

MEETING OF AUDIT COMMITTEE
26 MARCH 2012

Minutes of the meeting of the Audit Committee of Flintshire County Council held in County Hall, Mold on Monday, 26 March 2012

PRESENT: Councillor I.B. Roberts (Chairman)

Councillors: G.H. Bateman, Q.R.H. Dodd, A.M. Halford, W. Mullin, M.J. Peers and P.R. Pemberton

ALSO PRESENT: Councillors: Eng. K Armstrong-Braun and A. Woolley

APOLOGY: Head of Finance

IN ATTENDANCE: Internal Audit Manager, Democracy & Governance Manager and Committee Officer

Chief Executive (minute numbers 64-69)

Policy Performance & Partnerships Manager (minute number 69)

Funds Manager and Senior Officer Funds (minute number 71)

Ms. Amanda Hughes of Wales Audit Office

Mr. Stephen Martin of Wales Audit Office (minute number 69)

64. MINUTES

The minutes of the meeting of the Committee held on 30 January 2012 were submitted.

Matters Arising

On the Galw Gofal item, Councillor A.M. Halford asked about progress with resolution (f) for a briefing note to be shared with Members. The Chief Executive was aware that this had been drafted and would follow this up.

On Final Reports and Performance Indicators, Councillor Halford advised that she had met with the Executive Member for Waste Management and had been provided with a note outlining progress made in relation to AD Waste, which had been copied to the Democracy & Governance Manager. The Chief Executive gave details of a report on AD Waste to be considered by the Executive the next day. Councillor Halford commented that information on AD Waste Directors' remuneration had not yet been made available and Councillor Q.R.H. Dodd suggested that the forthcoming liquidation of the company would resolve this.

On minute 59, Councillor G.H. Bateman apologised for not having returned his self-assessment.

RESOLVED:

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

65. DECLARATIONS OF INTEREST

No declarations of interest were made.

66. VARIATION IN ORDER OF BUSINESS

It was agreed that Agenda Item 4 - Annual Improvement Report 2011 by the Auditor General for Wales - would be considered later on the agenda to enable Mr. Stephen Martin of Wales Audit Office to be in attendance.

67. ANNUAL FINANCIAL AUDIT OUTLINE 2011/12

The Internal Audit Manager introduced a report on the Annual Financial Audit outline for the audit of the Council's accounts for 2011/12 and those of the Clwyd Pension Fund.

Ms. Amanda Hughes of Wales Audit Office (WAO) explained that this was an annual statutory requirement and highlighted the main risks and resultant actions in Exhibit 1 of both reports.

On issues arising from previous audits, Councillor A.M. Halford who was also a member of the Housing Overview & Scrutiny Committee, questioned which previously received document had identified flaws in the housing stock database. Ms. Hughes explained that an issue had previously been identified on how accounting principles were applied to the valuation of housing stock, but that this did not relate to the database. She suggested that Councillor Halford's query may be in connection with a national report on the Wales Housing Quality Standard (WHQS) which had raised issues on the quality of databases. The Chief Executive said that the accounting issue had been dealt with as a priority and resolved, but that further issues on properties being appropriately catalogued in the database on size and location and their condition against the standard were being pursued.

In response to further queries, Ms. Hughes said that the proposed financial audit fee of £215,976 remained unchanged from the previous year and was lower than that charged by the previous auditors. The total audit fees comprised three elements: the auditing of financial statements, work required under the Local Government (Wales) Measure 2009 and grant/return certification work.

Responding to questions raised by Councillor G.H. Bateman, Ms. Hughes explained that the zero based fee model was based upon the input and time taken to carry out a financial audit of the size and risk profile of a Local Authority. The proposed fee was based on work to be completed within a timescale and included dealing with occasional queries from members of the public and Council Members. However, queries which generated more detailed work would not be included and would be charged at daily rates.

