

AUDIT COMMITTEE
30 JANUARY 2013

Minutes of the meeting of the Audit Committee of Flintshire County Council held at Clwyd Committee Room, County Hall, Mold CH7 6NA on Wednesday, 30 January 2013

PRESENT: Councillor Alison Halford (Chair)

Councillors Glyn Banks, Haydn Bateman, Richard Jones and Arnold Woolley

LAY MEMBER: Mr Paul Williams

SUBSTITUTES: Councillors: Bernie Attridge (for Ian Roberts) and David Cox (for Alan Diskin)

ALSO PRESENT: Councillors: Marion Bateman, Veronica Gay and Nancy Matthews

IN ATTENDANCE:

Chief Executive (minute numbers 49 and 50), Head of Finance, Head of Legal & Democratic Services, Internal Audit Manager, Democracy & Governance Manager and Committee Officer

Finance Manager, Lifelong Learning and Senior Auditor (minute number 49)

Risk Manager (minute number 50)

Corporate Finance Manager and Finance Manager - Strategy & Technical (for minute number 51)

Head of Housing (minute number 54)

Leader and Cabinet Member for Finance (minute number 54)

Mr. Patrick Green of RSM Tenon Plc

Ms. Amanda Hughes of Wales Audit Office

46. USE OF SUBSTITUTES

The Democracy & Governance Manager reminded Members that the Constitution allowed for substitutions to be made at Audit Committee where it was felt that good reasons had been provided and that those Members had undertaken relevant training. The Chair proposed that the substitutions be permitted on the basis that good reasons had been given. This was duly seconded.

RESOLVED:

That the two substitutions for the meeting be agreed.

47. DECLARATIONS OF INTEREST (INCLUDING WHIPPING DECLARATIONS)

Councillor G.S. Banks declared an interest in Agenda Item 8 - Tracker Investigation Outcome - due to his connection to an individual linked to the investigation. The Head of Legal & Democratic Services said that prior to

consideration of the item, he would need to discuss privately with Councillor Banks the nature of the relationship to ascertain the type of interest to be declared. After private discussion with Councillor Banks prior to the item, this was decided to be a personal and prejudicial interest.

The Chair and Councillors J.B. Attridge, G.H. Bateman, D.L. Cox, R.B. Jones and A. Woolley declared a personal interest in Agenda Item 4 - School Fund Regulations - in their capacity as school governors. The Head of Legal & Democratic Services advised that as this was a personal interest only, those Members would be permitted to remain at the meeting and participate in discussion on the item.

48. MINUTES

The minutes of the meeting of the Committee held on 12 December 2012 were submitted.

Matters Arising

Minute 39: Annual Audit Letter - Following a question by Councillor G.H. Bateman on the closure of accounts for 2011/12, Ms. Hughes replied that she hoped this would shortly be resolved and the accounts cleared before the Committee next met.

Minute 42: Internal Audit Progress Report - The Chair asked if a note had been provided in response to Councillor I.B. Roberts' query on exceeding the limit of investigation days. The Internal Audit Manager said that an email had been circulated to all Members of the Committee on the day after the meeting.

RESOLVED:

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

49. SCHOOL FUND REGULATIONS

The Internal Audit Manager explained that this item had arisen in response to Members' concerns raised at the previous meeting on the lack of clear guidance on the use of school funds following a review carried out by Internal Audit. The findings of the review had been included as part of the Internal Audit Progress Report which identified nine significant recommendations and the Chair reminded the Committee of these.

The Finance Manager presented the report which highlighted the action taken by the Lifelong Learning Directorate to address the issues raised by Internal Audit, including the need for extensive guidance to be given to schools. It was explained that the draft guidance had been produced in consultation with the School Budget Forum, Secondary and Primary Heads Federations and business manager groups, with the final copy to be submitted for approval at School Budget Forum on the following day prior to circulation to schools. The document included a draft Constitution with the suggestion that school governors agree that this be taken up as good practice for all schools. The Finance

Manager said that feedback on the guidance so far had been positive and that if schools chose to follow the guidance, this would address the issues raised.

The Finance Manager explained that Secondary Head Teachers had expressed difficulty in finding suitably qualified individuals to carry out audits on school funds and had requested assistance from the Council. As a result, a number of qualified Council officers were being sought to offer this service on an independent basis.

