

AUDIT COMMITTEE
26 MARCH 2014

Minutes of the meeting of the Audit Committee of Flintshire County Council held in the Clwyd Committee Room, County Hall, Mold on Wednesday, 26 March 2014

PRESENT: Councillor Alison Halford (Chair)

Councillors: Glyn Banks, Haydn Bateman, Alan Diskin, Tim Newhouse and Arnold Woolley

SUBSTITUTE: Councillor: Ron Hampson (for Ian Roberts)

APOLOGY: Mr Paul Williams

IN ATTENDANCE:

Head of Finance, Head of Legal & Democratic Services, Internal Audit Manager and Committee Officer

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

Democracy & Governance Manager (for minute numbers 77-87)

Finance Manager - Technical Accountancy (for minute numbers 80-81)

Head of Housing (minute number 89)

77. SUBSTITUTION

Prior to the start of the meeting, it was confirmed that Councillor Ron Hampson had received the requisite training and that the substitution would require agreement by the Committee.

RESOLVED:

That Councillor Hampson be permitted as a substitute for the meeting.

78. DECLARATIONS OF INTEREST (INCLUDING WHIPPING DECLARATIONS)

Councillor Glyn Banks declared a personal and prejudicial interest on Agenda Item 12: Empty Homes Scheme as he was included on the Council's list of approved contactors. The Head of Legal & Democratic Services advised that Councillor Banks would be required to leave the meeting prior to discussion on this item.

79. MINUTES

The minutes of the meeting of the Committee held on 29 January 2014 were submitted.

Matters Arising

It was reiterated that where a response could not be given to a query raised during a meeting, this would be circulated to the full Committee when available.

RESOLVED:

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

80. WALES AUDIT OFFICE - ANNUAL FINANCIAL AUDIT OUTLINE 2013/14

Mr. John Herniman of the Wales Audit Office (WAO) introduced the report on the Annual Financial Audit outline for the audit of the Council's accounts for 2013/14 and those of the Clwyd Pension Fund. He gave an overview of the approach to be taken by the audit team in assessing risk and obtaining evidence to draw conclusions, and summarised the key risks and proposed actions within the report, some of which applied to other Local Authorities.

An estimate of the audit fee for 2013/14 was not yet available as legislative changes had prompted a review of the WAO charging methodology which was awaiting approval by the Welsh Government. Mr. Herniman said that an estimate could be provided to officers the following week, with an update at the next meeting.

The Head of Finance confirmed that preparation work was underway with WAO colleagues to plan for the audit work.

In response to a query from Councillor Haydn Bateman, Mr. Herniman explained that it was normal practice for a fee to be applied for the audit of each individual grant claim.

Following a question by Councillor Arnold Woolley on new arrangements within the WAO, it was confirmed that electors' rights remained the same and that the legislative changes related to governance issues impacting on the WAO itself.

Councillor Woolley drew comparisons between the auditing of accounts at County Council and Town/Community Council level, and raised concerns that any misstatements below £100K in the County Council's accounts were not reported. Mr. Herniman explained that whilst absolute assurance could be given at Town/Community Council level, this was not possible for an organisation of the scale of the County Council and would impact significantly on the audit fee. The standard practice in these cases was for the auditing profession to give opinions based on the concept of materiality where only material misstatements were identified in the County Council's accounts.

Councillor Woolley referred to the disclaimer on the website for the North Wales Residual Waste Treatment Project (NWRWTP) in relation to its accounts for 2011/12 and 2012/13. Mr. Herniman explained that this was a standard disclaimer to verify that the opinion provided by WAO had been based on the paper version of the accounts and did not apply to that published on the website, which could be subject to amendment.

The Finance Manager - Technical Accountancy added that the same disclaimer applied to the published Statement of Accounts on the Council's website, together with that of Taith and any other public body.

RESOLVED:

That the report and Council's response be noted.

81. TREASURY MANAGEMENT UPDATE 2013/14

The Finance Manager - Technical Accountancy introduced the quarterly update on matters relating to the Council's 2013/14 Treasury Management Strategy up to the end of February 2014. It was reported that at the end of February 2014, the Council had a total investment balance of £56m spread across 15 counterparties, with average interest rates of 0.55%. The schedule of debt showed that no new loans had been taken out since the last update and indicated those loans which had been taken out as a result of debt rescheduling in response to a request made by Councillor Tim Newhouse at the last meeting. The report also included additional information requested on circumstances relating to Lender's Option, Borrower's Option (LOBOs) loans held by the Council, as previously requested.

Following remarks from Councillor Glyn Banks on the commencement date of some loans which had been made as a result of rescheduling, the Finance Manager - Technical Accountancy replied that these had not been rescheduled recently.

In response to a query from Councillor Arnold Woolley on the repayment of loans, the Finance Manager - Technical Accountancy said that a note on borrowing had been circulated to all Members prior to the County Council meeting on 18 February 2014. This had explained that under the Minimum Revenue Provision policy, monies were set aside to repay debt as part of the wider consideration of capital programme work. Following a further query, it was estimated that the annual Minimum Revenue payment was in the region of £6m per annum in the Central Loans and Investment Account. Detail on this was incorporated into budget monitoring reports to the Corporate Resources Overview & Scrutiny Committee.

RESOLVED:

That the report be noted.

82. INTERNAL AUDIT PROGRESS REPORT

The Internal Audit Manager presented the update report on progress of the Internal Audit department. An increase in the number of investigation referrals and the departure of a member of the team had resulted in a delay to the completion of the Plan this year. To address this, authorisation had been granted to recruit a replacement member of staff and two other team members employed on a part-time basis had agreed to temporarily increase their hours.

