

AUDIT COMMITTEE
17 JULY 2013

Minutes of the meeting of the Audit Committee of Flintshire County Council held in Clwyd Committee Room, County Hall, Mold on Wednesday, 17 July 2013

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

Councillors: Glyn Banks, Haydn Bateman, Alan Diskin, Patrick Heesom, Ian Roberts and Arnold Woolley

LAY MEMBER: Mr Paul Williams

IN ATTENDANCE: Chief Executive, Head of Finance, Head of Legal & Democratic Services, Internal Audit Manager, Democracy & Governance Manager, Corporate Finance Manager, Finance Manager (Strategy & Technical) and Committee Officer

Interim Head of Procurement (minute number 22)

Ms. Amanda Hughes of Wales Audit Office

16. DECLARATIONS OF INTEREST (INCLUDING WHIPPING DECLARATIONS)

Councillor G.S. Banks declared an interest in Agenda Item 8 - Contract Procedure Rules, as he was on the Council's list of approved contractors. The Head of Legal & Democratic Services advised that this was a personal interest.

17. MINUTES

The minutes of the meeting of the Committee held on 12 June 2013 were submitted.

RESOLVED:

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

18. DRAFT STATEMENT OF ACCOUNTS 2012/13

Prior to consideration of the report, the Chair referred to concerns that she had previously raised about the sharing of information on matters relating to the acquisition of AD Waste and that she and the former Vice-Chair, Mr. P. Williams, had subsequently felt could be addressed through an audit carried out by an external auditor. A range of information had subsequently been shared at a confidential briefing with the Chief Executive, senior officers and Mr. J. Herniman of the Wales Audit Office (WAO), which provided clarification. Although some responses to queries raised by Mr. Williams remained outstanding, the WAO had agreed with the advice of officers that there was no requirement for an external audit. Any balances in the financial statements would be looked at as part of the annual audit of the accounts. The Chair indicated that she was satisfied with this resolution and commented on positive working with officers to achieve this.

The Chief Executive thanked the Chair, Vice-Chair and Mr. Williams for attending the briefing and confirmed that the remaining information would be provided. In response to further comments, he advised that once the liquidation of AD Waste had been completed, a confidential report on the service continuity outcomes would be provided to the Committee with planned future internal audit work on waste operations including specific reference to 'inherited' operations. Councillor P.G. Heesom also indicated that he had been satisfied with the response provided at the briefing. Mr. Williams thanked officers for the open and frank exchange which had taken place to bring the matter closer to a conclusion.

The Corporate Finance Manager introduced a report to present the Statement of Accounts 2012/13 (subject to audit) for Members' information only at this stage. The accounts would be submitted to the Committee in late September 2013 for approval and recommendation to County Council following the audit.

The Corporate Finance Manager and Finance Manager (Strategy & Technical) delivered a presentation which detailed the main points:

- Purpose and Background
- Key Dates
- Responsibility
- Contents and Overview
- Links to Budget Monitoring
- Headlines - Council Fund, Reserves at Year End, Capital and HRA
- Core Statements
- Changes in 2012/13
- Next Steps

In response to earlier comments, a number of changes had been made to improve the format and layout of the accounts to assist the reader. The Committee was asked to encourage all Members of the Council to attend the 'drop-in' sessions with senior Finance officers in early September which offered the opportunity to raise queries on the accounts. Dates were being arranged and Members would be notified in due course.

Ms. A. Hughes of WAO confirmed that the draft accounts had been received within the statutory deadline and that there was a helpful ongoing dialogue with officers to address any issues arising.

The Head of Finance passed on her thanks to the officers across the Council who had worked hard to produce the draft accounts.

Councillor G.H. Bateman queried the increase in net expenditure for cultural and related services from last year and asked which services this involved. The Chief Executive said that this covered museums and community arts and may also include Clwyd Theatr Cymru which was a semi-separate entity. The Finance Manager (Strategy & Technical) agreed to provide a note of explanation. She would also provide detail on the increase in expenditure which could be due to the revaluation of assets carried out in the previous year.

