

**AUDIT COMMITTEE**  
**25 SEPTEMBER 2012**

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

**PRESENT: Councillor Alison Halford (Chair)**

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

**APOLOGIES:** Chief Executive and Mr. Paul Williams

**ALSO PRESENT:** Councillors Bernie Attridge and Aaron Shotton

**IN ATTENDANCE:**

Head of Finance, Internal Audit Manager, Democracy & Governance Manager, Corporate Finance Manager and Committee Officer

Head of Legal & Democratic Services (minute number 25)

Head of Corporate & Capital Accounting (minute number 25)

Clwyd Pension Fund Manager (minute number 26)

Mr. Patrick Green of RSM Tenon Plc

Ms. Amanda Hughes and Mr. John Herniman of Wales Audit Office

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

No declarations of interest were made.

**24. MINUTES**

The minutes of the meeting of the Committee held on 17 July 2012 were submitted.

**RESOLVED:**

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

**25. STATEMENT OF ACCOUNTS 2011/12**

The Head of Finance and Corporate Finance Manager introduced the Statement of Accounts for 2011/12, together with the Wales Audit Office (WAO) report in connection with the audit of the 2011/12 financial statements for Flintshire County Council and the Clwyd Pension Fund.

The draft Accounts had been received by the Committee on 17 July 2012 when officers had responded to Members' questions. The remaining queries had been followed up by a written response, with no further queries received since that time. Changes agreed with WAO colleagues during the course of the audit

had been incorporated into the final Statement of Accounts to be presented to the County Council later in the day in order to meet the statutory approval deadline.

Mr. J. Herniman of WAO commented on the difficult task of producing a set of accounts that were easy to understand, whilst following the necessary requirements. For both audits, the Council was required to provide a Letter of Representation to confirm that all necessary information had been disclosed and that the financial statements were accurate.

### Audit of Financial Statements Report for Flintshire County Council 2011/12

It had been reported that whilst the audit work had been substantially complete, some areas of work remained outstanding due to a number of significant adjustments and delays in receiving information. Mr. Herniman confirmed that this had been resolved and there were no further issues, additional to the report, which needed to be brought to the Committee's attention. He advised that although an unqualified opinion would be issued, a query on Communities First had been raised by a member of the public late in the process but prior to the audit sign-off. As a result, the audit closure certificate could not be issued until the query had been investigated.

There were two uncorrected misstatements detailed in the report. The first identified that a number of assets had not been depreciated appropriately which resulted in assets being overstated, and the second was an incorrect classification on the balance sheet between creditors and grants received in advance. It was noted that although the auditor was required to raise these with the Committee, if the Committee chose not to correct them and included appropriate comment in the Letter of Representation, this would not change the audit opinion.

The Head of Finance said that the points raised by WAO had been accepted by management and would be dealt with accordingly for future years. She explained that there had been a timing issue in deciding not to correct the two misstatements, due to audit work continuing late into the audit period; this left little time to correct any late issues raised at Audit within the time available. The significant amount of work required in following through any corrections would have impacted on finalising the Statement of Accounts.

Councillor R.B. Jones said he hoped that the issue on fixed asset depreciation would be resolved with the introduction of the Technology Forge software. On intangible assets, the Corporate Finance Manager and Head of Corporate & Capital Accounting agreed to respond separately to his query on the increased amount for software licences from zero in the draft Accounts.

On other significant issues identified in the report, Councillor G.S. Banks asked why six investment properties had been omitted from the annual revaluation process. The Corporate Finance Manager replied that this had been due to a move from a spreadsheet-based system to a computerised system and that the properties were now included.

On general issues, Mr. Herniman commented on improvements which could be made to the style and format of the Accounts in future years to ensure

clarity on the key messages. The Corporate Finance Manager said that following similar comments in the past, the International Financial Reporting Standards (IFRS) had been adopted during 2011 and officers were working with WAO colleagues to make further improvements. Councillor Jones asked whether an improved format would have helped to identify the issue with fixed assets at an earlier stage. Mr. Herniman replied that this was not the case, however minor typographical errors may have been picked up more easily. He went on to say that the nature of Accounts reporting within the regulations meant that errors could easily occur.

