

AUDIT COMMITTEE
25 SEPTEMBER 2013

Minutes of the meeting of the Audit Committee of Flintshire County Council held in the Clwyd Committee Room, County Hall, Mold on Wednesday, 25 September 2013

PRESENT: Councillor Alison Halford (Chair) for Minute 34
Councillor Arnold Woolley chaired the meeting for the rest of the meeting
Councillors: Glyn Banks, Haydn Bateman, Alan Diskin, Tim Newhouse and Ian Roberts

LAY MEMBER: Mr Paul Williams

APOLOGY: Head of Legal & Democratic Services

ALSO PRESENT: Councillors: Bernie Attridge and Aaron Shotton

IN ATTENDANCE:

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

Corporate Finance Manager and Finance Manager (Strategy & Technical) (for minute number 37)

Head of Planning (for minute number 38)

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

34. PRESS RELEASE ISSUED BY THE CHAIR

The Chair read out a press release which she had circulated in which she stated her intention to adjourn the meeting and the reasons for doing so in relation to the despatch of papers for the Statement of Accounts. Councillor A. Woolley raised a point of order and asked if any motion to adjourn a meeting must conform to the majority wish or whether the Chair could arbitrarily adjourn the meeting without a vote.

Before a decision could be reached, the Chief Executive said it was important to clarify the statutory obligation of the Council to adopt the accounts before the statutory deadline of 30 September and that if a decision was taken to adjourn the meeting, this would not preclude the process of submitting the Statement of Accounts to full Council for adoption. It was intended at this meeting to fully report on changes which had been made to the accounts for any observations to be made to Council by the Committee, noting that (1) the accounts had been submitted to the Committee in draft form in July; (2) the accounts had been available for inspection since; and (3) it was standard practice in any accounting year for the draft accounts to be amended to include any material changes which had occurred since their drafting and the recommended changes and amendments of the external auditors.

The Democracy & Governance Manager explained that this was a legally convened meeting and pointed out that whilst the Statement of Accounts had not been made available five clear working days before the meeting, it had in fact been made available five clear days (including Saturday and Sunday) beforehand, which more than complied with legal and Constitutional requirements - the same arrangement as last year. He advised that Council Procedure Rules did not entitle the Chair to arbitrarily adjourn the meeting. The Chair could adjourn the meeting in certain circumstances such as to allow time to deal with disturbance by the public, but there were no such circumstances existing. He confirmed that Procedural Rule 5, whereby notice had been given of the meeting to Council Members, had been followed.

The Chair stated her dissatisfaction that the same arrangement had occurred in the previous year but felt that the Committee was being undermined in its ability to scrutinise and was not willing to proceed with the meeting.

The Chief Executive said that this was not the case and that the preferred position was for the Audit Committee to provide a commentary to Council as was the annual practice. He had a duty to present the accounts to Council if the Committee chose not to do this. He said that failure to adopt the accounts within the deadline could incur a penalty and had reputational risks for the Council.

The Head of Finance spoke about the availability of the draft accounts from 17 July 2013 which were then subsequently made available for scrutiny over the summer period, together with drop-in sessions on 12 and 13 September 2013 providing opportunities for all Members to raise queries with officers. In line with previous practice, Wales Audit Office (WAO) colleagues were in attendance to present their findings and provide a full explanation.

In response to the Chair reiterating her intention to adjourn the meeting, Councillor I.B. Roberts suggested that Members and officers remain as he believed the adjournment to be improper without a vote. This was seconded by Councillor Woolley.

The Democracy & Governance Manager said that the Chair was entitled to her view but was not able to adjourn the meeting without taking a vote. He advised that if the Chair was to leave the meeting, in the absence of a Vice-Chair the Committee should appoint a Chair for the meeting from those who were eligible. The Chair left the meeting at this point.

Councillor Roberts nominated Councillor Woolley as Chair for the meeting which was duly seconded by Councillor Newhouse. On being put to the vote, this was unanimously carried.

The Chief Executive stressed that despite the timescale, the legal deadline had been met in availability of the agenda papers and assured Members that arrangements were compliant and transparent.

