

Barry Davies LL.B (Hons)
Solicitor/Cyfreithiwr
Head of Legal and Democratic Services
Pennaeth Gwasanaethau Cyfreithiol a
Democrataidd



TO: Councillor: Ian Roberts (Chairman)
Councillors: Haydn Bateman, Quentin Dodd, Alison
Halford, Billy Mullin, Mike Peers, Peter Pemberton

Your Ref /
Eich Cyf

Our Ref / Ein Cyf ST

Date / Dyddiad 28/10/2010

Ask for / Sharon Thomas
Gofynner am

Direct Dial / 01352 702324
Rhif Union

Fax / Ffacs

Dear Sir / Madam,

A meeting of the **AUDIT COMMITTEE** will be held in the **CLWYD COMMITTEE ROOM, COUNTY HALL, MOLD** on **WEDNESDAY, 03 NOVEMBER 2010** at **14:00** to consider the following items.

The report on the Review of Internal Audit follows on from the report considered on 29 September, which included the report from PricewaterhouseCoopers. Members are requested to bring the report from 29 September to the meeting on 3 November, in case it should be needed for reference.

Yours faithfully

Democracy and Governance Manager

AGENDA

1. **APOLOGIES**
2. **MINUTES**
To confirm as a correct record the minutes of the meeting held on 29/09/2010 (copy enclosed).
3. **DECLARATIONS OF INTEREST (INCLUDING WHIPPING DECLARATIONS)**

County Hall, Mold. CH7 6NA
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www.flintshire.gov.uk
Neuadd y Sir, Yr Wyddgrug. CH7 6NR
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The Council welcomes correspondence in Welsh or English
Mae'r Cyngor yn croesawu gohebiaeth yn y Gymraeg neu'r Saesneg

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

The following item is considered to be exempt by virtue of Paragraph(s) 12, 15 of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended).

4. **FINANCE FUNCTION REVIEW - REVIEW OF INTERNAL AUDIT**
Report of Head of Finance enclosed

AUDIT COMMITTEE
29 SEPTEMBER 2010

Minutes of the meeting of the Audit Committee of Flintshire County Council held in County Hall, Mold on Wednesday, 29 September 2010.

PRESENT: Councillor I B Roberts (Chairman)

Councillors: G H Bateman, Q R H Dodd, A M Halford, B Mullin and P R Pemberton

ALSO PRESENT: Councillors K Armstrong-Braun, J B Attridge, V Gay, P G Heesom, H D Hutchinson, G James and A Woolley

APOLOGIES:

Councillor M J Peers and Chief Executive

IN ATTENDANCE:

Head of Finance, Head of Legal & Democratic Services, Head of Internal Audit, Clwyd Pension Fund Manager (Minute 24), Risk Manager (Minute 25) and Committee Officer

Mr Patrick Green of RSM Tenon Plc
Mr David Newman, PricewaterhouseCoopers
Mr Kevin Emmitt, Wales Audit Office
Mr John Herniman, Wales Audit Office
Ms Amanda Hughes, Wales Audit Office

Prior to the start of the meeting, copies of the Wales Audit Office report to the Council on 'Audit of pension fund accounts' were distributed. The Chairman and the Head of Finance apologised for the administrative oversight which had led to the report being omitted from the agenda.

20. DECLARATIONS OF INTEREST

Councillor I B Roberts declared an interest in the following agenda item:

Agenda Item 5 - Report by Wales Audit Office (WAO) - Audit of Accounting Statements (ISA 260) : Audit of Pension Fund Accounts

21. MINUTES

The minutes of the meetings of the committee held on 28 June and 12 July 2010 were submitted.

Matters Arising - 28 June 2010

Councillor P R Pemberton referred to previous discussion on the transfer of A D Waste under Matters Arising. The Head of Legal & Democratic Services said that an update had been given at the Corporate Management Overview & Scrutiny Committee meeting. The issue of the generation and sale of electricity had been resolved by Welsh Assembly Government regulations which meant that no further action was required by the Authority. A meeting had been held with the A D Waste Board on 28 September to approve and sign documentation for the transfer to take effect from 1 October.

