

**AUDIT COMMITTEE**  
**24 SEPTEMBER 2015**

Minutes of the meeting of the Audit Committee of Flintshire County Council held in the Clwyd Committee Room, County Hall, Mold on Thursday, 24 September 2015

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

Councillors: Haydn Bateman, Alison Halford and Arnold Woolley

**LAY MEMBER:**

Paul Williams

**SUBSTITUTIONS:**

Councillor Ian Dunbar for Glyn Banks, Bernie Attridge for Alan Diskin and Dave Cox for Ian Roberts

**ALSO PRESENT:**

Finance Manager – Corporate Accounting and Systems and Pensions  
Finance Managers

**IN ATTENDANCE:**

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

Lead HR Business Partner for minute number 34

Mr. John Herniman and Ms. Michelle Phoenix of Wales Audit Office

**31. SUBSTITUTION**

In line with the Constitution requirement, the Committee agreed to allow Councillor Ian Dunbar to substitute for Councillor Glyn Banks, Councillor Bernie Attridge to substitute for Councillor Alan Diskin and for Councillor Dave Cox to substitute for Councillor Ian Roberts. It was confirmed that Councillors Attridge, Cox and Dunbar had undertaken the necessary audit training.

Councillor Attridge confirmed that Councillor Dunbar would be a permanent replacement on the Committee in place of Councillor Diskin. The Chairman welcomed Councillor Dunbar to the Committee.

Councillor Haydn Bateman apologised for not attending the drop-in sessions held for Members on the Statement of Accounts due to undertaking Council business.

**RESOLVED:**

That Councillors Bernie Attridge, Dave Cox and Ian Dunbar be permitted as substitutes for the meeting.

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

No declarations of interest were made.

**33. MINUTES**

The minutes of the meeting of the Committee held on 15 July 2015 had been circulated to Members with the agenda.

Councillor Alison Halford referred to page 4 and 5 of the minutes and her comments about the increase in the precept for the North Wales Police & Crime Commissioner. She said that she did not remember the Chief Executive giving the answer that was recorded in the minutes. At the meeting she had commented that the Council precept partly paid for the Police & Crime Commissioner but the Chief Executive had not agreed. She felt that it was a drain on Council Tax and she had discussed the matter with the local Assembly Member Mark Isherwood. She had been advised that the Police & Crime Commissioner was funded through three separate sources, one of which was the Council precept. In response to a comment from Councillor Bernie Attridge, Councillor Halford said that the minutes did not reflect what was said at the meeting and that the Chief Executive had added in his own opinion of how the Police & Crime Commissioner was funded.

In response, the Chief Executive said that there was a need to deal with the comments and the insinuation made by Councillor Halford and added that the minute did reflect what had been said at the meeting. The issue had also been raised when Mr. Winston Roddick, the Police & Crime Commissioner, had attended the County Council meeting held on 23<sup>rd</sup> July 2015. The Chief Executive recalled Mr. Roddick saying that funding for his role was drawn from National Government. Councillor Halford thanked the Chief Executive for his explanation. The Chief Executive added that the explanation had been provided on a number of occasions and that was why it was not included in the Statement of Accounts, and Mr. Roddick had confirmed that his role was not directly funded from Flintshire County Council.

On the issue of the minutes, the Chief Executive explained that he had provided the response shown and in advising of the process of when officers saw the minutes and their input into them, he asked the Chief Officer (Governance) to provide further information on the issue. The Chief Officer explained that the minutes preparation process involved the Committee Officer taking notes at the meeting and then preparing the draft minutes for circulation to officers. He advised that officers provided explanation where needed and if changes were suggested which the Committee Officer was not comfortable with, then this would be queried with the officer. The draft minutes were circulated for completeness, not for officers at the meeting to add in their own views or opinions.

Following a question from Mr. Paul Williams on compulsory or voluntary redundancy packages, the Chief Executive confirmed that the

Council's policies treated voluntary and compulsory redundancies the same and made redundancy payments for up to a maximum of 45 weeks. This had been applied by the Council for a number of years and the policy had been re-adopted 18 months ago. He added that the policy was different to the statutory redundancy rights. The Chief Officer (Governance) advised that the regulations under which payments were made allowed for statutory discretionary payments for up to 2 years (or 104 weeks) for redundancy pay but the Council's policy was below these guidelines and therefore in effect became a cap on payments.