Mr. J. Herniman of WAO referred to the complexity of producing accounts within the statutory deadline, which applied to all authorities. He said that the report listed the main adjustments which it was intended to go through in detail.

He reminded the Committee that the Council was charged with governance arrangements on approving the accounts and had received the papers in the requisite number of days and that, although not necessary, it was important for the Committee to make a recommendation to Council.

RESOLVED:

That Councillor A. Woolley be appointed Chair of the Committee for the rest of the meeting.

35. DECLARATIONS OF INTEREST (INCLUDING WHIPPING DECLARATIONS)

Councillors A.G. Diskin, G.H. Bateman and I.B. Roberts each declared a personal interest in Agenda Item 4: Statement of Accounts 2012/13 as they were respectively Chair and Vice-Chair of the Clwyd Pension Fund Panel and member of the Pension Scheme.

36. MINUTES

The minutes of the meetings of the Committee held on 17 July and 30 July 2013 were submitted.

30 July 2013

Minute 27: Treasury Management Annual Report 2012/13 and 2013/14 Update - A written response to queries previously raised by Councillor G.S. Banks was circulated at the start of the meeting.

As a point of accuracy, Councillor G.H. Bateman sought clarification on interest amounts paid on investments with Landsbanki. The Finance Manager (Strategy & Technical) confirmed that the claim which had been submitted to the winding-up Board was for the Council's original investment plus contract interest.

RESOLVED:

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

37. STATEMENT OF ACCOUNTS 2012/13

The Head of Finance introduced the Statement of Accounts for 2012/13, together with the Wales Audit Office (WAO) reports in connection with the audit of the financial statements and Letters of Representation for Flintshire County Council and Clwyd Pension Fund.

Since the draft version of the accounts had been presented to the Committee in July 2013, drop-in sessions were arranged for all Members in September 2013 to answer any queries from Members. There was a statutory duty for the accounts to be considered and approved before the end of the month deadline, during which time the audit officially continued for post balance sheet events and the like, but had now been substantially completed. The Head of

Finance said that in collating the accounts in a prescribed format from across an organisation such as this, it was inevitable that issues would be raised. It was also important to remember that the document related to the accounting treatment and classification of assets and liabilities within the accounts. She advised that the final accounts included changes agreed by WAO during the course of the audit and that these had been discussed with officers with appropriate actions put in place to amend processes where necessary. The liquidation of AD Waste which had been finalised over the last fortnight had resulted in complex accounting entries being made to bring the assets and liabilities from that company fully into Flintshire's balance sheet in line with accounting policies. She thanked the officer team for their work in preparing the accounts within the deadline and invited WAO colleagues to present their findings.

Audit of Financial Statements Report for Flintshire County Council 2012/13

Mr. J. Herniman of WAO spoke of the complex task and time dedicated to producing local government accounts, including some areas requiring technical discussion on the treatment of issues within the accounts and inevitable adjustments which were normal practice. He advised of the intention to issue an unqualified (clean) opinion on the financial statements. Whilst reporting on the corrected misstatements identified, which had been agreed with management, he advised that the issue with balancing entries in the accounts had been resolved.

Mr. P. Williams asked why the prior period adjustment of £12.752m on non current assets had not been recognised previously. Mr. Herniman explained that this had been identified through a sample check in the audit where the issue had been incorrectly treated in the accounts for 2011/12 and 2012/13. Mr. Williams referred to the £13.8m adjustment for non-enhancing capital expenditure and the impact on depreciation which would require regular review of assets to ensure there was no repeat.

The Chief Executive advised Members on the outcome of the final liquidation of the assets and liabilities of AD Waste which had fallen late in the accounting period due to the legal process. The changes were a reflection of fact on liquidation and had not occurred due to any new decision by the Council on the close of the company; liquidation was simply a closing legal process.

Mr. Herniman explained that although it was recognised that a reasonable estimate had been made for the provision of equal pay liability in the accounts, the Council had opted not to provide for pension contributions within this, following legal advice. He explained that some authorities chose to do this and advised that the Appointed Auditor was content that no further action was needed until such time as any future court decisions arose on this issue. In response to legal advice sought by Councillor G.S. Banks, the Democracy & Governance Manager said that whilst opinions differed on this subject, the Council had followed advice from its legal advisors. The Chief Executive said that a Council meeting was being held at the end of October 2013 on a proposed Single Status agreement. The Council would also be advised on an Equal Pay Strategy at that meeting.

