

AUDIT COMMITTEE
15 FEBRUARY 2019

Minutes of the meeting of the Audit Committee of Flintshire County Council held in the Clwyd Committee Room, County Hall, Mold on Friday, 15 February 2019

PRESENT: Councillor Helen Brown (Chair)

Councillors: Geoff Collett, Chris Dolphin, Andy Dunbobbin, Paul Johnson and Arnold Woolley

Co-opted member: Sally Ellis

SUBSTITUTE: Councillor: Mike Peers (for Andrew Holgate)

APOLOGIES: Chief Executive and Internal Audit Manager

ALSO PRESENT: Councillor Patrick Heesom attended as an observer

IN ATTENDANCE:

Chief Officer (Governance); Principal Auditor; Corporate Finance Manager; and Democratic Services Officer

Interim Finance Manager (Technical Accountancy) (for minute numbers 45 & 46)

Corporate Business & Communications Executive Officer (for minute number 47)

Wales Audit Office representatives

Matthew Edwards and Mike Whiteley

42. SUBSTITUTION

In accordance with Constitutional requirements, the Committee agreed to allow Councillor Mike Peers to substitute for Councillor Andrew Holgate. It was confirmed that Councillor Peers had undertaken the necessary audit training.

RESOLVED:

That Councillor Mike Peers be permitted as a substitute for the meeting.

43. DECLARATIONS OF INTEREST

None.

44. MINUTES

The minutes of the meeting held on 21 November 2018 were received.

RESOLVED:

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

45. TREASURY MANAGEMENT STRATEGY 2019/20; TREASURY MANAGEMENT POLICY STATEMENT, PRACTICES AND SCHEDULES 2019/20-2021/22; TREASURY MANAGEMENT QUARTER 3 UPDATE 2018/19

The Interim Finance Manager - Technical Accountancy presented the draft Treasury Management Strategy 2019/20, Policy Statement, Practices and Schedules 2019-2022 for review and recommendation to Cabinet prior to adoption by County Council. All Members had been invited to a training session on 29 January in preparation for approving the Strategy at full Council in February. Also presented for information was the quarterly update on matters relating to the Council's Treasury Management Strategy 2018/19.

There were no significant changes to the overarching Treasury Management Policy Statement and key sections were highlighted on economic and local context, along with investment and borrowing strategies. Explanation was given on changes such as the separation of the Capital Strategy and Asset Management Plan, and the Council's approach in relation to broader definition of types of investments, as detailed in the report.

In response to queries from Councillor Peers, it was explained that usable reserves held as cash could be made available for investment. He said that details of short-term loans reported should be accompanied by the rationale and that investments should generate sufficient income. He raised a number of queries on the Strategy, such as the need to clear debt rather than investing at low interest rates and to test borrowing against affordability to avoid penalties when restructuring debt. He went on to question an investment and loan taken out at the same time which equated to a loss in interest.

The Interim Finance Manager explained that details of prudential indicators included in the Capital Strategy demonstrated the cost of borrowing as a percentage of income. The Corporate Finance Manager confirmed that the percentage was monitored and currently below that of many other North Wales councils.

On other queries, the recent Treasury Management training session had covered in detail the approach to repaying long-term loans at the most appropriate time and short-term borrowing was undertaken to adjust to fluctuations in cashflow levels at any given time, which was normal practice. Whilst it was acknowledged that the long-term borrowing position reflected many historic decisions, future long-term loans were fixed at a lower rate in conjunction with the advice of the Council's Treasury Management advisors. EU legislative requirements through the Markets in Financial Instruments Directive (MiFID) on the retention of cash as investments provided more flexibility in the market, but meant that it was possible for investment and borrowing to be undertaken at the same time.

The Chief Officer (Governance) said that historic borrowing decisions were based on information and interest rates available at that point in time and that there was now increased scrutiny on borrowing. In highlighting the strategic risk on maintaining school buildings, he spoke about the difficult balance between investing in assets and the cost of borrowing.

The Corporate Finance Manager said that the majority of borrowing in the revenue account was supported by Welsh Government funding for the core capital element.