Councillor Halford queried who the Principal Auditor referred to on page 11 and was advised by the Internal Audit Manager that this was Lisa Brownbill.

**RESOLVED:**

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

**34. STATEMENT OF ACCOUNTS 2014/15**

The Corporate Finance Manager presented the Statement of accounts for 2014/15 together with the Wales Audit Office (WAO) reports in connection with the audit of the financial statements and Letters of Representation for Flintshire County Council and the Clwyd Pension Fund.

The final accounts incorporated changes agreed by WAO during the course of the Audit, which had been discussed with officers and relevant actions had been taken. One of the issues arising from the audit of the 2013/14 Accounts was that the Council did not have a clear protocol that set out arrangements for the establishment, discharge and review of its Reserves. As a result, a Reserves and Balances Protocol was included as Appendix F to the report. In response to some changes that had been made to the ongoing audit of the accounts and to provide further details on some of the adjustments referred to in the WAO report on the accounts, a briefing note had been circulated in advance of the meeting. In line with the usual practice, a copy of the final accounts had been included on the agenda for the County Council meeting, to be held in the afternoon, where approval would be sought within the statutory deadline of 30 September. The Corporate Finance Manager indicated that officers had accepted the findings in the report but explained that none of the issues raised affected the bottom line in the accounts and therefore the outturn position remained unchanged. He added that WAO had given the accounts an unqualified (clean) opinion. He commented on the issue of presentation of income figures in some areas but explained that a significant amount of work had been undertaken to resolve the issue and ensure that it did not reoccur in the 2015/16 accounts process. The report had identified some weaknesses in the strength of internal controls relating to the processing of payroll. An internal audit had also highlighted this as an area of concern and an action plan was in place. The Corporate Finance Manager advised that more detailed checking would be built into the

timetable for next year. The issues that had been raised in the 2013/14 Statement of Accounts had been resolved satisfactorily.

Councillor Alison Halford expressed concern about the level of paperwork that Members were required to read on their Ipads, and added that this could result in the Audit Committee failing in its duty to audit the accounts appropriately. Following a short adjournment to allow Members to be provided with paper copies of the Statement of Accounts report, the meeting resumed at 10.35am.

#### Audit of Financial Statements report for Flintshire County Council 2014/15

Mr. John Herniman of WAO acknowledged the production of the accounts and the complex work involved. All of the issues that had been raised had been addressed but he added that there were some issues that were outstanding in relation to payroll samples and the categorisation of income and expenditure in the Comprehensive Income and Expenditure Statement (CIES). It was anticipated that these would be resolved by 30 September 2015 and that the WAO would still be able to give an unqualified (clean) opinion on the financial accounts. Mr. Herniman said that this was good news and was pleased to note that there were no new issues as a result of fixed assets in these accounts which had proved problematic in previous years. There were no misstatements identified which remained uncorrected but some concerns had been identified about the preparation of the CIES which he detailed. He asked Members to note that this did not affect the net position on the accounts. Social Care income had been incorrectly reallocated across other services and disclosed in the wrong service line and had resulted in significant restatement of Note 41 Segmental Reporting as well as the CIES.

Mr. Herniman explained that the Council's bank reconciliation had not been prepared correctly and this had meant that cash, cash equivalents and cash overdrawn disclosures had been misstated. The Council had also not complied with the Code in respect of a change in accounting policy on foundation schools as it had only applied the change from 31 March 2014 rather than 1 April 2013. Whilst Mr. Herniman was satisfied that the impact of this was not material to the accounts, auditing standards required all instances of non-compliance with the Code to be reported. Some weaknesses had been identified in the strength of the Council's internal controls relating to the processing of payroll. There had been the need to confirm a sample of employee salaries but some of these documents had not been readily available and some were still outstanding. However, the WAO was confident that these could be resolved and Mr. Herniman was satisfied that these control failures did not impact on the unqualified opinion. The findings were consistent with the recent Internal Audit Report on Payroll issued in August 2015.