On the reduction in long-term investments shown on the balance sheet, it was explained that the figures represented a snapshot at that time. As at 31 March 2012, a long-term investment of over £2m had been made which, at the same point in 2013, there were no long-term investments.

Councillor Heesom pointed out that a guidance note had not been included to explain the difference in the Pensions reserve. The Finance Manager (Strategy & Technical) said that Note 4 provided the relevant information on this with the scheme history providing an explanation on movement between 2008-2013. Technical adjustments were made to the account in accordance with accounting requirements / regulations. She added that this was a complex area of the accounts which could be discussed in more detail outside the meeting. Councillor Heesom agreed to this.

In response to queries raised by Mr. Williams on salary increases, the Chief Executive explained that the Director of Community Services had been appointed during the year in 2011 which meant that the full salary had only been reflected in the 2012/13 accounts. A note on this had been included in the accounts. The salary increase for the Head of Human Resources & Organisational Development was due to progression through incremental scales. Following a comment on the decrease in the building maintenance inventory and partnership arrangement with Travis Perkins, the Chief Executive advised that this service had been outsourced following a tendering exercise and was performing well. The Finance Manager (Strategy & Technical) said that the figures in the accounts reflected that this stock was now held by Travis Perkins rather than the Council. Mr. Williams asked if Internal Audit were monitoring the arrangement. The Internal Audit Manager confirmed that this was the case.

When asked about the increase in government departments under short-term debtors, it was explained that this was grant monies, owed to the Council at that point in time. The increase in 2012/13 was due to a small number of larger grants in Lifelong Learning being outstanding at the balance sheet date. The grants had subsequently been received. The Chief Executive said that the academic year rather than the financial year applied to some specific grants for Lifelong Learning and schools.

The Chair commented on the deferred liability which had been included in the accounts following the acquisition of AD Waste. The Head of Finance explained that as part of the transfer of the company, there was a need to recognise and provide for the environmental aftercare costs of former waste disposal sites. The Corporate Finance Manager said that the figure had been calculated to ensure there was sufficient funding for aftercare costs for the next 30 years.

On Equal Pay, the Chief Executive said that this was a sensitive issue currently under planning with expert external legal advice. It was intended to complete a Single Status Agreement in-year with reserves set aside to be discharged to meet one-off costs for Single Status and Equal Pay, which meant that the Council was in a stronger financial position than some other Authorities. On the calculation of Equal Pay entitlement, the Head of Legal & Democratic Services said that work was ongoing to refine information provided by the consultant to estimate costs. The Chief Executive said that there was a balance

between potential resources and capital borrowing approval from Welsh Government (WG) to meet the costs of Equal Pay and an application had been submitted to WG for capitalisation approval. On Single Status, he spoke of ongoing negotiations with Trade Union colleagues on Part 3 terms and conditions and the pay and grading model which were nearing completion for a report to Council.

On segmental reporting, Councillor Bateman asked if the figure in Government grants related to the WG Housing Subsidy. The Head of Finance explained about the £6.2m negative / deficit Housing Subsidy paid by the Council to WG under the current subsidy arrangements. In response to a query on the indicated cost for the acquisition of AD Waste, the Chief Executive agreed that a breakdown could be provided. He said that there had been no financial transaction between the Council and AD Waste and referred to the footnote which explained that the purchase price was recorded on the Council's balance sheet by way of an 'inter company' loan and would remain until the liquidation of the company. The Finance Manager (Strategy & Technical) went on to say that the balance sheet included total assets of £4.5m which matched with the inter company loan in the accounts, as mentioned in Note 28 - borrowing.

Responding to an earlier comment by Mr. Williams on the movement in reserves position from £417m to £341m and explanation given during the presentation on usable and unusable reserves, the Head of Finance pointed out that usable reserves had increased from £55m to £59m. One of the largest reserves was for Single Status and Equal Pay liability. She explained that she was required to advise Members on the adequacy of resources in determining the financial strategy and each year in setting the annual budget. This featured in the considerations of Overview & Scrutiny and Cabinet through the Medium Term Financial Plan and in the annual budget round. The Chief Executive commented on a statement made by the Local Government Minister on the need for Councils to carefully consider their reserves and explained that the Council's arrangements were complying with this.

