

**AUDIT COMMITTEE**  
**16 MARCH 2016**

Minutes of the meeting of the Audit Committee of Flintshire County Council held in the Clwyd Committee Room, County Hall, Mold on Wednesday, 16 March 2016

**PRESENT: Councillor Tim Newhouse (Chairman)**

Councillors: Haydn Bateman, Ian Dunbar, Ian Roberts and Arnold Woolley

**CO-OPTED MEMBER:** Mr. Paul Williams

**SUBSTITUTE:** Councillor: Ron Hampson (for Glyn Banks)

**APOLOGY:** Councillor Alison Halford

**ALSO PRESENT:** Leader and Deputy Leader of the Council

**IN ATTENDANCE:**

Chief Executive, Chief Officer (Governance), Internal Audit Manager, Finance Manager - Technical Accountancy and Committee Officer

Mr. Paul Goodlad and Ms. Amanda Hughes of Wales Audit Office

Senior Manager (Safeguarding & Commissioning) and Business Manager for minute number 63

Interim Human Resources & Organisational Development Manager and Employment Services Manager for minute number 64

**53. SUBSTITUTION**

In line with the Constitutional requirement, the Committee agreed to allow Councillor Ron Hampson to substitute for Councillor Glyn Banks. It was confirmed that Councillor Hampson had undertaken the necessary audit training.

**RESOLVED:**

That Councillor Ron Hampson be permitted as a substitute for the meeting.

**54. DECLARATIONS OF INTEREST (INCLUDING WHIPPING DECLARATIONS)**

The Chairman declared a personal and prejudicial interest on Agenda Item 12 'Internal Audit Progress Report - Supplementary Report' as his wife is a supply teacher. The Chief Officer (Governance) explained that having been granted dispensation from the Standards Committee, the Chairman was permitted to speak and to answer any questions put to him on the item, but was required to leave the room for the debate.

## 55. MINUTES

The minutes of the meeting held on 27 January 2016 were submitted.

### Accuracy

Minute number 43: Consultants - Councillor Arnold Woolley pointed out a typographical error in the eighth paragraph which should read 'other Members indicated their agreement'.

### Matters Arising

Minute number 43: Consultants - Councillor Woolley referred to his comments on the need to demand rigorous answers to any actions which remained outstanding from their due date.

The Chief Executive said that the Chairman had circulated to the Committee the report on consultants submitted to the Corporate Resources Overview & Scrutiny Committee, which focussed on value for money. The report gave details of consultants of £25K or more in value engaged during 2015/16, totalling just over £400K. All had supporting business cases in place to meet objectives and to demonstrate value for money. Whilst the Chief Executive had undertaken work on key controls such as business case approvals, the Internal Audit Manager had focussed on operational details and general controls including improvements to accountancy coding. A full report on controls for the use of consultants would be brought to the Audit Committee in July, including the latest information on spend.

The Chief Officer (Governance) said that the report shared had demonstrated overall improved controls on the use of consultants, pointing out the roles of Overview & Scrutiny and the Audit Committee on their respective areas.

The Internal Audit Manager agreed, saying that some controls had already been introduced, such as the requisite approval according to contract value. He referred to the key findings of the officer group on the approval of business cases on clarifying the reasons for appointing a consultant and reviewing outcomes. The P2P system was now being used for appointing consultants, involving verification by the Procurement team on the supporting business cases and use of correct accounting codes, with any deficiencies referred back to the manager. The guidance on the controls of use of consultants circulated to officers and users of the P2P system had also been made available on the intranet, and this would form the basis of the report to be brought to the next meeting of the Committee. It was agreed that this guidance would also be shared with Members.

When asked by Councillor Ian Dunbar about the Overview & Scrutiny report, the Chairman explained that this had been circulated for information however Members were able to raise queries under this item if they wished.

