

**SPECIAL MEETING OF AUDIT COMMITTEE**  
**31 JANUARY 2011**

Minutes of the special meeting of the Audit Committee of Flintshire County Council held in County Hall, Mold on Monday, 31 January 2011.

**PRESENT: Councillor I B Roberts (Chairman)**

**Councillors:** G H Bateman, Q R H Dodd, A M Halford, B Mullin, M J Peers and P R Pemberton

**ALSO PRESENT:** Councillor A Woolley

**APOLOGIES:** None

**IN ATTENDANCE:**

Chief Executive, Head of Finance, Head of Legal & Democratic Services, Head of Internal Audit, Clwyd Pension Fund Manager (Minute 52), Risk Manager (Minute 53) and Committee Officer

John Herniman, Wales Audit Office (Minutes 54 & 55)

**50. DECLARATIONS OF INTEREST**

There were no declarations of interest.

**51. MINUTES**

The minutes of the meeting of the committee held on 21 December 2010 were submitted.

**Matters Arising**

**Minutes 41 - A D Waste Ltd**

Councillor Pemberton stated that he had not yet received details of the valuation costs for A D Waste Ltd. The Head of Finance would discuss further with Councillor Pemberton outside the meeting before providing a response. She would also follow up resolution (b) to provide a more specific figure on the pension deficit, and apologised that this had not yet been done.

**Minute 45 - Final Reports and Performance Indicators**

The Head of Internal Audit confirmed that he had forwarded to the Human Resources section Councillor Dodd's suggestion that the monthly list of leavers be copied to the Executive Member and relevant Overview & Scrutiny Chair. The Chief Executive would progress this with the Head of Human Resources & Organisational Development and provide an update to the Chair of Audit Committee.

**RESOLVED:**

- (a) That the minutes be received, approved and signed by the Chairman as a correct record.
- (b) That the Head of Finance provide a response to Councillor Pemberton's request for valuation costs on A D Waste Ltd.
- (c) That the Head of Finance provide a more specific figure on the pension deficit.
- (d) That the Chief Executive discuss with the Head of Human Resources the suggestion made by Councillor Dodd that the monthly list of leavers be made available to the Executive Member and relevant Overview & Scrutiny Chair, and provide an update to the Chair.

**52. TREASURY MANAGEMENT POLICY & STRATEGY STATEMENT AND TREASURY MANAGEMENT PRACTICES 2011/12**

The Clwyd Pension Fund Manager introduced the report to assist Audit Committee Members in reviewing the Council's Treasury Management Policy & Strategy Statement and Treasury Management Practices with any observations to be made to the Executive meeting on 15 February 2011. The report also included a recent letter received from the Local Government Association providing an update on developments for Landsbanki investments.

The Clwyd Pension Fund Manager referred to the Treasury Management training seminar which had been held that morning provided by Sterling (the Council's Treasury Management Advisers), and discussion on the difficulties in finding counterparties for investment. There was nothing new to report on borrowing than had previously been said, and officers were looking at financial plans to see if any changes were needed. The use of Money Market Funds had also been discussed during the training and it was explained that these provided a good means of investing money, although a better return was likely from investment in the market.

Councillor Bateman referred to discussion on collared investments at the training session. The Clwyd Pension Fund Manager confirmed that the Authority held one such investment with Barclays on a two year deal at a current rate of 1.85% with potential to rise no higher than 3.7%. He advised that consideration would be given to more collared investments for the longer term, along with other available options.

Councillor Peers thanked officers for the training seminar which he felt had been very useful. He referred to paragraph 5.04 of the report on investments with other Local Authorities identified on page 68 and asked what strategy had been put in place to fit in with Flintshire's policy. He referred to information on Money Market Funds (MMF) which suggested low rates and investment management

fees, and asked about the potential for investing at higher interest rates with Building Societies.

The Clwyd Pension Fund Manager explained that the need to invest with other Local Authorities was due to the difficulty of identifying other counterparties. Local Authorities provide a safe option, although interest rates for investments are below base rate at around 0.4%. He went on to explain that Money Market Funds were AAA risk rated which meant that investment was secure and easily accessible at a higher investment return after fees, without additional risk. In addition, the change in the Policy Statement to allow more Building Society counterparties will also assist, as these deposits will be made at a relatively higher interest rate than those that had been made with other Local Authorities.

In response to queries on interest rates, the Clwyd Pension Fund Manager explained that this was difficult to forecast although there was a possibility of an increase.

**RESOLVED:**

- (a) The Audit Committee noted the quarterly update on investments and borrowing.
- (b) The Audit Committee recommend to the Executive that the Council approves the Council's Treasury Management Policy & Strategy Statement for 2011/12, which includes all Treasury Management Indicators and limits required by CIPFA and WAG.

