

AUDIT COMMITTEE
24 JANUARY 2018

Minutes of the meeting of the Audit Committee of Flintshire County Council held in the Clwyd Committee Room, County Hall, Mold on Wednesday, 24 January 2018

PRESENT: Councillor Helen Brown (Chair)

Councillors: Jean Davies, Chris Dolphin, Andy Dunbobbin, Paul Johnson and Arnold Woolley

Co-opted member: Sally Ellis

SUBSTITUTE: Councillor Martin White (for Glyn Banks)

IN ATTENDANCE:

Chief Executive; Chief Officer (Governance); Internal Audit Manager; Corporate Finance Manager; and Democratic Services Officer

Mike Whiteley of Wales Audit Office

Finance Manager - Technical Accountancy (minute numbers 44-49)

Corporate Business & Communications Executive Officer (minute numbers 46-47)

Chief Officer (Community & Enterprise); Housing Asset Manager; Service Manager, Customer Support; and Senior Auditor (minute number 50)

41. SUBSTITUTION

In accordance with Constitutional requirements, the Committee agreed to allow Councillor Martin White to substitute for Councillor Glyn Banks. It was confirmed that Councillor White had undertaken the necessary audit training.

RESOLVED:

That Councillor Martin White be permitted as a substitute for the meeting.

42. DECLARATIONS OF INTEREST

None were received.

43. MINUTES

The minutes of the meeting held on 22 November 2017 were submitted.

RESOLVED:

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

44. TREASURY MANAGEMENT 2018/19 STRATEGY AND QUARTER 3 UPDATE 2017/18

The Finance Manager - Technical Accountancy presented the draft Treasury Management Strategy 2018/19 for review and discussion, seeking recommendation to Cabinet. All Members had been invited to a training session in December 2017 in preparation for approving the Strategy at full Council later in the month. Also presented for information was the Quarter 3 update on matters relating to the Council's Treasury Management Policy, Strategy and Practices 2017/18.

The report summarised the main changes arising from a recent update to two Codes of Practice by the Chartered Institute of Public Finance and Accountancy (CIPFA). Due to timescales and the fact that CIPFA had not yet published practical guidance to accompany the updates, the Treasury Management advisors (Arlingclose) had recommended that the Council set its 2018/19 Strategy using the 2011 version of the Code. Key changes from the previous Strategy were highlighted, noting that Section 4 (local context) was based on work currently in the Capital Programme which may be subject to change before submission of the report to Cabinet and Council.

During an update on Treasury Management 2017/18, the Finance Manager referred to previous discussion on MiFiD II (Markets in Financial Instruments Directive) resulting in agreement for the Council to opt up to 'professional' client status. Since publication of the report, the Council had been approved to this status by 11 financial institutions and was awaiting a response from another one.

Sally Ellis referred to publication of the CIPFA guidance, due in the second half of the year, and asked about the risks arising from implementing changes at a late stage. The Finance Manager explained that the 2011 Code still applied. Whilst some preparations could commence, the practical implications would require further discussion once the guidance was made available, for example clarity on the wider definition of 'investments'. The Council had a good approach to measuring risk associated with long-term investment decisions and it was important not to become overburdened with the risk framework if requirements of the Code were met. Sally requested that an additional update on Treasury Management be scheduled in the Forward Work Programme.

The Chief Executive did not expect the changes to affect practices as they generally applied to the recording and classification of items.

In response to questions from Councillor Johnson on the CIPFA changes, the Finance Manager interpreted these to be around increased commercial ventures undertaken by councils in England mainly. On MiFiD II, she provided information on the regulated financial institutions required to give approval to the Council's professional status and agreed to share a list of those organisations which would accompany the Treasury Management Practices and Schedules.

Councillor Woolley spoke about the need for Welsh Government to be clear on reorganisation plans for local government. He asked whether the repayment of a £1.6m loan during Quarter 3 had been made using current funds

or borrowing. The Finance Manager said that such decisions were determined by the financial position on the day that the loan matured and would provide a separate response on this specific issue.

Councillor Woolley asked for clarification on the total amount of borrowing shown in different areas of the report. Officers confirmed that the £274.49m net total borrowing quoted included long and short-term borrowing in section 3 of the Strategy which tied back to the £252.1m of long-term loans shown in section 6.