Under Investigations Progress Report, an update had been requested on the monitoring of tracking systems on Council vans. The Head of Internal Audit explained that he had undertaken some work on this, which was in the draft stage and would provide an update at the next meeting. He reported there were some issues surrounding accuracy and the production of reports, however there were no full procedures yet.

RESOLVED:

- (a) That the minutes be received, approved and signed by the Chairman as a correct record.
- (b) That an update on the monitoring procedures for Council vans be provided to the next meeting of the committee.

22. STATEMENT OF ACCOUNTS 2009/10

The Head of Finance introduced the report which presented the Statement of Accounts for 2009/10, incorporating those changes agreed with Wales Audit Office during the course of the audit, as reported in the next item. She took the opportunity to thank members of staff and the officers from Wales Audit Office for their work in preparing the documentation so that it could be despatched to Members in advance of the agenda.

The draft Accounts and a presentation had been received at the Audit Committee meeting in July, giving Members an opportunity to ask questions of the officers present. Responses to questions requiring further analysis had been sent to Members on 5 August. Two drop-in sessions had been held in early September for Members to meet with Finance officers to discuss any additional queries, however none were received.

On page 22 of the Accounts, Councillor Pemberton referred to a reduction in the figure for Council dwellings during the year. The Head of Finance explained that in general terms this was due to some disposals and referred to a rolling programme of valuations. It was agreed that Finance officers would provide a more detailed response to Councillor Pemberton after the meeting.

Councillor Halford made reference to A D Waste under deferred liability on page 45. She was disappointed that the deal to bring the company in-house had

proceeded despite Members' requests to view the accounts. The Head of Legal & Democratic Services referred to problems with information sharing due to A D Waste being a private limited company and reassured Members that the valuation had been considered by two independent professional advisers. He offered to make arrangements for Members of Audit Committee to meet with the Finance Director of A D Waste to go through the accounts in detail and suggested that this could be achieved in one meeting or this could be an ongoing process for the committee. The Head of Finance recognised Members' frustrations regarding access to the accounts but stressed the importance of finalising the deal before information on accounts could be shared.

Councillor Pemberton echoed concerns made by Councillor Halford that accounts information should have been provided to Members. The Head of Legal & Democratic Services reiterated a comment made on 'sensitive negotiations', adding that the offer put forward would enable Members to go through the accounts to their satisfaction. Councillor Halford felt that this contradicted the first sentence of paragraph 2.4 of PricewaterhouseCoopers report on the Internal Audit Review. The Head of Legal & Democratic Services suggested that Members may wish to consider whether the Executive should be encouraged to refer similar matters to the Audit Committee for consideration in future.

Councillor Halford referred to the absence of the Chief Executive from the meeting, especially in view of the infrequency of Audit Committee meetings. The Head of Legal & Democratic Services pointed out that there was no requirement for the Chief Executive to attend, and that in fact the previous two Chief Executives did not attend any meetings of Audit Committee. The Chair agreed that the process had been frustrating for Members and gave an assurance that issues would be included on the Audit Committee to ensure transparency. The committee then agreed to take up the offer for Members to go through the A D Waste accounts.

Councillor Bateman referred to the figures for depreciation and impairment of fixed assets on page 58, and the Head of Finance agreed to provide a full explanation on this outside the meeting. In response to a question on page 65 on assets, the Head of Finance explained that some items were being developed and that this would be recognised on the balance sheet.

Councillor Pemberton queried some of the figures shown on page 43. The Head of Finance confirmed that the local taxation figure of £2.8m was for uncollected Council Tax at the end of March 2010, which was slightly higher than the previous year. She advised that the Authority had a very good collection rate and also pointed out that some people would be paying in arrears. She also explained that all Councils acted as agents in collecting non-domestic rates which were paid to the Welsh Assembly Government and then distributed back through the RSG fund. For 'payments made in advance', there would be a detailed schedule on where payments were made, however there was nothing of concern. It also needed to be recognised that the balance sheet for the Accounts was produced at one point in time.