The report identified a concern over the level of scrutiny and review of the financial accounts and there was a need for recognition of the Council's collective responsibility for the preparation of the accounts and responding to

the audit process. Mr. Herniman felt that such a review would have raised questions over the number and size of the variances in the CIES and would have allowed most of the amendments identified during the audit to have been identified and addressed before the accounts were certified by the responsible finance officer as a true and fair view of the financial transactions of the Council and presented for audit. He felt that it was important for the Council to learn lessons from this year to ensure that these issues did not reoccur next year. Mr. Herniman concluded by advising the Committee that there were no other matters to be reported and a separate report with details of the recommendations arising from the financial audit work undertaken by WAO would be discussed with officers and presented to the Audit Committee at its next meeting in January 2016.

Councillor Alison Halford thanked Mr. Herniman for his presentation. In response to a query from Councillor Halford, Mr. Herniman reiterated his comments that a quality review would have ensured that the accounts made sense and that explanations had been sought for variances that appeared inconsistent and would have highlighted the concerns about the figures quoted for CIES prior to the responsible financial officer certifying the accounts as a true and fair view of the financial transactions. Councillor Halford also asked Mr. Herniman to advise the Committee on whether it should recommend approval of the accounts to Council. Mr. Herniman said that it was for the Committee to make its decision based on the assurances that had been provided by WAO and the Finance Team.

Councillor Halford expressed significant concern about the late stage that the issues of concern highlighted by the WAO had been raised and said that this could not be allowed to continue. She felt that the provision of the Statement of Accounts was a large burden on the Corporate Finance Manager and his team and suggested that they were struggling to cope with it. She added that she could not recommend the approval of the accounts to Council. Councillor Bernie Attridge said that it was for the Audit Committee to make a judgement on whether to recommend the accounts to Council after an explanation had been heard from WAO and the Finance Team. The Chief Executive said that there were two issues outstanding and that as neither was material to the accounts, then the Audit Committee was in a position to recommend the accounts with the caveat that both of these issues would be resolved appropriately to allow approval of the accounts with an unqualified opinion to comply with the deadline of 30 September 2015.

In response to the comments of Councillor Halford, the Corporate Finance Manager explained that a large amount of work had been undertaken on reviewing the financial statements but it appeared that it had not been carried out in enough detail; a review would be built in to the process for the 2015/16 accounts. He reiterated that the changes did not affect the bottom line. All of the necessary work had been completed and it was now for WAO to look at the figures and confirm they were acceptable prior to 30 September 2015. On the issue of the payroll data requested by the WAO, the Lead HR Business Partner explained that approximately ten pieces of information were outstanding but she anticipated that these would be resolved by the end of the

following day. The Chief Executive advised that as WAO was satisfied that the work on the remaining issues could be undertaken to comply with the deadline of 30 September 2015 their unqualified opinion should remain unchanged.

A number of issues had arisen during the audit of the accounts but these had been new issues to those identified in previous years and there was a high level of satisfaction that these would not reoccur for the 2015/16 accounts. On the issue of the variances in the CIES, the Chief Executive confirmed that the accounting approach had been changed and therefore the issues would not reoccur. A mop-up meeting would be held by the end of November 2015 and, in acknowledging the point that the variances in the CIES could have been spotted earlier, he suggested that an officer working group, to include officers from Finance and other departments, be set up with the support of WAO to review the issues identified in the audit. He added that the issues raised in the audit and the Internal Audit report on Payroll would be discussed with the Employment Services Manager to ensure that capacity levels were correct. The findings and the overall issues raised in the WAO report would be the subject of a report to the January meeting of the Committee. The Chief Executive said that officers shared the level of disappointment, and would ensure that a more rigorous review of the accounts for 2015/16 was in place whilst reminding the Committee that this did not detract from the unqualified opinion on the accounts by WAO.

Mr. Paul Williams thanked the Corporate Finance Manager and the Finance Manager – Technical Accountancy for their hard work. He felt that there were concerns about the drilling down of the budget processes and sought assurance that these would not reoccur in the future. He suggested that the accounts be recommended to Council subject to the WAO issuing an unqualified opinion but that Members of the Council be advised of the strong concerns about the underlying processes and that an independent review of processes be undertaken if the results of the working group to correct the errors reflected in the report of WAO highlighted any concerns. The proposal was duly seconded by Councillor Tim Newhouse.

