

AUDIT COMMITTEE
13 MARCH 2013

Minutes of the meeting of the Audit Committee of Flintshire County Council held in Clwyd Committee Room, County Hall, Mold CH7 6NA on Wednesday, 13 March 2013

PRESENT: Councillor Alison Halford (Chair)

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

LAY MEMBER: Mr Paul Williams

SUBSTITUTES: Councillor: David Cox (for Alan Diskin)

ALSO PRESENT: Councillors: Bernie Attridge and Aaron Shotton

IN ATTENDANCE:

Chief Executive (minute numbers 58-62), Head of Finance, Head of Legal & Democratic Services, Internal Audit Manager, Democracy & Governance Manager and Committee Officer

Finance Manager - Strategy & Technical (minute numbers 60-62)

Mr. Alan Morris of Wales Audit Office (minute numbers 59 & 60)

Ms. Amanda Hughes of Wales Audit Office

57. DECLARATIONS OF INTEREST (INCLUDING WHIPPING DECLARATIONS)

No declarations of interest were made.

58. MINUTES

The minutes of the meeting of the Committee held on 30 January 2013 were submitted.

Accuracy

Minute 52: Forward Work Programme - The Democracy & Governance Manager asked that references to the Audit Committee and Overview & Scrutiny training session be changed to reflect that this was a briefing session.

Matters Arising

Minute 48: Minutes of the Previous Meeting - Councillor G.H. Bateman sought an update on the closure of the accounts for 2011/12. Ms. A. Hughes of Wales Audit Office confirmed that the matter had been concluded and that a certificate had been issued to close the audit and a letter sent to the complainant. Councillor Bateman asked if a copy of the letter could be shared and Ms. Hughes said that consideration could be given to this after the meeting.

Minute 55: Management of Internal Audit - The Chief Executive reported that the recommendation made by the Audit Committee at the previous meeting had been supported and agreed by the Cabinet.

RESOLVED:

That, subject to the amendment, the minutes be approved as a correct record and signed by the Chair.

59. IMPROVEMENT ASSESSMENT LETTER (WAO)

The Chief Executive welcomed Mr. A. Morris of Wales Audit Office (WAO) and invited him to present the Council's Improvement Assessment Letter of January 2013 from the Auditor General for Wales. Mr. Morris gave an overview of the key points from the WAO letter covering the assessment of the Council's Improvement Plan and Annual Performance Report.

No new statutory formal recommendations had been made: four proposals for improvement had been made and the Council's response was provided. In response to a query from the Chair, Mr. Morris confirmed that the data and information provided by the Council had met the tests of reliability on the sample audit.

The Chief Executive reflected that the letter overall represented a 'clean bill of health'. There were no statutory recommendations and a response had been made on the four proposals as good and established local practice. The first proposal on priorities and resources was significant; the remaining three proposals were more technical. He commented that the Improvement Plan would be better published for the municipal year not the financial year. A selection of priorities for the year would be made by the Cabinet within the Plan with an extract summary published on the Council's website for public interest and engagement.

Mr. P. Williams sought clarification on the amendment of a performance indicator (PI). Mr. Morris explained that this had been due to a flaw in Leisure data which was not significant and that further detail could be provided on request.

Councillor R.B. Jones asked if comparisons were made on how other Local Authorities measured outcomes against PIs. Mr. Morris said that guidance was available based on definitions but there was still scope for interpretation. As part of the WAO assessment, a sample of PIs were analysed based on knowledge of that Local Authority and those PIs which were in need of review. Ms. A. Hughes of WAO explained that ten PIs had been assessed during the last year across North Wales Local Authorities. In response to Councillor Jones' query, she said that differences between Local Authorities could be due to local factors or the need to sharpen up definitions, however information was fed back to the Data Unit Wales to enable any underlying problems to be identified.

RESOLVED:

That the Council's Improvement Assessment Letter received from the Auditor General for Wales be noted and the Council's Cabinet response be agreed.