The Chief Executive spoke about the different uses of terminology and provided clarity on the definition of agency workers, and interim appointments

which were used sparingly by the Council. He gave assurances that the sensitivity of the issue and need for accountability had been highlighted with officers, in response to the important issues identified by the Audit Committee. When asked about the miscoding errors, he explained that this had arisen from routine legitimate spend being allocated to generic codes, as indicated in the formal statement given by the Corporate Finance Manager.

The Chief Officer (Governance) gave a reminder that a follow-up report on the use of consultants would be received at the next meeting of the Committee.

**RESOLVED:**

That, subject to the amendment, the minutes be approved as a correct record and signed by the Chairman.

**56. TREASURY MANAGEMENT UPDATE 2015/16**

The Finance Manager - Technical Accountancy introduced the quarterly update on matters relating to the Council's Treasury Management Policy, Strategy and Practices 2015/16 to the end of February 2016. Since the update given at the previous meeting, there had been no change to the Council's long-term borrowing. No significant change was reported on the Council's investments which, at the end of February 2016, totalled £40.5m spread over 20 counterparties with an average interest rate of 0.57%. Attention was drawn to the economic update which was based on information from the treasury management advisors and the agreed approach being taken to the suspension of a bank from the counterparty list.

In response to a question on the latter, the Finance Manager provided explanation on the intent to continue with the one investment with the affected bank whilst not entering into any new investments, based on the advice received.

Following a question from Councillor Ian Dunbar on the economic update, the Finance Manager explained that the predicted rise in the CPI inflation rate was not expected until at least 2017.

**RESOLVED:**

That the Treasury Management 2015/16 quarterly update be noted.

**57. WALES AUDIT OFFICE – AUDIT PLAN 2016**

The Chief Executive introduced the Wales Audit Office (WAO) Audit Plan for 2016 in respect of proposed audit work on the accounts for the Council and those of the Clwyd Pension Fund for 2015/16. The report detailed the legal requirements for work on financial and performance audits to be undertaken by WAO. It was explained that the audit fees were comparable with other councils and that audits on the Taith Joint Committee were no longer required.

Ms. Amanda Hughes of WAO explained that the conclusion of the financial audit work required an opinion to be given on the financial statements. This included consideration of the level of risks of material misstatement as set out in

Exhibit 2 of the WAO reports. A number of the risks highlighted were common across all councils. Specifically for Flintshire, there were a number of issues arising from the 2014/15 audit work including accounting for gross income and expenditure and allocation of internal costs. Whilst she was aware that the Council had completed work to address these issues in the year, this would be reviewed again as part of audit work for 2015/16. Financial audit work for the Clwyd Pension Fund would address the risks set out in Exhibit 2 of its audit plan, including the risks associated with the large percentage of unquoted investments in its portfolio. The WAO report on the certification of grants and returns for 2014/15 would be received at next meeting.

On performance there was some internal uncertainty over planning which meant that the specific programme could not yet be clarified at this point. Public service bodies would shortly be consulted on the approach to performance audit work by WAO. It was explained by Mr. Paul Goodlad that the uncertainty around performance work applied to all councils in Wales and was likely to focus on finance, governance and the transformation and change agenda. The final outcome would be shared and WAO would liaise with the Council on work within the Audit Plan to avoid any duplication of work, for example the Flintshire Connects audit planned for 2016/17.

The Chief Executive said that the refreshed approach to performance audit work would still need to identify major risk areas and seek value for money, and that there was no expectation of major increases in the work or fees of WAO.

On the financial audit, Councillor Arnold Woolley felt that two separate paragraphs in the WAO report contradicted the approach taken to not reporting misstatements below the relevant threshold whilst giving assurance that the financial statements were free from material misstatement.

Ms. Hughes provided explanation on the treatment of misstatements below the 'trivial' level, commenting that some elements were material by nature. This did not change the requirement to report an opinion, however she agreed to feedback the comments.

Councillor Woolley also enquired about any risks or required mitigation arising from the substantial reduction in the grant to subsidise performance audit work by WAO. Mr. Goodlad said that the reduction in the grant covered costs for the corporate assessment. There was no material impact on the Council as the assessment had already been carried out and the WAO was working to mitigate the risk for other councils for whom the assessment had not yet been completed.

