

**AUDIT COMMITTEE**  
**25 JUNE 2012**

Minutes of the meeting of the Audit Committee of Flintshire County Council held at Clwyd Committee Room, County Hall, Mold CH7 6NA on Monday, 25 June 2012

**PRESENT:**

Councillors Glyn Banks, Haydn Bateman, Alan Diskin, Alison Halford, Richard Jones, Ian Roberts and Arnold Woolley

**LAY MEMBER:** Mr Paul Williams

**APOLOGY:** Head of Finance

**ALSO PRESENT:** Councillors Bernie Attridge, Marion Bateman and Nancy Matthews

**IN ATTENDANCE:** Head of Legal & Democratic Services, Democracy & Governance Manager, Internal Audit Manager, Corporate Finance Manager and Committee Officer

Chief Executive (minute numbers 1-8)  
Policy, Performance & Partnerships Manager (minute number 8)  
Clwyd Pension Fund Manager (minute number 9)

Mr. Patrick Green of RSM Tenon Plc  
Ms. Amanda Hughes and Mr. John Herniman of Wales Audit Office

**1. APPOINTMENT OF CHAIR**

The Democracy & Governance Manager explained that the Chair could not be appointed from any political group with a place in the Cabinet.

Nominations were sought for a Chair for the Committee. A nomination for Councillor A.M. Halford was duly seconded and on being put to the vote, this was unanimously carried.

In thanking the Committee for its support, Councillor Halford reiterated the unanimous praise of the former Chairman, Councillor I.B. Roberts, which had been expressed by all Members at the last meeting of the Committee. She welcomed new and former Members to the Committee and said that she hoped to do as good a job as the former Chairman in allowing Members to seek the information they requested and to work as a team.

**RESOLVED:**

That Councillor A.M. Halford be appointed Chair of the Audit Committee.

## **2. APPOINTMENT OF VICE-CHAIR**

The Chair sought nominations for a Vice-Chair for the Committee. A nomination for Mr. P.D. Williams was duly seconded and on being put to the vote, this was unanimously carried.

### **RESOLVED:**

That Mr. P.D. Williams be appointed Vice-Chair of the Audit Committee.

## **3. DECLARATIONS OF INTEREST (INCLUDING WHIPPING DECLARATION)**

Councillor G.S. Banks declared a personal and prejudicial interest in the following agenda item:

12 - Operational Audit Plan and Recommendation Tracking - in relation to the report on Procurement on page 167 as the company he worked for could be affected.

## **4. MINUTES**

The minutes of the meeting of the Committee held on 26 March 2012 were submitted.

### **Matters Arising**

In response to a question by the Chair on the Galw Gofal Regional Telecare service, the Chief Executive reported that positive feedback had been given at a recent meeting in Flintshire with the Service Manager and that a later presentation would be made to all Council Members.

The Chief Executive responded to a question from Councillor G.H. Bateman on minute 67 and updated on major repair allowances.

### **RESOLVED:**

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

## **5. APPOINTMENT OF A LAY MEMBER TO THE AUDIT COMMITTEE**

The Democracy & Governance Manager introduced a report on the background to the appointment of a lay member to the Audit Committee.

It was explained that the appointment panel had been chaired by the former Chairman of the Audit Committee, Councillor I.B. Roberts, assisted by the Head of Legal & Democratic Services and Head of Finance. The subsequent recommendation to appoint Mr Paul Williams had been agreed by County Council on 19 June 2012.

The Chair felt that the Audit Committee would benefit greatly from the skills of Mr Williams, and Councillor Roberts added that the decision of the panel had been unanimous.

**RESOLVED:**

That the background to the appointment of the lay member to the Audit Committee be noted.

**6. CERTIFICATION OF GRANT CLAIMS AND RETURNS 2010/11**

The Corporate Finance Manager introduced a report on the grant claim certification for the year ended 31 March 2011. The Wales Audit Office (WAO) report on this had been attached as an appendix to the report.