60. ANNUAL FINANCIAL AUDIT OUTLINE 2012/13

The Finance Manager - Strategy & Technical introduced the report on the Annual Financial Audit outline for the audit of the Council's accounts for 2012/13 and those of the Clwyd Pension Fund.

Ms. A. Hughes of Wales Audit Office (WAO) gave an overview, highlighting the main risks and proposed actions in Exhibit 1 of both reports. She pointed out that some of the key risks were generic and would apply to other Local Authorities whilst others were specific to Flintshire, including those arising from previous audits with potential implications on this year's audit.

On the Regulatory Plan, Mr. Morris explained that a similar report would be issued for performance audit work under the Local Government (Wales) Measure 2009, possibly in time for the next meeting of the Committee. He reported that the Auditor General had confirmed that a 1.7% reduction would apply to the proposed audit fee for 2013/14 regulatory performance work bringing this to £137,587.

Following a query from Councillor G.H. Bateman, Ms. Hughes explained that the WAO needed to obtain an understanding of the Council's responsibilities in relation to landfill sites and consider whether sufficient accounting provision had been made in financial statements. The Head of Finance clarified that this was not a reflection on the management of landfill sites but that all Councils would need to ensure appropriate accounting provision. The Chief Executive confirmed the need for risk planning and managing closed landfill site liabilities in the medium term financial planning.

On joint committees, pooled budgets and collaboration, Councillor R.B. Jones asked why risks had not been assessed before collaboration arrangements had been put in place. The Chair commented that the North Wales Residual Waste project had been ongoing for some time. Ms. Hughes said that this issue was about ensuring that accounting obligations were being met on collaborative arrangements in accordance with regulations: this applied to accounts for Joint Committees but did not apply to risk assessments. She added that the North Wales Residual Waste Joint Committee had recently approved accounts for the past four years and this was now on track, however her concern was that there may be issues with other joint arrangements.

The Chief Executive said that there were several other collaborative projects of the same scale which would require separate and audited accounts.

Councillor Jones spoke of the difficulty in being able to scrutinise and understand performance in collaborative projects. Mr. Morris agreed that this was a challenge given the increase in joint working arrangements but that work through local service boards and integrated planning enabled more to be done on

achieving clear and purposeful outcomes. Current work on performance with Overview and Scrutiny across Wales would include collaboration.

Following comments by Councillor A. Woolley on the difficulty in shifting focus to understand trends, Councillor Jones suggested that scrutiny of collaborative issues be included on the Committee's Forward Work Programme. The Chief Executive welcomed this and said that reporting arrangements were already in place on adoption of business cases as per the Council's protocol. He suggested that a report with an overview of collaborative projects could be submitted to the next meeting of the Committee to ensure that such arrangements were in place.

In response to a query raised by Councillor G.S. Banks on Single Status and Equal Pay liability, Ms. Hughes explained that as part of the previous audit, the WAO had considered whether the Council had made an appropriate accounting estimate for Equal Pay liability based on relevant information. She was satisfied that progress had been made in providing more accurate information in recalculating the estimate for the accounts.

Following comments by the Chair on the cost of agency workers engaged on Single Status and the provision of Welsh Government (WG) funding, the Chief Executive gave assurance that figures in the accounts for Equal Pay had been refreshed in accordance with audit requirements. He advised that Members would be requested to make decisions on the Single Status Agreement over the Summer, however in-depth discussion was not possible in a public meeting at this stage as negotiations were currently ongoing with Trade Unions.

The Head of Legal & Democratic Services explained that the initial financial estimate for Equal Pay liability provided by the consultant earlier in the process had been at the maximum end of the scale. Subsequent working of different assumptions had resulted in a clearer figure which, together with detailed legal advice, gave assurance of officers' confidence in the process however the final result could not be shared until the completion of negotiations with Trade Unions.