Audit of Financial Statements Report for Clwyd Pension Fund 2012/13

Mr. Herniman reported that an unqualified opinion would be issued on the financial statements and commented on the diverse portfolio of the Clwyd Pension Fund including £262m of unquoted investment funds which relied on valuations with a degree of uncertainty. He went on to refer to an understatement in the value of investments of £899K where management had taken the decision not to make an adjustment and requested that the Committee take a view on this and possibly include in the recommendation to Council. He expressed his thanks to the Finance team and officers who had assisted with the audit.

In response to the reference to resources within the Pensions department, the Head of Finance reported on the recent full-time appointment of a senior officer to strengthen the team and the recruitment of less senior positions. On the uncorrected misstatement, she spoke of the size and diversity of the Clwyd Pension Fund portfolio and the involvement of the Panel during consideration of the accounts at the draft stage. An ongoing timing issue meant that the latest investment value information would always be received after the financial year following collation of the final accounts and was not considered to be material to overall values. A balance was therefore needed on considering the amount of accounting adjustment required against the impact on officer time in finalising the accounts within the deadline.

The Chair agreed with the management decision on this issue as it was an understatement rather than an overstatement. Mr. Williams agreed but spoke of his concerns about the availability of resources in the department. The Chair echoed this view and commented on the impact of the inevitable scaling down of resources in local government, particularly in Finance areas.

The Chief Executive reminded the Committee that the Clwyd Pension Fund was ringfenced and acted on behalf of other outside bodies, adding that the temporary capacity issue had now been addressed. In summarising both reports, he welcomed the unqualified opinions issued and the positive relationship between the Council and WAO.

Members welcomed the report, noting no major issues had been raised by WAO and asked that their gratitude be extended to those involved in producing the accounts within the timescale. Ms. A. Hughes of WAO offered her thanks to the Finance team who had worked constructively with the auditors.

Following earlier discussion, the Chief Executive gave assurances that further work would be undertaken on the assets portfolio.

In response to a request from Councillor I.B. Roberts, the Chair agreed to speak on behalf of the Committee at the full Council meeting later in the day where the accounts were to be submitted for adoption. On being put to the vote, the resolutions were unanimously supported by the Committee.

RESOLVED:

- (a) That the final version of the Statement of Accounts 2012/13 be recommended to County Council, noting that the Committee support the management decision not to adjust the uncorrected understatement of £899K;
- (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; and
- (d) That the Committee note the reassurance for further work to be undertaken on asset management.

38. PLANNING - SECTION 106 AGREEMENTS

The Internal Audit Manager explained that the item had arisen following previous concerns raised by the Committee on outstanding recommendations from an audit on the use of Section 106 Agreements. The Head of Planning was invited to present the report and provided background on the process of Section 106 Agreements which had led to him commissioning the audit.

The Head of Planning gave an overview of actions detailed in the report which had been taken to address the audit recommendations and advised that in compiling a list of all Section 106 Agreements signed since 2000, officers had reviewed over half of these to date. As an example of the work undertaken so far, copies of a spreadsheet were circulated showing information on agreements for Buckley which had been shared with the Town Council. Such information had been generally well received by Town and Community Councils and was helpful in clarifying the process and demonstrating transparency. Further work carried out to date was detailed in the report.

Following a query raised by Councillor T. Newhouse, the Head of Planning explained the need for the introduction of Community Infrastructure Levy (CIL) to go through a parallel process to the Local Development Plan (LDP) which was evidence-based and therefore links would need to be made to satisfy any Inspector.

Councillor G.S. Banks sought a response on the comment that the audit had identified a lack of confidence in processes for Section 106 Agreements. The Head of Planning replied that this referred to the inability to trace what payments had been sought and that this was now included in the monitoring sheets. Work had since been done to improve and clarify the process. In response to a question on differences in triggers, he said that this was dependent on the size of the site.

