Interim Professional Lead met specific contract managers
- The procurement process must also satisfy the requirements of the Future Generations Act and Vision 2025
- Once a project is procured it is no longer the role of Commercial Services to monitor that contract, Contract management is the responsibility of the service.
- Members asked whether there was sufficient resource within the commercial services section. The Head of Finance reported that she undertaking a service review and the requirements would be considered as part of that
- Members asked if the number of complaints received were considered when contracts were renewed. The process does not permit past detriment to be considered. However, in looking for new contracts, issues are considered to build resilience into the contract.
- Specifications are developed in conjunction with service areas and so there should be ownership within the service as they have been involved throughout the procurement process.
- Public sector rules give guidance regarding the length of contract

Executive management team will monitor implementation of recommendations and success

Outcomes:

- **A progress report will be considered by Audit Committee in 6 months**

10.	LOCAL GOVERNMENT AND ELECTIONS (WALES) BILL - GOVERNANCE AND AUDIT COMMITTEES
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Documents:

- Report of the Head of Legal and Democratic Services

Discussion:

- One of the proposals within the Bill is to change Audit Committees to Governance and Audit Committees with one third of the membership

- being lay members. A lay member would also be required to chair the new committee
- There is a deadline of 3 January for consultation responses
 - The Council will respond to the Bill in its entirety, but Audit Committee were asked for their views on the relevant section
 - Comments made by Members of the Audit Committee were:
 - Increased cost of additional lay members
 - Relationship with Democratic Services Committee needs further consideration
 - Would there be enough interest from appropriate candidates?
 - If there were to be one third lay members, consideration should be given to a rolling programme so that they did not all finish their terms of office at the same time
 - Does the Welsh Government believe that the change will make Audit Committees more efficient or more responsive to the public?
 - It was suggested that those candidates who had stood for local government election should be excluded
 - A regional or national pool of lay members should be considered to ensure there would be sufficient lay members available
 - The Corporate Director, Resources and Transformation informed the Committee that the WLGA did not support the changes and thought that it should be left to local discretion
 - Members supported the WLGA view

Outcomes:

- **The Audit Committee's comments would be reported to the Group Leaders meeting for consideration for inclusion in the overall response to the Bill**

11. CLOSURE OF ACCOUNTS

Documents:

- Report of the Head of Financial Services

Discussion:

- The implementation of the new finance system at the beginning of the financial year created an added complication to the closure process but this impact would diminish for future years
- Closure and Audit timescales will continue to be shortened
- The Head of Finance would report regularly to Executive Management Team
- Accounting practices for leases will be changing which will impact upon the balance sheet

Outcomes:

- **Noted**

12. INTERNAL AUDIT - PERFORMANCE MONITORING Q2

Documents:

- Report of Internal Audit Activity – Progress at 30 September 2019/20

Discussion:

- The report covers activity for quarters one and two
- The report provides a regular update to Audit Committee including an opinion on the Authority's control environment
- 39% of the programme has been delivered
- Three full reports which only received partial opinions were attached later in the agenda. The Internal Audit Working Group had considered these reports in detail and officers had provided updated reports and attended to account for the action plans
 - Capital Accounting – there was often slippage in the capital programme. A Governance framework has been implemented but has not yet been fully rolled out. Business cases had not always been adequate. There was a clear linkage between failure to deliver effective business cases and delivery of the capital programme. Three key recommendations were made.
 - Project Benefits Realisation – this should deal with transformational activities but this could not be demonstrated in all cases. Clear business cases were not always evident, nor clear outcomes defined. Six recommendations had been made with three of these being classed as priority 1.
 - Software Licenses – there was no evidence to show whether the appropriate licenses were in place. There was assurance around Microsoft licenses. There were six recommendations, two of which were priority 1.
- Members expressed concern that in relation to the projects benefits realisation review, business cases had not been available to internal audit –The process has been strengthened and business cases are in place for all projects funded from the Transformation Fund.
- The Internal Audit Working Group provided a valuable element of challenge. They will continue to monitor implementation of the action plans, but each of the above will also be subject to a short follow up audit.
- SWAPis considering what action is required to ensure that 90% of the Plan is delivered by year end in line with the agreement
- Quality of work is exceeding the target
- The number of recommendations accepted during the period was also exceeding the target
- The Committee sought assurance that there were no longer blocks to Internal Audit completing their work. The Assistant Director confirmed that there was a greater willingness to work with Internal Audit but occasionally there were issues. He welcomed the planned review of Internal Audit and noted the need to respect each other as professionals and to understand the value of the internal audit service.