The Chief Executive clarified that it was the Council's responsibility to settle Equal Pay and Single Status. To progress Single Status, the Minister had uplifted the annual Revenue Support Grant to Councils and Flintshire had carried forward these amounts into reserves since 2003/04. On Equal Pay, the Council could apply for capitalisation to Welsh Government to allow borrowing to meet the costs of liability in full or in part and could draw on its Equal Pay/Single Status Reserve.

In response to a query by the Chair on unlisted investments in the Clwyd Pension Fund, Ms. Hughes explained that quoted prices did not apply to private equity investments and that there was a requirement for the Fund Manager to provide internal control reports to give assurance to WAO.

RESOLVED:

- (a) That the report be noted; and

- (b) That a report with an overview of collaborative projects be submitted to the next meeting of the Committee.

61. TREASURY MANAGEMENT UPDATE 2012/13

The Finance Manager - Strategy & Technical introduced the quarterly update on matters relating to the Council's 2012/13 Treasury Management Policy & Strategy Statement up to the end of February 2013.

The Finance Manager - Strategy & Technical gave an overview of the key considerations, including the suggestion made by Councillor G.S. Banks at the previous meeting for joint investment with neighbouring Authorities. She advised that enquiries had been made by officers and although some pooled investment vehicles were available, there was currently no market for this type of investment. In addition, there were legal issues over shared investments and risk which meant that this option was considered not viable at the present time.

Councillor G.H. Bateman asked about the current investments with liquidity funds at lower rates. It was explained that the list of investments reflected what was available at the time that funds were needed to be invested and the Council's self-imposed three month maximum term had only recently been lifted. There was a need to manage cashflow as well as investments, and liquidity fund investments could be easily accessed. Priority for investments was based on security, liquidity and yield in that order.

RESOLVED:

- (a) That the report be noted; and
- (b) That the Committee agree not to pursue joint investments, as detailed in paragraph 3.05 of the report, any further at this time and that officers continue to monitor the situation in preparation for when market conditions change. Opportunities for collaboration will continue to be discussed within practitioner groups.

62. AUDIT OF FINANCIAL STATEMENTS 2011/12 - ISSUES RAISED

The Finance Manager - Strategy & Technical introduced the Council's response to the Wales Audit Office (WAO) report 'Audit of Financial Statements 2011/12' and action plan of how issues raised in the report would be addressed.

Mr. P. Williams referred to the intention for the accounts to be clear of balancing entries and said that assurances had previously been given that this would be resolved. The Chair pointed out that the need to clear balancing entries was an outstanding issue mentioned in the WAO Annual Financial Audit Outline discussed earlier on the agenda.

The Finance Manager - Strategy & Technical confirmed that it was the intention to do so but was unable to give a guarantee of the outcome. The Head of Finance said that this was a historic issue which had arisen in accounts from previous years and that a proportionate approach would need to be taken to manage resources and time taken to resolve it. Ms. Hughes explained that the

WAO view was to consider whether there was any risk of an underlying problem, however she was confident that there was no material error. The issue had been identified within previous audit reports and if still unresolved, would continue to be raised.

Whilst the Head of Finance understood the concerns raised by Members, she said that there was a shared desire by all for financial records to be correct with no unresolved issues. Officers had continued to make progress under the constraints of a major review of the Finance section and other financial work on major corporate projects across the Council.

In echoing concerns about balancing entries, Councillor A. Woolley asked for clarity on the cause of the problem. The Finance Manager - Strategy & Technical responded that this was not known. She explained that the Statement of Accounts was a technical complex document and there was a difference between management and financial accounts which needed to be produced within a set deadline. The balancing entry of £46,000 would not trigger the materiality threshold and a balance had to be taken between the risk of identifying the source of this and delivering the Statement of Accounts within the statutory timescale.

When asked by Councillor I.B. Roberts if balancing entries were common in accounts of other Local Authorities, Ms. Hughes thought it was comparatively uncommon.

Councillor G.S. Banks queried the issue on the action plan arising from disclosure requirements of the Code of Practice. The Finance Manager - Strategy & Technical remarked on the challenges faced by Councils arising from significant changes in the production of accounts in 2010/11. There was now a need to include more information and this had been addressed through a review.