When asked by Mr. P. Williams about the extent of the backlog, the Head of Planning indicated that there were currently 40-50 unsigned legal agreements in the system but was unable to give an estimated value of payments included

within them. He said that CIL should simplify the process and provide opportunity to focus on attracting funding to mitigate the impacts of particular developments.. Any developer who breached the triggers would instigate formal enforcement procedures, however the enforcement officer had been successful in informally resolving outstanding financial issues. In response to questions on potentially halting a development, the Head of Planning spoke of the difficulties in providing evidence of actual harm, but said that CIL would simplify the process.

In response to further queries, the Head of Planning explained that each planning application was determined on its own merits and could not take into account the past history of the developer and their track record of payments of Section 106 funding, or otherwise. On the enforcement of triggers, he advised that officers physically went out on site to carry out monitoring. The Democracy & Governance Manager pointed out that in addition to the Council's enforcement procedures, local searches carried out by solicitors of potential property buyers would highlight any non-compliance with planning permissions.

In summary, the Head of Planning said that an improved system was now in place allowing easier review of Section 106 Agreements. Once the work was completed for the whole of Flintshire in approximately 12 months' time, a report would be submitted to the Planning Strategy Group to seek a recommendation elsewhere, possibly to Overview & Scrutiny. The Internal Audit Manager confirmed that this was acceptable to him.

RESOLVED:

That the content of the report be noted and welcomed.

39. VARIATION IN ORDER OF BUSINESS

The Chair indicated that there would be a slight change in the order of business to bring forward Agenda Item 7 before Agenda Item 6. The remainder of the items would be considered in the order shown on the agenda.

40. RISK MANAGEMENT REPORT

The Internal Audit Manager presented the report on Risk Management following the issuing of the final report by Internal Audit in August 2013. He explained that risk management was one of the three areas that had to be included in the Internal Audit Annual Report brought to the Committee in June. This work had been completed by then and the Risk Management report was now finalised. The delay had meant that management had been able to use Internal Audit's work in their refresh of the Risk Management Strategy. The Internal Audit Manager gave an overview of the recommendations which concentrated on linking risks to Council objectives, and developing risk management in collaborations and projects.

Following a comment from the Chair, the Internal Audit Manager confirmed that actions had been taken through the refreshing of the Strategic Assessment of Risks & Challenges (SARC) which would require continued review.

Mr. P. Williams welcomed the improvements and remarked on the need to link risk management profiling with operational issues and to monitor. He asked if the changes to the SARC process would be reflected in the Annual Governance Statement. The Democracy & Governance Manager explained that as the AGS had been developed for this year, this would be pursued through the working group for next year.

Councillor G.H. Bateman sought information on the six significant risks listed in the Internal Audit report. The Internal Audit Manager replied that this represented where specific risks were considered and how they were reported.

RESOLVED:

That the report be noted.

41. RISK MANAGEMENT

The Chief Executive presented the report on the response to the findings of the Risk Management audit report to give assurance on the robustness of the Council's risk management arrangements. He said that this was a good example of using a live piece of work and referred to the three areas of strategy, systems and operations within risk management.

Whilst the Strategic Assessment of Risks & Challenges (SARC) had been useful, it was recognised that a refresh of the format was needed to link to the Improvement Plan. The Committee was also advised of the review of partnership registers and the capturing of risks integrated to project management. The Chief Executive said that the improvements represented a good organisational 'cultural change' and would be tested when working on projects.

Mr. J. Herniman of Wales Audit Office (WAO) said that comments had previously been made on the SARC and welcomed its review.

Councillor T. Newhouse queried the number of significant risks compared with those listed in the Internal Audit final report. The Internal Audit Manager gave assurance that there were no omissions, explaining that the two significant risks listed in section 1.06 had been combined in the previous agenda item.

RESOLVED:

That the responses to the Internal Audit report findings be noted as reflecting robust assurance of the Council's risk management arrangements.