Councillor M.J. Peers pointed out that the estimated maximum figure for grant work in the WAO report differed from that in the financial implications of the

report of the Head of Finance. Ms. Hughes advised that the WAO draft report had indicated this to be £120,000 which had been increased to £135,000 in the final report. In response to a query on the assessment of the effectiveness of Internal Audit, Ms. Hughes spoke of the important role of Internal Audit in the Authority's internal controls. She advised that this aspect of WAO work involved carrying out an annual assessment of Internal Audit against the Chartered Institute of Public Finance and Accountancy (CIPFA) standards, with a report on the findings to be brought to the Audit Committee in June 2012.

Councillor P.R. Pemberton commented on earlier discussion on enquiries from members of the public and the valuation of housing stock in relation to the WHQS. Ms. Hughes explained that the WAO would spend minimal time in dealing with issues that were not relevant to the Appointed Auditor in issuing his audit opinion, but would pursue any issues that were. For example, approximately four enquiries had been responded to during the previous year, one of which had required additional work. She went on to confirm that relevant steps had been taken to engage with the Council early in respect of the current year's housing stock valuation and that discussions were taking place with the valuers to undertake early work on assessing the adequacy of this in preparing the accounts. On the WHQS she said that the WAO did not have a view on adequacy of stock as this did not impact directly on the audit of the financial statements, however the Council's Asset Management Strategy would be considered by Members and reviewed by WAO.

The Chief Executive said that the stock condition survey figures had been carefully checked and now contained more precise detail. He referred to background work and said that as part of priorities established in the Asset Plan, it was intended to roll forward potential costs of meeting repairs work and planned discussion with the Welsh Government (WG) on major repairs allowances to enable Flintshire to achieve the WHQS.

RESOLVED:

That the report be noted.

68. DRAFT STATUTORY GUIDANCE ON LOCAL GOVERNMENT (WALES) MEASURE 2011 AND REVIEW OF AUDIT COMMITTEE TERMS OF REFERENCE

The Democracy & Governance Manager introduced a report to consider the draft statutory guidance on the Local Government (Wales) Measure 2011 in relation to audit committees, to review audit committee terms of reference and to prepare for implementation of the new arrangements for audit committees.

The report gave information on legal changes resulting from the Measure and suggested responses to the draft statutory guidance which were required by the end of March 2012.

Paragraph 3.02 - proposed timeline for implementation of the new arrangements

It was explained that the delay in the issuing of the draft guidance meant there was now insufficient time for the new membership arrangements of Audit Committees to be in place for the new Council.

On the inclusion of one or more lay members on the Audit Committee, the Chief Executive said that the new membership may wish to consider and be involved in this process. He pointed out that if the Measure was passed in its current form, there would be legal implications if the Committee met and had not yet appointed a lay member. It was therefore proposed and agreed that the Welsh Government (WG) be asked to delay implementation of this part of the Measure.

Paragraph 3.04 - contents of the draft guidance relating to two documents issued by CIPFA

It was agreed that the response to the draft guidance should request that the final version be comprehensive and include the parts of these CIPFA documents that were still relevant.

Paragraph 3.05 - review, scrutinise and issue reports and recommendations in relation to the Authority's financial affairs

The Chief Executive said that the roles of Audit and Overview & Scrutiny complemented each other and that any risk issues would be picked up by the Audit Committee. He added that the proposal did not give Authorities the flexibility to adopt their own arrangements and that the suggested response was to ask for local discretion.

Councillor Q.R.H. Dodd felt that the membership composition should be reviewed if the Audit Committee had greater financial responsibility. Councillor M.J. Peers said it was essential for Overview & Scrutiny Members to continue to focus on financial details of the Authority and Councillor B. Mullin felt that any changes to these current arrangements would be detrimental.

Members agreed with the suggestion that the choice be left to individual Councils and for the current arrangements for Overview & Scrutiny to monitor, challenge and support the development of effective financial performance, should remain.