Councillor R.B. Jones remarked that the £46,000 balancing entry could be a netted figure and therefore possibly not an accurate representation, which was acknowledged by the Finance Manager. Councillor Jones asked that an undertaking be given by officers to eliminate balancing entries by the following year. Mr. Williams said that assurance was needed that dedicated resources were being allocated to this to provide a resolution within an agreed period of time. The Head of Finance noted the concerns raised and reassured the Committee that a team would be identified to pursue the matter.

Whilst the Chief Executive was confident that a wider issue was not being masked, he agreed that the practice of balancing entries could not continue and should cease by 2014 at the closure of the 2013/14 accounts.

The Chair asked if the Committee was prepared to note the report and action plan subject to the assurances given by the Head of Finance and Chief Executive. Councillor Roberts' proposal that the Committee refuse to accept balancing entries was not formally seconded.

Ms. Hughes commented that if there were balancing entries in the 2012/13 accounts, that it could be an issue for 2012/13 if they were more significant than in previous years.

The Chair asked if Councillor Roberts was prepared to withdraw his proposal. He agreed but said that noting the report was not sufficient.

The Chief Executive suggested that an objective be set that the practice of balancing entries would end by no later than the closure of the 2013/14 accounts and that officers would aim to improve practice by the closure of the 2012/13 accounts. Officers would also analyse in more detail the trends and reasons behind the current practice.

In response to concerns by Councillor Roberts on achieving the objective, the Chief Executive said that analysing the situation which had led to the problem would assist officers to achieve the objective.

The Chair proposed that the report and action plan be noted with the suggestion made by the Chief Executive. This was agreed by the Committee.

RESOLVED:

- (a) That the report and action plan be noted; and
- (b) That the objective be set for the practice of balancing entries to end by no later than the closure of the 2013/14 accounts and for officers to aim to improve practices by the 2012/13 accounts, be noted.

63. INTERNAL AUDIT PROGRESS REPORT

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

Following a proposal previously made by the Committee and subsequent Cabinet approval, it was reported that additional resources had been sought to carry out work on the Plan which was aimed to be completed in April 2013. The report indicated that since the Committee had last met, three projects had been deferred from the Plan and one added. The Internal Audit Manager advised that a project on Pollution Control had also been deferred.

On Recommendation Tracking, the Internal Audit Manager said that the request previously made by the Committee for information on the reason for non-implementation of recommendations had been raised with the Corporate Management Team (CMT) with the support of the Chief Executive and it had been agreed that accountable senior officers would need to give their own feedback on the reason for any failure to do this. It was hoped that this additional pressure would have a positive impact as the new system had been introduced and the additional information sought would be included in the next progress report at the June 2013 meeting.

The report detailed reasons for non-implementation of recommendations on Procurement, Consultants and Finance. On the latter, the Head of Finance gave assurances on the value of audit work but said that she had been unable to meet the timescale required to respond due to budget work during the first quarter of 2013 which was a particularly challenging time, taking into account the

introduction of new regulations on the Council Tax Support Scheme. It was envisaged that three of the four reports would be dealt with by the end of March 2013 with the Capital Programme item expected to be resolved at the end of April. She said that the department had undergone a major review and would be in a stable position going forward.

Mr. P. Williams acknowledged budget work pressures faced by the department but pointed out that some recommendations dated back to 2010. In raising concerns about resources within the department, he asked for details on the number of recommendations made on audit reports and how many of these were not yet implemented. The Internal Audit Manager agreed to provide a note on this to the Committee and pointed out that this type of slippage was an issue across other Council departments and not confined to Finance. The figures in the report represented those recommendations due only at this point in time.