**RESOLVED:**

That the Wales Audit Office reports be noted.

**58. INTERNAL AUDIT STRATEGIC PLAN**

The Internal Audit Manager presented the proposed Internal Audit plan for the three year period 2016/17 to 2018/19 and highlighted the key considerations for the Committee. The final Plan had incorporated the findings of consultation across the organisation and the Wales Audit Office (WAO), and would inform the

annual opinion on the adequacy of the Council's arrangements on risk management, control and corporate governance. Internal Audit resources remained around the same level as the previous year and were comparable with that of other councils. The risk levels for each audit had been assessed using a number of factors, as set out in paragraph 4.3 of the Plan. In some cases, this did not represent any real risk and helped to prioritise audits for the year, although some were rated as 'red' due to the nature of the risk.

Councillor Ian Dunbar referred to the red risk audit on Disabled Facilities Grants (DFGs) asking about performance in this area. The Chief Executive acknowledged that the Council's performance on DFGs needed some improvement and that the issue had been under scrutiny across Wales for some time. This was due to the various elements in the DFG process including demand, Occupational Health capacity and often involved complex issues relating to the individual. The Internal Audit Manager said that a cross-cutting review would be carried out on the service to look at the entire DFG process.

Mr. Paul Williams questioned whether the audit on income from fees and charges should be brought forward to the current year, in view of the budgetary pressures. It was explained that the audit had been scheduled in 2017/18 as work was currently being undertaken by the Finance section on fees and charges, and that the audit would focus more on performance in this area.

Mr. Williams referred to issues previously raised by the Committee on staff inductions and appraisals, and asked that these audits be brought forward to 2016/17. The Chief Executive gave assurance that all senior managers had been appraised in 2015 and that most appraisals were now being undertaken with the core issue being the updating of records on the iTrent system. He said that the Chief Officer (Governance) was leading work on the management of induction and briefing across the organisation on key controls.

Mr. Williams felt it would be useful for the Committee to receive details of the number of completed and outstanding appraisals for each section. He agreed to the suggestion made by the Chief Executive that the Internal Audit Manager be involved in checking appraisal data when next compiled for the workforce report of the Corporate Resources Overview & Scrutiny Committee, and for this to be shared with the Audit Committee.

Councillor Arnold Woolley asked for clarity on the auditable area of Theatr Clwyd. The Internal Audit Manager explained that at this stage, the wording reflected the possible scope of the review. The Chief Executive said that there would be more clarity on the scope, which should include controls, after consideration of the new business plan of the theatre at a forthcoming meeting of the Organisational Change Overview & Scrutiny Committee.

Councillor Woolley pointed out amendments to wording in the auditable areas for Flintshire Connects, Electronic Document Management, Staff Recruitment and Single Status Governance. Following discussion on the latter, Councillor Woolley asked that consideration be given to use of language to clarify that no local agreements should arise. In respect of the audit for Planning Enforcement, he had concerns about the level of resources required to deal with

the workload. The Internal Audit Manager confirmed that this would be part of the audit.

In answering a query from Councillor Haydn Bateman, it was explained that external resources could be needed to complete the technical ICT audit as this expertise was not available within Internal Audit.

Councillor Woolley indicated his uncertainty on the level of audit resources to which the Chief Executive and Internal Audit Manager replied that the Plan was subject to ongoing review. Councillor Woolley acknowledged the financial pressures faced by the Council and reiterated his concerns on the importance of retaining sufficient capacity to carry out the work required. It was explained by the Internal Audit Manager that a view was being sought on audit resources which had reduced only slightly since the previous year. He gave assurance that he would raise any concerns about this with the Committee, however there were no pressures to reduce audit resources as supported by the Chief Executive and Chief Officer (Governance). The Chief Executive spoke about the balance in streamlining structures and processes across the organisation to address financial pressures, as agreed by Members. Whilst this presented a risk, it was important to note that the Council's objectives were being met.