Councillor Woolley acknowledged the need for essential spend and raised concerns about the limit on the cost of borrowing against a decreasing Council Fund. In response to questions, a breakdown of the £13.9m total budget for interest loan paid was approximately 40% for the Housing Revenue Account (HRA) and 60% for the Council Fund. On the affordability ceiling, prudential indicators provided a mechanism for any unsupported borrowing to be considered in the context of the Medium Term Financial Strategy. Information on schemes funded by supported and prudential borrowing were shown in the Capital Programme along with examples of the effects of borrowing.

Councillor Dunbobbin suggested a bolder approach to investment in view of the financial climate, for example the approach taken by some authorities in England to invest in hotels and buildings which could provide a better return. The Corporate Finance Manager said that all opportunities for income generation were being explored.

The Chief Officer advised that concerns had been raised in England by the National Audit Office about the extent of commercial investments and that often such investments were outside the geographical area of the council and were for purely commercial purposes rather than any social benefit within the area of the particular council. Councillor Dunbobbin was advised that such a request for discussion should be directed to the Corporate Resources Overview & Scrutiny Committee.

RESOLVED:

- (a) That having reviewed the draft Treasury Management Strategy 2019/20, draft Treasury Management Policy Statement 2019-2022 and draft Treasury Management Practices and Schedules 2019-2022, the Committee has no specific issues to be reported to Cabinet on 19 February 2019; and
- (b) That the Treasury Management 2018/19 quarterly update be noted.

46. WALES AUDIT OFFICE (WAO) - ANNUAL AUDIT LETTER 2017/18

The Corporate Finance Manager introduced the Annual Audit Letter issued by the Wales Audit Office (WAO) which set out the key messages arising from the 2017/18 audit, as required by the Auditor General for Wales.

Matthew Edwards of WAO confirmed that the Council had appropriate arrangements to secure economy, efficiency and effectiveness in the use of resources and had met statutory requirements on continuous improvement. The outcome of work completed on the certification of grant claims and returns would be reported in March. The scale of the financial challenge was a common issue

amongst authorities in Wales and demonstrated the need to maximise opportunities for income generation and alternative delivery models.

On the recognition of an 'annual funding gap', Councillor Peers sought views on the future position of the Council. Matthew Edwards spoke about planned work on financial sustainability across the public sector in Wales, with local findings to be reported back to the Committee once completed. There was regular communication with officers and the Audit Plan in March would provide more detail on the approach to be taken by WAO to assess the financial sustainability of the Council.

Following a question by Councillor Woolley, officers explained the difficulty in comparing performance on planned efficiencies by councils. Matthew Edwards agreed to share a link to recent reports issued by the WAO on the financial position of councils in Wales.

RESOLVED:

That the Wales Audit Office Annual Audit Letter for 2017/18 be noted.

47. RISK MANAGEMENT UPDATE

The Corporate Business & Communications Executive Officer presented an update on the strategic risks at Quarter 3 contained within the Council's 2018/19 Council Plan, together with a more specific update to show how risk management fitted into the financial and business planning cycle of the Council.

A presentation was given on the model for the cycle which comprised of three elements - financial planning, internal business planning, and controls and external context. On the second element, it was noted that for 2019, Part 1 of the Council Plan would be set in May. The model, which had been developed with the assistance of Chief Officers, had been well received by Corporate Resources Overview & Scrutiny Committee Members who had requested it. During the quarterly update, attention was drawn to details of the seven red risks and others which had been closed in-year.

On risk ST152, Councillor Peers disagreed with the green risk trend as the delivery of affordable housing through the private sector was not being met due to attempts by developers to avoid their obligations under the HSG10 policy. He felt that the risk should be re-examined (with Planning colleagues), together with the escalating risk on debt levels in relation to affordability of rent or Council Tax.

On the latter, the Chief Officer (Governance) referred to the forthcoming joint meeting with Overview & Scrutiny Chairs which would allocate responsibility for monitoring risks. He remarked on a forthcoming Overview & Scrutiny report on rent arrears and proposed national changes which may affect Council Tax collection rates.

In highlighting the importance of income collection, Sally Ellis suggested that wording on the risk for debt levels be expanded to capture a broader range of individuals who may be impacted, for example through increased Council Tax.

Councillor Johnson pointed out that it was not only Council tenants who would be affected by Council Tax rises.

The Chief Officer explained that the wording reflected the higher exposure to risk to individuals affected by Universal Credit. The Executive Officer said that development of the Council Plan for 2019/20 would be an appropriate time to review the wording under the poverty theme.