In addressing concerns raised by Members on resources, the Head of Finance said that the section had undergone a review to put in place a new structure which, for a number of organisational reasons, had taken longer than expected to achieve. The new structure had been implemented from 1 January 2013 following the evaluation of jobs having been completed. A number of vacant posts had been retained to give greater flexibility and mitigate any risk of redundancy, and it was intended that interim/temporary arrangements would soon be brought to a close with appointments made to those posts. The Head of Finance said that the structure was fit for purpose and that throughout the review, the department had continued to support the organisation on some major pieces of work. She hoped that Members would appreciate the deadlines which applied to the work of the department, for example the Statement of Accounts, which in the majority of cases were fixed with no opportunity for delay.

Mr. Williams said that this was recognised and that if there was an issue with resources in the department, he hoped that the Committee would support any request for assistance.

Councillor A. Woolley said that the issue was one of accountability and which level of officer should make a response on outstanding items. The Internal Audit Manager explained that following discussion of final recommendations with managers/Heads of Service of the areas audited, those officers responded to Internal Audit with an action plan to meet the recommendations and naming the officer responsible, who was usually a manager or Head of Service. Under the new system, failure to respond to non-implementation of a recommendation would be pursued at Director level.

Councillor Woolley said that adequate resources must be made available if recommendations were to be progressed. The Chair commented that the Head of Paid Service was responsible for ensuring staff resources. Mr. Williams pointed out that in agreeing the implementation deadline with Internal Audit, the relevant manager must take into account the available resources.

Ms. A. Hughes of Wales Audit Office (WAO) said that the WAO report received at the end of 2012 had drawn attention to the issue which was more about ensuring that managers had regard to the importance of responding to Internal Audit.

In response to Mr Williams' comment, the Democracy & Governance Manager said that the Committee should acknowledge the potential for exceptional issues, such as the Council Tax Support Scheme, to emerge after agreement of the timescale by managers, which may require diversion of resources. He suggested that the introduction of the new system for more senior officers to provide explanation would result in positive changes and suggested that this be given a chance to make an impact.

The Head of Legal & Democratic Services reiterated that the option to invite relevant Directors, backed up by Heads of Service or managers, would be helpful in reminding officers of actions to be done. He pointed out the timings between this meeting and the previous meeting of the Committee, and said that the new system would require time to adjust and move forward in time for the next meeting in June 2013. In addition, he suggested that the briefings held with the Chair and Vice-Chair could be used to identify and raise any concerns about outstanding responses and to decide on whether to invite a senior officer to attend the Committee meeting.

Councillor Jones felt that the commitment to agree on deadlines to respond to Internal Audit should be included as part of managers' appraisals. The Chair commented that concerns had previously been raised on staff appraisals.

Councillor I.B. Roberts said that outstanding responses from officers to Internal Audit had been an issue for some time and that this was a problem throughout the Authority.

Mr. Williams asked about the reason for deferral of the Pollution Control item and whether there was any implication of risk. He also asked for clarification on the reason for outstanding responses on Procurement, some of which dated back to 2010. It was explained that the deferral had been requested due to a service review of the area currently taking place. The Internal Audit Manager had agreed to the deferral due to the reason stated and was satisfied with the risk. On Procurement, the reissuing of the Council's Contract Procedure Rules (CPRs) had been delayed as these needed to be in line with the national set of CPRs yet to be finalised. Mr. Williams asked if a response could be shared before the next meeting on how long the new system would take to be implemented and how any risks would be covered. The Internal Audit Manager agreed to provide this.

Councillor Roberts asked if a note could also be provided by the Chief Executive, as Head of Paid Service, on steps being taken to ensure that actions and responses were made in response to Internal Audit recommendations. He subsequently withdrew this request as the Democracy & Governance Manager gave a reminder that the new system had been agreed by CMT chaired by the Chief Executive.

The Head of Legal & Democratic Services pointed out that the expectation to provide reasons for non-compliance was now in place following agreement at CMT and he felt that the relevant Heads of Service may be better placed to provide answers. The Chair commented that the Director should also be invited to the relevant meeting to ensure they were aware of the issue.