Outcomes:

- **Update report provided to the Internal Audit Working Group would be circulated to Audit Committee Members**

13. INTERNAL AUDIT - WORK PLAN 2019-20

Documents:

- 2019/20 Powys Internal Audit Plan

Discussion:

- Quarter 1 had been approved by the Committee
- Quarter 2 had not been considered by the Committee but was based on cumulative knowledge and experience
- A full year Plan had recently been considered by both Executive Management Team and the Internal Audit Working Group
- The Plan had been substantially agreed but it was key that the Plan remained flexible
- There may still be changes to the Plan and Audit Committee were invited to comment on it to ensure they received assurance that all major areas were covered
- ICT will move to the next financial year. The proposed review of Adult Social Care Peer Reviews will be moved into 2020-21 as it is a new national initiative which has not yet started. Contract management is a new process and needs time to embed before an audit is carried out.
- Members commented that they were aware of regular emails identifying monies that had been paid into the Authority's account without supporting documentation and questioned whether the system itself was failing. The Head of Finance assured the Committee that the processes in place were adequate but not everyone was following those procedures. The finance transformation project continues to reinforce the 'right first time' and address the areas where issues and errors were occurring. It was noted that the most issues were arising from schools

Outcomes:

- **Noted**

14. INTERNAL AUDIT REVIEW

Documents:

- Report of the Corporate Director Resources and Transformation

Discussion:

- In March 2017, the Authority became a member of the South West Audit Partnership (SWAP) for the provision of internal audit services
- It was now appropriate to review the arrangement to ensure that it reflects best practice and is appropriate to both Powys County Council and SWAP.
- The Corporate Director will lead the review which will take place in January 2020 – the aim was to have any improvements agreed in place for the 2020/21 Audit Plan
- It was suggested that the Audit Committee or a group of representatives could discuss the view of the Committee regarding working arrangements and where there may be opportunities for improvement
- The Chief Executive of SWAP informed Members that

- Powys had been the 14th partner but there were now 24 partners with another due to join in April
- Internal audit services were provided to other Welsh authorities on a contractual basis
- The SWAP Team is kept up to date with the latest techniques and also has access to greater resources and specialisms
- An audit management system has recently been introduced
- The latest technology is used to aid delivery
- There is a requirement under the Public Sector and Internal Audit Standards to undertake a self-assessment every five years – SWAP carry this out every three years
- SWAP welcomes the review

Outcomes:

- **The Audit Committee agreed that the Internal Audit Working Group would be used to assist with the review into internal audit arrangements**

15. INTERNAL AUDIT REPORTS

Documents:

- Projects Benefits Realisation (Transformation)
- Capital Accounting
- Software Licensing

Discussion:

- These reports were received for information
- Discussion had been undertaken under the Internal Audit – Performance Monitoring Q2 report above

16. WORK PROGRAMME

Documents:

- Forward work programme

Discussion:

- It was noted that there was an Audit seminar scheduled for 22 January. A formal meeting of the Committee would be convened that day to consider the SWAP report on the Theatr Brycheiniog payment in August 2018

County Councillor JG Morris (Chairman)

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CYNGOR SIR POWYS COUNTY COUNCIL.

AUDIT COMMITTEE
7th February 2020

CABINET
11th February 2020

REPORT AUTHOR: County Councillor Aled Davies
Portfolio Holder for Finance

REPORT TITLE: Treasury Management Qtr 3 Report

REPORT FOR: Information

1. Purpose

- 1.1 CIPFA's 2009 Treasury Management Bulletin suggested:
"In order to enshrine best practice it is suggested that authorities report formally on treasury management activities at least twice a year and preferably quarterly."

The CIPFA Code of Practice on Treasury Management emphasises a number of key areas including the following:-

- xi. Treasury management performance and policy setting should be subject to scrutiny prior to implementation.

- 1.2 In line with the above, this report is providing information on the activities for the quarter ending 31st December 2019.

2. Economic Background and Forecasts

- 2.1 The economic background is attached at Appendix B.
- 2.2 The most recent forecast of interest rates by the Authority's advisor is as follows:

	Mar 20	Jun 20	Sep 20	Dec 20	Mar 21	Jun 21	Sep 21
Bank rate	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%
5yr PWLB	2.40%	2.40%	2.50%	2.50%	2.60%	2.70%	2.80%
10yr PWLB	2.70%	2.70%	2.70%	2.80%	2.90%	3.00%	3.10%
25yr PWLB	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%
50yr PWLB	3.20%	3.30%	3.30%	3.40%	3.50%	3.60%	3.60%

3. Treasury Management Strategy

3.1 The Treasury Management Strategy approved by Full Council on 7th March 2019 is at Appendix A.

3.2 The Authority's investment priorities within the Strategy are: -

- (a) the security of capital and
- (b) the liquidity of its investments.

3.3 The Authority aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite has been low in order to give priority to security of investments.

4. Current Investments

4.1 The current investment market is difficult in respect of earning the level of interest rates commonly seen in previous years as rates are very low and in line with the 0.75% Bank Rate.

4.2 The Authority had the following investments at 31st December 2019:-

Invested with:	Principal £000's	Interest Rate	Start Date	Maturity Date
HSBC	4,915	0.50%		
Thurrock BC	5,000	0.74%	30-Sep-19	06-Jan-20
Total	9,915			

4.3 Higher return rates have been difficult to achieve as the Authority is not in a position to invest its cash for more than a short period of time.

4.4 Investment returns in future years:
Our advisors' current suggested earning rates for investments for budgeting purposes were as follows:-

2019/20	0.75%
2020/21	0.75%
2021/22	1.00%

These are based on investments for up to three months duration.

