

AUDIT COMMITTEE
15 JULY 2015

Minutes of the meeting of the Audit Committee of Flintshire County Council held in the Clwyd Committee Room, County Hall, Mold on Wednesday, 15 July 2015

PRESENT: Councillor Tim Newhouse (Chairman)

Councillors: Glyn Banks, Haydn Bateman, Alison Halford, Ian Roberts and Arnold Woolley

LAY MEMBER: Mr Paul Williams

SUBSTITUTE: Councillor Ian Dunbar (for Alan Diskin)

APOLOGIES: John Herniman and Amanda Hughes of Wales Audit Office

ALSO PRESENT: Leader and Deputy Leader of the Council, Cabinet Member for Waste Strategy, Public Protection & Leisure

IN ATTENDANCE:

Chief Executive, Chief Officer (Governance), Internal Audit Manager, Corporate Finance Manager and Committee Officer

Ms. Michelle Phoenix of Wales Audit Office

Finance Manager - Technical Accountancy for minute numbers 20-23

Chief Officer (Organisational Change) for minute number 24

Chief Officer (Streetscene & Transportation) and Principal Auditor for minute numbers 27-29

17. SUBSTITUTION

In line with the Constitutional requirement, the Committee agreed to allow Councillor Ian Dunbar to substitute for Councillor Alan Diskin. It was confirmed that Councillor Dunbar had undertaken the necessary audit training.

RESOLVED:

That Councillor Ian Dunbar be permitted as a substitute for the meeting.

18. DECLARATIONS OF INTEREST (INCLUDING WHIPPING DECLARATIONS)

There were no declarations of interest.

19. MINUTES

The minutes of the meeting held on 3 June 2015 were submitted.

Matters Arising

Minute number 6: Audit Report on Mobile Phones - Councillor Ian Dunbar expressed his thanks for the information on Blackberry phones.

RESOLVED:

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

20. DRAFT STATEMENT OF ACCOUNTS 2014/15

The Corporate Finance Manager presented the Statement of Accounts 2014/15 (subject to audit) for Members' information only at this stage. To meet the statutory deadline, the accounts would be submitted to the Committee on 24 September for approval and recommendation to County Council on the same day, ready to be published on 30 September. This was a corporate document owned by every Member and officer of the Council and was the result of significant work across the Authority, in particular the Technical Accounting team in Corporate Finance.

A presentation was made covering the main areas:

- Purpose and Background
- Key Dates
- Responsibility
- Contents and Overview
- Links to Budget Monitoring
- Headlines - Council Fund, Reserves at Year End, Capital and Housing Revenue Account (HRA)
- Principal Statements
- Changes
- Progress on Action Plan
- Next Steps

The Finance Manager provided explanation on changes to the accounts in respect of new guidance on accounting for schools and the Council-owned North East Wales (NEW) Homes. Following national guidance on simplifying Local Authority accounts for the reader, a judgement had been taken that neither of the changes were material and therefore explanation had been set out in the accounts in disclosure Notes 39 and 30 respectively rather than the inclusion of a third balance sheet and a full set of group accounts. All Members would be notified in writing of the drop-in session in September which provided an opportunity to raise any queries on the accounts with Finance officers prior to final approval at County Council. An updated response was also given on actions taken to address the issues raised by Wales Audit Office (WAO) on the 2013/14 accounts following the action plan shared with the Committee earlier in the year.

Councillor Alison Halford referred to the increase in the precept for the North Wales Police & Crime Commissioner and felt that information should be shared with the public on use of these public funds. The Chief Executive said that this detail was not included in the accounts as the Police & Crime

Commissioner role was entirely funded by central government and not subsidised from the precept. He advised that Mr. Roddick's presentation at the County Council meeting the following week would include this type of information, and that Members would have an opportunity to raise further questions.

In response to a question on remuneration for Cabinet Members, the Chief Officer (Governance) advised that the annual report on the Schedule of Member Remuneration would be submitted to the next County Council meeting. The Chief Executive gave a reminder that the model in Flintshire comprised eight Cabinet Members (out of a maximum of ten permitted) and was therefore more cost-effective than some other councils.