**53. RISK MANAGEMENT UPDATE**

The Chief Executive introduced the quarterly report to update Members on a number of issues on Risk Management and Business Continuity.

It was explained that the Strategic Assessment of Risks & Challenges (SARC) document had been republished and was now available in the Members' Library and on the Infonet; hard copies could be provided on request. The SARC document had been reviewed on content and presentation/format and would be continuously reviewed.

The report detailed testing of the Corporate Business Continuity Plan and Mission Critical Plans, including those for service resilience during the severe winter weather. The Chief Executive reported on a managerial review to establish how well services were maintained against the Plans, referring also to a report recently considered by the Environment Overview & Scrutiny Committee on assisting vulnerable people during severe weather.

The Risk Manager had attended Audit Committee in September to report on the revision of the Risk Management Strategy following testing of the Corporate Business Continuity Plan. She highlighted paragraph 3.11 of the report indicating key issues arising from the testing of the Plan. Referring to the actions emerging

from service disruption, the Chief Executive stressed the importance of good communication such as providing key points of contact.

Councillor Halford referred to the indemnity policy currently used by the Council and asked who incurred the expense when a Member requested indemnity to cover legal costs. The Head of Legal & Democratic Services referred to the previous County Council meeting and discussion on arrangements for insurance cover on Code of Conduct issues as part of the indemnity. He explained that the potential impact of claims recently made on insurance premiums would not be known until the end of the week and that based on this information, he would be submitting a report back to County Council on 15 February.

Councillor Peers felt it would be useful for future Risk Management reports to include a summary on the current position together with any significant issues that the Risk team wished to highlight. The Chief Executive pointed out the challenge of summarising some extensive information in reports and said that officers were able to provide further explanation if Members wished. He referred to paragraph 3.04 explaining that where risks had been deleted, these were believed to be fully mitigated. The report also included the creation of new risks and mergers where some previously separated issues had been brought together. Amended risks were those where amendments had been made to the text.

The Chief Executive drew Members' attention to those areas representing the most high profile new risks. These were CG21 Government Spending Review, CD34 Impact of Severe Winter Weather and CD35 Grant Funding. He confirmed that future Risk Management reports would include a section on the most significant areas of concern, as suggested by Councillor Peers.

In response to Councillor Halford's query for clarification on some of the amended risks, the Chief Executive advised Members to seek a response from officers if the amendment was not evident from the updated SARC document.

Councillor Halford referred to a review of gypsies and travellers. The Chief Executive advised that a report on a regional protocol for managing unauthorised encampments had recently been received by the Executive. Councillor Pemberton raised further concerns on costs incurred by the Authority for gypsies and travellers. The Chief Executive advised that the Welsh Assembly Government offered capital funding to assist with partnership working on permanent authorised sites. The risk rating for gypsies and travellers remained as red, representing the Authority's responsibility to manage these complex issues.

The Head of Legal & Democratic Services commented that the risk had changed over the past few years, partly due to the encampment at Dollar Park. He went on to advise that an appeal against the planning application at Dollar Park had been heard and a decision was awaited.

In response to a query from Councillor Bateman, the Chief Executive confirmed that revenue was received from permanent encampments.

**RESOLVED:**

- (a) That the report be noted.
- (b) That a summary be included in future quarterly Risk Management reports to indicate any significant areas of concern.

**54. UPDATE FROM WALES AUDIT OFFICE**

Mr John Herniman of Wales Audit Office provided a verbal update following his report at the September meeting when the 2009/10 Statement of Accounts had been signed off and various high level issues had been reported. A number of procedural issues had been brought to the Council's attention and a report with 28 recommendations had been agreed with management.

Mr Herniman reported on the retirement of Mr Kevin Emmitt who had previously managed the audit for Flintshire. Although an interim manager, Mr Derwyn Owen, had since been appointed, a permanent replacement would be sought over the next few months. However, the interim arrangements were working well, with Mr Ron Parker overseeing the process as Team Leader.

Councillor Halford referred to the negative publicity surrounding certain officers at the Wales Audit Office. Mr Herniman acknowledged the unfortunate press following the departure of the former Auditor General for Wales, as a result of which a due diligence review had been undertaken. Further allegations made against the Wales Audit Office (WAO) had been reported back to the Public Accounts Committee, however, a National Audit Office review and a WAO internal audit review had found no evidence of points raised in these anonymised allegations. Reports were available on the National Assembly's website. The new Auditor General, Mr Huw Vaughan Thomas was taking a firm stance on current arrangements to ensure there were no further incidents.