5. Credit Rating Changes

5.1 There have been no credit rating changes relevant to this Authority's position during the last quarter.

5.2 The credit rating list for end of December is attached as a separate file to this report.

6. **Borrowing / Re-scheduling**

6.1 Effective management of the Authority's debt is essential to ensure that the impact of interest payable is minimised against our revenue accounts whilst maintaining prudent borrowing policies.

6.2 The Authority's Capital Position:

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the current year's unfinanced capital expenditure and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through external borrowing or utilising temporary cash resources within the Council.

Net external borrowing (borrowings less investments) should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current year and next two financial years. This allows some flexibility for limited early borrowing for future years.

Original CFR Position (per original approved budget):

	As at 31.03.19 Actual	2019/20 Original Estimate	2020/21 Original Estimate	2021/22 Original Estimate
	£M	£M	£M	£M
Capital Financing Requirement	349,530	401,581	446,140	465,145

Updated CFR position as at 31.12.19:

	As at 31.03.19 Actual	2019/2020 Current Estimate	2020/21 Current Estimate	2021/22 Current Estimate
	£M	£M	£M	£M
Capital Financing Requirement	349,530	392,125	440,252	478,869

6.3 The Authority had outstanding long-term external debt of £299.2m at 31st March 2019. In relation to the CFR figure for 31st March 2019, this equated to the Authority being under borrowed by £50.3m. Using cash reserves as opposed to borrowing has been a prudent and cost effective approach over the last few years. However, members will be aware that internal borrowing is only a temporary situation and officers have advised that, based on capital estimates, it will be necessary for the Authority to borrow at stages over the next few years.

6.5 On 9th October 2019 HM Treasury increased the margin that applies to new PWLB loans by 100bps with no prior discussion. This led to increased borrowing rates for local authorities.

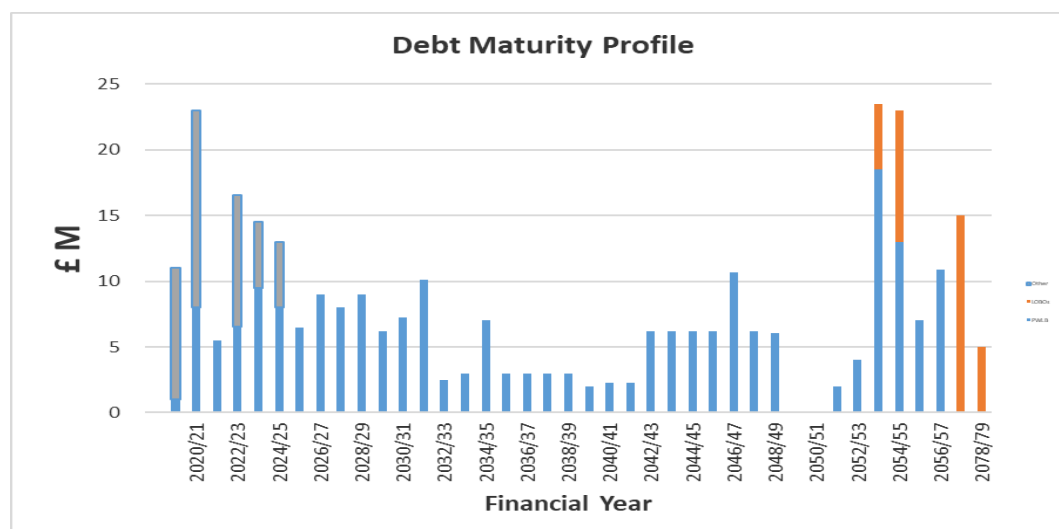
6.4 Capital Budget/Spend per efinancials:

Capital:	Original Approved Budget £	Working Budget £	Actual Capital Spend (not including commitments) £	%age Actual Spend
	92,234,000			
Qtr 1 end of June		123,568,153	6,655,314	5.39%
Qtr 2 end of Sept		102,036,287	21,973,109	21.53%
Qtr 3 end of Dec		76,226,654	39,298,294	51.55%

The financing of the approved capital budget included £51m of Prudential Borrowing and Supported Borrowing of £13.72m.

It remains a significant challenge to manage the Authority’s cashflow and its need to borrow when the Capital working budget increases/decreases significantly during the financial year and, despite this, actual spend continues to be significantly below the working budget.

6.5 *Debt Maturity Profile as at 31.12.19:*



6.6 PWLB Loans Rescheduling:

The Public Works Loans Board released a circular regarding rates on 20th October 2010. As a result of this, rates immediately increased by 0.87-0.88 basis points across the board. The overall impact of this circular was that it is far more difficult for authorities to reschedule debt. PWLB interest rates in the last quarter have not been conducive towards any rescheduling.

7. **Prudential Indicators**

7.1 All TM Prudential Indicators were complied with in the quarter ending 31st December 2019.

8. **VAT**

8.1 The Technical Section of Finance act as the authority's VAT section. VAT can pose a risk to the authority hence the Treasury Manager has been asked to include VAT information in these quarterly reports.

