

**MEETING OF AUDIT COMMITTEE**  
**28 SEPTEMBER 2011**

Minutes of the meeting of the Audit Committee of Flintshire County Council held in County Hall, Mold on Wednesday, 28 September 2011

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

**Councillors:** G.H. Bateman, Q.R.H. Dodd, A.M. Halford and M.J. Peers

**SUBSTITUTION:** Councillor E.F. Evans for B. Mullin

**ALSO PRESENT:** Councillors J.E. Falshaw and A. Woolley

**APOLOGY:** Councillor P.R. Pemberton

**IN ATTENDANCE:**

Chief Executive, Head of Finance, Internal Audit Manager, Corporate Finance Manager, Clwyd Pension Fund Manager, Head of Corporate & Capital Accounting (Minute 23 & 24), Democracy & Governance Manager and Committee Officer

John Herniman and Amanda Hughes - Wales Audit Office

**21. DECLARATIONS OF INTEREST**

The Chairman declared an interest in the following agenda items:

5 - Audit of the 2010/11 Financial Statements : Clwyd Pension Fund - Report by Wales Audit Office (WAO)

6 - Certification of Grant Claims and Returns 2009/10

**22. MINUTES**

The minutes of the meetings of the Committee held on 29 June and 13 July 2011 were submitted.

**Minutes 13 July 2011 - Matters Arising**

On the Treasury Management Update, Councillor G.H. Bateman requested an update on discussion with Members on the Council's investments. The Head of Finance advised that some Members had met with Finance officers and the Council's Treasury advisers the previous day to look at possible options and consider the risk and return for particular levels of investment in the Council's portfolio. She said this had been a useful discussion and that the Treasury Management Policy and Strategy Statement 2012/13 would be considered at Audit Committee in March 2012.

## **RESOLVED:**

That both sets of minutes be approved as a correct record and signed by the Chairman.

### **23. STATEMENT OF ACCOUNTS 2010/11 and AUDIT OF THE 2010/11 FINANCIAL STATEMENTS - REPORTS BY WALES AUDIT OFFICE (WAO)**

The Head of Finance advised that following consultation with the Chairman, the report on the Statement of Accounts 2010/11 and the Wales Audit Office (WAO) report on agreed changes during the course of the audit, would be considered together.

The Chairman and the Head of Finance apologised for the delay in Members receiving these reports, due to the need to complete discussions between Finance officers and the WAO in finalising the accounts.

The draft Statement of Accounts had been presented to the Committee in July 2011 where officers had responded to Members' questions. A number of outstanding questions had been answered in a written response to Members and two drop-in sessions had been held in early September 2011 for Members to discuss additional queries. The Head of Finance highlighted four significant issues identified in the WAO report in relation to:

- how the value of the Council's housing assets were reflected in the accounts;
- the adequacy of accountancy provision for any equal pay liability, although the Council's position had not yet been agreed;
- improvements to the presentation of the Annual Governance Statement; and
- an 'emphasis of matter' note included in the Clwyd Pension Fund report to bring to the Committee's attention the risks on the valuation of unquoted investments.

The Head of Finance thanked WAO colleagues for their work in completing the audit over the Summer and recommended the Statement of Accounts to the Committee for approval.

Councillor M.J. Peers commented that as the draft Accounts had been presented earlier in the year prior to the final version being considered today, it may have been useful for Members to see the changes that had been agreed at the draft stage to show the differences between the two documents. The Head of Finance said this was a useful observation and added that the WAO reports on the audit of financial statements for Flintshire County Council and the Clwyd Pension Fund each contained an appendix showing a summary of corrections made to the draft accounts.

Mr Herniman of WAO provided further explanation on the lateness of the availability of the reports due to the amount of work in preparing and auditing the Statement of Accounts. He referred to the complexities resulting from changes to

the International Financial Reporting Standards (IFRS) which he said made Local Government accounting difficult and could result in similar delays in the future.

### Audit of the Financial Statements Report for Flintshire County Council

Mr Herniman reported that an unqualified opinion would be issued, however a number of items had been identified as highlighted earlier by the Head of Finance. On the application of accountancy policy in relation to housing stock valuation (paragraph 11-15 of the WAO report), the Council had adopted the Beacon principle, currently valuing 20% of stock on a rolling basis. However, this was only valid if the sample was an accurate representation of the total stock which was not the case. This had resulted in the figures being overstated by £128M which was classed as a book-keeping error. The amount had been restated within the accounts, however a full revaluation would be required in the event that the housing stock was transferred following a ballot.

A number of small balancing items had been identified (paragraphs 17-18) along with some inconsistencies in the presentation of the accounts (paragraphs 19-23). Finance officers would be working with WAO colleagues to rectify these for next year.