**RESOLVED:**

- (a) That the Committee agree that the Plan reflects the areas that should be covered, and the level of resources is acceptable; and
- (b) That the Internal Audit Strategic Plan be approved with the amendments raised.

**59. AUDIT COMMITTEE SELF ASSESSMENT**

The Internal Audit Manager introduced the results from the Committee's self-assessment carried out in February 2016 which helped to inform preparation of the Annual Governance Statement 2015/16 and any training/development needs of the Committee. He thanked the Committee members for completing the questionnaires, the results of which were appended to the report, indicating the averages and range of scores given compared to last year. In summarising the results, he pointed out the Committee's increased focus on value for money as reflected in audit reports.

In response to a question from the Chairman, the Internal Audit Manager explained that it was good practice to carry out the annual assessment, in accordance with guidance from the Chartered Institute of Public Finance & Accountancy (CIPFA), and to feed the results into the overall governance framework.

Following a query from Councillor Ian Dunbar on the outcome of the questionnaire, the Internal Audit Manager gave assurance that the results were noted and acted upon. He referred to a number of concerns about implementing actions - an area being addressed by the tracking system on the new audit software - and the agreement for more managers to attend the Audit Committee

to give explanations on non-implementation of recommendations for their respective areas.

The Chief Officer (Governance) advised that the findings of work on the Council's approach to compliance would be reported back to the Committee as part of the Audit Plan.

Mr. Paul Williams questioned the need to complete the questionnaire if the results were not debated. He felt that the results reflected the Committee's ongoing concerns about non-implementation of recommendations which needed to be further explored. In respect of the personal comments alluded to in some responses, it was his view that meetings were sometimes uncomfortable and that points should be raised in a valid way. He felt it was important to note the underlying issues behind personal comments and expressed concern that the credibility of the Committee could be brought into question.

The Chief Executive said that managers of red risk reports were asked to attend the Committee to be held accountable for their areas and that this practice would increase to help raise awareness of recognised levels of responsibility and to give the Committee greater assurance on controls and accountability.

In commenting on this approach, Councillor Ian Roberts urged caution that managers being asked to attend the Committee should be treated and questioned appropriately.

Ms. Hughes felt it was a worthwhile exercise for the results of the questionnaire to identify any training needs for the Committee.

Councillor Arnold Woolley referred to comments previously made about the need to update job descriptions to reflect changing structures and appropriate training to enable roles to be carried out. He commented on the practice at Standards Committee for a training session to be held before each meeting.

The Chief Executive confirmed that support and mentoring were available for transitions to new roles and that a period of adjustment was necessary in such periods of change.

**RESOLVED:**

- (a) That the report be noted; and
- (b) That the new approach of asking managers to attend the Committee be noted.

**60. PUBLIC SECTOR INTERNAL AUDIT STANDARDS**

The Internal Audit Manager presented the results of the annual internal assessment of conformance with the Public Sector Internal Audit Standards (PSIAS). The checklist and summary of results appended to the report indicated that the Internal Audit section had achieved general conformance with the PSIAS. Also included was an update on progress against actions identified in the 2015 assessment, together with further actions taken and planned in compliance with

the standards. To meet the requirement for an external assessment to be undertaken at least once every five years, it was proposed that the Chief Internal Auditor of Ceredigion Council review Flintshire's Internal Audit in 2016/17 following agreement on a peer review approach by the Wales Chief Auditors Group.

Councillor Arnold Woolley queried the criteria for 'general conformance' with PSIAS as this did not necessarily require 'complete/perfect conformance'. The Internal Audit Manager explained that this definition was pre-set and that each Standard was deemed to have generally conformed if the vast majority of its elements met that criteria.

Councillor Woolley commented on the need for the checklist to use plain language to enable the reader to fully understand the meaning. The Internal Audit Manager understood that the Standards were currently under review.

**RESOLVED:**

- (a) That the report be noted; and
- (b) That the method of external assessment to be completed in 2016/17 be endorsed.