8.2 The monthly VAT returns were submitted within the required deadlines during the quarter ending 31st December 2019.

8.3 Key Performance Indicators:

The VAT KPI's for 2019/20 are attached at Appendix C. The KPI's for debtor invoices are showing an improvement compared to previous years due to the introduction of a workflow process for checking debtor invoices implemented as part of the new financial system in April. Further to this, this process is now ensuring correct vat treatment prior to invoices being raised as opposed to after.

Advice

N/A

Resource Implications

N/A

Legal implications

N/A

Comment from local member(s)

N/A

Integrated Impact Assessment

N/A

Recommendation

It is recommended that this report be accepted.

Contact Officer: Ann Owen
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Email: ann.owen@powys.gov.uk

Head of Service: Jane Thomas

Corporate Director: Ness Young

Appendix A:

Approved Treasury Management Strategy 2019/20:

7.5 “High” credit quality:

7.5.1 It is proposed that the Authority continue with the following in respect of defining a “high” credit quality. If a rating is not available from any of the rating agencies then the available ratings will be used. Members will note that this proposal excludes investments with some banks off the advisors’ suggested list:-

Long Term Ratings (in respect of long-term investments):

Permitted Fitch Ratings	Permitted Moody's Ratings	Permitted S&P Ratings
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-

Short Term Ratings (in respect of short-term investments):

Permitted Fitch Ratings	Permitted Moody's Ratings	Permitted S&P Ratings
F1+	N/A	A-1+
F1	P-1	A-1

7.6 Country limits:

7.6.1 It is proposed that the Authority will use approved counterparties from the UK and approved counterparties from other countries with the following sovereign credit ratings:-

Permitted Fitch Ratings	Permitted Moody's Ratings	Permitted S&P Ratings
AAA	Aaa	AAA

Country	Maximum Investment per Country	Credit Rating/Other Assessment of Risk
AAA countries	£20M (held in call accounts)	As per rating list
UK	No Maximum Investment	As per rating list

7.7 *Group/Institutions - Counterparty Criteria/Limits:*

Specified Investments:

Institution	Maximum Investment per Group/Institution £M	Maximum Length	Credit Rating/Other Assessment of Risk
UK Banks	30	Up to 364 days	As per Link's matrices and the Authority's definition of a high credit rating
Foreign Banks	5	Up to 364 days	As per Link's matrices and the Authority's definition of a high credit rating
Other Local Authorities	25	Up to 364 days	N/A

Non-Specified Investments:

Institution	Maximum Investment per Group/Institution £M	Maximum Length	Credit Rating/Other Assessment of Risk
UK Banks	10 (£5M limit with any one institution)	Up to 2 years	As per Link's matrices and the Authority's definition of a high credit rating
Foreign Banks	2	Up to 2 years	As per Link's matrices and the Authority's definition of a high credit rating
Money Market Funds (max. of 5)	10	N/A	All are AAA rated
Other Local Authorities	10	Up to 5 years	N/A
<i>Note: Limits for Specified and Non-Specified are combined limits. The maximum limit will also apply to a banking group as a whole.</i>			

Appendix B

Economic Background

UK

Economic growth in 2019 has been very volatile with quarter 1 unexpectedly strong at 0.5%, quarter 2 down at -0.2%, quarter 3 back up to +0.4% and quarter 4 expected to come in around zero. Political and Brexit uncertainty have dampened growth in 2019.

Despite political uncertainty ending with a decisive overall majority for the Conservative government in the December general election which clears the way for the UK to leave the EU on 31 January 2020, we still have much uncertainty as to whether there will be a reasonable trade deal achieved by the end of 2020.

After the Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August 2018, it is little surprise that they have abstained from any further increases since then. We are unlikely to see any further action from the MPC until these remaining uncertainties over the likely type of Brexit become clear. If there was a no deal exit, it is likely that Bank Rate would be cut in order to support growth. However, if growth was to flag significantly in any event, the MPC could also cut Bank Rate in 2020. The Government has announced some major spending increases and is expected to make further commitments in the spring budget; these will provide some support to growth and will take some pressure off the MPC to act to stimulate growth by either cutting Bank Rate or implementing other monetary policy measures.

The MPC did have some concerns over the trend in wage inflation, which was on a rising trend, and peaked at a new post financial crisis high of 3.9% in June. Since then, however, it has been falling steadily back to 3.5% in October, (3 month average figure, excluding bonuses). Growth in employment picked up again to 24,000 in the three months to October, after a fall in the previous month's figures. However, this is still well below the 2018 average, although the unemployment rate remained at 3.8 percent, its lowest rate since 1975.

As for CPI inflation itself, this fell to 1.5% in October and November and is likely to remain between 1.5% and 2% over the next two years. If there was a no deal Brexit though, it could rise towards 4%, primarily as a result of imported inflation on the back of a weakening pound.

The strong wage inflation figure and the fall in CPI inflation is good news for consumers as their spending power is improving in this scenario as the difference between the two figures is now around 2.0%, i.e. a real term increase. Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months.