Ms. A. Hughes of WAO advised that the Council had submitted a total of 29 claims for 2010/11, including eight which had been qualified, which equated to the 2009/10 Welsh average for one in four claims being qualified. On the timely receipt of claims, it was recognised that some legislative delays had been caused by the Welsh Government (WG) which had been outside the control of Authorities.

There were ongoing concerns that many claims had not been supported by grant completion checklists, despite a recommendation made in the 2009/10 report, and that the consequent work affected the WAO fee. The Corporate Finance Manager said that attempts to address this had resulted in the introduction of more stringent procedures to ensure that grant claims could not be signed off without an accompanying checklist.

Councillor R.B. Jones suggested that this could be incorporated in personal development plans and Mr. Williams asked if Internal Audit could review. The Chief Executive agreed on involvement by Internal Audit and indicated that he and the Head of Finance had receive personal reports on how the new procedures were working and suggested that the Committee be updated at an appropriate date to allow the procedures to be embedded. The Corporate Finance Manager suggested that the update could be brought in late September 2012 following the claim returns.

In response to queries by Councillor A. Woolley, Ms. Hughes said that the claim period was for the 2010/11 financial year and noted the slight discrepancy in figures quoted in the report as a result of the net adjustment on the eight qualified certificates.

**RESOLVED:**

- (a) That the content of the Grant Claim Certification for 2010/11 be noted; and
- (b) That an update report be brought to the first Audit Committee meeting following the September claim returns.

**7. REPORT ON INTERNAL AUDIT (WAO)**

The Internal Audit Manager introduced a report on the outcome of the Wales Audit Office (WAO) annual assessment of Internal Audit. On the

recruitment drive and the filling of two vacancies, he advised that alternative options would be explored since one of the candidates had withdrawn.

Ms. A. Hughes of WAO explained the background to the annual assessment of Internal Audit in accordance with the eleven Code of Practice standards of the Chartered Institute of Public Finance Accountancy (CIPFA). She confirmed the view taken by WAO that for 2011/12 Internal Audit had complied fully with eight of the standards, partially complied with two and had not met one, resulting in five recommendations as set out in the report. She added that the issues raised had not been significant enough to affect the WAO view on the work on Internal Audit.

Following Members' concerns on the third recommendation relating to adequate resources, the Internal Audit Manager assured the Committee that a plan would be in place to deal with the unfilled vacancy. Councillor G.H. Bateman asked about levels of staffing and was informed that the restructure of Internal Audit had concentrated on staff at senior auditor level and that only one post was currently vacant.

The Chair referred to paragraph 23 of the report which indicated that the Committee needed to satisfy itself on the impact of lost work. Ms. Hughes explained that following consultation with Directorate management teams, the Internal Audit Manager was responsible for assessing the removal of issues from the Audit Plan to be re-introduced in the following year's Plan for consideration if the work was deemed to be still valid. She had discussed with the Internal Audit Manager the delays arising from this and felt that the Committee should have knowledge of such items.

Mr. P. Green of RSM Tenon assured Members that nothing was lost but suggested that a report providing information on deferred work and intended actions could be brought to the Committee to demonstrate transparency in the process.

The Internal Audit Manager said that revised plans were brought to the Committee for approval and that during the previous year, 22 audits had been deferred following planning meetings with management teams. Fourteen audits had appeared in this year's plan with the remaining items deemed as not urgent and therefore removed.

Mr. P. Williams felt that the Committee should be provided with a report on the deferred items and associated risk profile, together with fundamental risk areas and action plans detailing the reasons and process going forward. He also questioned whether the Internal Audit Manager was satisfied he had sufficient resources. In responding, the Internal Audit Manager replied that there were sufficient resources to carry out the audits, including some regulatory and systems work whilst concentrating on risk work, and that many of the deferred items related to advisory work.