Councillor Halford highlighted the increase in benefit overpayments shown on page 43. The Head of Finance explained that the Council administered Council Tax and benefits to individuals with a turnover was in excess of £35K per annum. Some overpayments could arise due to people failing to notify the Council of changes to their circumstances, however the Council would try to recover these in a sensitive manner.

RESOLVED:

- (a) That the final version Statement of Accounts 2009/10 be recommended to County Council.
- (b) That more detailed responses be provided to Members following the meeting.
- (c) That the Head of Legal & Democratic Services arrange for Members of Audit Committee to meet with the Director of Finance of A D Waste to consider the accounts.

23. REPORT BY WALES AUDIT OFFICE (WAO) - AUDIT OF ACCOUNTING STATEMENTS (ISA 260)

Mr John Herniman of the Wales Audit Office presented the Audit of Accounting Statements ISA 260 report in connection with the audit of the 2009/10 financial statements. As this was the first year with Wales Audit Office as external auditors, he thanked the Head of Finance and her team for assisting the process.

He provided an overview of some of the risks outlined on page 6 of the Wales Audit Office report, confirming that the risks identified had been addressed satisfactorily. Exhibit 2 of the report included one uncorrected misstatement where officers had decided that it was not material and therefore it remained unadjusted. The Head of Finance stated that it was usual practice for changes to the Accounts to be brought to attention by the auditors, however there were no major concerns.

Councillor Halford referred to overpayments made to staff totalling over £300K. The Head of Finance explained that this had been as a result of work to the Trent system and the figure quoted had been identified over a period of time. Arrangements were in place to recover the overpayments. The Head of Internal Audit added that his section had undertaken some work on this and a report would be finalised before the next Audit Committee meeting.

Mr Herniman introduced the report to the Council on Audit of Pension Fund accounts, copies of which were circulated, and explained that the comments on the main accounts were also relevant here. He outlined some of the key points adding that the accounts were free from material misstatement and there were no uncorrected errors. Attached to the report was a Final Letter of Representation which would need to be signed and approved as part of the accounts process.

Councillor Halford referred to new requirements for a separate bank account for the Pension Fund set out in paragraph 20. It was explained that the

new regulations required monies held by the Pension Fund to be kept separate from those held by the Council, thereby ensuring added control. Arrangements needed to be in place by April 2011. The Head of Finance confirmed that a separate account had been established.

RESOLVED:

- (a) That the report be accepted.
- (b) That a report on overpayments made to staff be received at the next meeting of Audit Committee.

24. TREASURY MANAGEMENT UPDATE

The Clwyd Pension Fund Manager presented the report which provided an update on matters relating to the Council's Treasury Management Policy, strategies and policies. Issues arising from discussion at the June meeting had been addressed in the report. He outlined the key points including how the Authority manages risk and investment limits, and thanked the committee for arranging a special meeting on 31 January 2011 to receive the Annual Strategy Report 2011/12.

Councillor Halford queried reference to Birmingham City Council on the investments included in Appendix 2. The Clwyd Pension Fund Manager explained that Flintshire had been able to supply monies in response to a borrowing requirement from Birmingham. He added that there was rarely a need for Flintshire to undertake any temporary borrowing. Councillor Halford thanked the officers for their responses, adding that she felt this was a good report.

In response to a question from Councillor Bateman, it was explained that current legislation would not stop the Authority from investing in money market funds and that a business case would be produced. It was also commented that the analysis of long-term borrowing would also include some debt which had been restructured. The Authority's borrowing would have only been for the basic level of capital expenditure and subject to audit at all times.

RESOLVED:

That the report be noted.