In response to a question from Councillor I.B. Roberts on best practice example Statement of Accounts reports, Mr. Herniman said that a model example was available from the Chartered Institute of Public Finance Accountancy (CIPFA) and that this together with reports from other Local Authorities could be shared with the Finance team at the closure meeting of the Accounts process. Councillor Roberts' proposal that the WAO and the Welsh Government (WG) be asked to provide a standard set of accounting procedures for Local Authorities in Wales was seconded. However, Mr. Herniman suggested that the format set out within the CIPFA model could be used as a starting point and that this would be subject to further changes. After a further question, Mr. Herniman confirmed that the Statement of Accounts for Flintshire were materially accurate.

Councillor Jones asked if balancing entries could be eliminated for the 2012/13 Accounts. The Head of Finance acknowledged that this was a reasonable target but said that some review work would be required first and that she would report on progress.

Following a question by the Chair on the potential liability for Equal Pay settlements with employees, Mr. Herniman explained that an estimate had been given based on independent expert advice however this had not been challenged by Council officers, which had led to a significant adjustment. The Head of Finance went on to say that due to the Single Status and Equal Pay issues not yet being concluded, an accountancy entry had been required based on the potential liability and that accounting provision was different to settlement provision. The expert advice had been valid, however officers were working with advisers on the total liability to the Council.

On the same issue, the Head of Legal & Democratic Services explained that final figures could not be calculated until the pay model was available which meant that the external consultant had worked on the basis of the 'worst case scenario'. The note of caution advised by WAO colleagues had been acknowledged by the Council, however the information could not have been known at the time and this was a form of business planning. Councillor Jones referred to the difference between the figures provided by the consultant and the WAO. Mr. Herniman explained that the £5.5M difference had been moved from one part of the balance sheet to another to better reflect the potential liability as a provision, with the difference moved to the reserves, so there was no loss.

Following concerns raised by the Chair on any slippage in the Single Status timetable, Mr. Herniman referred to differing legal advice given to WAO and the Council on pension contributions in relation to Equal Pay claims, which applied to most Local Authorities in Wales. The Head of Legal & Democratic

Services said that this could prove to be beneficial for the Council in not yet having implemented Single Status and he went on to state that the WAO had confirmed that the Council were acting appropriately in basing its position on the legal advice received.

The Chair commented on the failure of ten Members to return related party declarations for Accounts disclosure consideration purposes. The Democracy & Governance Manager said that both officers and Members needed chasing after a cut-off date for replying. The Head of Finance said that a 'chasing up' system was in place on which she would work with the Democracy & Governance Manager to improve.

#### Audit of Financial Statements Report for Clwyd Pension Fund 2011/12

Mr. Herniman explained that the Accounts for 2011/12 did not include an Emphasis of Matter which had been included for the previous year and he went on to detail one uncorrected misstatement. Investments were understated because more up-to-date valuation information had been received in between the preparation of the accounts and the audit. He explained that in previous years, management had corrected for this, but for this year management had taken the view not to correct for 2011/12 because of the additional work involved. The Clwyd Pension Fund Manager said that this was a timing issue each year when information was received from investment managers at a late stage: this was a situation outside his control but he would continue to pursue.

The Head of Finance made reference to the significant amount of work in producing the Statement of Accounts and thanked WAO colleagues for their work. She expressed her gratitude to the Committee for their interest at the draft and final stages of the process and gave assurance that the issues raised had been acknowledged. In extending personal thanks to Finance officers, she said that the work had been completed during an ongoing team review of the Finance department and the implementation of a new software system. The Chair also thanked those involved.

#### **RESOLVED:**

- (a) That the final version of the Statement of Accounts 2011/12 be recommended to County Council;
- (b) That the reports from the Wales Audit Office be noted;
- (c) That the Letter of Representation - Flintshire County Council and Letter of Representation - Clwyd Pension Fund be recommended to County Council;
- (d) That the Corporate Finance Manager and Head of Corporate & Capital Accounting provide a separate response to Councillor Jones' query on the increased amount for software licences; and
- (e) That Wales Audit Office colleagues share with Council officers the CIPFA model Accounts, together with other examples, at the closing Accounts meeting.

**26. TREASURY MANAGEMENT MID YEAR UPDATE**

The Clwyd Pension Fund Manager introduced the update report on matters relating to the Council's Treasury Management Policy, Strategy and Practices 2012/13 to the end of August 2012 which was also due to be submitted to Cabinet and County Council.