On the fifth recommendation, Mr. Williams sought detail on the suggested independent quality assurance review to be undertaken by RSM Tenon. The Chair suggested that she and the Vice-Chair discuss separately with the Internal Audit Manager to enable her to report back to the Committee. Mr. Green

explained that this would consist of RSM Tenon's technical division sending a team to look at the Council's compliance with auditing standards and that this could be undertaken in the next quarter.

Mr. J. Herniman of WAO said it was not the case that items deferred from the plan were forgotten and hoped that the Audit training would assist with the first recommendation on the development of the Committee, suggesting that Members may wish to reflect on this at a later date.

On the fourth recommendation, Councillor A. Woolley said that the need to provide training to ensure that regular staff appraisals were undertaken had been previously identified by Overview & Scrutiny, with a target date of March 2009. The Chair pointed out that a later report on the agenda indicated that the appraisals policy had not been updated since 2005. Councillor R.B. Jones said that training and development needs should be incorporated in the personal development plans of managers to ensure that staff appraisals were undertaken.

The Internal Audit Manager explained that appraisals had lapsed due to the department undergoing a restructure as part of the Finance Function Review and would recommence once the review was complete. He and other officers had attended refresher appraisal training in preparation for this.

The Chief Executive commented that the structure was fit for purpose. He proposed that he and the Head of Finance meet with the Internal Audit Manager to discuss the resources issue and the variation of the Audit Plan and share the outcome with the Chair and Vice-Chair. A report be submitted to the meeting in September 2012 on items deferred from the Plan.

#### **RESOLVED:**

That the report be noted.

### **8. RISK MANAGEMENT UPDATE**

The Policy, Performance & Partnerships Manager introduced a report on the corporate management of risk and to assure Members of the arrangements in place for business continuity.

She advised that the updated Risk Management Strategy would be presented to the Committee in September 2012 and gave information on the recent Risk Maturity review. A copy of the draft Strategic Assessment of Risk and Challenges (SARC) showing Red, Amber, Green (RAG) status was shared and it was noted that this was currently being updated for 2011/12 with copies to be made available in Members' rooms. An update on business continuity referred to the testing of plans on severe winter weather, localised flooding and industrial action, resulting in lessons learned.

Following a question by the Chair, the Policy, Performance & Partnerships Manager gave details on the 'Coldfeet' exercise on the Council's response to the severe winter weather conditions to ensure no disruption to key services.

Councillor I.B. Roberts expressed concerns about the number of 'Amber' risk levels shown on the SARC document, suggesting that these would be better displayed as Amber to Green or Amber to Red to demonstrate whether the issue was showing improvement or not. He also said that a number of Amber levels which were not expected to turn to Green for some time would be better categorised as Red.

The Chief Executive said that on the testing of plans for business continuity on flooding, whilst the Council's response had been good, a need for improved communication had been identified which also reflected on partner organisations. Responding to comments on the SARC, he disagreed that Amber levels were being used as a "safe option" under the Improvement Priorities on a twin RAG status - against the current position and confidence in achieving the outcome - was being used. For example, issues such as affordable housing and social care for older people would remain Amber due to the changing demographic pressures over and above our Council performance.

Councillor R.B. Jones pointed out that predictions on RAG status provided some assurance that an action plan was in place and also said that Improvement Priorities were regularly considered in detail by the Corporate Resources Overview & Scrutiny Committee. He remarked that the SARC document did not indicate any evidence of document control with issue date, which was noted, and questioned how items could be put on the SARC. On business continuity, he stressed the importance of preparing action plans and the impact on other issues if these were not followed.

The Policy, Performance & Partnerships Manager said that the process of SARC RAG status had taken some time to reach a consistent view and that each risk had a detailed action plan which was reviewed quarterly via performance reports and documented twice a year. The Amber level was a live status reflecting the current position and likelihood of achieving Green or Red and all risks were driven through the service planning process and included in Directorate Plans. She advised that progress on the Risk Management Strategy had been made with confidence in achieving outcomes and suggested a possible review on this could take place at a later date.