Appendix C

VAT - Key Performance Indicators:

Creditor Invoices

VAT return for	No of high value Creditor invoices checked	No of Creditor invoices highlighted as requiring "proper" document for VAT recovery	%age of creditor invoices checked requiring "proper" document for VAT recovery
Apr-19	102	3	2.94%
May-19	184	1	0.54%
Jun-19	224	0	0.00%
Jul-19	235	1	0.43%
Aug-19	226	1	0.44%
Sep-19	177	1	0.56%
Oct-19	199	2	1.01%
Nov-19	214	2	0.93%
Dec-19			
Jan-20			
Feb-20			
Mar-20			

Income Management Entries

VAT return for	No of entries checked by formula per the ledger account code used	No of entries needing follow up check (but not necessarily incorrect)	%age of entries needing follow up check
Apr-19	645	17	2.64%
May-19	676	4	0.59%
Jun-19	947	3	0.32%
Jul-19	974	7	0.72%
Aug-19	590	12	2.035
Sep-19	877	13	1.48%
Oct-19	1,088	5	1.01%
Nov-19	893	13	1.46%
Dec-19			
Jan-20			
Feb-20			
Mar-20			

Debtor Invoices

VAT return for	No of Debtor invoices checked	No of checked debtor invoices with incorrect VAT code used	%age of debtor invoices with incorrect VAT code
Apr-19	50	0	0.00%
May-19	57	1	1.75%
Jun-19	72	6	8.33%
Jul-19	119	23	19.33%
Aug-19	74	3	4.05%
Sep-19	89	11	12.36%
Oct-19	59	5	8.47%
Nov-19	81	8	9.88%
Dec-19			
Jan-20			
Feb-20			
Mar-20			

Purchase Cards

VAT return for	No of transactions for previous month for which paperwork requested for checking	No of Amazon invoices included in check	Resolvable errors discovered	No of transactions for which no response received within timescale	Value of VAT potentially claimable but recharged to budget due to non-response	No of transactions where VAT claimed incorrectly	%age of transactions available to be checked where VAT was claimed incorrectly	Value of VAT incorrectly claimed hence recharged to budget
Apr-19	243	26	15	12	£1,161.13	11	4.76%	£1,162.23
May-19	302	25	21	20	£1,849.63	22	7.80%	£1,035.51
Jun-19	348	23	31	16	£1,677.68	12	3.61%	£730.63
Jul-19	279	0	19	11	£1,331.95	9	3.365	£1,856.52
Aug-19	132	0	9	4	£726.08	6	4.69%	-£35.05
Sep-19	256	0	15	11	£1,503.81	9	3.67%	£4,703.92
Oct-19	274	0	8	6	£1,170.47	10	3.73%	£1,799.96
Nov-19	266	0	9	N/A	N/A	N/A	2.63%	-£124.05
Dec-19								
Jan-20								
Feb-20								
Mar-20								

Chargebacks to service areas

The upload of appropriate documents to the Barclaycard purchase card system to enable vat recovery was made mandatory in September 2017 as a result of the lack of response from service areas/establishments to provide documents when requested. Where no document has been uploaded, any VAT amount input against the transaction is charged to the service area as there is no evidence to support the vat recovery.

Any other VAT errors that come to light as a result of the various checks are also charged to the relevant service areas.

Budget holders are able to see this clearly as chargebacks are coded to account code EX400600 and the activity code used alongside this gives the reason why this chargeback has occurred.

The total amount charged back to service areas in 2019/20 to end of December is £4,279.11. The breakdown of this is as follows:-

Reason	£
Not a tax invoice	3,018.05
Not a tax invoice – no response from service area	114.83
PCC not the named customer	4,328.81
No VAT registration number on invoice	142.00
No invoice uploaded to Barclaycard system	14,987.97
Invoices uploaded do not match the payment	512.31
No evidence supplied to enable vat recovery	634.20
Foreign VAT (not recoverable)	68.05
No VAT amount on invoice in first place	3,150.41
Supplier not vat registered	155.40
Supply not to PCC	12,012.83
Overaccounting for VAT	4,844.38
PCC Internal payment	0
Document spoilt	0
Pool car adjustment	776.58
Total	44,745.82

Of the above the £23,738.17 was potentially recoverable.

By virtue of paragraph(s) 14 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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CYNGOR SIR POWYS COUNTY COUNCIL**AUDIT COMMITTEE****7th February 2020****REPORT AUTHOR: Jane Thomas, Head of Financial Services****SUBJECT: Closure of Accounts**

REPORT FOR: Information

1. Introduction

- 1.1 Committee will be aware that the Statement of Accounts for 2018/19 were issued an unqualified audit opinion by the Auditor General and approved by the Audit Committee on the 6th September. The accounts were then published on the public website before the statutory deadline of 15th September 2019.
- 1.2 The closure of accounts process and completion of the Statement of Accounts for 2018/19 was again delivered under a project management approach. The approach has been adopted for 5 years and has led to continued improvements both to the quality of the draft financial statements and the information available to support them. This was recognised within the ISA260 report presented by Wales Audit Office to Committee on 6th September 2019.
- 1.3 The project management approach will continue for the 2019-20 closure of accounts.