Members were advised of the Council's continuing cautious approach to invest for no longer than three months and that the availability of lower interest rates for longer periods made it difficult to restructure debt. The mid-year report showed compliance with every treasury management practice, with the exception of a minor administrative error detailed in the report. The Clwyd Pension Fund Manager gave an update on the Landsbanki issue shown in the report, but was unaware of a potentially related issue brought to his attention by the Chair.

Following a question from Councillor G.H. Bateman on the transfer of responsibility for the Council's Treasury Management function, the Clwyd Pension Fund Manager said that officers would continue to take advice from the treasury advisers, Sterling, on policies. The Head of Finance explained that following a review of the Finance function, responsibility for the Council's Treasury Management would transfer to the Corporate Finance Manager and his team which included the Finance Manager (Strategy & Technical) and Funds Officer who were present in the public gallery.

**RESOLVED:**

- (a) That the report be noted; and
- (b) That the Treasury Management Mid Year Report 2012/13 be presented to the Cabinet on 16 October 2012.

**27. INSPECTION REPORT FROM THE OFFICE OF SURVEILLANCE COMMISSIONERS**

The Democracy & Governance Manager presented a report from the Office of Surveillance Commissioners (OSC) following an inspection on 26 July 2012 to review the Council's management of covert activities and compliance with the Regulation of Investigatory Powers Act 2000 (RIPA).

He explained that this was the first such report received as part of the new role of the Audit Committee and that it was favourable of the Council's RIPA policies and procedures which were mainly used by Trading Standards as a last resort. Two recommendations had been made on the clarity of wording in procedures and a requirement for RIPA training, the latter of which had already been identified. The Democracy & Governance Manager reported that both recommendations had been acted upon, with training scheduled for 31 October 2012 to update officers on the complex legislation.

Councillor R.B. Jones suggested that an additional recommendation be made for the Committee to endorse the recommendations of the OSC report and this was duly seconded.

Following a question from Councillor G.S. Banks on the use of CCTV equipment for fly tipping and dog fouling enforcement, the Democracy & Governance Manager explained that this had been included in the report to explain why the Council did not resort to covert surveillance for such matters.

**RESOLVED:**

- (a) That the letter and report from the Office of Surveillance Commissioners be noted; and
- (b) That the recommendations of the report of the Office of Surveillance Commissioners be endorsed.

**28. ITEMS DEFERRED FROM THE AUDIT PLAN FOR 2010/11 AND 2011/12**

In response to discussion at the previous meeting, the Internal Audit Manager presented a report to inform the Committee of items deferred from the Audit Plan over the past two years.

He explained the process of deferring items from the Plan and said that 22 audits had been deferred from the Plan in 2011/12 and 19 in 2010/11, most of which had been advisory with the remainder as risk-based.

Of the 22 audits deferred in the 2011/12 Plan, Councillor G.H. Bateman enquired about that for the Communities First Follow Up. The Internal Audit Manager said that this had been deferred a year ago and would be carried forward to 2014/15. The Chair asked for clarification on the comments column for this audit and it was explained that this related to the deferment of the audit as the Communities First scheme was nearing completion before a further scheme could be continued.

Following a query by Councillor R.B. Jones on the 'In Plan for 2012/13' column in the plan deferrals table, the Internal Audit Manager replied that a three year Strategic Plan was in place and that the target year for each audit was shown in brackets. Councillor Jones questioned the clarity of the table and also referred to earlier discussion on Communities First. The Internal Audit Manager said that this issue had only been raised recently and could be a possible change to the Plan.

Following a question by Councillor Bateman on a deferral from the 2010/11 Plan, the Internal Audit Manager explained that the CD27 Waste Management audit had been a Strategic Assessment of Risks & Challenges (SARC) risk-based review on recycling performance and was included in the 2012/13 Plan. In response to a query from the Chair, he replied that the scope of the original HR Strategy Management audit had related to Service Plans and People Plans rather than staff appraisals.

Councillor Jones felt that the report was too complex and said that information was only needed on Plan items for the current year and where they had come from. The Chair stated that work had been carried out to simplify information in the report which remained 'work in progress'. The Democracy &

Governance Manager pointed out that the report had been produced in response to the Committee's request for details of deferred items, following comments made in the Wales Audit Office report on Internal Audit received at the June 2012 meeting. Councillor I.B. Roberts felt that the report gave clear information. The Chair remarked that the report was the result of officers' genuine attempts to respond to Members' requests and that improvements would be continue to be made.

