

**AUDIT COMMITTEE**  
**29 JANUARY 2014**

Minutes of the meeting of the Audit Committee of Flintshire County Council held in the Clwyd Committee Room, County Hall, Mold on Wednesday, 29 January 2014

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

Councillors: Glyn Banks, Haydn Bateman, Tim Newhouse, Ian Roberts and Arnold Woolley

**LAY MEMBER:** Mr Paul Williams

**APOLOGY:** Councillor Alan Diskin

**IN ATTENDANCE:**

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

Ms. Amanda Hughes of Wales Audit Office

Mr. Huw Lloyd-Jones of Wales Audit Office (for minute number 67)

Finance Manager - Technical Accountancy (for minute numbers 69 and 70)

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

No declarations of interest were made.

**66. MINUTES**

The minutes of the meeting of the Committee held on 18 December 2013 were submitted.

**Matters Arising**

Minute 61: Size of Audit Committee - In response to clarification sought by Councillor Tim Newhouse on where this matter was to be considered, the Head of Legal & Democratic Services explained that as a change to the Constitution may be required, this would need to be referred to the Constitution Committee on 26 March 2014 to seek a recommendation to full Council.

**RESOLVED:**

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

**67. IMPROVEMENT ASSESSMENT LETTER FROM THE AUDITOR GENERAL FOR WALES**

The Chief Executive introduced the report to advise Members of the Council's recent Improvement Assessment Letter from the Auditor General for Wales and to note the Executive response. The Letter and response had been endorsed by both Cabinet and the Corporate Resources Overview & Scrutiny

Committee. In welcoming the fact that no new statutory recommendations had been made, the Chief Executive explained that the previously received Letter from Wales Audit Office (WAO) had reflected on the Council's duties under the Improvement Plan whereas this second Letter was retrospective in commenting on the Council's duties of annual reporting on performance.

Mr. Huw Lloyd-Jones of WAO confirmed the view that the Council had discharged its improvement reporting duties under the Measure. Areas were suggested where the Council could strengthen its arrangements to comply with the guidance. He explained that whilst the Letter provided an assessment of the Council's report of its performance for 2012/13, changes put in place since that time had greatly improved the format and content of the 2013/14 Improvement Plan and should consequently improve the reporting of performance in 2013/14. He was satisfied with the Council's response to the Letter and highlighted the remark that 'public interest in these types of plans was low so promotional activity should be kept in proportion'. Following a request for examples of effective feedback arrangements, he stressed the importance of recognising the willingness of the public to provide feedback.

The Chief Executive said that the new Improvement Plan was more effective and had received positive feedback from partners and members of the public. Although there was a high level of engagement with the public on issues such as housing, education and social care, this was not expected to be the case on matters of general interest such as the Council's Improvement Plan.

Mr. Lloyd-Jones said that this area of work under the Local Government Measure 2009 was focussed on compliance and recognised the various priorities of the Council in terms of service delivery and financial challenges.

In response to a query from the Chair on the suggestion for more information on the impact of the Council's collaborative activity, the Chief Executive explained that this was about seeking a better description and was not a view on the Council's performance on collaboration.

Mr. Paul Williams questioned the value of the Letter as this was a retrospective view. The Chief Executive explained that consideration of the Letter was a statutory requirement.

### **RESOLVED:**

That the report and Council's response be noted.

## **68. RISK MANAGEMENT UPDATE**

The Chief Executive introduced the update report on the improved risk management approach as part of streamlining and integrating the business planning arrangements. In reporting that the improvements were operating successfully, he welcomed any feedback from Members on further changes and drew attention to the best practice template example for one of the Improvement sub-priorities appended to the report as a more effective and timely reporting tool on major priorities and in-year risks. Also included was an overview of risks associated with the priorities set out in the Improvement Plan.

In response to the comment from Mr. Paul Williams under the previous agenda item, the Chief Executive explained that the Improvement Plan for 2013/14 had been subject to a mid-year review. The review gave assurance that overall performance was very strong.