Councillor Woolley proposed an additional recommendation that from the June 2013 meeting, the responsible officer may be invited to appear before the Committee to explain why Internal Audit recommendations had not been implemented within the agreed timescale. The Democracy & Governance Manager suggested that this be changed to appropriate Head of Service/Director. This proposal was moved and seconded by Councillors Jones and Roberts and then agreed by the Committee.

In response to a query by Councillor G.H. Bateman, the Internal Audit Manager was unable to give an estimate of the timescale of the ongoing major investigation. Following a question by Mr. Williams, the Internal Audit Manager replied that there were sufficient resources for this.

On Performance Indicators, the Internal Audit Manager reported on the average number of days taken to return draft reports and said that there were a number of stages leading up to the final reports. The current timing of reports coming through the system meant that the target was not currently being met, but was improving.

It was also reported that following analysis of the self-assessment questionnaire, the Internal Audit Manager had contacted each Member of the Committee to identify any training needs. No requests for training had been received to date, however the Committee was encouraged to contact the Internal Audit Manager if they required more detail on a particular area.

RESOLVED:

- (a) That the report be noted;
- (b) That the Internal Audit Manager provide details on the number of recommendations made and how many had not yet been implemented;
- (c) That the Internal Audit Manager ask the relevant Head of Service to provide details on the estimated implementation date of the Contract Procedure Rules and how any risks would be covered, before the next meeting of the Committee; and
- (d) That from the June 2013 meeting, the appropriate and accountable Head of Service/Director may be invited to appear before the Committee to explain why Internal Audit recommendations have not been implemented within the agreed timescale.

64. INTERNAL AUDIT CODE OF PRACTICE

The Internal Audit Manager introduced the report on the level of compliance of the Internal Audit section with the current Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government in the UK.

The report also included the results of the RSM Tenon review of the quality of audit files and details on the new Public Sector Internal Audit Standards

which would be implemented from April 2013 to replace the CIPFA Code of Practice. The availability of CIPFA guidance on how to apply the Standards would enable any changes to practices to be identified and reported to the Committee.

RESOLVED:

That the report be noted.

65. INTERNAL AUDIT STRATEGIC AND OPERATIONAL PLAN

The Internal Audit Manager presented the proposed Internal Audit plan for the three year period 2013/14 to 2015/16 and detailed the considerations to be made by the Committee.

Following a query raised by Councillor G.H. Bateman, the Internal Audit Manager explained that the review of absence management would look at the process for reporting and monitoring staff sickness to ensure that proper controls were in place.

In relation to the 'Strategy for Internal Audit', Councillor R.B. Jones felt that whilst one page represented the Strategy, the rest of the document was a detailed Plan and should be separate.

Following comments by other Members, the Democracy & Governance Manager suggested that the title sheet of the document should reflect that this was both a Strategy and Operational Plan. This was agreed by the Committee.

Councillor Jones re-stated his view that there should be two separate documents and the Internal Audit Manager said that this could be taken into future consideration.

RESOLVED:

That the report be approved, subject to the change of title to 'Strategic and Operational Plan'.

66. ACTION TRACKING

The Internal Audit Manager presented a report on the actions resulting from points raised at previous Audit Committee meetings. Actions carried out to date were summarised in the appendix to the report. It was noted that the majority had been undertaken and that an update on the remainder would be reported to a future meeting.

RESOLVED:

That the report be accepted.

67. FORWARD WORK PROGRAMME

The Internal Audit Manager introduced the report to consider the Forward Work Programme for the Audit Committee for the next year.

As agreed under an earlier agenda item, a report on the scrutiny of performance of collaborative projects would be submitted to the next meeting of the Committee.

RESOLVED:

That the Forward Work Programme be agreed including a report with an overview of collaborative projects to be submitted to the next meeting of the Committee on 12 June 2013.

68. ATTENDANCE BY MEMBERS OF THE PRESS AND PUBLIC

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

(The meeting started at 10.00 am and ended at 12.55 pm)

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Chair