In response to a query from Councillor Halford, the Chief Executive spoke of the changes that were to be implemented on the level of scrutiny and review of the financial statements which would have highlighted the variances in the CIES. He spoke of the professional relationship between the Council and the WAO and Mr. Herniman confirmed that this had been maintained during the production of the report, even though this had been a difficult year. He added that the WAO had confidence in the officers that had produced the accounts.

Councillor Halford sought clarification on the changing to the way in which the CIES was produced and in response the Finance Manager – Technical Accountancy explained that this would result in a fully automated process by 'mapping' budget codes to the various lines in the statement. She added that the automated process was undertaken in the 2013/14 accounts for expenditure and this year it had been used for income but some of the

information had not been placed in the expected account line. She appreciated the frustrations expressed by the Members but reminded the Committee that the variances in the CIES did not affect the 'bottom line' in the accounts or the unqualified opinion provided by WAO. Mr. Herniman also explained that the work to convert the way the CIES was produced had now been undertaken and the problems which had been identified would be addressed to prevent them reoccurring in the 2015/16 accounts. Councillor Halford felt that this was a bad audit and asked what had been gained by the automating of the CIES. Councillor Newhouse indicated that he and Mr. Williams had identified some concerns but they had not felt that the changes in producing the CIES was an issue. He confirmed that the changes would not reoccur next year and would result in a more accurate process for future years.

Councillor Arnold Woolley felt that the areas of concern related to capability, capacity, timelines, fundamentals and underlying issues. He explained which areas he felt required further consideration and agreed with the proposal by Mr. Williams to recommend acceptance of the accounts with an independent review being an option if the concerns were not addressed in the findings of the working group. In response, the Finance Manager – Technical Accountancy provided an explanation on the fundamental control and agreed that the errors identified should not have occurred but would not be repeated in the future.

On the issue of capacity, Councillor Bernie Attridge sought clarification that sufficient staff were in place to undertake the work required. In response the Chief Executive confirmed that discussions had been undertaken with the Corporate Finance Manager and Finance Manager – Technical Accountancy and a judgement of the level of capacity had been made. He added that this would be discussed as part of the de-brief on the accounts in the coming months. He would also speak to the Employment Services Manager on the issue of capacity in Payroll and the consideration of the need for temporary resources. Councillor Attridge welcomed the establishment of a working group but raised concern about the failure of departments to provide information in a timely fashion; he asked that the Chief Executive raise the issue with the Chief Officer Team to highlight its importance.

A discussion was undertaken on the proposal put forward by Mr. Williams and Councillor Halford sought clarification on who would carry out the independent review, if one was required. Mr. Williams provided suggestions of companies that could undertake the work. The Chief Officer (Governance) said that the WAO had been an external scrutineer in the accounts process and had therefore provided an element of an independent review of the report before the Committee. In response to a further query from Councillor Halford, the Chief Executive said that the working group would be chaired by himself or the Chief Officer (Governance) and would consist of officers from Finance and other departments. A mop-up meeting would also take place by the end of November 2015 and a report on any capacity issues and the issues raised by the WAO report would be submitted to the Committee in January 2016 for assurance.

## Audit of Financial Statements report for Clwyd Pension Fund 2014/15

Mr. John Herniman explained that the audit had been completed and it was the intention of WAO to issue an unqualified audit report on the accounts. At the time of writing the report, independent valuations amounting to £5.9million were awaited but this did not reflect the proposed opinion as the figure was below materiality. There were two misstatements which had been corrected and these were explained in appendix 3, and two areas of concern about the qualitative aspects of the accounting practices and financial reporting which were also reported. Mr. Herniman felt that these could be easily addressed and no other areas of concern had been raised in the audit of the accounts. The Chief Executive confirmed that the timeline relating to the independent valuations would be reviewed to prevent reoccurrence in the future.