On behalf of the Committee, the Chair expressed her appreciation to the officers for their work on the accounts.

RESOLVED:

- (a) That the draft Statement of Accounts 2012/13, together with the underlying policies, be noted;
- (b) That the planned provision of 'drop-in' sessions over the summer period be noted; and
- (c) That the Committee be provided with a written response to the above three queries raised by Councillor Bateman.

19. ANNUAL GOVERNANCE STATEMENT

The Democracy & Governance Manager introduced a report for the Committee to consider and approve the draft Annual Governance Statement (AGS), which was included as pages 105-119 of the Statement of Accounts. He

explained the involvement of the Corporate Governance Officer Working Group in the preparation of the draft AGS which also included a number of amendments suggested by members of the Committee during an informal briefing at which the draft document had been shared. Members' attention was drawn to the four key areas of consideration.

Councillor P.G. Heesom welcomed the report and thanked the officer team for the work undertaken since the informal briefing. However he felt that the document could be reduced further and questioned the need to include Section 5 on significant governance issues if the document was meant to be generic, suggesting that an annexe may be more appropriate.

The Democracy & Governance Manager explained that the format of the AGS complied with joint guidance issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE). Comments previously raised by the Wales Audit Office (WAO) had led to a more co-ordinated approach, resulting in the establishment of the working group to prepare the AGS for the year ending 31 March 2012, when no comments or criticism had been received. The inclusion of Section 5 in the AGS, incorporating high 'red' risk areas of the Strategic Assessment of Risks & Challenges (SARC), had been agreed by senior officers and reflected the comments previously made by WAO. It was intended for a report to be submitted to the Committee in December 2013 to provide further Member involvement at the start of the process next year.

The Head of Legal & Democratic Services reiterated the importance of earlier involvement and challenge by Members before the final approval stage and commented on future changes to the analysis of major risks which would be reflected in the AGS.

In responding to Councillor Heesom's comments, the Chief Executive said that a balance was needed between Sections 4 and 5 of the AGS. Although further changes could not be made without compromising meanings, he agreed to review Section 5 and would also incorporate an update on the level of risk with Betsi Cadwaladr University Health Board as well as ensuring that other issues were covered such as regional governance on collaboration, uncertainty arising from national reviews and achieving the Welsh Housing Quality Standard in anticipation of the response from WG on the revised Housing Business Plan.

Ms. Hughes of WAO reminded the Committee that the AGS formed part of the Statement of Accounts as a public document and that although the guidance had been followed, the level of detail and layout was for the Committee to determine. She said that the key consideration for the Committee was to be satisfied by governance arrangements operating throughout the year and added that previous minor issues raised by WAO, including that for additional Member engagement, had been addressed. She went on to remark on work by WAO across Wales on the review of governance statements.

Following a query by the Chair on the number of requests received under the Freedom of Information Act (FOIA), the Democracy & Governance Manager said that nationally, requests leading to press coverage often resulted in an

increase in the number of requests. He went on to clarify the complaints procedure for FOIA requests.

A query raised by Councillor G.S. Banks led to clarification by the Head of Legal & Democratic Services on the different nature of complaints from whistleblowing.

RESOLVED:

That the Annual Governance Statement attached to the Statement of Accounts be approved subject to delegated authority granted to the Chief Executive to update and change the emphasis of Section 5.

20. SUPPLEMENTARY FINANCIAL INFORMATION TO DRAFT STATEMENT OF ACCOUNTS 2012/13

The Finance Manager (Strategy & Technical) presented supplementary financial information to accompany the Draft Statement of Accounts 2012/13, as requested in the Notice of Motion approved by County Council on 29 January 2013. Information was split into three tables to show salaries over £60,000 per year for Council employees, posts covered by interim or temporary arrangements and consultants and non-permanent posts. The information was to be received annually alongside the Statement of Accounts following a Notice of Motion agreed by Council.