The Chief Executive said that core audit work had continued uninterrupted during these difficult times for WAO and that more transparency was needed in performance work fee charging.

Mr Herniman gave an assurance that Flintshire had received the service paid for and would be consulted on the fee rate, however he agreed to take back the comments made by the Chief Executive.

**RESOLVED:**

That the verbal report be noted.

**55. WALES AUDIT OFFICE REPORT ON INTERNAL AUDIT**

Mr John Herniman introduced the report to advise of the results of the Wales Audit Office Assessment of Internal Audit.

It was explained that part of the role of Wales Audit Office was to undertake an annual assessment of Internal Audit services against CIPFA standards. Out of the 11 standards, the Authority was fully compliant with seven and partially compliant with four. There were no major concerns, and all eight recommendations, shown on page 84, could be rectified.

The Head of Finance confirmed that she and the Head of Internal Audit were content with the report and suggested that it would be helpful to include an action sheet with the next report to show an acknowledgement of the recommendations and indicate timescales for actions.

The Head of Internal Audit pointed out the change in method by Wales Audit Office to that used previously by PricewaterhouseCoopers, and that the review had taken place in May/June 2010. Some of the recommendations related to the Audit Plan which would be considered at the next Audit Committee meeting in March, with further actions on the annual report to be brought to the June meeting.

Councillor Dodd suggested that the recommendation for Members to accept the report be replaced to reflect that Members accept the report including all recommendations and to receive a further full report on implementation of all recommendations at the June meeting. The Head of Finance concurred, hence her previous suggestion on the introduction of an action sheet.

The Chief Executive pointed out that if a further report was to be made then the Head of Finance would need to report personally on this to avoid a conflict of interest for the Internal Audit Manager.

Councillor Peers agreed with Councillor Dodd's proposal, suggesting that the recommendation be changed to "That the committee is requested to consider the report and accept the recommendations". Actions would be recorded on the action sheet, with any recommendations staying as such.

Councillor Halford sought clarification on some of the issues identified on page 83. The Head of Internal Audit explained that some were housekeeping issues where signatures had been omitted, however Wales Audit Office was satisfied with the standard of work and this was confirmed by Mr Herniman.

The Chief Executive asked that recommendations be kept in perspective. He explained that Recommendations 1, 4 and 7 were fairly routine processes, whereas 2, 3, 5 and 6 required more work and work on 8 was already in progress.

Some issues within the recommendations had already been raised as part of the Audit Plan, such as making better use of Audit resources, however more rigour and checks were required.

Councillor Bateman asked about resources in Internal Audit which had previously been discussed at Audit Committee. The Head of Finance said that a report had been considered at the November meeting on the review of the Internal Audit section. The report had since been forwarded to the Executive where the

new structure had been approved. The Head of Finance and the Head of Internal Audit were now overseeing the implementation stage of the restructure. The Head of Finance advised that both were satisfied that there were sufficient staff resources within the section to complete the Audit Plan and there were no risks. Training and development plans would be an integral part of implementing the new structure. She also reported that an Internal Audit officer had undertaken training on IT auditing, an area where services had previously been bought in. It was hoped that the section would become more self-sufficient over time.

The Chief Executive said that resources for Internal Audit were sufficient and that capacity had not been compromised in the recent reviews. There was a need to find efficiencies internally and the new structure was a natural culmination of that. On IT auditing services, he said that an increased use of expertise within the region was expected and that collaborative working would be explored.

The Chair asked if the committee wished to accept Councillor Dodd's proposal and this was agreed.

The Head of Finance reported that the management of Internal Audit was currently out to tender, with the closing date on 1 February. An evaluation of the tenders would be carried out over the coming weeks and a formal report on the outcome at Audit Committee on 24 March. In response to a query from Councillor Halford, the Head of Finance advised that the Chair and Vice-Chair would be included in the final selection panel.

**RESOLVED:**

- (a) That the report be noted.
- (b) That Members accept the report including the recommendations and receive a full report on the implementation of all recommendations at the June meeting.

**56. DURATION OF MEETING**

The meeting commenced at 2.00pm and finished at 3.10pm.

**57. ATTENDANCE BY MEMBERS OF THE PRESS AND PUBLIC**

There was one member of the press present.

.....  
**Chairman**

**SUMMARY OF DECLARATIONS MADE BY MEMBERS**  
**IN ACCORDANCE WITH FLINTSHIRE COUNTY COUNCIL'S**  
**CODE OF CONDUCT**

<b>AUDIT COMMITTEE</b>	<b>DATE: 31 JANUARY 2011</b>
------------------------	------------------------------

<b>MEMBER</b>	<b>ITEM</b>	<b>MIN. NO. REFERS</b>
NO DECLARATIONS WERE MADE		