The Principal Auditor confirmed that both issues were included in the Audit Plan for 2019, subject to approval.

RESOLVED:

That the status of the initial overview of strategic risks of the 2018/19 priorities of the Council be noted.

48. ANNUAL REVIEW OF THE CODE OF CORPORATE GOVERNANCE

The Corporate Business & Communications Executive Officer presented a report on the updated Code of Corporate Governance on which the Committee had previously received a briefing. The report was to be submitted to the Constitution & Democratic Services Committee.

In accordance with usual practice, the Code had been updated following review by the Corporate Governance Working Group and consultation with senior officers. The main changes related to partnership working, Member development and the improved engagement between the Audit Committee and Overview & Scrutiny Chairs.

RESOLVED:

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

49. INTERNAL AUDIT PROGRESS REPORT

The Principal Auditor presented the update on progress of the Internal Audit department including changes to the audit plan, action tracking and investigations.

None of the reports finalised since the last meeting included Red opinions and a satisfactory management response had been given to issues identified in the only Red/Amber report. Information on cumulative assurance levels by portfolio were shared, as requested at the facilitation workshop.

On action tracking, Sally Ellis agreed with the suggestion that those of the 16 overdue actions without responses should be referred to the Chief Officer team in the first instance. She sought assurance that actions on the Amber/Red report for the Strategic Housing & Regeneration Project (SHARP) were being monitored or that it be brought for discussion at the joint meeting with Overview & Scrutiny.

Councillor Peers asked why the Planning Enforcement audit remained Red following the appointment of two Enforcement Officers and discussion at Planning Strategy Group. The report included the original risk rating of the report in order to assist Members to track and follow up issues that were a high priority. Councillor Dolphin raised concerns that further resources would be needed to address the backlog of work. Councillor Woolley raised similar concerns about capacity. Internal Audit was satisfied that the risk was being managed and the original Red status would remain until all actions had been implemented. The Chief Officer acknowledged that legal processes could be complex but that conclusions would be reached. Monitoring would continue to ensure that measured progress was being made to reduce the backlog.

Councillor Johnson commented that the names of officers should not be shown in the reports.

RESOLVED:

That the report be accepted.

50. CORPORATE ANTI-FRAUD & CORRUPTION STRATEGY AND FRAUD & IRREGULARITY RESPONSE PLAN

The Principal Auditor presented the report on the updated Corporate Anti-Fraud & Corruption Strategy and Fraud & Irregularity Response Plan.

The Chief Officer (Governance) said that the revised document provided more clarity for individuals outside the Council and that contractors would be made aware as part of the procurement bidding process.

Sally Ellis reiterated issues which she had raised with the Internal Audit Manager at the pre-briefing. These related to the importance of the Committee receiving an overview of fraud issues, clearer definition of 'irregularity' in the Strategy and consistency on where safeguarding issues were dealt with. In response to further comments, the Principal Auditor provided details on the rollout of the training programme on the Strategy.

Councillor Johnson commented that the report should indicate the relevant Cabinet Member responsibility or otherwise, despite the fact that this was a non-executive function. On consultation with Trade Unions, it was confirmed that feedback had been incorporated into the documents.

It was agreed that 'where applicable' should be removed from section 8.15 of the Strategy and that the double negative in section 2.6 would be corrected.

RESOLVED:

- (a) That subject to the amendments, the updated Corporate Anti-Fraud & Corruption Strategy be agreed; and
- (b) That the updated Fraud & Irregularity Response Plan be agreed.

51. WHISTLEBLOWING POLICY

The Principal Auditor presented the report on the updated Whistleblowing Policy which incorporated some minor changes.

As mentioned at the pre-briefing, Sally Ellis suggested that the policy include volunteers and that the Committee receive an overview of issues raised through the policy to provide an opportunity to feedback into the policy-making process.

RESOLVED:

That the updated Whistleblowing Policy be approved.

52. ACTION TRACKING

The Principal Auditor presented the update report on actions arising from previous meetings, most of which had been completed or were in progress.

Councillor Peers commented on the correct use of acronyms.

RESOLVED:

That the report be accepted.

53. FORWARD WORK PROGRAMME

The Principal Auditor presented the current Forward Work Programme for consideration.

RESOLVED:

- (a) That the Forward Work Programme be accepted; and
- (b) 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.

54. 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 11.45am

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Chair