**61. ACTION TRACKING**

The Internal Audit Manager presented the progress update report on actions arising from points raised at previous meetings of the Committee.

**RESOLVED:**

That the report be accepted.

**62. FORWARD WORK PROGRAMME**

The Internal Audit Manager presented the report to consider the Forward Work Programme for the next year. In highlighting the items scheduled for July, he advised that an update on mobile phones would be added, as requested by the Chairman, and that the Committee would also need to appoint a new Chair and Vice-Chair at the meeting.

On mobile phones, Councillor Ian Roberts referred to the practice for Council Members to sign and pay for any personal use on their individual bills and asked whether this also applied to officers. He spoke about the postage involved in sending individual bills to each Member and felt that a different approach could be adopted for Members who never used their mobile for personal use. The Chief Officer (Governance) explained that officers' bills were subject to the same scrutiny. However, due to the number of mobile phones, designated officers known as 'mobile phone monitors' received itemised bills for their respective areas and liaised with the individual officers.



Mr. Paul Williams questioned whether there was sufficient meetings of the Committee during the year. The Chairman agreed to liaise with the Vice-Chair and Internal Audit Manager on this matter.

**RESOLVED:**

That the Forward Work Programme be accepted.

**63. INTERNAL AUDIT PROGRESS REPORT**

The Internal Audit Manager presented the update report on the work of the Internal Audit department. The move to the new integrated audit software was improving the tracking of recommendations but had affected progress against the Audit plan for 2015/16, however this was heading back on track. There had been a rise in the number of councils participating in the Wales Chief Auditors Group benchmarking exercise which showed Flintshire's performance to be mainly above average. On finalised reports, more detail was provided on the findings of the 'red' risk review on direct payments which had received a significant increase in service users.

The Senior Manager (Safeguarding & Commissioning) and Business Manager gave a detailed update on the completed actions in the red risk area which involved a number of controls and improvements to the process. Members were reminded that Flintshire had piloted direct payments and was leading implementation across Wales. Council officers were working closely with social workers and senior managers to assess the concerns and to increase robustness of the process. Whilst most actions had been addressed, the recommendation to add fields to the Lotus Notes database had not been done as requirements had been built into the P2P system. In respect of managing risks, consultation with other councils had not identified a monitoring tool and so the team were instead working with Accountancy colleagues to build their own system. Explanation was also given on the agreed system for closing direct payments and the implementation of direct payment cards. The Senior Manager felt that the findings of the audit had proved useful in giving an independent perspective on the service.

The Chief Executive reiterated that the implementation of direct payments was still a new initiative and that the Council's involvement in the pilot had been positive in testing the process and identifying improvements. He advised that progress would be reported to a future meeting of the Committee.

Mr. Paul Williams asked whether resources/training had been a barrier in implementing the existing procedures. The officers highlighted Flintshire's prominent role in working with Welsh Government (WG) to help shape direct payments. Initial take-up had been high, during a time when one employee had been responsible for processing. However, the recommendations by Internal Audit had helped to improve controls and resulted in expertise now being shared across the team.

When asked about the issue on financial monitoring, officers explained that help was being provided to the support agency to resolve the few outstanding issues which were manageable.

Concerns were raised by Councillor Arnold Woolley about the range of findings of the review. The Senior Manager reiterated that direct payments were a new system with an expected learning curve. Complex administration issues were involved and whilst WG guidance had been taken on board, there were no examples of best practice to draw from. The improvements being made would help to retain a degree of flexibility in direct payments with improved controls, and officers were continuing to develop the system with WG and other authorities.

Views from the Committee were sought on the update on action tracking, using the new integrated software, which gave an overall view of the status of actions in February. At that time only 13 actions out of 215 were outstanding from their due date, and some of these had since been completed.

Councillor Woolley pointed out that previous reports indicated the start dates to show how long actions had been outstanding and felt that this was important to help the Committee to focus on specific areas. Mr. Williams also referred to the previous format and said that supporting detail on the category of risk should be shown, along with how this was being managed and any new deadline. The Internal Audit Manager agreed to both requests.