Queries were raised by Councillor Haydn Bateman on the risks from the provision of affordable housing. The Chief Executive explained that some risks were beyond the control of the Council and were dependent on the economic mix of housing required within the construction industry. Following a question from the Chair on the risk to keep up with demand for alternative housing models for an ageing population, the Chief Executive explained that this related to extra care housing. Whilst the provision at Llys Eleanor and Llys Jasmine had proved successful, grant funding has now ceased and options were being explored for similar quality provision in Flint and Holywell through a self-funding model, without grant funding, to meet the growing demand.

Councillor Glyn Banks asked if there was scope for the Council to encourage developers to build affordable housing as part of the planning process. The Chief Executive pointed out that the desired mix of housing was not always achieved in the planning process and that the Council could only exercise limited controls. He gave assurance that this topic was under the remit of the Housing Overview & Scrutiny Committee and commented that the move from the Unitary Development Plan (UDP) to Local Development Plan (LDP) could create opportunities. The Head of Legal & Democratic Services added that this was an area where an increased level of affordable housing could be pursued with private developers and that the predicted outcomes had been allocated as 'Green' due to discussion at the Housing Overview & Scrutiny Committee on alternative ways to generate interest. As part of the monitoring role of the Audit Committee, further detail and assurance could be sought from the Housing Overview & Scrutiny Committee.

In commenting on the summary of risks, the Chief Executive drew attention to those under Welfare Reform and pointed out that despite work being undertaken, a 'red' target was indicated due to the long-term impact and unknown consequences.

Following a query from the Chair on the back-office function, the Chief Executive spoke of additional Flintshire Connects facilities planned for Flint, Connah's Quay and Buckley.

Mr. Williams suggested that to help the Committee to monitor trends, an additional column could be used to indicate the date by which it was anticipated the improvement would be made. The Chief Executive agreed that this was a helpful suggestion and would incorporate it.

**RESOLVED:**

- (a) That the improved risk management approach, as part of streamlining and integrating the business planning arrangements, be endorsed; and

- (b) That the summary of strategic risks as related to the Council's Improvement Priorities be noted.

**69. TREASURY MANAGEMENT STRATEGY 2014/15 AND TREASURY MANAGEMENT UPDATE 2013/14**

The Finance Manager - Technical Accountancy introduced the draft Treasury Management Strategy 2014/15 for review prior to recommendation to Cabinet. The report also provided an update on matters relating to the Council's 2013/14 Treasury Management Strategy up to the end of December 2013. She gave an overview of the minor changes which had been made to the Strategy for 2014/15 compared with 2013/14 Strategy, as indicated in the report, and referred to the detailed information on loans in Appendix 3 which had been previously requested.

The Chair expressed her appreciation to those who had attended the Treasury Management training session earlier in the week and the excellent presentation which had been received from the Council's Treasury Management advisors, Arlingclose. She went on to thank the Head of Finance and Finance Manager for the report on this complex subject and drew attention to the responsibility of the Committee to scrutinise the Council's borrowing and investment activity.

On the long-term borrowing analysis, Mr. Paul Williams referred to concerns previously raised on the high interest rates of loans and penalty clauses, and said that discussion on this subject at the training session had given assurance that the Council was looking at borrowing from a commercial viewpoint and had built robust processes to review debt into the Strategy, supported by professional advice from Arlingclose.

In response to queries raised by Councillor Haydn Bateman on the Investment Strategy, the Finance Manager explained that the option to invest with providers of social housing was available if an appropriate opportunity should arise during the year. The Strategy also included the option to use an external fund manager, although there were currently no plans to do this.

Councillor Tim Newhouse suggested that the long-term borrowing analysis could identify with an asterisk any loans which were as a result of rescheduling to clarify that these were not new loans. The Finance Manager confirmed that the additional information would be incorporated in the table and that previously requested details on LOBOS (market fixed rate loans) would be included in the update report to the next meeting. A further suggestion was made by Councillor Newhouse that with professional advice, the Council could explore investment in a particular bank, with the request for branch presence in a local area. The Head of Finance explained that treasury management decisions were in relation to risk and return and that banking arrangements were a separate matter. The Chair said that this suggestion would be noted by officers.