On usable reserves, Councillor Haydn Bateman queried the transfer-in figure for Single Status. The Chief Executive said that the closing report on Single Status, as submitted to the Corporate Resources Overview & Scrutiny Committee earlier in the week, would be forwarded to Committee members for information. He advised that the remaining balance of reserves set aside would fund any future liabilities arising from incomplete workstreams together with future exit costs as part of the next phase of the business plan.

Councillor Halford requested details of the legal fees incurred by the Council in defending planning appeals together with any legal advice obtained externally on matters where this was not available in-house. The Finance Manager explained that the information was included in the accounts but not required by the Code of Practice as a headline figure. She agreed to extract this from the various budgets and respond to Members.

On officers' remuneration, Mr. Paul Williams queried the total exit packages for 2014/15. The Finance Manager explained how redundancies had been classified into compulsory and voluntary. The Chief Executive explained that the Council's policy was for all redundancies, whether voluntary or compulsory, to receive reimbursement against salary up to a maximum of 45 weeks, depending on the respective length of service. It was also pointed out that costs included the redundancy payment to the individual and additional pension 'strain' costs for the employer. Following comments from Mr. Williams that this should be qualified in some way within the accounts, the Chief Executive said that the Pay Policy Statement and Redundancy Policy could be referenced as part of the publication of the final accounts.

In response to questions from Councillor Glyn Banks, the Finance Manager provided information on the Council's borrowing for the HRA subsidy buyout which took place on 2 April and was therefore in the 2015/16 financial year. Note 23 had been included to inform the reader however no adjustment was needed to the accounts. When asked about NEW Homes, the Finance Manager explained that the income and expenditure at this early stage of the company was not considered to be material to the reader in comparison to that of the Council. This decision would be considered by WAO colleagues as part of the audit. In response to formatting issues raised by Councillor Banks, the Finance Manager noted these but said that careful consideration had been given to the presentation of the accounts including the cross-referencing of notes.

Councillor Bateman commented on the decrease in Council dwellings and was advised that this was a combination of Council properties being purchased by individuals and the demolition of the Flint maisonettes.

Mr. Williams referred to the increase in rent arrears written off during the period and sought assurance that the process of decision-making was being scrutinised. He was advised that this was under the remit of the Community & Enterprise Overview & Scrutiny Committee. To give assurance, the Chief Executive said that this could be considered by Corporate Resources Overview & Scrutiny Committee in the next budget monitoring report.

In response to a query by Mr. Williams on the increase in Net Fund Management Fees on the Clwyd Pension Fund, it was agreed that this would be raised at the next meeting of the Clwyd Pension Fund Committee.

RESOLVED:

- (a) That the draft Statement of Accounts 2014/15 (including the Annual Governance Statement), together with the underlying policies, be noted;
- (b) That the planned provision of 'drop-in' sessions over the summer period be noted.

21. ANNUAL GOVERNANCE STATEMENT

The Internal Audit Manager introduced a report to consider and approve the draft Annual Governance Statement (AGS) for 2014/15 which had been incorporated in the previous agenda item. The report detailed the work involved in producing the AGS, which was a statutory requirement, and preparations had involved the use of relevant guidance with input by senior officers and Members. As a result of the informal review of the draft AGS which had taken place prior to the June meeting, an amendment had been made to the section on in-year business planning to reflect the new risk management arrangements. No further queries had been raised with the Internal Audit Manager since the review.

The Chief Executive spoke about the level of work committed by officers to update governance arrangements and the approach to risk.

RESOLVED:

That the Annual Governance Statement attached to the Statement of Accounts be approved.