A significant issue related to the Council's assessment of potential liability for equal pay claims (paragraphs 25-28) and WAO had obtained legal opinion that such payments should be pensionable although there were varying opinions on this nationally. Although the estimate had been updated, this should have been addressed earlier in the year at the draft stage for the final accounts. Mr Herniman was satisfied that a reasonable accounting estimate had been made but said that more work would be required to support this.

Councillor A.M. Halford was concerned about the overstatement on the valuation of housing stock and asked about any knock-on effect on services to tenants. Mr Herniman explained that around 21% of the stock had been valued and multiplied by five, however this did not give a representative sample of different types of housing and had resulted in the overestimate. He said there were no implications for services and that this was a book-keeping issue as the accounting policy had not been correctly applied. The Chief Executive expressed his disappointment at the error, particularly in view of the forthcoming housing ballot and any confusion that discussion over housing stock value may cause as an accounting issue. He reassured Members that there would be no impact on the Council's Asset Management Strategy for housing or reported modernisation costs.

In response to a further question from Councillor Halford on the valuations, Mr Herniman said it was his view that the valuers had done as they had been asked, in an appropriate manner, but that incorrect assumptions had been applied and misinterpreted in the accounts. The Chief Executive stressed that the situation was taken seriously and that a more robust model would be put in place in future. The Head of Finance added that officers had worked with auditors on resolving this and more detailed information could be brought to the Committee at a future date.

Councillor Peers referred to the issue on balancing entries (paragraph 17) and Mr Herniman said that following previous concerns, the Council had purchased Chartered Institute of Public Finance and Accountancy (CIPFA) software to help compile cashflow statements. The out of balance figure had since been reduced from £22M to £660K, however this initial figure would have been reduced further in the draft accounts if the software had been procured at an earlier stage. The Head of Finance said it was regrettable that this had not been dealt with earlier but a significant amount of work and resources had been required to deal with changes to the IFRS.

#### Audit of the Financial Statements for Clwyd Pension Fund

Mr Herniman advised that an unqualified opinion would be issued, and that an 'emphasis of matter' in Note 6 had been included in connection with the £218M in unquoted investments due to the inherent uncertainties of the value of these investments. He highlighted two issues in respect of pensionable equal pay provision (paragraphs 15-19) and delays with payments for pension entitlements (paragraphs 20-21).

In respect of the late pension payments, Councillor Halford referred to concerns arising from a previous review of pensions administration and asked why problems were still occurring. She commented on the hardship effect on pensioners and asked if the Council was liable to pay interest or compensation. Mr Herniman said that this related to the start of a pension so would only affect new pensioners. The Head of Finance confirmed that there were no issues about ongoing pension payments and that the Clwyd Pension Fund Panel regularly received updates on all pension matters. She said it was the Council's intention to pay pensions on time and that the number of people affected should be kept in context given that the fund served pensioners of three Local Authorities and a range of other admitted bodies. It was recognised that the delays had occurred due to a variety of issues including getting information from employing bodies to Pensions as well as delays within the Pensions Section. Work was being done to resolve this as quickly as possible. Councillor Halford requested a written indication of the number of potential compensation claims arising from these delays.

In relation to the WAO comment about the absence of organisation change, (paragraph 24), Councillor Peers sought assurances on when service standards would be met. Mr Herniman said it was his understanding that the implementation of the Finance Function Review would aim to address these issues and this would be followed up in the coming months. The Head of Finance said that the new structure for the Finance Division, which included Pensions, had been agreed in November 2010 and work was underway to implement this as soon as possible. This was nearing completion including advertising for additional resources to expand the section and replace temporary arrangements.

The Chairman asked that thanks be passed to all those involved in the preparation of the papers and the Head of Finance said that this extended beyond Finance to the whole of the Authority. The Chief Executive said that the additional

work arising from the IFRS changes should not be underestimated and thanked WAO colleagues for their support and guidance in highlighting issues.

**RESOLVED:**

- (a) That the final version of the Statement of Accounts 2010/11 be recommended to County Council; and
- (b) That the reports from the Wales Audit Office be noted.

**24. CERTIFICATION OF GRANT CLAIMS AND RETURNS 2009/10**

The Head of Finance presented the report to inform Members of the grant claim certification for the year ended 31 March 2010. The Wales Audit Office (WAO) report on this had been attached as an appendix to the report.

Ms Hughes from WAO advised that the Council had submitted 32 grant claims for 2009/10, including 12 which had been qualified and eight amended. Some issues were common to other Local Authorities but improvements were needed in relation to i) claims being supported by adequate working papers, ii) queries responded to on a timely basis and iii) contracts not amended in accordance with Standing Orders. An agreed Joints Grants Protocol was attached to the report, together with a Grant Completion Checklist which would help to address some of the issues identified. Ms Hughes added that the WAO charged on an hourly basis for grant work and therefore any such delays would impact on the fees.