The Chief Executive spoke of the need for a balance to be creative with investments with consideration of security and rates of return for the Council's surplus funds. In response to comments on the potential for Local Government reorganisation, he pointed out that in the event of any agreement, individual

Councils would need to reconsider their policies on liability and structure, however this was not currently an issue.

Councillor Newhouse stated that the treasury management training had confirmed that charges incurred in the early repayment of PWLB fixed loans were prohibitive whereas possibly this was not the case with LOBOS loans. The Head of Finance agreed that options to reschedule debt in a cost-effective way were limited but reminded Members that borrowing had resulted from necessary Council policy decisions and that the best rates had been sought according to the varying economic cycles at the time.

Mr. Williams explained that he had spoken with the Finance Manager about the inclusion of 'any other organisation' in the list of investment criteria and limits (Table 4) and had suggested that the wording be expanded to give assurance of safeguards from risk. The Finance Manager acknowledged that this was a change in the Strategy and could be removed if Members wished, however there were no current plans in place to progress this investment option and the amounts were minimal. The Chief Executive gave his view that this new investment opportunity posed a different risk therefore should remain in the Strategy with the assurance that this would not be pursued without further discussion on policy framework and risk assessment.

On the long-term borrowing analysis, Councillor Arnold Woolley suggested that it might be helpful to identify the purpose for which the loans were taken and to split the total figure to show those with supported funding from Welsh Government (WG). Whilst the Head of Finance agreed that consideration was needed on the context of the information to aid understanding, loans were not allocated to specific projects and were related to the rolling capital programme of work, hence that level of detail could not be given. The Finance Manager explained that the loans needed to be considered in the wider context of the Council's capital assets which were valued at circa £800m at the last balance sheet date. She further explained that WG recognised the need for all Councils to borrow through the Revenue Support Grant, with the supported borrowing figure for the next financial year in the region of £4.2m.

When asked by the Chair if reasons could be given for the last five PWLB loans on the long-term borrowing analysis, the Finance Manager confirmed that all five had been as a result of debt rescheduling and were not new loans.

Councillor Ian Roberts questioned the value of advice given by credit rating agencies in relation to Landsbanki and whilst agreeing with the suggestion made by Councillor Newhouse for greater presence of bank branches for local residents, referred to the closure of local NatWest branches. He asked if consideration could be given to investment in Credit Unions to provide a source of credit for individuals in need thus avoiding the use of more costly alternative institutions.

The Head of Finance spoke about the need to balance the social responsibilities of the Council together with securely investing its surplus funds through the treasury management function, and the potential for policy decisions to combine the two.

The Chief Executive suggested exploring such investments with due consideration to security and rates of return, adding that the option for investment with other organisations could generate modest return for the Council's investments, whilst making a significant difference to those organisations.

Councillor Glyn Banks suggested that the final two organisations listed on the investment criteria could be separated.

Following the earlier suggestion from Councillor Woolley on the presentation of the long-term borrowing analysis, Councillor Newhouse asked if information could be provided to highlight some of the more interesting areas of spend, such as schools.

On recommendation 4.01 of the report, Councillor Woolley proposed that the Committee request that Cabinet follow up the suggestion from Councillor Roberts to look into investing with Credit Unions for the economic benefit of the people of Flintshire. This was duly seconded by Councillor Roberts and on being put to the vote, was carried.

**RESOLVED:**

- (a) That the draft Treasury Management Strategy 2014/15 be recommended to Cabinet on 18 February 2014 with a request to look into investing with Credit Unions for the economic benefit of the people of Flintshire; and
- (b) That the Treasury Management 2013/14 quarterly update be noted.