2 Project Update

- 2.1 At the most recent meeting of the group, officers were asked to review the project plan and feedback on any amendments by the middle of February.
- 2.2 Wales Audit Office have provided a draft deliverables list, identifying what information they require for the audit with timescales. Officers are reviewing the reasonableness of the timelines and allocating officers to each task.
- 2.3 CIPFA have produced a document titled Streamlining the Accounts, it is focussed on identifying readers needs and key messages alongside adopting right first time principles. It considers 3 aspects of streamlining. Materiality- key messages that are not obscured by excessive detail. Accounting policies – only important and relevant information should be included. Presentation and layout – considering the best ways to display the figures. A number of the notes were removed in 2018-19 as they were deemed to be below the materiality threshold, these will be monitored to see if this is still the case. The right first time process officers are trying to achieve should benefit the team and assist with the quality of working papers sent to the auditors.

2.4 A CIPFA closing workshop held on 21st January 2020 reported little in the way of code changes for 2019-20 but a significant time period was spent highlighting the introduction of the new leasing standard IFRS16 which will take effect from 2020-21. This change in standard was reported to the Audit Committee on 19th December 2019.

Recommendation:	Reason for Recommendation:
That Audit Committee notes the contents of this report.	To ensure that the Council successfully completes the preparation and approval of the Annual Statement of Accounts for 2019/20 in order to receive an un-qualified audit opinion.

Contact Officer Name:	Tel:	Email:
Jane Thomas	01597 826341	jane.thomas@powys.gov.uk

CYNGOR SIR POWYS COUNTY COUNCIL**AUDIT COMMITTEE****7 February 2020****REPORT AUTHOR: County Councillor J G Morris, Chair****SUBJECT: Audit Committee Self-Evaluation**

REPORT FOR: Decision

1. Introduction

It is considered good practice for an Audit Committee to regularly undertake a self-evaluation to ensure it is delivering against its terms of reference. To that end, the Committee recently met in seminar mode to evaluate their performance. We used the CIPFA good practice guide and self-evaluation tool for Audit Committees. The results of this process are attached at Appendix A.

2. Terms of Reference

The Committee is reminded of the terms of reference for the Committee against which the self-evaluation was undertaken:

- To approve authority's statement of accounts, income and expenditure and balance sheet or record of receipts and payments (as the case may be).
- Ensure the risk management strategy guides the programme of internal and external work, to address the controls and risk related issues identified
- Oversee the production of the annual governance statement, recommend its adoption to County Council and ensure appropriate action is taken to address the issues raised
- To consider and approve the annual audit opinion on internal control and the level of assurance given to the corporate governance arrangements
- Approve the annual audit plan, ensuring there is sufficient and appropriate coverage, with a strong emphasis on risk management and resources are available to implement the plan.
- Receive and review internal audit reports and ensure officers respond promptly to the findings. Where necessary recommendations to other committees and portfolio holders will be made, to ensure action plans are implemented

- Consider and approve the annual letter, regulatory plan and specific reports as agreed.
- Where necessary ensure action is taken by officers to address those issues raised, and, if necessary, recommendations to other committees and portfolio holders will be made to address findings and deliver clear conclusions
- Comment on the scope and depth of the external audit work, to ensure it gives value for money
- Assess and approve the annual statement of accounts, external audit opinion and management representation in relation to annual audit findings
- Promote effective relationships between external and internal audit, inspection agencies and other relevant bodies to ensure the value of audit and inspection is enhanced and actively promoted
- Regularly monitor treasury management reports

Audit Committee is invited to approve the attached self-evaluation.

Recommendation:	Reason for Recommendation:
To approve the Audit Committee self-evaluation	Good practice and continued improvement

Contact Officer Name:	Tel:	Email:
Lisa Richards	01597 82 6371	Lisa.richards@powys.gov.uk

A GOOD PRACTICE SELF-EVALUATION TOOL FOR THE AUDIT COMMITTEE

	Good Practice	Evaluation 1 – 3	Further action Yes/No	Evidence for assessment and improvement actions
	Role of Audit Committee members			
1	Does the Audit Committee have written terms of reference?	3	Yes	The Constitution requires amendment following changes in the role of scrutiny committees and Audit Committee.
2	Are the ToR adopted by the Council and reviewed periodically?	3	No	
3	Does the role and operation of the Audit Committee comply with funding body requirements?	3	No	
4	Is the role and purpose of the Audit Committee understood and accepted across the Council?	2	Yes	
5	Is the Audit Committee's role clear in respect of other committees with responsibility for financial matters?	2	Yes	Scrutiny now has a role in monitoring finance and performance issues within services and this is causing some confusion amongst the wider membership – awareness of the role of Audit Committee needs to be addressed through training and the distinction between the roles of Audit Committee and Scrutiny Committees
6	Do Audit Committee members clearly understand their roles?	3		Substantial training has been offered. Agendas can be lengthy and include too much detail. More high-level control is needed to focus the Committee's work on

	and responsibilities? Do they understand the part they play individually?			their governance role. It was acknowledged that examples could highlight an issue and aid understanding.
7	Do the committee members clearly understand the interface with other committees with financial responsibilities?	3		
8	Is the Audit Committee's role defined in respect of the following? <ul style="list-style-type: none"> • Good governance • Assurance • Risk management and internal control • Internal audit • External audit • Financial reporting • Value for money 	3 3 3 3 3 3 3 1	Y	The Committee has not undertaken evaluation of value for money. More benchmarking is needed. There is control on what is spent but not whether that money has been spent wisely. The authority is not well developed in benchmarking data, but work is progressing to improve this so that Audit and Scrutiny have better data to work with.
9	Skills and Expertise Do the Audit Committee members have the right skills and expertise to enable them to challenge effectively?	3	Y	The Audit Committee has had a stable membership and training has provided. Members have a range of political and business knowledge. A skills audit will be undertaken.