In response to a question by the Chair on the training of school governors, the Finance Manager said that feedback had identified training as a high priority and that consideration on how this could be delivered would include liaison with the Governors Association. She added that training provision did not currently form part of the draft guidance but that there was a wish to include this.

Councillor G.S. Banks asked if an hourly rate for undertaking an audit could be set as a guideline. The Finance Manager said that payment arrangements would need to be made between the individuals and the schools.

Councillor R.B. Jones raised concerns about this arrangement and felt that it should be up to schools to identify their own resources. The Finance Manager stated that the Council had only been asked to provide a list of suitable individuals and that it was the choice of schools who they wished to engage.

The Chair invited Moira Owen, Senior Auditor, who was present in the public gallery, to speak on her involvement in the audit. She explained that most schools had experienced difficulty in finding individuals to carry out audits and that there were already a number of Flintshire employees who were undertaking this work. This prompted further concern by Councillor Jones on identifying those employees who were already undertaking audits and he favoured the inclusion of private sector companies in the list provided to schools.

Councillor J.B. Attridge questioned whether the draft guidance had received input from the Leader and Cabinet Member. The Finance Manager confirmed that this had been the case at School Budget Forum.

The Chief Executive spoke about the contractual obligations of employees set out in the standard terms of employment which required employees to have the permission of the employer to enter into third party paid work such as this. Whilst recognising that this was a valuable service to schools where employees might have the time and skill to provide an affordable audit service, there was a risk that an employee might find themselves with a conflict of interest if, for example, they worked in Finance or Lifelong Learning. He agreed that controls were needed and wished to look in more detail at employee involvement in carrying out school fund audits in liaison with Human Resources and Internal Audit. He also agreed that any such offers should not be anti-competitive.

Councillor Jones proposed that the recommendations be noted at this stage, until a further report could be received to consider the actions. This was not formally moved or seconded.

Mr. P. Williams welcomed the timely actions taken to address the issues raised by Internal Audit and sought assurance that this would be built into the Audit Plan. The Internal Audit Manager confirmed that this would be included in the Plan for next year. Mr. Williams proposed an amendment that the Committee agree to the implementation of the procedures subject to the suggestion made by the Chief Executive for further work to be carried out on employee implications. This was duly seconded by Councillor Attridge.

Councillor Jones then repeated his proposal as an amendment to the motion which was seconded by Councillor Woolley. On being put to the vote, the amendment was lost and Mr. Williams' motion was carried as the substantive motion.

RESOLVED:

- (a) That the Committee agree to the implementation of the guidance, subject to further work on the implications of the engagement of employees in a separate paid capacity for the auditing of school funds; and
- (b) That a follow-up review be included on the Audit Plan for next year.

50. RISK MANAGEMENT AND BUSINESS CONTINUITY

The Chief Executive introduced the report to provide Members with assurance on the systems for the corporate management of risk and business continuity.

On risk management, he advised of ongoing work to improve the Strategic Assessment of Risks and Challenges (SARC) document and highlighted the example risks shown in the report alongside mitigating actions to give assurance to Members. Examples of management of business continuity were also shown on the delivery of services and lessons learned during incidents of disruption to services such as extreme weather conditions.

Councillor R.B. Jones said that SARC was a useful method of identifying issues of risk but that the criteria used to add or remove items were unclear. The Chief Executive explained that a simpler more frequent update was needed on a quarterly basis. The Risk Manager commented that SARC was being mapped to the Improvement Priorities via a summary document which she hoped would be a useful tool for Members.

RESOLVED:

That the systems for the corporate management of risk and business continuity be noted.

51. **TREASURY MANAGEMENT STRATEGY 2013/14, TREASURY MANAGEMENT POLICY STATEMENT 2013-2016, TREASURY MANAGEMENT PRACTICES 2013-2016 AND TREASURY MANAGEMENT UPDATE 2012/13**

The Head of Finance presented the 2013/14 draft Treasury Management Strategy for review prior to recommendation to Cabinet. The report also provided an update on matters relating to the 2012/13 Council's Treasury Management Policy, Strategy and practices and on the Council's investment in Landsbanki.

The Corporate Finance Manager remarked on the transfer of the treasury management function from the Funds team to the Strategy & Technical Team which was managed by Liz Thomas and that a treasury management training session which had been arranged for all Council Members the previous day. The Chair commented that the training had been helpful in providing Members with a better understanding of the Council's finances but that attendance on the day had been disappointing.