RESOLVED:

- (a) That the draft Treasury Management Strategy 2018/19 be recommended to Cabinet on 20/02/18. The Committee confirms on this occasion that the issue it wishes to have brought to the Cabinet's attention is concern about potential risks arising from late availability of CIPFA guidance on the updated Codes of Practice; and
- (b) That the Treasury Management 2017/18 quarterly update be noted.

45. CHANGES TO STATUTORY DEADLINES FOR THE PUBLICATION OF LOCAL AUTHORITY STATEMENT OF ACCOUNTS

The Corporate Finance Manager presented the report detailing preparations by the Council and Wales Audit Office (WAO) to meet the first stage of earlier deadlines proposed by Welsh Government (WG) which applied to the publication of local authority accounts in Wales.

The earlier deadlines for 2018/19 onwards presented significant challenges for all councils and auditors, and would benefit from early planning. It was therefore recommended that the timetable for approval of the 2017/18 accounts be brought forward to week commencing 10 September 2018. To assist with this approach, a number of changes had been made to working practices and regular meetings held with WAO colleagues.

It was explained by the Chief Executive that whilst approval of the final accounts was a Council function in Flintshire, future consideration could be given to adopting the approach taken by many other councils to delegate this responsibility to the Audit Committee. If this was to be pursued, a report would need to be submitted to the Constitution & Democratic Services Committee.

Councillor Woolley spoke in support of the proposed approach for the 2017/18 accounts but had concerns about the impact on officer time. The Chief Executive said that the same work would be undertaken within a condensed period and that the impact on performance on other tasks would need to be monitored. Internal and external options were being explored to identify additional resources in light of the forthcoming absence of the Finance Manager - Technical Accountancy, and this was viewed as an operational risk.

Councillor Johnson raised concerns about the democratic implications arising from the timetable of the next Council term in which the newly formed Audit Committee would need to meet its statutory responsibilities on the accounts. The Chief Executive said that early appointment of the Committee's

new membership could be prioritised post-election and that a variation could be made to the accounts timetable at that time to allow some flexibility as required.

The Finance Manager clarified that the regulations on earlier deadlines had not yet been approved by WG and she referred to the nature of the Statement of Accounts as a retrospective document within a prescribed format.

RESOLVED:

That the report and changes to the September meetings of the Audit Committee and Council to approve the Statement of Accounts, as explained in paragraph 1.08, be noted.

46. MID YEAR RISK REPORT

The Chief Executive presented an update on the strategic risks contained within the Council's 2017/18 Council Plan and an overview of the recent Risk Management review carried out by Internal Audit.

It was reported that most of the 48 risks had been assessed as moderate and that the 11 red risks mainly related to the continuing financial position of the Council which could not be fully mitigated. There were concerns at the potential for some red risks to escalate to black (severe) which was unprecedented.

On the timing of the update, the Corporate Business & Communications Executive Officer advised that the position was subject to change when reporting the Quarter 3 position the following month. She also explained that future reports would include more detail on trends.

The Internal Audit Manager said that the remit of this year's review had changed to focus on the identification, management and reporting of operational risks which had been given an overall assurance level of 'reasonable'. There were a number of areas where risk was being well managed and progress was being made on the four areas identified for further improvement.

Councillor Woolley asked if the Welsh Government (WG) had responded to communications about the risk on meeting increased demand for residential and nursing home care. The Chief Executive said that recent rises in occupancy rates had demonstrated the lack of capacity. Representations by the Council on the continued retention of the £0.500m Intermediate Care Fund had been well made and a formal decision was awaited. On the Risk Management Policy and Strategy, it was explained that an update would be undertaken and brought to the next meeting for consideration.

In response to questions from Sally Ellis and Councillor Johnson, the Chief Executive advised that work was underway with Chief Officers to ensure that actions were taken on the areas for improvement to strengthen processes.

Some minor changes were agreed to the report's recommendations to reflect the points raised.

RESOLVED:

- (a) That the status of the initial overview of the strategic risks of the 2017/18 priorities of the Council be noted;
- (b) That the outcomes of the recent Internal Audit review of the Council's risk management arrangements and the Council's management response be noted, in accordance with the action plan and follow-up Audit report; and
- (c) That the Risk Management Policy and Strategy be brought to the next meeting to give assurance that this has been fully updated.