10	Are there any qualified accountants amongst the members?	1		The Committee are assured that the skills and expertise of members is sufficient and a formal qualification may not necessarily enhance the quality of membership. General upskilling of the whole Committee was thought to be preferable.
11	Does the Chair of the Committee have appropriate knowledge and skills?	3		
12	Do the Committee members demonstrate appropriate equipment?	3		
13	Are Audit Committee members familiar with and do they understand the Authority's constitution	3		
	Behavioural and operational aspects			
14	Does the Audit Committee meet regularly?	3		
15	Are Audit Committee meetings scheduled in good time in respect of important decisions and deadlines	3		
16	Are Members attending meetings on a regular basis, and, if not, is appropriate action taken?	3		

17	Is an audit committee meeting scheduled to discuss proposed adjustments to the accounts and issues arising from the audit where appropriate?	3		
18	Is the timing of audit committee meetings discussed with all the parties involved?	3		Regular surveys regarding meeting times are undertaken with all Members
19	Has each Member declared his or her business interests?	3		
20	Is the register of interests checked on a regular basis? Is the register easily accessible?	1		
21	Are audit committee members independent of the management team and other committees	3		
22	Are all the committee members fully engaged and participative in meeting discussions?	1		
23	Do the audit committee ask 'tough' questions?	3		The Committee seeks answers.
24	Does the audit committee demonstrate an independent	3		

	and challenging approach to its role?			
25	Does the audit committee have good working relations with key people and organisations, including external audit, internal audit and the Head of Finance?	3		
26	Does the audit committee hold periodic private discussions with the internal auditor?	3		An Internal Audit Working Group is in place which enables such discussions to take place. Members feel they are able to contact Internal Audit should they so wish but no formal process is in place.
27	Does the audit committee hold periodic private discussions with the external auditor?	3		The Chair has regular meetings with WAO but as a Committee, no formal meeting is held. This can be facilitated if Members feel it to be appropriate
28	Do audit committee members draw and reflect on their experiences of other organisations in discussions?	3		Wherever possible
29	Do the audit committee members have access to the chief financial officer and vice versa?	3		In addition, the Chair has a monthly meeting with the Head of Finance
30	Does the chief financial officer attend meetings of the audit committee?	3		
31	Does the audit committee produce an annual report?	1		The committee will work towards this

	Information and support			
32	Are there appropriate training and induction procedures for the audit committee members	2		A lot of training has been put in place and Audit members cannot sit on the Committee until training has been undertaken. Members requested additional training on questioning.
33	Does Audit Committee have an independent secretary/clerk?	3		
34	Do the clerking arrangements for the audit committee ensure that the members time is used effectively?			
	<ul style="list-style-type: none"> Is there a good reason for each item being on the agenda? 	2		Further review is required to ensure agendas are proactive and achieve what is intended. The purpose of any report should be clear within the report
	<ul style="list-style-type: none"> Are all papers circulated sufficiently in advance (and none tabled) and distributed in sufficient time for members to give them due consideration? 	2		
	<ul style="list-style-type: none"> Do the reports prepared for the audit committee members make it clear what they are being asked to do/agree? 	1		
35	Does the audit committee have a mechanism to keep them aware of topical legal and	3		

	regulatory issues and developments?			
36	Do the audit committee receive reports that are comprehensive but concise and tailored to their needs? Is the information they receive robust and objective	2		Some reports can be too lengthy. Members must be relied upon to read documents and avoid the need for officers to go through the reports and so streamline committee meetings.
37	Has the audit committee considered the information it wishes to receive from internal audit?	3		
38	Has he audit committee considered the information it wishes to receive from internal audit?	3		
39	Does the audit committee receive periodic reports from internal audit?	3	Quarterly reports are received	
	Activities and functions			
	<i>Governance</i>			
40	Does audit committee ToR include oversight of governance arrangements?	3		
41	Does the audit committee provide support to the Council	3		

	in meeting the requirements of good governance?			
42	Does the audit committee consider whether the AGS reflects the risk environment?	3		
43	Does the audit committee consider whether the AGS demonstrates how governance arrangements support the Council's objectives?	3		
44	Does the audit committee consider reports and recommendations from external audit and regulators/agencies as appropriate and their implications for governance, risk management and control?	3		
45	Does the audit committee monitor arrangements for ensuring value for money and for managing exposure to the risk of fraud and corruption?	2		The Committee relies on Internal Audit for internal fraud and have recently started to receive reports on corporate fraud
46	Is the audit committee's role in relation to whistleblowing clear?	3		
47	Is the audit committee's role in relation to fraud and corruption procedures clear?	3		Policies are currently being reviewed and will be considered by audit committee in due course