**70. COUNCIL BANKING ARRANGEMENTS**

The Finance Manager - Technical Accountancy introduced the progress report on preparations to tender the Council's banking arrangements as the current contract was due to expire in May 2014. She provided details of the method used for tendering and explained that delays had been incurred in the tender exercise being carried out by Eastern Shires Purchasing Organisation meant that arrangements with the current provider, Nat West, would continue on a monthly rolling basis until the new contract was in place, thus avoiding any risk from loss of service provision to the Council.

A cross-directorate group of senior officers had been established to consider future banking requirements for all Council establishments in a wider context, along with more efficient and modern methods of dealing with petty cash. However, it was recognised that due to the increasing number of bank branch closures across the UK, it was likely that this could have an impact on the Council during the course of the three year banking contract.

Councillor Ian Roberts explained that the issue had arisen as a result of the closure of one third of Nat West branches in Flintshire and that no prior warning of this had caused inconvenience for schools using these services, resulting in alternative services being put in place. On consideration of the handling of petty cash, he felt that the use of other local banking facilities, including post offices, would be more convenient to schools, particularly those

sited in villages. He went on to say that the contract for the Council's banking services should include provision for branch presence in the county.

The Finance Manager agreed but pointed out the cost implications of dealing with cash as opposed to more modern methods. She added that consideration could be given to including criteria within the contract to ensure that the Council was notified in advance of any branch closures.

Mr. Paul Williams said that split banking arrangements could be considered including use of building societies and suggested that the regular 'bullion' run could be utilised to include any cash collected by schools.

In response to questions from Councillor Tim Newhouse, the Finance Manager was unable to give an accurate date when the new arrangements would be in place but would provide a separate response to the Committee on the value of the bank contract.

In reference to earlier comments from Councillor Roberts, Councillor Glyn Banks said that it may be useful for the successful bank tenderer to agree to a paying-in system in post offices.

Following comments from Councillor Arnold Woolley on the Government's drive for schools to use cashless systems for school meal payments, Councillor Roberts said that this was not the case for smaller rural schools and that the cost implications of investing in such facilities at all schools would be significant. While acknowledging the need to modernise ways of working, he felt it was reasonable to expect banks to change their practices for the convenience of all. Councillor Roberts made a proposal to welcome greater flexibility at a local level and to consider the inclusion of the provision for alternative arrangements on paying-in and obtaining cash as part of the bank tender. This was seconded by the Chair and on being put to the vote, was carried.

#### **RESOLVED:**

That the Committee welcome greater flexibility at a local level and to consider the inclusion of the provision for alternative arrangements on paying-in and obtaining cash in the bank tender.

### **71. ANNUAL REPORT ON EXTERNAL INSPECTIONS**

The Democracy & Governance Manager presented the first annual report detailing reports received from external auditors, other regulators and inspectors. At a meeting between the Committee and Overview & Scrutiny Chairs and Vice-Chairs, it had been agreed that existing practices could be improved upon by maintaining a record of progress on such reports to give assurance of the effective reporting arrangements already in place. A list of reports issued in 2013 included those from the Wales Audit Office (WAO) all of which had been received by the Committee.

The Chief Executive explained that this was the first annual report in which information was collated on existing practices for reporting arrangements, which reflected responsibilities of Cabinet, Audit Committee and Overview & Scrutiny

for the consideration of these external reports without exception. The Council had been operating a protocol in publicly reporting all regulatory reports with a full corporate response for a number of years.

Ms. Amanda Hughes of WAO commented that the report provided the Committee with a useful summary of report monitoring.

**RESOLVED:**

That the approach to dealing with reports by external audits, other regulators and inspectors in 2013 be noted.

**72. PROTOCOL ON COLLABORATION**

The Chief Executive introduced a report to seek approval of the updated protocol on collaboration, which had been extended to incorporate the roles of the Audit Committee and Overview & Scrutiny to ensure consistency and transparency on the reporting of collaboration projects. In highlighting the proposed amendments to the protocol, he reminded the Committee that it was able to raise any issues of clarity on specific projects to give assurance on governance arrangements.

In response to a query from the Chair on regional scrutiny post-implementation, the Chief Executive explained that there were currently a small number of large regional collaborative projects whose performance was scrutinised by each individual Council.