22. SUPPLEMENTARY FINANCIAL INFORMATION TO DRAFT STATEMENT OF ACCOUNTS 2014/15

The Finance Manager - Technical Accountancy presented supplementary financial information to accompany the Draft Statement of Accounts 2014/15. Members were reminded that the information on consultants and non-permanent posts across the Council showed the theoretical annualised costs if those individuals had been employed for the whole year, as well as the actual costs incurred.

Following a question by Councillor Alison Halford, the Chief Officer (Governance) provided information on the IT work carried out by System Centre consultancy to help upgrade the Council's servers. Due to the scale of the project, external resources had been necessary to complete this significant piece of work as a one-off project.

In response to a query on costs incurred for the Occupational Health Physician, the Chief Executive said that the service was being delivered by a GP for one day per week, which was a more cost-effective model than the previous arrangement. The service was being shared by Wrexham County Borough Council on a commercial basis.

Following a question from Councillor Ian Dunbar, the Chief Executive advised that some costs, such as the Occupational Health service, were ongoing whereas others such as the SHARP Procurement Manager represented one-off costs. This complex, high-risk project required specific expertise not currently available within the Council however that experience had been passed to officers during the project.

Mr. Paul Williams queried the remuneration level for the Principal Accountant (Waste). The Chief Executive explained that the individual had been transferred to the Council under TUPE regulations which offered protection and had left the Council. The costs incurred were likely to be a combination of salary and redundancy payments.

RESOLVED:

That the contents of the report be noted.

**23. TREASURY MANAGEMENT ANNUAL REPORT 2014/15 AND 2015/16
QUARTER 1 UPDATE**

The Finance Manager - Technical Accountancy presented the Annual Report on the Council's Treasury Management Policy, Strategy and Practices 2014/15 together with an update on Treasury Management activity in 2015/16 to the end of June 2015.

An update on investments in Quarter 1 showed the position at 30 June along with comparative information for the previous quarter. Explanation was also given on the dip in yield due to the impact of banking reforms ('bail-in') as highlighted at previous meetings. During the borrowing update, reference was made to the implications of the exit from the Housing Revenue Account (HRA) subsidy system and the new arrangement which would generate revenue savings for investment in existing stock and extra housing.

In response to comments from Councillor Glyn Banks, the Finance Manager provided explanation on the terms of ending the subsidy system which meant that the Council was required to draw down loans to deliver a minimum interest payment of £3.3m for each of the first five years following settlement. At the end of the five years, dependent on wider market conditions, the Council could consider re-financing or repaying the loans. In response to a query on

investments, the Finance Manager spoke about the expectation for interest rates to rise and the exploration of new products that offered 'floating' rates moving with interest rates. When asked about details on the rescheduling of outstanding loans, she explained that this would form part of budget-setting work over the Summer period and would be included within the next Treasury Management update to the Committee.

On the investment portfolio, Councillor Haydn Bateman questioned the lower interest rate for the Oversea-Chinese Banking Corporation. The Finance Manager said that those recent investments had been made possibly due to the lower number of counterparties on the list and the agreed approach to spreading investments amongst as many counterparties as possible to reduce the impact of default.

Councillor Ian Roberts asked if the Council had received notification from NatWest Bank prior to the announcement of the branch closure in Buckley and whether any alternative arrangements had been made with schools and other users in that area. He added that users such as schools should not be disadvantaged by having to undertake additional journeys to pay in lunch monies and that there should not be no such additional costs to the Council on alternative arrangements. The Finance Manager confirmed that the Council had been informed and that NatWest was working with the Council to identify which establishments were using the branches closing in September. Work was underway to write to all regular users to ascertain details of transactional arrangements so that other viable options could be put in place prior to the closures, eg use of Post Offices or cash collection contracts.

RESOLVED:

That the report be noted.

24. ASSET DISPOSALS AND CAPITAL RECEIPTS GENERATED 2012/13 - 2014/15

The Chief Officer (Organisational Change) presented information regarding the disposal of assets during the period 2012/13-2014/15 and the capital receipts generated. He referred to a fall in the level of capital receipts in the current economic climate and work being carried out to protect this key resource. It was important that capital receipts were not ringfenced - an approach adopted some years ago - to allow use across the Council's strategic programme of activity. Appended to the report were details of targets and actual capital receipts generated over the period banded by values, area and asset types. At February 2015, it was anticipated that capital receipts for 2015/16 would be in the region of £2.8m.