25. RISK MANAGEMENT UPDATE

The Risk Manager introduced the report seeking endorsement of the complete revision of the Risk Management Strategy and updating Members on a number of issues on Risk Management and Business Continuity.

She highlighted some key considerations of the report, including the introduction of dark red (critical) and dark green (minimal) scores to be included in the risk matrix, as detailed on page 12 of the Strategy. As part of the first stage of the Strategic Assessment of Risks & Challenges (SARC) review, Members at a

joint Overview & Scrutiny workshop had identified new risks. The second part of the review would look at actions to be taken.

Councillor Halford thanked the Risk Manager for the report and sought clarification on 'Personnel Implications' provided in the report. It was explained that staff would need to be flexible to mitigate some risks within services, for example, working from home. Councillor Halford also referred to the paragraph under 1.1 on page 3 of the Strategy. The Risk Manager explained that if steps were not taken to mitigate risks then any impact could potentially damage the reputation of the Council. The Risk Manager also explained that the reason for undertaking the SARC refresh was to look at emerging risks and that managers should be aware of what was happening in their service areas.

RESOLVED:

That the report and Risk Management Strategy be accepted.

26. FINANCE FUNCTION REVIEW - REVIEW OF INTERNAL AUDIT

The Head of Finance presented the report on the outcome of an independent review of Internal Audit carried out by PricewaterhouseCoopers (PwC) and to make recommendations on the management of the Internal Audit function and review of the scope and delivery of the Internal Audit service.

She highlighted key areas of the review which formed part of the Finance Function Review which would need to be implemented by the end of the year. Further information on the new service model would be available at the special meeting of the committee on 3 November. A recent meeting of the Regional Partnership Board meeting in Conwy had included discussion on opportunities for collaboration on financial services including Internal Audit. Officers would be drawing on the outcomes of the PwC report to review the service model to ensure it addressed the Authority's business needs going forward.

Councillor Halford asked about Terms of Reference for any collaborative working. The Head of Finance explained that work was being carried out engaging all professionals to consider opportunities for collaborative working. Opportunities in all service areas were being looked at led by each of the Chief Executives of North Wales Authorities to achieve cost savings and improve services. There would be no direct impact on Single Status, as all Authorities had a responsibility to implement Single Status, and differing pay structure and rates may apply in any case in each Council.

Mr David Newman gave an overview of the key findings in the PwC report and drew attention to paragraph 3.12 of the covering report which gave a summary of the views expressed by officers. A key feature of the recommendations was the collaboration agenda, offering opportunities to specialise services, and consideration would need to be given as to what was appropriate for the Authority. Councillor Dodd welcomed discussion on collaboration, adding that commitment from all North Wales Authorities was required.

The Chair asked about the potential for collaborative working with neighbouring English Authorities, such as Cheshire West. The Head of Internal Audit could not see any reason why not, however legislation may differ and so this would depend on the service area. He pointed out that some specialist IT services had previously been brought in from RSM Tenon, based in England.

RESOLVED:

- (a) That the report and detailed report from PwC be noted.
- (b) That Members support the recommendations in the PwC report.
- (c) That Members support the work being carried out by officers in contributing to the work of the North Wales Regional Partnership Board in considering the opportunities for regional collaboration for the provision of Internal Audit and that regular progress reports are brought back to the committee.
- (d) That Members support the recommendation that a specification be drawn up for a contract to be let for the management of Internal Audit from 1 April 2011 for two years, with an option to extend for one year, whilst collaborative opportunities are explored. Also that details of the specification and procurement timetable be brought back to the committee on 3 November 2010.
- (e) That Members support that a report be brought back to the committee on 3 November 2010 with the outcome of the review of audit team resources, capacity and organisation taking account of the outcomes of the PwC report and the recommendations contained within it in relation to scope and delivery of Internal Audit services.

27. THE USE OF CONSULTANTS

Prior to consideration of the report, the Chairman thanked Councillor Halford for her efforts in pursuing this issue. Councillor Halford felt that this was a good report and expressed her thanks to the Head of Internal Audit for the work undertaken and also to the Chief Executive for looking at the various definitions of consultant.