Councillor P.R. Pemberton agreed that the appointment of a lay member could be useful in providing knowledge and felt that the Audit Committee required additional Members and meetings. He commented that the Corporate Resources Overview & Scrutiny Committee should not be wholly responsible for considering the broader budget process.

Paragraph 3.06 - provision of all auditor's reports to the Audit Committee

The Democracy & Governance Manager said that the suggested response to the consultation would be to recommend local choice on which auditor's reports should be shared with the Audit Committee.

Members agreed that the draft guidance was too prescriptive, however Councillor Peers remarked that it was the decision of officers as to which audit reports would be shared with the Committee and Councillor Dodd felt that Members should be aware of the availability of all reports. The Internal Audit Manager confirmed that it was current practice for him and the Head of Finance to prepare summary audit reports to be shared with the Committee but that all reports were available to Members on request.

The Democracy & Governance Manager suggested that a letter could be sent to Audit Committee Members giving notification of the reports available for inspection. The Internal Audit Manager said that this could be included as part of the Audit Committee agenda.

Paragraph 3.07 - consideration of regulatory reports

The Chief Executive commented that external regulatory reports were considered by Executive, Overview & Scrutiny committees and Audit Committee, depending on the contents.

Members agreed that local choice should prevail over which reports from regulators and inspectors were considered by the Audit Committee rather than the appropriate Overview & Scrutiny committee.

Paragraph 3.08 - consideration of Audit Committee reports and recommendations by full Council

Members agreed that the final guidance should provide clarification on where financial statement reports and recommendations needed to go to both Executive and Council and which prevails in the event of different views.

Councillor Halford said it should be ensured that Executive decisions continued to be subject to call-in, to which the Chief Executive responded that the draft guidance would not affect such current Council arrangements.

Paragraph 3.09 - recruitment of lay member(s) to the Audit Committee

The Democracy & Governance Manager stated that the draft guidance did not set out criteria for the appointment of lay members which would need to be included in a public notice, including any necessary qualifications/experience. He said that if the legislation was implemented in May 2012, officers would need to start the recruitment process as quickly as possible to enable the Committee to lawfully meet and make decisions. He said that a minimum of one lay member, with voting rights, would be required although the number could always be increased at a later date.

Councillor Dodd proposed that the Committee take a preliminary view that the membership comprise of seven Members and one lay member. The Chairman seconded this.

Councillor Peers referred to the draft guidance which indicated that a lay member would ideally have knowledge of local government functions. The Chief Executive said that possible criteria might include a mix of personal skills and experience, although this did not necessarily mean ex-Council officers or ex-auditors. Councillor Peers shared the view for a low number of lay members in view of the need for the new membership of Audit Committee to undergo training. On the provision for an Executive Member to be included in the Committee's membership, he highlighted the conflicting statements in the draft guidance and corresponding section from the Measure, and proposed that the current practice continue so that no Executive Members be included. Councillor Halford raised concerns that the appointment of one lay member may place significant pressure on that person.

The Democracy & Governance Manager drew attention to paragraph 9.27 of the draft guidance on the recruitment of lay members and said that delegated authority would be required for officers to pursue the appointment if the legislation was not delayed, to enable the Committee to be lawfully convened. The Chief Executive suggested that if this was the case, the Audit Committee Chair could be consulted in the recruitment process.

The Democracy & Governance Manager also gave details of a proposed minor change to the Committee's terms of reference, which was irrespective of the outcome of the Measure.

RESOLVED:

- (a) That the provisions in the Local Government (Wales) Measure 2011 relating to the audit committees be noted;
- (b) That the points made in paragraphs 3.02, 3.04, 3.05, 3.06, 3.07 and 3.08 of the report be included in the response to consultation on the draft statutory guidance;
- (c) In response to the points raised in paragraph 3.06, that a list of all auditor's reports in future be issued to all Committee Members;
- (d) That the Committee's preliminary view is for the total membership of the Audit Committee under the new arrangements to be seven Members and one lay member, with no Executive Members;
- (e) That the updating of the Audit Committee's terms of reference as indicated in paragraphs 2.04 and 2.05 of the report be recommended to Council; and
- (f) That delegated authority be granted for officers to pursue the recruitment of one lay member under the new arrangements.