Councillor A.M. Halford sought clarification on the reasons for delays in returning claims and verification of information (paragraphs 21-24) and the repercussions of the asset register not being properly maintained (paragraph 33). Ms Hughes explained that delays had been due to the lack of supporting papers provided by the Council and difficulties in being directed to the relevant officer to resolve queries. She was confident that implementing the Grant Completion Checklist would ensure that all relevant working papers were available on files which would enable WAO to complete the audit without delay. She highlighted the importance of properly maintaining the asset register, particularly for disposal of assets and said that problems may have arisen due to officers not realising that this needed to be done for all contracts, including those in relation to grant monies.

Following a query from Councillor G.H. Bateman on Exhibit 1 of the report, it was explained that the chart indicated the reasons for the 12 qualified grant claims and that some of these had more than one reason. In response to a further question, Ms Hughes said she considered a total of 20 qualified and amended claims out of 32 to be a high figure. Councillor Bateman asked if the Council had a corporate grants officer and whether a corporate grants register was kept up-to-date. The Corporate Finance Manager explained that although the Council did not have a corporate grants officer, each Directorate had their own officer with responsibility for grants and a corporate grants database was controlled by Finance and accessible to other officers. He felt that the database had not been

used as well as it could have been, but this would be reviewed as part of the Corporate Finance service plan.

Councillor Q.R.H. Dodd said that when the accounts were signed off for next year, a comment should be included to report on progress with the inconsistencies in grants, for the benefit of Audit Committee Members.

The Chief Executive said it was important to differentiate between grants received via the Welsh Government (WG) or its agencies, and those competitive grants that the Council pursued. Following WAO comments on delays due to gathering papers and seeking officer responses to queries, it was noted that departments outside Finance were also involved in the grants process and the Chief Executive said that he and the Head of Finance would look to prevent any future delays.

In response to a question from Councillor Bateman on a delay in the audit for the HRA Subsidy for 2009/10 requested by WG, Ms Hughes explained that this was a delay by the awarding body in agreeing certification and was a national issue affecting all Local Authorities.

Councillor M.J. Peers asked about the control and customisation of the Grant Completion Checklist. He referred to the Accountant Declaration and suggested that this could be allocated a reference number for the claim to tighten up controls. It was explained that the WAO had provided the Checklist which comprised documents to be made available on the file to auditors. The Checklist was to become a working document for Flintshire and could therefore be customised. Ms Hughes agreed to liaise with the Corporate Finance Manager on the suggestion for a reference number.

On the 2009/10 claims and returns certified to date, Councillor Bateman referred to that for Communities First (RG02). The Head of Finance explained that errors had occurred due to the people dealing with the claim misunderstanding what paperwork needed to be kept, however this had now been resolved.

In response to a question from Councillor Halford on the winding up of A D Waste and any payment to a Member, the Chief Executive said that specific information could be provided to Councillor Halford outside the meeting.

In response to a query from Councillor Bateman on the qualified claims shown on page 22, Ms Hughes said it had been identified on four different claims that grants had not been awarded in line with conditions in the Council's Standing Orders. She said this was a non-compliance issue and that all grants officers should be reminded that conditions should be met for claims using grant monies.

**RESOLVED:**

That the content of the Grant Claim Certification for 2009/10 be noted.

## **25. HOUSING AND COUNCIL TAX BENEFITS UPDATE REPORT**

The Head of Finance presented the update report on the final outcome of the Wales Audit Office (WAO) 2009/10 Housing and Council Tax Subsidy Audit and progress made in relation to the Benefit Action Plan. This had been produced to deal with the issues arising from the reports to improve the standard of the Benefit Service and to maximise income to the Council through subsidy payments.

It had previously been reported that the £397,000 projected loss of subsidy for failure to secure rent officer referral had been reduced to £40,000. Further work between the Council, WAO and Department of Work & Pensions (DWP) had further reduced this figure to £10,000 subject to DWP acceptance. The Head of Finance gave an assurance that rent officer referrals were being dealt with on an ongoing basis to claim the correct amount of subsidy. She also highlighted joint working with Council officers and the DWP Performance & Development Team (PDT) in making improvements to the service, shown in paragraph 3.02 of the report.

On the Benefits Improvement Plan, Councillor M.J. Peers sought clarification on IT issues and also suggested that a set standard may be helpful for those carrying out scanning and indexing. It was explained that the Benefits service was a major user of IT software and that some performance issues had been identified earlier in the year following difficulties in extrapolating information. Officers were working with the software supplier to resolve this, in addition to holding discussions with some Authorities in England on their use of the same software. It was explained that the DWP PDT had identified improvements in scanning and indexing processes, and that a team, rather than individuals, was responsible for carrying out this work to the same standard as set out by management.