47. CODE OF CORPORATE GOVERNANCE

The Corporate Business & Communications Executive Officer presented a report on the updated Code of Corporate Governance to seek endorsement to the Constitution & Democratic Services Committee.

The report included a diagram demonstrating how the Code linked with the Council Plan and the Annual Governance Statement (AGS). Whilst significant changes had been made to the Code in the previous year to follow revised national guidance, the current update applied to specific areas.

Sally Ellis commented on the professionalism of the document and asked whether events during the past year had led to learning about issues aligned to the Code. The Executive Officer referred to new areas such as the introduction of a Community Benefits Strategy and the development of Human Resources work on stress management. The Chief Executive and Chief Officer explained that whilst the Code did not drive practice, the scoring of self-assessment questionnaires provided learning for future development. This process was currently underway to enable the draft AGS to be presented to the Committee at a later stage.

Councillor Johnson asked about opportunities for Member involvement on the Corporate Governance Working Group. The Chief Executive explained the technical nature of this work in checking compliance with the framework which the Committee was required to endorse. The Chief Officer provided information on preparations for the AGS and suggested that officers discuss how best to present the document as this was the first time that the membership of this Committee would consider it.

The Internal Audit Manager advised that self-assessment questionnaires would shortly be circulated to enable the results to be reported to the next meeting.

RESOLVED:

That the Committee endorses the updated Code of Corporate Governance for adoption as part of the Council's Constitution.

48. CONTRACT MANAGEMENT

The Chief Officer (Governance) presented a report on the findings of an Internal Audit review on procurement following adoption of the revised Contract Procedure Rules (CPRs). The report was to give reassurance on contract management which had been an area of concern for the Committee.

A 'Green/Amber' assurance level had been given on the review and the findings were summarised. The Chief Officer provided more detail on work to address actions relating to the central recording of contractor performance, the contract register and mandatory training for officers.

Sally Ellis commented on the need for prompt implementation of actions. The Chief Officer explained that the recommendation in the report reflected that follow-up actions were subject to monitoring and that any not completed by the target date would be reported to the Committee in the usual way.

Councillor Johnson referred to the agreed action on the prohibited use of Approved Lists and was informed that this would be followed up to remind officers of the correct way in which contractors should be appointed.

Councillor Woolley asked about the approach to dealing with contractor underperformance which impacted on officer time. The Chief Officer said that a range of escalating measures were incorporated within contracts and that the preferred option was to work with the appointed contractor to identify improvements. He spoke about the various considerations involved such as whether the contract was of a specialist nature, however the ultimate sanction was to terminate the contract.

RESOLVED:

That Members are assured that the remedial actions identified will, if implemented, address the control weaknesses identified.

49. WALES AUDIT OFFICE (WAO) - ANNUAL AUDIT LETTER 2016/17

Mike Whiteley of Wales Audit Office (WAO) presented the Annual Audit Letter which summarised the key messages arising from the statutory responsibilities of the Auditor General for Wales.

The letter dealt mainly with audit work on the accounts for 2016/17 and actions being taken to identify learning for both parties. The implementation of earlier deadlines for publishing future accounts would be a challenge for all involved, and positive engagement between Council officers and WAO colleagues was helping to identify areas of early preparation. Regular meetings were helping to monitor actions to resolve the issues identified on the Clwyd Pension Fund accounts for the previous year and there were no concerns by WAO at this stage. The letter acknowledged the significant financial pressures faced by the Council and reflected positive work to mitigate some of that risk. Work on the certification of grant claims and returns was nearing completion and would be reported to the next meeting of the Committee.

The Chief Executive expressed appreciation for the work by WAO. He explained that cumulative issues had led to the matters identified on the Clwyd Pension Fund accounts for 2016/17 which should not reoccur. In recognising the sensitivity of language used in the letter, he emphasised the clear distinction between the effective management of budgets under the Council's control as opposed to the scale of the financial challenge caused by fiscal policies and the economic market. Representations recently made to Welsh Government included an 'open book' approach to offer transparency of information to support the concerns on financial sustainability.