In line with the request, Table 1 listed Council employees not included in the 'senior employee emoluments'. Pension contributions by the employer were shown alongside total payments received by the employees under the heading 'total remuneration excluding pension contributions'. Table 2 listed the amounts paid to organisations to engage individuals on a temporary basis and indicated theoretical annualised costs as required by the Notice of Motion. Table 3 listed non-permanent posts covered by consultants and included actual costs incurred by the Council alongside theoretical annualised costs.

The Chief Executive explained that Table 3 listed individuals for which permanent posts were not required, providing specific short-term support, for example, until services were finalised. He cited the Out of County Review as an example where efficiencies had been made as a result of such external support.

Officers noted Councillor G.H. Bateman's request that future reports include a total for the 'actual cost incurred' column on Table 3. It was acknowledged that no value would be added for the final annualised costs column to be totalled as this was theoretical. In response to a query on the role of Principal Accountant on Table 1, the Chief Executive explained that this related to the transfer from AD Waste in which salaries were in accordance with transfer legislation. The Head of Finance confirmed that the post was included in the Finance structure but the postholder was subject to protective circumstances due to the transfer arrangements. In response to a query on Table 3 on Single Status, the Chief Executive advised that specialist support had been required to deal with this complex project through the engagement of a Project Manager with additional job evaluation analysts providing required additional resources.

In commenting on Single Status, Councillor I.B. Roberts said that spend on consultants was necessary if a satisfactory resolution was to be achieved. He remarked on the likelihood that the number of consultants engaged in non-permanent posts to provide specific support would increase as workforce numbers reduced. The Chief Executive agreed that this was a possibility and spoke of the potential for new projects which would require a business case for additional short-term support.

RESOLVED:

- (a) That the contents of the report be noted; and
- (b) That future reports include a total for the 'actual cost incurred' column on Table 3.

21. FINANCIAL PROCEDURE RULES

The Corporate Finance Manager introduced the report on the proposed updated Financial Procedure Rules (FPRs) for approval and sought a recommendation to the next available County Council meeting on 25 September 2013. He outlined the responsibility of the Head of Finance on FPRs and gave an overview of the changes to the existing rules arising from the fifth review undertaken.

Councillor P.G. Heesom asked if Rule 2: Financial Planning and Rule 3: Budget Management (Revenue and Capital) had been recently amended to take account of any concerns on medium term financial planning.

The Chief Executive confirmed that recent amendments had been made to show transparency in arrangements. He felt that the update had been a useful process and had more fully reflected roles and responsibilities, for example accountability at Heads of Service level in the monitoring and controlling of income and expenditure against the budget heads approved in the annual budget. The Corporate Finance Manager added that the review of the outturn 2012/13 position had identified a need to clarify detail on roles and responsibilities and this had been addressed as part of the update. The Head of Finance said that a great deal of work was ongoing on financial strategy and planning in different services and that the FPRs required continual review to ensure that they were current and accurately reflected this.

Mr. P. Williams welcomed the report and asked about any impact on training and resources as a result of implementing the changes. The Corporate Finance Manager explained that briefing sessions were planned to raise awareness. Mr. Williams asked if the report was to be considered by Overview & Scrutiny as he felt it would be useful to note the accountability of officers.

The Chair noted that the report was to be received by the Constitution Committee later in the day and queried the resolution if the two Committees held differing views.

In response to both questions, the Democracy & Governance Manager explained that the Audit Committee, rather than the Constitution Committee, was

the lead on considering detail on FPRs and that he would report this verbally at Constitution Committee. He said that the update would tie-in with the three year programme to review and update the Constitution. In agreeing with the suggestion made by Mr. Williams, the Chief Executive said that the next budget monitoring report was due to be received by Cabinet and Corporate Resources Overview & Scrutiny Committee in September 2013 and that the latter report could include information on the strengthened controls and be cross-referenced with the updated FPRs.