42. INTERNAL AUDIT PROGRESS REPORT

The Internal Audit Manager presented the update report on progress of the Internal Audit department. It was reported that the advertisement of a part-time vacancy, due to a secondment, had not received approval under the vacancy management control procedures and would impact on the audit plan. The Internal Audit Manager said that he and the Head of Finance were working on options and would submit a report to the Committee as soon as possible. He

gave a reminder that he was required to notify the Committee of any significant matters which could jeopardise delivery of the plan. The Head of Finance gave assurance that potential risks were being explored for any adjustments to be made to the plan, however it was noted that certain types of audit could not be deferred.

The Chief Executive invited the Committee to recognise that the rigorous approach being taken to vacancy management applied to all areas of the Council and was due to the uncertainty over the budget gap from 2014/15 onwards. He spoke of the importance of the Committee being able to satisfy itself on any changes made to the plan.

The Internal Audit Manager gave an overview of the key considerations advising that the current year's plan was on target and noted that more than 200 days had been completed on the plan last year. He explained that the backlog of work from the last financial year, due to the major investigation, had resulted in a large number of reports being finalised since the last meeting and provided further detail on the implementation of Lean recommendations and Corporate Grants.

The Chair expressed concerns that not all Council vehicles had tracking devices fitted and suggested that the Committee may wish to take a view on this. The Chief Executive spoke of an ongoing fleet review, including trackers, and suggested that the Head of Streetscene could be invited to the Committee to report on this. Councillor T. Newhouse welcomed this and asked that the report include information on the cost of installing trackers.

Councillor G.S. Banks congratulated the Internal Audit Manager and his team for their work and suggested that the topic of vehicle trackers may be more relevant to Overview & Scrutiny. The Chief Executive said that this was an issue which overlapped Housing and Streetscene, and that it was relevant for the Audit Committee to consider in relation to fraud prevention.

On recommendation implementation, the previously agreed change was now in place to show comments of the relevant Director/Head of Service for their respective areas. A database was currently being developed to generate automatic replies for this.

Mr. P. Williams thanked officers for their efforts in progressing reports. In welcoming the improvements to the implementation of recommendations, he hoped that the inclusion of responses from Director/Head of Service demonstrated greater ownership and accountability and suggested that it might be useful to include the new date and a 'yes/no' column to indicate whether or not the risk was acceptable to Internal Audit. Councillor Newhouse suggested that the original date also be included.

Ms. A. Hughes of Wales Audit Office (WAO) said that the inclusion of comments from senior officers was a positive improvement which would increase accountability as well as keeping the Committee informed of progress.

On Performance Indicators, the Committee's attention was drawn to the number of days for departments to return draft reports and was asked to note the impact on the PI arising from the time of year when reports were issued, for example, year end priorities in the Finance section.

During discussion on investigations, Mr. Williams asked about the completion of an investigation relating to the empty homes scheme. The Internal Audit Manager explained that this related to a matter outside the procurement process and also provided further detail on an ongoing investigation.

Councillor Newhouse referred to acronyms in the report and asked that the full name be given when first used in a report and then acronyms. The Chief Executive confirmed this was what should happen.

RESOLVED:

That the report be noted.

43. ACTION TRACKING

The Internal Audit Manager presented a report on actions resulting from points raised at previous Audit Committee meetings. The report contained a summary of actions carried out to date, the majority of which had been completed. He gave a reminder that the briefing meeting with Overview & Scrutiny Chairs would take place immediately prior to the next Audit Committee meeting.

On Collaborative Projects Arrangements, the Chief Executive reported that the collaboration protocol had been produced.

RESOLVED:

That the report be accepted.

44. FORWARD WORK PROGRAMME

The Internal Audit Manager presented the report to consider the Forward Work Programme for the next year and explained that the Treasury Management Mid Year Update and Wales Audit Office Improvement Assessment Letter would be deferred from 7 October 2013 to the meeting on 18 December 2013.

Councillor T. Newhouse extended his apologies for the next meeting.

Councillor I.B. Roberts reflected on the meeting and asked for it to be noted that the Committee was satisfied in the way that the business had been conducted and thanked those on the Committee for their co-operation in enabling the Council to approve the accounts within the statutory deadline.

RESOLVED:

That the Forward Work Programme be approved, with the deferment of the Treasury Management Mid Year Update and Wales Audit Office Improvement Assessment Letter to the meeting on 18 December 2013.

45. 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 12.30 pm)

.....

Chair