The Chairman queried references to 'outer offices' in paragraph 3.02 of the report. The Head of Finance said that this related to the Flintshire Connects project to ensure that the workforce was prepared to deal with customers' needs.

In connection with Local Housing Allowance changes, Councillor A.M. Halford enquired about the Council's responsibility to make up benefit shortfalls in exceptional cases. The Head of Finance explained that notice had been given on benefit changes to allow people to prepare for these changes from January next year. A Discretionary Housing Budget was available to provide transitional, but not ongoing, help for people with particular issues at that point in time. Officers were working with a range of agencies including the voluntary sector on how people could be assisted to deal with the change in circumstances.

The Chief Executive said there was concern about the impact of these national benefit reforms. He stated the importance of noting the outcomes of this report on progress made in management of people and systems in the Benefits service.

**RESOLVED:**

- (a) That the report be noted; and
- (b) That a progress report be made to the next Audit Committee meeting on the Action Plan and the 2010/11 Subsidy Claim.

**26. TREASURY MANAGEMENT UPDATE**

The Clwyd Pension Fund Manager presented the update report on matters relating to the Council's Treasury Management Policy, Strategy and Practices 2011/12 to the end of August 2011.

He stated that in the current financial climate, it was important to ensure that appropriate steps were being taken in terms of risk with the Council's deposits. There was no further update on Landsbanki following the recent Court hearings, however a communication was expected in October 2011.

Councillor M.J. Peers shared the officers' approach in relation to risk and referred to the good rates of interest shown on the list of the Council's investments on Appendix 2 to the report. On the mid year report, he enquired about the rationale for two separate investments with the Bank of Scotland of £2M each at the same rate of 2.65% and the potential to increase the £30M limit for non-specified investments. The Clwyd Pension Fund Manager said that the two separate deals for investments of £2M each had been due to cashflow issues in that particular period. The limit was not likely to be increased due to the credit risk.

**RESOLVED:**

- (a) That the report be noted; and
- (b) That the Treasury Management Mid Year Report 2011/12 be presented to the Executive on 18 October 2011.

**27. BRIBERY ACT 2010**

The Democracy & Governance Manager introduced the report to advise of the implications of the new legislation and to make recommendations appropriate to the Council.

The report highlighted where the offences were detailed in the four sections of the Bribery Act and the implications for the Council. The Democracy & Governance Manager explained that the Officers' Code of Conduct would require amendment to refer to the new Act, however no changes were needed for the Members' Code of Conduct. He suggested that the third recommendation be changed to 'Liaise with the Welsh Local Government Association (WLGA) and RSM Tenon Plc to see that Flintshire takes appropriate steps to prevent bribery.'



Councillor Q.R.H. Dodd asked if the Act placed greater or less emphasis on the responsibility of line managers. The Democracy & Governance Manager said that neither was the case, as everyone needed to be aware of the legislation to avoid complacency. He felt this was an opportunity to remind officers and Members of their responsibility.

The Chief Executive said that any legal case on bribery would be rare. Any allegation of “collusion” between employees and contractors could be deemed a failing in duty but this was more likely to be a performance issue rather than a legal one.

Mr Herniman highlighted paragraph 3.03 of the report which indicated an increased emphasis on corporate offences and the implications if no arrangements were put in place to avoid this. The Democracy & Governance Manager explained that technically, the Council did not fall within the definition of a commercial organisation, nevertheless preventative measures needed to be taken.

The earlier suggestion made by the Democracy & Governance Manager to amend the third recommendation was then agreed by the Committee.

**RESOLVED:**

- (a) That the summary of the Bribery Act’s offences be noted;
- (b) That the implications of the Act on Local Authorities be noted; and
- (c) To liaise with the Welsh Local Government Association (WLGA) and RSM Tenon Plc to see that Flintshire takes appropriate steps to prevent bribery.

**28. DURATION OF MEETING**

The meeting commenced at 10.00am and finished at 11.50am.

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

There was one member of the press in attendance.

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**Chairman**

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

<b>AUDIT COMMITTEE</b>	<b>DATE: 28 SEPTEMBER 2011</b>
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<b>MEMBER</b>	<b>ITEM</b>	<b>MIN. REFERS</b>	<b>NO.</b>
Cllr I B Roberts	5 - Audit of the 2010/11 Financial Statements : Clwyd Pension Fund - Report by Wales Audit Office (WAO)	23	
Cllr I B Roberts	6 - Certification of Grant Claims and Returns 2009/10	24	