Councillor Heesom spoke of the benefits of a joined-up approach between Audit Committee and Overview & Scrutiny and said that the former would have a crucial role in reviewing the latter. The Democracy & Governance Manager confirmed that regular briefing meetings would be arranged between the Audit Committee and Overview & Scrutiny Chairs and Vice-Chairs. The second of these briefings had been cancelled due to the cancellation of the special County Council meeting in July 2013 and would be re-arranged to follow the next available Council meeting.

RESOLVED:

- (a) That the updated Financial Procedure Rules be approved and recommended for submission to Council; and
- (b) That the budget monitoring report to be submitted to Cabinet and Corporate Resources Overview & Scrutiny Committee in September 2013 include reference to the strengthened controls and links to Financial Procedure Rules.

22. CONTRACT PROCEDURE RULES

The Interim Head of Procurement introduced a report to consider and comment upon the revised Contract Procedure Rules (CPRs) prior to consideration by Constitution Committee and approval by County Council. He explained that the document underpinned procurement activity undertaken by the Council and said that attempts to adopt a national set of CPRs had encountered difficulties due to a failure to reach mutual agreement across all Councils in Wales.

In welcoming the document, Councillor P.G. Heesom spoke about the need to cross-reference issues to the Medium Term Financial Plan (MTFP).

Councillor G.S. Banks felt that there was a contradiction between clauses 10.3, 41.1 and 41.3 on changes to the tendering process. The Interim Head of Procurement explained that the requirement for Cabinet approval of tender exemptions above £1m had been changed to streamline the process as a technical judgement. Similarly, approval of contract values, including variations, over £1m allowed involvement at Monitoring Officer or Chief Finance Officer level in consultation with the Cabinet Member. In response to concerns raised by Councillor Banks, it was explained that the approach had been simplified to alleviate any unnecessary delay to enable contracts to be signed and earlier commencement of work, with the necessary controls in place.

The Head of Legal & Democratic Services pointed out that Cabinet would still be required to approve contracts and that Cabinet Members could refer back to Cabinet if necessary.

The Chair asked to be kept informed on the use of consultants and remarked on savings in the Procurement service. The Interim Head of Procurement reported savings of between £800,000-900,000 which exceeded the efficiency target reported in the Outcome Agreement to the Welsh Government.

The Chief Executive said that the proposals would address any delays to tendering which could potentially compromise schemes and hoped that inclusion of clauses 46.1 and 46.2 in the CPRs gave assurance on controls in place for the use of consultants. He went on to refer to joint arrangements with Denbighshire County Council in relation to the Interim Head of Procurement.

RESOLVED:

That the revised Contract Procedure Rules be endorsed for submission to Council.

23. COUNCIL BANKING ARRANGEMENTS

The Chair asked that the Committee note the report which provided information on the Council's banking arrangements following recent branch closures and initial proposals for the tender exercise to be carried out in 2014.

Councillor I.B. Roberts said it was disappointing that bank branch closures had only come to light following complaints made by schools and that alternative arrangements had been made in response to his raising the matter with the Director of Lifelong Learning and Head of Finance. He felt that any variation in branch presence in Flintshire should be included in tender documentation to encourage banks to provide viable services for the area. He added that reliance on bank branches was outdated and suggested that the use of Post Offices could be explored as an alternative accessible option.

The Head of Finance advised that the Finance Manager (Strategy & Technical) would be leading a team to undertake work on the bank tender exercise and that within the Council and in banking methods in general there had been many changes since the service had been last tendered. She agreed that processes should be leaner and more modern and that a review of the approach was being addressed. Councillor Roberts asked to be kept informed of progress.

Following a suggestion by the Chair that Councillor Roberts be involved in discussions with officers, the Chief Executive said that any specific information would be shared informally with the Committee, with the option for more formal discussion if it was required.

RESOLVED:

- (a) That the report be noted;

- (b) That Councillor I.B. Roberts be kept informed on progress with the provision of bank services in Flintshire; and
- (c) That any specific information on the tendering of bank services be shared informally with the Audit Committee, noting the option for more formal discussion if required.

24. ATTENDANCE BY MEMBERS OF THE PRESS AND PUBLIC

There was one member of the press in attendance.

(The meeting started at 10.00 am and ended at 12.25 pm)

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Chair