69. ANNUAL IMPROVEMENT REPORT 2011 BY THE AUDITOR GENERAL FOR WALES

Mr. Stephen Martin of the Wales Audit Office (WAO) introduced a report to advise of the Council's Annual Improvement Report 2011 published by the Auditor General for Wales.

Councillor A.M. Halford referred to comments on the behaviour standards of some Members, raised concerns about the extent that consultants were used in Human Resources, there being no Director of Human Resources and commented on the length of time taken to recruit a new Monitoring Officer.

Councillor M.J. Peers remarked on Flintshire's position on the Single Status Agreement (paragraph 37) and was surprised at the comments on the Council's approach to engaging with the public (paragraph 17). He welcomed development opportunities to extend collaborative working in a number of areas and asked for examples of political fragility which had been commented on in the report. He pointed out that the commentary on Overview & Scrutiny workshops made reference to their benefits whilst also recommending that their use be restricted, asking for an opinion on the use of Task & Finish Groups which he believed worked well. He also sought clarification on the source of the Council's waste performance data referred to in paragraph 158.

Mr. Martin said that paragraph 24 noted concerns raised by some Members and officers about behaviour by a small number of Members, however no specific recommendations had been made. Whilst paragraph 23 noted a degree of mistrust between some officers and Members, there had been no evidence of this. The concerns had been expressed by over a third of Members from all political parties, some from positions of leadership. Councillor Halford felt this was an unfair reflection as not all Members' views had been represented.

On Human Resources, Mr. Martin commented on paragraph 27 which noted significant pressures on leadership capacity and capability which had been recognised by the Council and would be monitored, however this did not identify individuals. The report also noted delays in the delivery of elements of the People Strategy and the need for close monitoring. In response to Councillor Peers' comments, he said that Flintshire's position in not yet achieving Single Status was far from unique in Wales. On engagement with the public, he referred to good practice with tenants on the Housing Ballot but felt there were inconsistencies in other areas. He agreed to respond separately on the waste data query and felt that workshops were used effectively in many cases but that some Members and officers had raised concerns about the volume and the need for Members to be available to attend.

On Single Status, Councillor P.R. Pemberton remarked on previous work on Single Status, the additional cost to the Council and the length of time involved to review and proceed forward. Mr. Martin explained that previous work on Single Status had been covered in the Annual Improvement Report of January 2011. He

said that concerns had been expressed to ensure that this complex task was assessed and delivered in accordance with the timetable and would be monitored.

The Chief Executive said that the Welsh Government (WG) had provided an increase in base funding to protect the Single Status reserve. Members had rejected initial proposals from management and trade unions which had led to a re-working of the project. Agreement of proposals was based on the need to be acceptable, affordable and legal. The WAO recommendation R1 did not relate to ownership and transparency of the project; this was about reporting more fully and regularly, which had been addressed in the Council's response. He added that the membership of the Single Status Project Board included each Group Leader and that the full project plan was on schedule for implementation at the close of the calendar year, if agreed by Members. On recommendation R2, he spoke of progress on defining priorities and costings which had been acknowledged by the WAO.

In response to other queries, the Chief Executive said that the comments on capacity and capability were a general point and that a Director of Human Resources was not necessary as the Head of Service had a significant amount of autonomy along with other Corporate Heads of Services. During the period of time before the recruitment of a Monitoring Officer, an interim appointment had been made, supported by the Deputy Monitoring Officer. WAO concerns were that Member workshops should not be seen to dilute committee working and that there should be a balance, for example the budget workshop which had been helpful to Members prior to budget setting earlier in the year.