A copy of the report was attached to the agenda, which detailed work undertaken by Internal Audit on the Authority's use of consultants and further work to be done. The Head of Internal Audit explained that most of the work had been undertaken by individual Directorates in identifying consultants used, as the information was not held centrally, with the caveat that information provided to Internal Audit was not subject to audit review. The number of consultants used could change on a daily basis, totalling approximately 100 during the last financial year, and there were variations in the cost and length of contracts. Further information on the effectiveness of controls for consultancy use would be brought to a future meeting of the committee.

Councillor Dodd asked the Head of Internal Audit if he was satisfied that all information had been provided, given that it was not held centrally, and asked about the benefits of using consultants. He responded that there was no reason to believe any information was missing. It was up to individual departments to ascertain the benefits of using consultants and that this should be reviewed by the department concerned to ensure value for money.

In response to a question from Councillor Pemberton, it was clarified that agency workers were not classed as consultants and came under the remit of the MASS (Managed Agency Staff Solution) project.

Councillor Mullin pointed out that most consultants were hired on an ad-hoc basis, and asked if there was a specific budget allocated to this. The Head of Finance replied that costs were provided by individual departments' budgets and that consultants could be brought in to cover senior posts, to work on a specific project or could be grant funded.

Councillor Bateman asked if consultants had always been used by the Authority. The Head of Finance felt that this was the case, as with other organisations, and was likely to continue as the shape of Local Authorities went through significant changes.

Councillor Dodd requested that a list of consultants used and the purpose be included in the next report to the committee. The Head of Internal Audit agreed to this, on the basis that some information would be confidential.

RESOLVED:

- (a) That the committee note the results of the work carried out so far and support the further work being carried out by Internal Audit.
- (b) That formal thanks to Councillor Halford be recorded for raising the issue.

28. FINAL REPORTS AND PERFORMANCE INDICATORS

The Head of Internal Audit presented the report to inform Members of final reports issued since the last Audit Committee, and of Directorates and Internal Audit's performance for responses against target.

He highlighted a number of limited reports which had been issued for Main Accounting, Housing Benefits - WAO, Payroll systems, Absence Management, Holiday Entitlement, E-teach and Multi-skilling. A summary of findings and action were included in the appendix to the report.

Appendix B showed outstanding draft reports together with explanations on where targets times had been exceeded. The Head of Internal Audit pointed out that such delays at this time of the year were normal due to staff leave.

RESOLVED:

That the report be noted.

29. INVESTIGATIONS PROGRESS REPORT

The Head of Internal Audit introduced the report detailing the ongoing proactive counter fraud work and reactive investigative work.

He reported that there were no new referred investigations, commenting that this was good, but very unusual. Of the two outstanding investigations over two months old, one had been referred to North Wales Police and a response was awaited. Councillor Dodd pointed out that this should be the Crown Prosecution Service rather than North Wales Police.

Councillor Pemberton highlighted an inspection previously carried out in Housing Maintenance and asked if an update report would be forthcoming. The Head of Internal Audit confirmed that the initial report had been done last year with seven recommendations which would be subject to Audit tracking procedures. All recommendations had been reported back as completed. He also advised that a project was currently underway for the Stores service to be outsourced, with effect from April 2011 and that he had contacted the Head of Housing who had confirmed that the project was on target. He had also agreed that the days in the audit plan could be better used in supporting the change to an outsourced service. Members felt that an update report on the recommendations was still required, unless it had been considered by Overview & Scrutiny. The Head of Finance agreed that if an update report was produced then this could be brought to the Audit Committee. However, if a report had been considered by Overview & Scrutiny then it could be left at that to avoid duplication. The Head of Internal Audit agreed to find out whether an update had been considered by Overview & Scrutiny and if not, provide a report to the Audit Committee.

RESOLVED:

That the report be noted.