The Corporate Finance Manager referred to the positive comments by WAO on follow-up actions to address issues identified in the previous year which would also benefit work on the 2017/18 accounts process.

Sally Ellis asked about possible input by WAO on addressing the risks to financial sustainability. The Chief Executive spoke about the independent role of the WAO in proving validation. As mentioned earlier, he welcomed external validation and challenge of the Council's risk statements which were evidenced.

Councillor Woolley echoed the concerns about financial sustainability in the event of no additional funding from Welsh Government.

RESOLVED:

- (a) That the WAO Annual Audit Letter for 2016/17 be noted; and
- (b) That the positive comments on the approach to risks of financial governance be accepted.

50. INTERNAL AUDIT PROGRESS REPORT

The Internal Audit Manager presented the update on progress of the Internal Audit department. She explained that the outcomes of performance indicators were mainly due to the timing of the report. On the 2017/18 Audit Plan, the reviews of Contract Management and the Welsh Housing Quality Standard would be moved to 2018/19, and the latter was dependent on the outcome of a Wales Audit Office regional review.

During the period, the only 'red' (limited assurance) review had been issued for the Single Access Route to Housing (SARTH). In keeping with the agreed practice for red reviews, the Chief Officer (Community & Enterprise) was in attendance with the Housing Asset Manager and Service Manager (Customer Support) to give assurance on actions being taken.

The Senior Auditor explained the background and scope of the review which had identified 13 actions, including two of high risk which had been completed. She reported that management had been receptive to the findings and were promptly implementing actions.

The Chief Officer reiterated that the findings of the review were being prioritised. She provided explanation on the two red actions relating to the checking of evidence to support allocation overrides and the recording of

application dates on the register. As background information, she spoke about the impact of an increase in applicants on the register over the past 12 months which had led to challenges in register management.

Sally Ellis welcomed the detailed action plan. In response to comments, the Senior Auditor said that the ICT changes would help to automate systems and reduce the level of manual working and subsequent pressures. Officers referred to previous issues arising from a delay in upgrading the server to support the 'Open Housing' system. Actions were set out in the report for ICT officers to prioritise that work, subject to the capacity of Capita, in accordance with the agreed timescales.

When asked by Councillor Dolphin about ICT work planning, the Chief Officer said that the current approach involved discussion with the Chief Officer team to assess how any new projects identified during the year could be accommodated.

The Chief Executive said that to address the findings of red reviews, Chief Officers were required to look at the detail beyond those actions to assist teams in carrying out that work.

Councillor Woolley highlighted a number of typographical errors in the report.

In response to a query by Councillor Johnson, the Internal Audit Manager explained that a follow-up review of SARTH was scheduled for June 2018 to allow time for actions to be implemented. The Chair asked that the report on the follow-up review include details of any delays to ICT changes.

The Chair thanked the Chief Officer and team members for their attendance and contributions.

RESOLVED:

That the report be accepted.

51. ACTION TRACKING

The Internal Audit Manager presented the progress update report on actions arising from previous meetings. Those which were not yet complete were scheduled to do so.

RESOLVED:

That the report be accepted.

52. FORWARD WORK PROGRAMME

The Internal Audit Manager presented the Forward Work Programme for consideration. Following earlier discussion, she advised that the self-assessment questionnaires to be circulated would include the results of responses from last

year's exercise to help the Committee complete the task. Members were advised to contact the Internal Audit Manager if they wished to discuss the questionnaire.

It was proposed by Sally Ellis that the Committee receives details of 'amber red' final reports issued by Internal Audit, in addition to information on 'red' reports currently received. The Internal Audit Manager agreed to provide a breakdown of the information together with details of the 'amber red' review on Pollution Control listed in the current report. This was seconded and supported by the Committee.

RESOLVED:

- (a) That the Forward Work Programme be accepted;
- (b) That the Committee receives information on 'amber red' final reports issued by Internal Audit (as well as red reports currently shared) including that on Pollution Control contained in this report; and
- (c) That the Internal Audit Manager, in consultation with the Chair and Vice-Chair of the Committee, be authorised to vary the Forward Work Programme between meetings, as the need arises.

53. ATTENDANCE BY MEMBERS OF THE PRESS AND PUBLIC

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

The meeting commenced at 10am and finished at 12.15pm

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Chair