RESOLVED:

That the Council's Annual Improvement Report 2011 published by the Auditor General for Wales and the Council's response be noted.

Councillor A.M. Halford wished it to be noted that she had abstained from voting on this item.

70. VARIATION IN ORDER OF BUSINESS

A change of order was agreed to allow Agenda Item 12 Treasury Management Update to be considered next.

71. TREASURY MANAGEMENT UPDATE

The Funds Manager introduced an update report on matters relating to the Council's Treasury Management Policy, Strategy and Practices.

No changes had been made to the Council's long-term borrowing strategy since the last update, although the Council's treasury advisers had revised the red flag status on credit risk to amber in view of steps taken to alleviate risks on the financial system. A list of current investments was attached to the report, together with an up-to-date copy of the counterparty list, as requested previously. An update on Landsbanki reported receipt of the first distribution following the winding

up of the bank, which equated to approximately one third of the Council's investment.

Councillor M.J. Peers commented on the rationale for restricting short term deposits to a maximum of three month periods. In relation to the £677,219.81 estimated interest for 2011/12, he asked if a calculation could be provided to show the average interest rate over the total amount invested. The Funds Manager agreed that this information could be provided separately to Members of the Committee.

Councillor G.H. Bateman asked for an explanation on the reduction in the number of counterparties during the last quarter and asked about the possibility of reducing the number further, as he had previously discussed this with the Clwyd Pension Fund Manager. The Funds Manager explained that the reduction was not related to policy but that some banks had been suspended from the list due to a negative change in their credit ratings. Following advice from the treasury advisers, these banks had been removed from the counterparty list as a temporary measure, however it was noted that credit ratings changed from month to month. The Clwyd Pension Fund Manager would be asked to respond to Councillor Bateman on the second query.

Councillor P.R. Pemberton asked if interest on the Landsbanki investment could be recovered or whether this was included in the claim. The Funds Manager said that a small proportion of the investment had been reclaimed but that legal negotiations were ongoing on the date of maturity.

Councillor Q.R.H. Dodd asked about evaluation of advice provided by the treasury advisers and the Senior Officer Funds confirmed that there was a constant evaluation process.

RESOLVED:

That the report be noted.

72. INTERNAL AUDIT STRATEGIC AND OPERATIONAL PLAN

The Internal Audit Manager introduced a report on the proposed Internal Audit Plan for the three year period 2012/13 to 2014/15, for Members' consideration. He advised that no changes had been made to the Plan following consideration by the Corporate Management Team (CMT) the previous week.

Councillor M.J. Peers asked if any financial transactions were included in audits of school activity and commented on delivery of the Council's affordable housing by a third party. On Environment, he asked whether the effectiveness of Dog Control Orders had been evaluated in relation to dog fouling enforcement and suggested that Section 106 Agreements be included as an area for review within Public Protection.

The Internal Audit Manager explained that schools were now asked to complete a self-assessment form which was analysed by the Council to identify

any problem areas and help provide a focus. An update on final reports to be considered later on the agenda included an audit on Streetscene Cleanliness of the Public Realm which incorporated Dog Control Orders, however any additional issues could be reviewed. In response to a query on Section 106 Agreements raised by Councillor Halford at the previous meeting, details of tracked outstanding recommendations had been included in Appendix C of the report. The Internal Audit Manager noted the comments on affordable housing and said that this could be considered for review, adding that the Plan was subject to change on request by Members and officers.

Councillor P.R. Pemberton asked about previous problems on the processing of housing benefit subsidy claims. The Internal Audit Manager confirmed that improvements had been made but that ongoing work on the overall system would need to be monitored, hence this had remained on the Plan.

The Internal Audit Manager noted the suggestion made by Councillor Peers that the audit on procurement/contract arrangements for Streetscene be brought forward from 2013/14 in view of the launch of the service earlier in the year.