Councillor G.S. Banks asked if a sliding 1-5 scale could be used instead of RAG. Councillor Roberts referred to the previous ratings for waste management and Streetscene, suggesting that a 4 point scale may be better in omitting the middle 'Amber' position. Councillor Jones displayed a risk analysis matrix which he said was used extensively in the private sector and demonstrated that RAG was the accepted standard of measuring risk.

Mr. J. Herniman of WAO said that RAG was the accepted principle and that the background to the RAG status may give confidence on actions. Ms. Hughes mentioned that some other Councils used up or down arrows to indicate movement of issues since the previous quarter.

The Chief Executive said that the RAG status system could be refined. In response to comments on business continuity, he explained differences in command and response between national, regional or localised emergencies.

**RESOLVED:**

- (a) That the corporate approach to risk management be endorsed; and
- (b) That Members gained assurance from the business continuity arrangements in place.

**9. TREASURY MANAGEMENT UPDATE**

The Clwyd Pension Fund Manager introduced the Annual Report on the Council's Treasury Management Policy, Strategy and Practices 2011/12 and provided an update on Treasury Management activity in 2012/13 to the end of April 2012.

He outlined the background and key considerations of the report and summarised the conclusions of the Annual Report. On the Treasury Management Policy and Strategy Statement 2012/13, it was reported that as a result of the amber rating on credit risk, the approach being taken by the Council was to limit deposits to a maximum of three months. An update on Landsbanki reported that the first distribution had been made to priority creditors, including Flintshire, since the winding up of the bank and that a final distribution was awaited.

The Clwyd Pension Fund Manager referred to an investment at the current rate of 2.65% and had discussed with the Head of Finance the potential to place £4M with the same bank at an increased rate of 3% for a period of slightly less than 12 months. He explained that whilst this was at odds with the current approach on investments referred to earlier, he considered this to be an exception for good reason. He had recommended this to the Head of Finance who would be responsible for deciding whether to proceed and wished to share this with Members.

Councillor I.B. Roberts asked if the proposal was in compliance with the policy set out and agreed by Council and the Clwyd Pension Fund Manager replied that this was the case and that if it was outside the policy then approval would need to be sought from full Council.

Concern was raised by Mr. P. Williams on the possibility for the Committee to be asked to sanction investments and suggested that the proposal be noted. The Head of Legal & Democratic Services said that the County Council was responsible for setting the Treasury Management policy and that the role of Audit Committee was to oversee and monitor the Council's investment portfolio following the Landsbanki situation, therefore the Head of Finance was correct in referring the matter back to the Audit Committee. The Chair suggested that she and the Vice-Chair discuss the issue with the Head of Finance.

Councillor R.B. Jones asked about the effect of the downgrading of some major banks and the current lower level of inflation. The Clwyd Pension Fund Manager spoke about the reduction in the number of counterparties currently meeting criteria in the Council's policy and said that in the event of a bank being downgraded, that investment may be taken out and placed in a money market fund at a slightly lower rate. On the second point, there would be no impact other

than the return achieved. Councillor Jones' comment about appendices not being marked was noted.

Following a query by Councillor G.H. Bateman, the Clwyd Pension Fund Manager gave clarification on the phased transfer of the treasury management function to the Corporate Finance division as part of the Finance Function Review.

In response to earlier discussion on the recommended investment, Councillor Roberts proposed that in view of the fact that the policy had been set and approved by County Council, officers should be able to operate within that policy and proceed if they felt the investment was appropriate. This was seconded and on being put to the vote, was carried unanimously.

**RESOLVED:**

- (a) That matters on the draft Treasury Management Annual Report 2011/12 be drawn to the attention of Cabinet on 10 July 2012;
- (b) That the update on early Treasury Management activity in 2012/13 up to the end of April 2012 be noted; and
- (c) That the Audit Committee confirm the accepted Treasury Management Policy agreed by County Council and for officers to decide investments within that policy, with any variation to the policy being subject to County Council decision.