### Reserves and Balances Protocol

The Corporate Finance Manager explained that the provision of a protocol arose from the 2013/14 audit of the accounts. The type of reserves that the Council could hold were detailed in paragraph 2.00 of the protocol where it was explained that the Council Fund reserve was to manage the impact of any significant unforeseen events and the Council's policy had been to maintain a level equivalent to 2% of its annual budget. Earmarked reserves were to meet known or predicted future requirements and were held corporately or within individual service portfolios for specific purposes. Schools' reserves were funds, which were held by the Council on schools behalf, and released under delegated budgets unspent at year end. The Housing Revenue Account (HRA) reserve was ringfenced in the same way that the HRA budget was a ringfenced account and could only be used for activity relating to the management and maintenance of housing. The creation of a new earmarked reserve would require Cabinet approval which would be actioned through the monthly budget monitoring report at the relevant point in the financial year. Section 4 detailed the monitoring and reporting of reserves and balances and a summary of the latest position in relation to reserves would be reported quarterly to Cabinet and Corporate Resources Overview & Scrutiny Committee through the monthly monitoring report.

Prior to the conclusion on the audit of the Statement of Accounts, Councillor Attridge asked that thanks be passed on to the Finance Teams for their work on the production of the accounts for the Council and the Clwyd Pension Fund. He was confident that the issues raised would be addressed.

### **RESOLVED:**

- (a) That subject to Wales Audit Office (WAO) being able to confirm its unqualified opinion, the statement of accounts for 2014/15 (including the amendments and corrections circulated by the s.151 Officer) be recommended to Council for approval;



- (b) The Committee recorded its concerns that the issues in the WAO Audit of Financial Statements Report. It noted that an officer working group was to be established by the Chief Executive to correct the issues in that report (including confirmation that errors in the accounts were not due to underlying errors in the budget), and, having considered the results of that working group, reserved the right to later seek an independent review of processes, if required;
- (c) The Committee considered WAO's reports: Audit of the Financial Statements – Flintshire County Council, and Audit of the Financial Statements – Clwyd Pension Fund;
- (d) The Committee recommended to Council: the Letter of Representation – Flintshire County Council, and the Letter of Representation – Clwyd Pension Fund; and
- (e) The Committee recommended to Council the Reserves and Balances Protocol.

### **35. INTERNAL AUDIT PROGRESS REPORT**

The Internal Audit Manager presented the report to update Members on the progress of the Internal Audit department. He detailed the background to the report and explained that transition to a new software package had resulted in a number of audit reviews which had exceeded their budgeted time. The delays would become less as the team became more familiar with the system and this would be closely monitored to ensure that the pace of completion was picked up for the remainder of the year. In the first five months, 55% of the annual budgeted time for work on a number of investigations and National Fraud Initiative work had taken place. The implementation of the integrated audit software was continuing and recommendation tracking through the system would commence shortly.

All reports finalised since the last committee meeting were shown in Appendix C and in referring to the 'red' assurance on the Schools Thematic Review, the Internal Audit Manager provided details of the schools that had been visited and the high and medium level recommendations made. Concerns about Payroll had been raised earlier as part of the discussions on the Statement of Accounts but the Payroll review undertaken by the Internal Audit team had looked at the overall control of the section. A number of issues had been raised by both the team and the Wales Audit Office (WAO) and a follow-up report on the work of the Group identified earlier by the Chief Executive would be considered by the Committee at its meeting in January 2016.

Appendix D showed the responses that had been received when tracking recommendations. For recommendations that had not been implemented on time, the relevant Chief Officer was required to confirm that the reason and the new date were both acceptable to them. It was also

necessary to report on how the risk was being managed before the recommendation was implemented. The status of outstanding recommendations that were more than two years old were reported and these related to Procurement, Main Accounting, Enforcement and Capital Programme. The recommendations were still being actioned but had required long-term solutions and most of the long-standing recommendations would be addressed by the end of the year. The Internal Audit performance indicators were reported on page 42 and the return of client satisfaction questionnaires had improved from 14% at quarter 4 to 53% at quarter 1. Appendix F provided details of new referrals that had been received, investigations that were still ongoing and investigations that had been completed.

The Internal Audit Manager commented on the Whistleblowing policies in schools and the concerns that had been expressed by the Committee over the adoption of the policies. All schools had been contacted to confirm whether they held a policy and to provide a copy for review and the results would be passed to the Chief Officer (Education and Youth) for his team to follow up as necessary.