Councillor Alison Halford asked if information could be broken down into each sale to give assurance on value for money. The Chief Officer explained that the information provided had been specifically anonymised as some were not yet available in the public domain. He said that the Council's Valuation Service considered each case in detail and often sought independent secondary advice on asset values from the District Valuer as a further measure. It was clarified that

local Members were able to request confidential information on asset disposals in their areas.

In addition, Councillor Ian Roberts gave a reminder that the consent of local Members was sought on the sale of land in their wards.

Councillor Halford referred to the difference between predicted and actual capital receipts generated in 2014/15 and felt that more information should be made available in the interests of transparency. The Chief Officer explained that the outcome of sales depended on the movement of the market and the ability of those involved to complete the sale transaction. He added that the figures mainly covered agricultural estates and that the receipts put the Council in a positive position to fund its capital priorities.

In response to further comments, the Chief Officer (Governance) reiterated that Members were entitled to request details of land sales for their areas but that confidentiality would need to be maintained to avoid prejudicing future land sales.

As assurance to the Committee, the Chief Executive said it was the responsibility of the Council's Assets Board, which included the Cabinet Member for Environment, to scrutinise the value of assets released and that the completed sale of two assets earlier than predicted had resulted in the target for 2014/15 being exceeded.

Mr. Paul Williams felt that the information provided did not contain enough detail for the Committee to determine value for money. Whilst acknowledging the confidential nature of the matter, he suggested that this could be maintained by the schedule indicating categories such as 'Property A', and giving details of value, sale amount and cost savings.

The Chairman said that the report would be received on an annual basis by the Committee.

As a member of the Assets Board, the Cabinet Member for Environment, who was present in the public gallery, gave assurance that a check and balance was in place for every capital receipt generated, with additional information sought and challenged where necessary.

RESOLVED:

That the report be noted.

25. ACTION TRACKING

The Internal Audit Manager presented an update report on actions carried out to date from points raised at previous meeting of the Committee. All actions stated were either in progress or had been completed.

RESOLVED:

That the report be accepted.

26. FORWARD WORK PROGRAMME

The Committee received the report on the Forward Work Programme for the next year. In response to a comment by Councillor Alison Halford, the Internal Audit Manager confirmed that a follow-up report on recommendations from the report on Waste Management would be scheduled.

RESOLVED:

That the Forward Work Programme be accepted.

27. LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985 - TO CONSIDER THE EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED:

That the press and public be excluded from the meeting as the following item was considered to be exempt by virtue of paragraphs 12 and 14 of Part 4 of Schedule 12A of the Local Government Act 1972 (as amended).

28. WASTE MANAGEMENT INVESTIGATION

The Internal Audit Manager presented the results of the Internal Audit investigation undertaken in 2012/13 into Waste Management and the subsequent disciplinary procedure. He introduced Lisa Brownbill, the Principal Auditor who had led the investigation, and detailed the complex circumstances surrounding the matter which had prolonged the investigation. The findings of the investigative report highlighted that a significant amount of work had been undertaken by Streetscene to improve controls.

RESOLVED:

That the report be received, along with the response from the Chief Officer (Streetscene & Transportation).

29. WASTE MANAGEMENT INVESTIGATION - INTERNAL AUDIT REPORT

The Chief Officer (Governance) introduced the report which detailed the impact of the investigation on the Streetscene service and the learning drawn from that for the Council. He stressed the importance of considering this information as most of the Internal Audit recommendations related to corporate systems beyond the Streetscene service such as:

- Improved controls on procurement processes including restricting the number of P2P system users and refresher training covering Contract Procedure Rules.
- Adoption of improved practices for the induction of new employees.
- Training programme to give assurance of employees' understanding of their obligations under the revised Officers' Code of Conduct.