**10. FINAL REPORTS & PERFORMANCE INDICATORS**

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

On Procurement, Mr. P. Williams referred to the use of Equifax to confirm the financial viability of suppliers and asked how the Council would proceed if any adverse data was flagged up. The Internal Audit Manager agreed to follow this up and provide a written response. Councillor I.B. Roberts referred to a case where a contract had to be re-let due to the preferred contractor getting into difficulties and said that this situation could have been avoided if it had been flagged up by Equifax.

Councillor R.B. Jones pointed out that many of the implementation dates had passed and it was explained that when this point was reached, recommendation tracking commenced.

On Traffic Management, Members asked if a review was required to ensure that there were sufficient resources. The Internal Audit Manager said that the recommendations in the report were intended to introduce improvements to the service and would be tracked. Mr. Williams was concerned at the implementation date in April 2013 and felt that the Audit Committee should be informed of key risks identified together with action plans. The Head of Legal & Democratic Services explained that the new Cabinet would be determining its



own priorities on services and that if the Audit Committee had any concerns on risks, a recommendation could be made to the Cabinet for these to be considered. The Internal Audit Manager agreed to check with Streetscene and report back on the reason for the implementation date and that he would prepare a note and meet with the Chair, Vice-Chair and Legal officers to discuss the latter query.

On the format of reports received, Mr. P. Green of RSM Tenon said that the approach was to reduce paperwork by providing a summary of the report together with the action plan to show monitoring and that if the Committee wished for further details this could be passed back. Members were consulted on this and agreed to receive reports in their current format. The Chair said that this could be reviewed at a later date if required.

On Performance Indicators, the Internal Audit Manager gave an overview and reported that the outstanding report FD0080R1 on financial systems listed on Appendix C had now been received. He added that during the Audit Committee training, Members had been asked to consider what they wished to see in the content of these reports.

Councillor Jones felt that indicating the number of target days on reports was not beneficial and that showing the quality of output from each department was an improved method of measurement. Councillor A. Woolley shared concerns on how activity was translated into outcomes.

Mr. Green said that Members' points would be taken on board and consideration would be given to Performance Indicators with a report back to the Committee.

**RESOLVED:**

- (a) That the report be noted;
- (b) That the current format and detail of Final Reports to Audit Committee continue;
- (c) That a report be made to a future meeting with suggested new Performance Indicators; and
- (d) That the Internal Audit Manager prepare a note for the Chair and Vice-Chair and meet with them and Legal on whether to inform Cabinet of risks arising from implementation date of April 2013 relating to Traffic Management.

**11. OPERATIONAL AUDIT PLAN & RECOMMENDATION TRACKING**

The Internal Audit Manager introduced a report to inform Members of progress against the operational plans for 2011/12 and 2012/13.

The Internal Audit Manager explained that as part of recommendation tracking, managers were consulted to check that actions had been completed

within the agreed timescale. If actions remained uncompleted at that time, a subsequent implementation date was set.

The Democracy & Governance Manager suggested that the report for which an interest had been declared by Councillor G.S. Banks could be discussed first whilst he was not present and that he would be invited back for discussion on the remainder of the report. Councillor Banks was not present whilst the procurement report was considered.

On the Procurement Action Plan, Councillor R.B. Jones asked for clarification on a revised implementation date and the Internal Audit Manager explained that the action had been completed ahead of the original target date.

Following earlier comments made by the Chair on the need to revisit employee appraisals, the Internal Audit Manager confirmed that tracking of the action set out in the recommendation.

Mr. P. Green of RSM Tenon asked if Members wished to give consideration to future content of the Audit Report Follow-up and Action Plans, suggesting that this could be reported by numerical tracking and listing exception items to enable the Committee to concentrate on those which had gone beyond the target date. The Democracy & Governance Manager shared this view and said there was a danger of issues being missed if there was too much paperwork. Councillor I.B. Roberts agreed with this suggestion.