Councillor Bernie Attridge raised significant concern about the number of days taken for departments to return draft reports. In response, the Internal Audit Manager commented on the introduction of a new template and the procedures in place which had been redesigned to ensure a prompt response as the department was advised that it would be assumed that the report was an accurate record of the debrief meeting if it was not returned within the prescribed deadline. Councillor Attridge felt that the three day target had been set for a reason and queried what was in place to ensure that officers complied with the deadline and whether the same department or officer were always responsible for the late return of draft reports. The Chief Executive acknowledged the comments made and spoke of the reductions in bureaucracy but added that there may be a need to review the three day target for a response as it was an ambitious one. The Internal Audit Manager said that he did not have the details with him about individual officers or departments but added that the target for the total days from the end of the fieldwork to issuing the final report had been achieved.

In response to a query from Councillor Haydn Bateman on one of the investigations that had been completed, the Chief Executive advised that an update report on Housing control was to be submitted to a future meeting of the Community & Enterprise Overview & Scrutiny Committee. He also commented on the work of the Internal Audit Team on the serious case. The Internal Audit Manager confirmed that additional processes and controls had been put in place but added that it was an isolated case. Councillor Alison Halford indicated that she had not been aware of this case and in response, Councillor Bernie Attridge indicated that it was not always appropriate to advise Members of individual investigations; the Chairman advised that the incident had been raised with him. The Chief Executive reiterated that the report to the Community & Enterprise Overview & Scrutiny Committee would provide assurance that this was a one-off case and that allocations were being controlled according to policy. Councillor Halford felt that the delay had

cost the authority because WAO had had to wait for some reports on the long standing issue and spoke of the reliance on senior officers and suggested that the Chairman of the Community & Enterprise Overview & Scrutiny Committee should have been made aware of the issue. The Internal Audit Manager indicated that the incident had been brought to the attention of the Internal Audit Team in June 2015 and this had been the first opportunity to submit it to this Committee. The Chief Executive advised that such cases were not routinely brought to the Audit Committee. He acknowledged the need for earlier briefings on such issues, which may affect confidence in services, with the Chair and Vice-Chair of the appropriate Overview & Scrutiny Committee.

Councillor Arnold Woolley felt that any delays from departments on report turnaround and actioning were unsatisfactory and suggested that officers should be asked to attend Audit Committee to explain why any delays were continuing. He also felt that sanctions should be in place and that the Audit Committee was not undertaking its duty if Members did not exercise the right to request attendance at meetings by officers.

In response, the Internal Audit Manager confirmed that no officers had been asked to explain delays to the Audit Committee but added that there had been an improvement in the returning of draft reports from quarter 4 to quarter 1. Issues were being addressed before they reached the stage of needing to be called before the Committee but if the concerns were significant and did not improve then this suggestion would be enforced. Mr. Williams endorsed the comments of Councillor Woolley and welcomed the assurances that had been provided by Chief Executive and the Internal Audit Manager.

Mr. Williams referred to the last bullet point on the section about Contingent Liabilities in the Statement of Accounts, asked if Internal Audit had been involved and sought clarification on how much had been set aside in preparation for the outcome from the High Court. The Chief Officer (Governance) indicated that Counsel had advised that the case was misconceived and over valued. As yet the Audit Committee had not been informed of this case because there was (in light of Counsels advice) no indication that the Council's procedures were flawed. If the case was lost in the High Court, it was expected that Internal Audit would need to undertake an investigation. The Portfolio Holder had been made aware of the case.

### **RESOLVED:**

That the report be noted.

## **36. ACTION TRACKING**

The Internal Audit Manager presented an update report on actions carried out from points raised at previous Audit Committee meetings. It was noted that most actions had been undertaken and there were no concerns with the report.

**RESOLVED:**

That the report be accepted.

**37. FORWARD WORK PROGRAMME**

The Internal Audit Manager presented the report to consider the Forward Work Programme for the next year.

He advised that a report on the set up of the Group to consider the finance analysis would be included for the January 2016 meeting.

Councillor Bernie Attridge suggested that a training session on Member Ipads be held. The Chairman advised that a training session had been offered for the Committee prior to the June 2015 meeting.

**RESOLVED:**

That the Forward Work Programme as amended be approved.

**38. MEMBERS OF THE PUBLIC AND PRESS IN ATTENDANCE**

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

(The meeting started at 10.00am and ended at 12.20pm)

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**Chairman**