	<i>Assurance</i>			
48	Does the audit committee seek to ensure that assurance is planned and delivered?	3		The committee receives advice from internal audit on the AGS
49	Does the audit committee understand what assurance is available to support the AGS?	3		
50	Does the audit committee seek clarity regarding what assurance is required?	3		
51	Does the audit committee gain assurance that risk management control and governance arrangements are adequate and effective?	3		
	<i>Risk Management</i>			
52	Does the audit committee's TOR include oversight of risk management processes?	3		
53	Does audit committee keep risk management on its agenda throughout the year?	3		

54	Does the audit committee monitor how the council assesses risk?	3		
55	Does the audit committee review the risk register on a regular basis?	3		Corporate risk register only
56	Is the committee made aware of the role of risk management in the preparation of the audit plan	3		
	<i>Internal audit</i>			
57	Does internal audit have a direct reporting line to the audit committee?	3		
58	Does the audit committee approve annually, and in detail, the internal audit strategic and annual plans?	3		
59	Are follow up audits by internal audit monitored by the audit committee?	3		Internal Audit Working Group
60	Does the committee consider the adequacy of implementation of internal audit recommendations?	3		Internal Audit Working Group

61	Does audit committee receive regular progress reports from the internal audit service summarising internal audit activity?	3		Quarterly monitoring of performance is usually undertaken
62	Do reports describe major audit issues and compare activity to date against the audit plan?	3		
63	How does the audit committee ensure that a professional relationship is maintained between internal and external audit?	1	Y	This is not explicit, but the Committee will consider the co-ordination of both annual audit plans in future
64	Does the audit committee review the adequacy of internal audit staffing and other resources?	3		
65	Has the audit committee evaluated whether its internal audit service complies with appropriate professional standards?	3		This is also subject to external review
66	Does the audit committee, in conjunction with internal audit and management, have a role in establishing and maintaining appropriate performance	3		

	indicators to measure the work of the internal audit service?			
67	Are audit committee members aware of the key issues to take into account when selecting or reviewing their internal audit function?	3		
	External Audit			
68	Are follow up audits by external audit monitored by the audit committee?	3		
69	Does the committee consider the adequacy of implementation of external audit recommendations?	3		
70	Do the external auditors present their audit plans and strategy to the audit committee for review?	3		
71	Does audit committee assess the performance of external audit?	3		Only informally. Consideration will be given to including an agenda item once a year to assess WAO performance.
72	Is the audit committee clear regarding its role in the rare event of external audit qualifying the Statement of Accounts?	3		

	Financial Reporting			
73	Does the audit committee review the external auditor's management letter when considering the financial statements?	3		
74	Does the audit committee consider whether the financial statements satisfy all statutory and regulatory requirements?	3		
75	Does the audit committee review the financial statements, external auditor's opinion and reports to members and monitor management action is response the issues raised by external audit?	3		
	Value for Money			
76	Does the audit committee include reference to its responsibility for overseeing value for money arrangements in its annual report?	1		Service delivery is the responsibility of scrutiny committees. If required it should be included in ToR
	Review			

77	Does the audit committee assess its performance on a regular basis?	3		
78	Do the members assess how they could carry out their business more effectively eg, improved meeting timetable?	3		
79	Are there KPAs in place against which the members can assess their performance?	1		Further consideration to be given to this. Attendance statistics are monitored.
80	Has the committee evaluated whether and how it is adding value to the institution?	1		ToR to be reviewed. It is adding value by fulfilling its role but consideration to be given to assess the scope and depth of the extent
81	Does the audit committee have an action plan to improve any areas of weakness?	1		An action plan will be produced
82	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	1		Co-ordinating Committee gives senior management and scrutiny chairs an opportunity to feed back but that Committee's remit does not specifically cover assurance
83	Does the audit committee benchmark its performance against good practice for audit committees in its sector and more widely as appropriate?	1		Chairs of audit committees have regional meetings but to date members have not visited other audit committees. This is an arrangement which can be put in place.

Audit Committee Work Programme	
Date	Items for consideration
2020	
07/02/20	Strategic Risk Management Internal Audit - Performance Monitoring Q3 Treasury Management Q3 Closure of Accounts Theatr Brycheiniog Audit Committee Self Assessment
23/03/20	Theatr Brycheiniog Review of Internal Audit
07/05/20	WAO Audit Plan Internal Audit - Annual Plan Strategic Risk Management Internal Audit - Annual Plan Internal Audit - Performance Monitoring Treasury Management Q4 and Annual Review Closure of Accounts Draft Annual Governance Statement
14/05/20	AGM
12/06/20	Seminar - draft statement of accounts
28/08/20	Seminar - final statement of accounts
04/09/20	Statement of Accounts 2019/20 Annual Improvement Report - WAO Annual Audit Opinion Strategic Risk Management Internal Audit Performance monitoring - Q1
10/12/20	Strategic Risk Management Internal Audit Performance monitoring - Q2 Treasury Management

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