**RESOLVED:**

That the report be accepted.

**29. ACTION TRACKING**

The Internal Audit Manager introduced a report to inform the Committee of the actions resulting from points raised at previous Audit Committee meetings. A summary of actions was attached to the report and it was noted that most had been completed with the remainder to be reported to a future meeting.

The Chair explained that this was an improved method of reporting actions carried out and asked about progress with Finance staff appraisals. The Internal Audit Manager stated that these had been scheduled to take place between September and November 2012 to coincide with the implementation of the Finance function review. He added that the Head of Finance had also discussed appraisal policy review with the Head of Human Resources.

Councillor G.H. Bateman, who had earlier given apologies for being unable to attend the drop-in sessions for Members, asked if these had been well attended and whether they would continue to be offered in future years. The Corporate Finance Manager replied that there had been no visits made by Members for this year and that the Audit Committee would need to take a view on future sessions.

**RESOLVED:**

That the report be accepted.

**30. FORWARD WORK PROGRAMME**

The Internal Audit Manager presented a report to consider the Forward Work Programme for the Audit Committee for the coming year, similar to that produced for Overview & Scrutiny Committees. It was explained that this had been drafted based on reports due to be submitted to the Committee and that Members were able to propose changes.

**RESOLVED:**

That the Forward Work Plan be approved.

## 31. INTERNAL AUDIT PROGRESS REPORT

The Internal Audit Manager presented a report to update on progress of the Internal Audit department.

As agreed at the previous meeting of the Committee, the new report had been divided into five sections to cover previous lengthy reports on Audit Plan, Final Reports, Recommendation Tracking, Performance Indicators and Investigations Progress. The section on the Audit Plan included adjustments to the Plan after the failure to recruit which had been reported to the Committee in June 2012. This had been following discussion with the Chief Executive and Head of Finance which had also resulted in the agreement to bring in some resource.

It was reported that due to a major investigation being undertaken, 183 days had been used up until the end of August 2012 out of the allocated 200 days for investigations for the whole of the year. Although the investigation was still ongoing, it was estimated that around 100 additional days would be required to ensure that obligations were met and that a decision would need to be taken on whether to acquire extra resources or defer more items from the Plan. The Internal Audit Manager explained the intention for management to review and prioritise work on the Plan and to submit a half-year Plan for approval to the next meeting of the Committee.

Councillor I.B. Roberts proposed that once the total number of days used for investigations extended beyond 200, that additional resources be sought from RSM Tenon Plc to enable the Audit Plan to retain its integrity for the year, as opposed to the deferral of more audits. The Head of Finance welcomed the support of the Committee but said that officers would need to explore the type of resources required and that this could be from another source. It was proposed that once the allocation of 200 days had been used, resources should be provided to enable the Audit Plan to be completed at the discretion of the Head of Finance. This was seconded and agreed.

In response to a question from Councillor R.B. Jones on the cost of extra resources from RSM Tenon Plc, Mr. Patrick Green replied that this would be around £300-350 per day depending on the skills required.

On Recommendation Tracking, the Internal Audit Manager outlined proposed changes to the method used which would allow analysis of reasons given by departments on non-implementation and that future reports would be developed to include this. On Performance Indicators and in particular the target for client departments, the Chair commented on the Committee's support of Audit in obtaining responses within 20 days. She also remarked on work that she had undertaken with the officers to help clarify wording on the report and said that further improvements would be made.

Prior to discussion on investigations, it was explained by the Democracy & Governance Manager that if more detail was required, a decision would need to be made on whether to exclude the press and public from the meeting.



**RESOLVED:**

- (a) That the report be accepted; and
- (b) That once the allocation of 200 days for investigations had been used, resources should be provided, at the discretion of the Head of Finance, to enable the Audit Plan to be completed.

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

**RESOLVED:**

That the press and public be excluded from the meeting as the following item was considered to be exempt by virtue of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended).

**33. APPENDIX E - INVESTIGATIONS PROGRESS**

The Head of Finance and Internal Audit Manager responded to a number of questions raised by Members on an ongoing investigation.

**RESOLVED:**

That the report be accepted.

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

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

(The meeting started at 10.00 am and ended at 12.35 pm)

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**Chair**