RESOLVED:

That the report be approved.

73. OPERATIONAL AUDIT PLAN AND RECOMMENDATION TRACKING

The Internal Audit Manager presented the report to advise of progress against the operational plan for 2011/12 together with results of the current recommendation tracking since the previous Audit Committee.

RESOLVED:

That the report be noted.

74. FINAL REPORTS AND PERFORMANCE INDICATORS

The Internal Audit Manager introduced a report to advise of final reports issued since the last Audit Committee and of Directorates and Internal Audit's performance for responses against target.

Following earlier discussion, the Internal Audit Manager highlighted the recommendations made on the limited assurance report for Streetscene, which included reference to dog fouling enforcement and Dog Control Orders.

RESOLVED:

That the report be noted.

75. INVESTIGATIONS PROGRESS REPORT

The Internal Audit Manager introduced a report to outline ongoing proactive counter fraud work and reactive investigative work.

In relation to one of the current investigations, the Chairman asked about the monitoring of school funds in general. The Internal Audit Manager explained that a view had previously been taken not to review school funds as they were not under the remit of the Local Education Authority. However, as a result of the incident referred to, the Council was now looking at school funds with the co-operation of schools.

RESOLVED:

That the report be noted.

76. BRIBERY ACT - UPDATE OF ANTI-FRAUD AND CORRUPTION STRATEGY

The Internal Audit Manager presented a report on changes to the Anti-Fraud and Corruption Strategy as a result of a review of policies following the introduction of the Bribery Act.

RESOLVED:

That the updated Anti Fraud and Corruption Strategy be approved.

77. AUDIT COMMITTEE SELF ASSESSMENT

The Internal Audit Manager introduced a report on the results of the Audit Committee self assessment which had fed into the preparation for the Annual Governance Statement 2011/12. He advised that in addition to the responses summarised in the report, a late response had been received from Councillor A.M. Halford.

Responding to concerns raised by Councillor Halford on the Audit Committee terms of reference in relation to risk management, the Democracy & Governance Manager said that the Local Government Measure granted additional powers on risk management and corporate governance to Audit Committees and would be included in the terms of reference when that part of the Measure was implemented.

RESOLVED:

That the results of the self-assessment questionnaire be noted.

78. CIPFA CODE OF PRACTICE FOR INTERNAL AUDIT

The Internal Audit Manager introduced a report to inform Members of the level of compliance of the Internal Audit section with the Chartered Institute of

Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government in the UK.

Following a query raised by Councillor M.J. Peers, it was reported that the checklist had been compiled by the Internal Audit Manager in conjunction with some Internal Audit officers.

Councillor P.R. Pemberton sought clarification on the attendance of the Monitoring Officer at the annual private meeting between the Audit Committee and Internal Audit Manager. Following further queries, the Democracy & Governance Manager confirmed that the annual meeting would take place following this meeting, as indicated on the agenda, and that he would be attending.

RESOLVED:

That the report be noted.

As this was the last meeting of the Audit Committee prior to the Elections, the Chairman took the opportunity to thank Committee Members for their interest and attendance over the past four years. He also wished to thank the Internal Audit Manager for the work undertaken and the Vice-Chairman, Councillor Billy Mullin, for his support.

Members of the Committee passed on their thanks to the Chair, officers and the Wales Audit Office representatives.

79. DURATION OF MEETING

The meeting commenced at 10.00am. and finished at 1.00pm.

80. ATTENDANCE BY MEMBERS OF THE PRESS AND PUBLIC

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

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Chairman

SUMMARY OF DECLARATIONS MADE BY MEMBERS
IN ACCORDANCE WITH FLINTSHIRE COUNTY COUNCIL'S
CODE OF CONDUCT

AUDIT COMMITTEE	DATE: 26 MARCH 2012
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MEMBER	ITEM	MIN. NO. REFERS
NO DECLARATIONS OF INTEREST WERE MADE		