The Chief Officer (Streetscene & Transportation) spoke about the timing of the investigation which had coincided with a period of significant change for the

Streetscene service. He thanked all those involved in the process and highlighted the importance of considering the impact on front-line employees and the service at that time. He added that the conclusions of the investigation had helped to strengthen corporate arrangements and eliminate potential for bad practice.

In acknowledging the pressure amongst employees carrying out their jobs at the time of the investigation, Mr. Paul Williams asked the Chief Officer to thank his workforce. He felt that the report had identified a number of 'triggers' which raised issues on the need for proper due diligence when transferring companies in-house and for Board representation to provide sufficient challenge on operations and finances. He went on to refer to previous comments raised by the Committee on the completion of appraisals within the Council which was an ongoing issue.

The Chief Executive spoke about the transfer of AD Waste which had been the first of this type for the Council. The investigation had shown a lack of satisfactory past governance arrangements between AD Waste and the Council. Some of the learning from the investigation involved work with Trade Union colleagues on reviewing and streamlining management of complex disciplinary cases, and the sourcing of external investigating officers as a more efficient way of project managing complex cases.

Following comments from Councillor Alison Halford, the Principal Auditor explained that one of issues identified was on the engagement of agency workers outside the set procedure. Councillor Halford felt it was the responsibility of senior officers to monitor such issues to avoid any corporate failings. The Chief Executive gave assurance of awareness of procedural rules across the organisation; in this case there was evidence of deliberate avoidance of certain rules such as procurement. The Principal Auditor said that the findings of the investigation supported this view.

Officers responded to a number of queries raised by Members about the employees involved in the investigation. Councillor Halford spoke about transparency of information to Council Members and members of the public. The Chair indicated that he was content to take guidance from the Chief Executive and Chief Officers on this matter. The Chief Officer (Governance) reminded Members of the need to maintain confidentiality and the implications if Data Protection regulations were to be breached. The Chief Executive gave assurance of the rigorous disciplinary process used by the Council to which the Internal Audit Manager was in agreement. The Chief Officer (Streetscene & Transportation) spoke about his confidence in the management of his service and of the improved controls which had been put in place.

Councillor Arnold Woolley expressed his disappointment at the historic issues which had been identified and felt that a greater level of accountability was required to address the failings.

In response to a question from Councillor Haydn Bateman, explanation was given on the process for transferring AD Waste to the Council. The Chief Executive spoke about the reasoning which had led to agreement on the transfer.

Councillor Halford referred to questioning on AD Waste by the Committee during the period which she felt had not been resolved by officers at the time.

Councillor Ian Roberts also recalled concerns raised by the Committee and he went on to question the level of scrutiny on governance arrangements at the time of the transfer. The Chief Executive said that AD Waste had been a long-established company with a sound trading record and that the findings of the KPMG review had resulted in Cabinet agreement to transfer the company. He spoke about issues subsequently raised which had made the process more complex.

Councillor Woolley said that the findings of the KPMG review had demonstrated the viability of transferring the company and timing involved. The Chief Executive and Principal Auditor provided further explanation on the circumstances surrounding the transfer of AD Waste and historic practices.

Mr. Williams reiterated that the Internal Audit findings had raised a number of issues which he felt should have been addressed through due diligence and scrutiny at Board level. The Chief Executive spoke about the approach to transferring the company and the challenges encountered at a later stage, and referred to the past relationship of trust between the Council and the company.

In noting officers' assurances on the improved controls put in place and lessons learned, Councillor Roberts felt that the matter had been satisfactorily dealt with and that there should be no apportionment of blame.

RESOLVED:

That the conclusions on wider learning arising from the report be agreed and the proposals for organisational action be endorsed.

30. ATTENDANCE BY MEMBERS OF THE PRESS AND PUBLIC

There were no members of the press or public in attendance.

(The meeting started at 2.00 pm and ended at 4.50 pm)

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Chairman