**RESOLVED:**

That the protocol be approved.

**73. AUDIT CHARTER UPDATE**

The Internal Audit Manager presented a report for the Committee to give consideration to a specific sentence within the Internal Audit Charter, as requested by the Constitution Committee. He advised that the sentence related to the use of audit staff on non-audit work in emergency situations, and had been included in the Charter since 2002 although not acted upon. He sought views from the Committee on whether the sentence should be deleted or remain, with or without additional wording to give clarification.

The Chair's view was that the sentence should be retained with the additional suggested wording in Option 3 of the report. Councillor Haydn Bateman proposed this with the wording changed to reflect that 'if such a call is made, the decision to allocate resources will be the Internal Audit Manager's but that the S151 officer and Audit Committee Chair or Vice-Chair to be advised'.

Following a suggestion from Councillor Glyn Banks to include the Monitoring Officer or Wales Audit Office in the approval process, the Chair said that a more balanced view was for this to be the responsibility of the Internal Audit Manager with the additional individuals included as a safeguard.



Councillor Arnold Woolley stated his preference for Option 1 to remove the sentence altogether, to which Councillor Tim Newhouse was in agreement.

Mr. Paul Williams favoured Options 1 or 3 and pointed out that although a situation had not arisen for the sentence to be brought to action, the increasing pressure on the Council and its resources may present a situation where the sentence could apply. On being asked for his view, the Internal Audit Manager agreed with the options to delete or amend the sentence.

The Chair seconded the proposal from Councillor Bateman. On being put to the vote, was carried by five votes for and two against.

### **RESOLVED:**

That the sentence be retained in the Internal Audit Charter with an additional sentence 'If such a call is made, the decision to allocate resources will be the Internal Audit Manager's but that the S151 officer and Audit Committee Chair or Vice-Chair to be advised.

## **74. ACTION TRACKING**

The Internal Audit Manager presented an update report on actions carried out to date from points raised at previous Audit Committee meetings. He explained that the report had been deferred from the last meeting and all actions due by this date had been completed.

At the previous meeting on 18 December 2013 during discussion on one of the new investigation referrals, the Head of Finance had agreed to update the Committee on work being carried out to establish why the potential fraud incident had not been identified at an earlier stage. Since the meeting, she had received a detailed report from the Internal Audit Manager and Pensions Manager indicating that matters had come to the attention of the Council in 2011 and that subsequent action taken had failed to halt the incident. In conclusion, the Head of Finance stated her satisfaction that a number of improvements proposed by Internal Audit had been actioned within the Pensions team and Internal Audit to help identify any similar issues in the future.

Councillor Tim Newhouse provided an update on problems he had experienced with the delivery of email between two of his three private email addresses and the Council. Having discussed the problem with the Head of ICT & Customer Services, he was concerned that members of the public may have experienced the same problem and would be unaware whether or not their emails had been delivered to the Council.

The Chair suggested that the Head of ICT & Customer Services be requested to investigate the problem and provide advice on a solution.

Councillor Glyn Banks referred to the two actions where a response had been provided to queries raised by Councillor Haydn Bateman and asked if this could be shared with the Committee and this was confirmed.

**RESOLVED:**

That the report be accepted.

**75. FORWARD WORK PROGRAMME**

The Internal Audit Manager presented the report to consider the Forward Work Programme for the next year and advised that in consultation with the Chair, an additional meeting would be arranged between the meetings in March and June 2014 to split the number of items scheduled for those two meetings.

In response to a query from the Chair on delegated responsibilities, the Democracy & Governance Manager explained that these were set out in the Constitution which was available on the Council's Infonet. The Chair said that she would pursue a paper copy outside the meeting.

**RESOLVED:**

That the Forward Work Programme be approved, with an additional meeting to be arranged in April/May 2014.

**76. ATTENDANCE BY MEMBERS OF THE PRESS AND PUBLIC**

There was one member of the press and one member of the public in attendance.

(The meeting started at 10.00 am and ended at 12.20 pm)

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**Chair**