The Finance Manager - Strategy & Technical introduced the appendices to the report and said that the focus of the Committee should be to consider the Treasury Management Strategy 2013/14 which contained the Council's approach for investment and borrowing over the coming year, together with budget implications and treasury management indicators. An error in the Credit and Counterparty Policies table shown under (TMP1) Risk Management on the TMP Schedules would be replaced by the correct version (shown under Section 5 of the Treasury Management Strategy) before the report was submitted to Cabinet and County Council. The Finance Manager - Strategy & Technical went on to describe the changes to the Strategy, as included in the report, which had been agreed with the Council's treasury management advisers Arlingclose Ltd.

In response to a comment by Councillor J.B. Attridge on the Policy Statement and Practices changing from annual documents to three yearly, it was explained that any significant changes during this period would be reported to Members.

Councillor R.B. Jones pointed out that in addition to the correction to the table, the bullet point following this would also need amendment to reflect the category for minimum asset size of UK building societies of £1bn. He sought assurance on the recommendation to allow investments with a credit rating of A- albeit for a reduced maximum six month investment limit.

The Finance Manager - Strategy & Technical said that all investments carry risk and so absolute assurance could not be given. However, the recommendation had been made in discussion with the Council's treasury management advisors, and was considered to be a measured risk given that it would introduce more counterparties for the Council to invest with.

Mr. P. Williams asked about any additional recommendations made by the advisors. The Finance Manager - Strategy & Technical explained that advice had been given to increase the investment period to ten years rather than the current five year limit to reduce the unrated building society limit to those with assets less than £250m rather than £1bn and to invest more in a more diverse range of

financial products which would be capital in nature. Due consideration had been given to their suggestions, however, they were not considered as right for Flintshire's Strategy and risk appetite currently.

Following queries raised by Councillor G.H. Bateman, it was explained that Sterling Consultancy Services had been acquired by Arlingclose Ltd who were now providing the same service by the same personnel. The list of investments appended to the report showed a range of interest rates and the suggestion for investment in Debt Management Office (DMO) only at a rate of 0.25% was put forward. Officers recognised that this was an approach followed by some Councils but not the approach recommended as best value for money, given the current rate of inflation. It was also explained that the term 'external cash managers' was used to describe individuals who managed investments on behalf of others.

Ms. A. Hughes said that the Committee needed to consider the report which had been produced in the context of advice received in acting responsibly to protect the Council's finances.

Councillor G.S. Banks asked if there was potential for a greater return if investments were made in a joint approach with other Authorities. The Finance Manager - Strategy & Technical said that whilst this could be taken into consideration, each Authority would have its own approved Strategy that may not have the same appetite for risk. The Chair requested that a note be provided to the Committee giving further detail on this. Councillor Jones asked if officers could also consult with clerks of Town and Community Councils and include in the note to be provided.

In response to a query from the Chair, the Head of Finance said that the Finance Function Review had been implemented and that appraisals were part of the ongoing programme. She thanked the officer team, some of whom were present in the public gallery, and reported on the smooth handover of the treasury management function. She went on to say that the issues discussed at this meeting and the training session would provide sufficient information for Members to move forward in the process.

RESOLVED:

- (a) That the Audit Committee recommend the draft Treasury Management Strategy 2013/14, Treasury Management Policy Statements 2013-2016 and Treasury Management Practices 2013-2016 to Cabinet on 19 February 2013 subject to the amendments referred to;
- (b) That the Treasury Management 2012/13 quarterly update be noted; and
- (c) That the Finance Manager - Strategy & Technical liaise with other North Wales Authorities and Town and Community Councils to explore the suggestion for a joint approach on investments and provide a note to the Committee.

52. FORWARD WORK PROGRAMME

The Internal Audit Manager presented a report to consider the Committee's Forward Work Programme for the coming year and asked Members to put forward any suggested changes.

Mr. P. Williams asked if the next scheduled meeting could include an update on progress with the appraisal system and Single Status.

Councillor R.B. Jones raised concerns on duplication of work, pointing out that the actual reporting of these issues was under the remit of the Corporate Resources Overview & Scrutiny Committee and that involvement by the Audit Committee applied to areas where there may be a perceived risk.