30. OPERATIONAL AUDIT PLAN AND RECOMMENDATION TRACKING

The Head of Internal Audit introduced the report outlining progress made against the 2010/11 operational plan. The appendices to the report showed amendments to the plans since the previous meeting and those reported to previous meetings of Audit Committee. The results of current recommendation tracking were also appended.

Members were advised that work had commenced on the 2010/11 operational plan, however progress had been hindered due to the number of additions to the plan which had so far taken up 81 days of Audit time, as opposed to the usual 75 days set for the complete year. Progress had also been affected by work on the Finance Function Review and a member of staff being seconded to

the Job Evaluation team. A new revised Audit plan would be submitted for consideration at the December meeting.

RESOLVED:

That the report be noted.

31. DURATION OF MEETING

The meeting commenced at 10.00am and finished at 12.45pm.

32. ATTENDANCE BY MEMBERS OF THE PRESS AND PUBLIC

There were two members of the press present.

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Chairman

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

AUDIT COMMITTEE	DATE: 29 SEPTEMBER 2010
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MEMBER	ITEM	MIN. NO. REFERS
Cllr I B Roberts	5 - Report by Wales Audit Office (WAO) - Audit of Accounting Statements (ISA 260) : Audit of Pension Fund Accounts	23

FLINTSHIRE COUNTY COUNCIL - EXEMPT INFORMATION SHEET

COMMITTEE: Audit Committee

DATE: 03 November 2010

AGENDA ITEM NO:



REPORT OF: (Director of originating Department)

Head of Finance

SUBJECT:

Finance Function Review - Review of Internal Audit

The report on this item is NOT FOR PUBLICATION because it is considered to be exempt information in accordance with the following paragraph(s) of Schedule 12A to the Local Government Act 1972.

	<u>Para</u>	
Information relating to a particular individual *	12	
Information likely to reveal the identity of an individual *	13	
Information relating to financial/business affairs of a particular person * See Note 1	14	
Information relating to consultations/negotiations on labour relations matter *	15	
Legal professional privilege	16	
Information revealing the authority proposes to:	17	
(a) give a statutory notice or		
(b) make a statutory order/direction *		
Information on prevention/investigation/prosecution of crime *	18	
<u>For Standards Committee meetings only:</u>	Sec.	
Information subject to obligations of confidentiality	18a	
Information relating to national security	18b	
The deliberations of a Standards Committee in reaching a finding	18c	
<u>Confidential</u> matters which the County Council is not permitted to disclose	Sec. 100A(3)	

PLEASE TICK APPROPRIATE BOX

* Means exempt only if the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

Note 1: Information is not exempt under paragraph 14 if such information is required to be registered under Companies Act 1985, the Friendly Societies Acts of 1974 and 1992, the Industrial and Provident Societies Act 1965 to 1978, the Building Societies Act 1986 or the Charities Act 1993.

**SCHEDULE 12A LOCAL GOVERNMENT ACT 1972
EXEMPTION FROM DISCLOSURE OF DOCUMENTS**

REPORT: Finance Function Review - Review of Internal Audit
AUTHOR: Kerry Feather
MEETING AND DATE OF MEETING: Audit Committee on 03 November 2010

I have considered grounds for exemption of information contained in the report referred to above and make the following recommendation to the Proper Officer:-

Exemptions applying to the report:
Paragraphs 12 and 15.

Factors in favour of disclosure:
Transparency.

Prejudice which would result if the information were disclosed:
Disclosure would be likely to undermine labour relations within the authority as dealing with such re-organisation proposals in public would be contrary to good human relations practice.

My view on the public interest test is as follows:
That the balance is in favour of treating the information as exempt to ensure confidence in the consultation process.

Recommended decision on exemption from disclosure:
To treat the information and report as exempt.

Date: 26/10/2010

Signed: 

Post: Head of Legal & Democratic Services

I accept the recommendation made above.



Proper Officer

Date: 26/10/2010