Councillor Jones asked for clarification on the content of future reports and following a suggestion made by the Chair, it was agreed that the Internal Audit Manager would provide a sample of the new format to compare with the old format to the next meeting of the Committee in July 2012. If this was then agreed by the Committee, the new format would be used for reporting to the September 2012 meeting. The Democracy & Governance Manager added that if Members required more detail on a particular issue, this could be made available by Internal Audit.

On the column entitled Management Comment/Progress, Mr. P. Williams asked if Internal Audit measured outcomes. The Internal Audit Manager replied that these were management assurances on actions taken. Follow-up audits were completed for some areas, but not all. Mr. Williams suggested that the Internal Audit Manager could incorporate a few lines into future reports detailing his main concerns for the Committee to focus on.

Following a question by Councillor Jones on the Risk Management Action Plan, the Head of Legal & Democratic Services confirmed that Service Plans were available but said there was no consistency to the documenting of operational risk registers across the Authority to show how risks were being managed. The Corporate Management Team had considered options and the agreed template would be used as per the recommendation. The Internal Audit Manager pointed out that an example of the operational risk template was shown in Appendix 1 to the Risk Management report.

In response to a query by Councillor Jones on the need for action plans to be more specific and include details of the responsible officer, the Internal Audit

Manager said that this information could be included if Members wished, however this was also stated on the final report. On the reference in the report to Contract Procedure Rules (CPR) not being detailed, it was explained that an initial delay had been caused by CPR being reviewed nationally and that Flintshire CPR were due to be updated by 1 October 2012.

On the use of consultants action plan, Councillor Jones sought clarification on the 'interim control mechanism for the engagement of consultants' agreed at CMT and the Thomson Classification system for the use of suppliers.

The Head of Legal & Democratic Services explained that a process was in place for engaging consultants, signed off by Heads of Services, which was controlled centrally by the Head of ICT & Customer Services to ensure that the use of consultants was documented and used appropriately. Councillor Roberts raised concern at the lack of Member involvement at the signing off stage and suggested that this should be the relevant Cabinet Member. The Head of Legal & Democratic Services suggested that Member involvement at a specified financial level may be more appropriate.

The Chair stressed the requirement to ensure that there was a clear remit for what consultants were expected to deliver. Councillor Roberts remarked that the use of consultants had previously been considered by the Committee and suggested Cabinet Member approval for contracts above a specified limit. He also felt that success criteria should apply and to take into consideration any extensions beyond the set date of the appointment.

The Head of Legal & Democratic Services spoke about the usefulness of consultants which could be cost-effective to the organisation, and that the issue here was about the control of their use. He said that if Members wished to pursue the suggestion for Member involvement, the Audit Committee could recommend that Cabinet Members consider the financial level at which they wished to be involved in the engagement of consultants. Members agreed that officers could raise this with Cabinet and report back to the Audit Committee.

#### **RESOLVED:**

- (a) That the report be noted;
- (b) That a report be made to the July 2012 meeting with a draft new format for consideration;
- (c) That the Audit Committee recommend that Cabinet consider the level it wishes to be involved in the use of consultants; and
- (d) That a report be made back to the Audit Committee including more detail on the constraints for the appointment and on the remit and monitoring of consultants to help give assurance that proper procedures are in place.

## **12. INVESTIGATIONS PROGRESS REPORT**

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

Members requiring more detail on any of the investigations were asked to liaise with the Internal Audit Manager.

**RESOLVED:**

That the report be noted.

**13. INTERNAL AUDIT ANNUAL REPORT**

The Internal Audit Manager introduced a report on the outcome of all audit work carried out during 2011/12 and to give the annual Internal Audit opinion on the standard of internal control, risk management and governance within the Council.

**RESOLVED:**

That the report be noted.

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

There was one member of the press in attendance.

(The meeting started at 2.00 pm and ended at 5.25 pm)

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**Chair**