On performance indicators for Internal Audit, a significant improvement was reported on the completion of audits within timescales. An increase in the time taken to issue reports had started to show some improvement in Quarter 3, however some required more meetings across the organisation which impacted on the outturn. The Internal Audit Manager would give some consideration to how this could be better reported in future.

In response to queries from Councillor Haydn Bateman, the Internal Audit Manager gave clarification on investigation issues and would provide further detail outside the meeting.

**RESOLVED:**

- (a) That the report be accepted; and
- (b) That the Committee is assured of the progress which has been made on direct payments.

**64. INTERNAL AUDIT PROGRESS REPORT - SUPPLEMENTARY REPORT**

The Committee received a summary of the findings and action plan from the finalised report on E-Teach which had been given a 'red' assurance level due to three high level recommendations.

As explained at the start of the meeting, the Chairman had declared a personal and prejudicial interest on the item but had been granted dispensation to speak and answer any questions.

The Employment Services Manager explained that E-Teach was software enabling schools to engage supply teachers and process claims. He advised that three of the four recommendations had been addressed, with the action to

establish the cost effectiveness of E-Teach compared to other options remaining outstanding. This would be resolved through a working group between Flintshire and Denbighshire, with concluding joint proposals going forward to both councils.

The Chairman explained that his wife was a supply teacher who had been registered with the E-Teach system for nine years but had gained only one day's work through it. He said that the model used in Wrexham was to engage supply teachers exclusively through agencies, however this involved a cut in their daily pay from £165 to £120 and those supply teachers who refused to join agencies were ineligible to work in Wrexham schools. The Chairman felt that a third model should be explored which excluded E-Teach but did not rely exclusively on agencies. As no questions were put to him, he left the room for the debate and returned following the item.

Councillor Ian Dunbar asked for details on the number of schools using E-Teach and whether it was used more effectively in some areas than others. The Employment Services Manager did not have this information to hand but advised that the Council made 79% of bookings through E-Teach, however most schools used the system for processing payments. He spoke about the advantages and disadvantages of E-Teach as opposed to agency suppliers.

Councillor Ian Roberts spoke about his experience in Wrexham where E-Teach had only been used previously as a payroll mechanism. He described the disparity in payments to supply teachers engaged through different sources and stressed the importance of quality teachers receiving the pay they were entitled to.

The Interim HR & OD Manager felt it was important to consider the alternative options identified by the working group, which comprised representatives from the Council as well as both Primary and Secondary Head Teachers' Federations. In response to a comment from Mr. Paul Williams, she explained the need to ensure the most cost-effective method was used whilst giving Head Teachers the flexibility to receive the resources they required. She added that the working group should consider a combination of sources and cited the Matrix system as an example of one system used to engage a number of different agencies.

Councillor Arnold Woolley questioned why E-Teach was still being used by the Council given the uncertainty on value for money in the Internal Audit review of 2010. When asked about the possibility of schools engaging supply teachers on zero hours contracts, the Chief Officer (Governance) said that this was feasible but that the organisation took a cautious approach to use of such contracts. He pointed out that responsibility for managing E-Teach had transferred to Employment Services and that the action described by the Manager would identify the preferred option. In respect of the Committee's considerations, he said that a process was in place and suggested that Members may wish to await the outcome of the working group which could then be reported to the portfolio holder and the Education & Youth Overview & Scrutiny Committee.

Mr. Williams proposed the suggested recommendation including ensuring the review considered options for alternative providers. Councillor Roberts

moved an amendment that the views of Head Teachers, supply teachers and professional associates also be sought. This was supported by the Committee.

**RESOLVED:**

That the Employment Services Manager report to the portfolio holder and the Education and Youth Overview & Scrutiny Committee following the conclusion of the current review of the E-Teach system. The review to incorporate alternative providers of supply teachers to schools and to seek the views of Head Teachers, supply teachers and professional associates.

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

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

(The meeting started at 10.00 am and ended at 12.55 pm)

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**Chairman**