The Democracy & Governance Manager advised on the setting up of a training session between the Audit Committee and Overview & Scrutiny Chairs to clarify both roles following the implementation of the Local Government Measure and wider terms of reference for the Audit Committee. He went on to speak of the Chair's wish to hold regular meetings with Overview & Scrutiny Chairs to follow on from the training and suggested that the Committee may wish to wait until after the training session to consider the items suggested. Mr. Williams was in agreement with this suggestion.

The Chair suggested that the use of consultants could also be scheduled to monitor the level of spend. Councillor Jones reiterated his comments that financial control of consultants was an item for Overview & Scrutiny. Ms. A. Hughes said that the focus for Audit Committee should be to ensure that controls were in place so that contracts with consultants were established with deliverables and were effectively monitored.

The Head of Legal & Democratic Services stated that the key issue for Audit Committee was to ensure that controls were in place in the use of consultants and suggested that this could involve requesting six-monthly or annual reports to assess how controls were working.

The Internal Audit Manager commented on the new process for the appointment of consultants which would be reviewed by Internal Audit and that there would be a short review on the appointment of consultants this year followed by a wider review of the overall use of consultants as part of next year's Audit Plan.

The Committee agreed that the three items raised could be re-considered once the overlap of roles had been addressed at the training session with Overview & Scrutiny.

Although linked to the Statement of Accounts, Ms. Hughes requested that a separate item be scheduled for the Audit of Financial Statements in September 2013, as this was a specific issue.

RESOLVED:

That the Forward Work Programme be amended to include the Audit of Financial Statements as a separate item for the September 2013 meeting.

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

Councillor A. Woolley queried the decision for the remaining two items on the agenda to be exempt, in particular the Tracker Investigation Outcome report which he felt could be viewed as being in the interests of the public. The Head of Legal & Democratic Services explained that Agenda Item 8 referred to individuals who might be identified from information in the report, which was one of the categories of exempt information, and that questions raised on the report might prompt discussion in breach of the Data Protection Act. Agenda Item 9 included details of contractual arrangements involving some individuals present at the meeting. He reminded Members of the Committee that it was at their discretion whether to move to closed session at this point. On being put to the vote, this was agreed.

In response to queries raised by Members on circumstances in which they would need to make a declaration of interest, the Head of Legal & Democratic Services stated that a Member could declare an interest on a matter which affected their wellbeing and the majority of residents in their ward. All Members had an interest in ensuring that Council processes were well run, which in this instance could represent a personal interest with those Members remaining for discussion on the item, however it was at their discretion whether to do so.

Following his declaration of personal and prejudicial interest made at the start of the meeting, Councillor G.S. Banks left the meeting for the duration of the item on Tracker Investigation Outcome.

RESOLVED:

That the press and public be excluded from the meeting as the following two items were considered to be exempt by virtue of Paragraph 13 of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended).

54. TRACKER INVESTIGATION OUTCOME

The Head of Housing was in attendance to report on the outcome of the review of the vehicle tracker system. She explained the rationale for installing the system and events leading up to the investigation involving the co-operation of Trade Unions and reported that progress on improving controls was on track with a number of positive outcomes in moving forward with the service.

The Committee questioned the Head of Housing on the report and the issues contained within it. The Committee sought and was given assurance that the system was operating appropriately. The Committee was advised that an audit review of vehicle tracking was in the Audit Plan for 2012/13. This could include the adequacy and effectiveness of the procedures put in place by management.

RESOLVED:

- (a) That the report and work undertaken by management be noted; and
- (b) That the Committee endorse the need for the Internal Audit review to provide assurance on the new procedures.

55. MANAGEMENT OF INTERNAL AUDIT

Mr. P. Green of RSM Tenon Plc and the Internal Audit Manager left the meeting prior to discussion on this item.

The Head of Finance presented the report to seek the Committee's views on the management of Internal Audit following the current contract with RSM Tenon Plc which was due to end on 31 March 2013.

She explained the background and key considerations, outlining the list of options which had been detailed in the report.

Councillor J.B. Attridge proposed that the management of the Internal Audit service be delivered in-house, Option 2 listed in the report, which was seconded by Councillor R.B. Jones and agreed. Councillor A. Woolley requested that his vote against the proposal be noted.

RESOLVED:

That the Committee's view that the future management of Internal Audit from 1 April 2013 should be in-house be reported to Cabinet on 19 February 2013.

56. 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 1.00 pm)

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Chair