The Internal Audit Manager responded to a number of queries from the Committee on the reports on School Closures, Income from Fees and Charges and Waste & Minerals Planning, which had been finalised since the last update. He went on to report that 80% of the recommendations due for implementation had been completed and that those outstanding (for which management comment had been provided) would continue to be tracked to their revised due dates.

On Performance Indicators, it had not been possible to indicate statistics for the days taken for departments to return draft reports to Internal Audit due to a change in practice which would simplify this process. These figures would be available for the next quarterly report.

In response to queries raised by Councillor Haydn Bateman on an ongoing investigation, the Head of Legal & Democratic Services explained the Council's obligations towards its employees which meant that discussion on individuals would require a move to closed session.

Councillor Arnold Woolley suggested it may be helpful to include the commencement date for those investigations carried over to the next report. The Internal Audit Manager agreed to include this on future reports.

RESOLVED:

That the report be noted.

83. INTERNAL AUDIT STRATEGIC PLAN

The Internal Audit Manager presented the proposed Internal Audit plan for the three year period 2014/15 to 2016/17 and detailed the considerations to be made by the Committee. He explained that due to the current restructuring exercise, the newly appointed chief officers would be consulted on the Plan. The annual Internal Audit opinion on the standard of internal control, risk management and governance within the Council would be provided at the next meeting.

In response to a question from Councillor Tim Newhouse, the Internal Audit Manager explained that there were currently five part-time employees within the department, two of whom had temporarily increased their hours. There was potential for this arrangement to become permanent if a replacement full-time officer could not be recruited.

The Chair referred to some of the issues highlighted in bold and italics within the Plan which may need to be deferred in the event of insufficient resources, and sought assurance on the audit on the Use of Consultants. The Internal Audit Manager agreed that this would be retained on the Plan for 2014/15.

Councillor Tim Newhouse also requested that the audit on Mobile Phones and Devices/Usage be kept on the Plan for 2014/15. It was clarified that this related to officers and that a separate report would be made to Group Leaders on devices for Members.

Mr. John Herniman of the Wales Audit Office (WAO) commented on section 2 of the Strategy relating to 'areas where external audit will wish to place reliance on the testing performed by internal audit' and clarified that this was driven by management rather than WAO. This was acknowledged by the Internal Audit Manager.

Following responses to Members' queries on audits included on the Plan, the Head of Finance said it was important to recognise that these were not necessarily areas of current/past concern and may be as a result of departments seeking assurance on effective arrangements.

Councillor Ron Hampson was able to respond to queries raised by Councillor Glyn Banks on progress by a dedicated team in tackling rent arrears.

In response to a query from the Chair, the Internal Audit Manager explained that new software introduced in the department to cover all aspects of audit work would require a transitional phase.

The Democracy & Governance Manager asked if resources could be allocated each year to Data Protection due to the valuable work undertaken by Internal Audit on compliance across the Council. He suggested that this could be achieved by reviewing the other areas of Legal & Democratic Services on the Plan and would discuss with the Internal Audit Manager and Head of Legal & Democratic Services outside the meeting.

RESOLVED:

That the report be approved with the amendments referred to during discussion.

84. WHISTLEBLOWING POLICY

The Internal Audit Manager presented the updated Whistleblowing Policy for review and approval by the Committee prior to submission to the Constitution Committee later in the day. He explained the need to update the policy in line with changes to the Enterprise and Regulatory Reform Act (June 2013) as referred to in the report.

In response to a query from the Chair, the Head of Legal & Democratic Services said that the previous requirement was that employees made disclosures in good faith about their intentions and must not be motivated by malice. The change that disclosures must be reasonably believed to be in the public interest added an extra dimension.

The Chair felt that Members should be included on the list of individuals within the policy to whom an employee could raise any concerns. The Democracy & Governance Manager explained that there was a set procedure for Members who wished to raise concerns. The Head of Legal & Democratic Services said that Members were able to pass on any issues to the four named officers who were solely responsible for carrying out investigations on behalf of the Council. Following a request by the Chair for this to be incorporated in the policy, the Democracy & Governance Manager said that this would be brought to the attention of the Constitution Committee.

Ms. Amanda Hughes of the Wales Audit Office (WAO) referred to the section of the policy relating to independent advice and external contacts in which it was stated that the Auditor General for Wales was able to receive whistleblowing disclosures directly from employees. She explained that the Auditor General was a prescribed person, along with others, within the Act and that in encouraging employees to use the policy, they should be aware of their rights under the Act and a full list of prescribed persons, or link to where this was available should be included in the policy. In relation to the change that individuals who made a disclosure must believe their concerns to be true and in the public interest, there was caselaw which reflected the need to avoid individuals undertaking their own investigative work. The reason for the inclusion of criteria 'in the public interest' was as a result of cases in the banking industry where the Act was used to bring to light some issues of personal interest.

Mr. John Herniman of WAO felt that there were some inconsistencies in the policy such as the section on 'definition' which indicated the requirement for concerns to be raised internally. Whilst employees should be encouraged to use the internal process, disclosures could also be made to those defined by the Act as 'Prescribed Persons' and individuals could also make a wider disclosure to the press, media or to an MP which should be made clear in the policy. On the section entitled 'Protection', he felt it should be clarified that an individual was afforded the same level of protection, whether they raised their concerns internally or externally, as long as the individual raising the concern could demonstrate that they believed their concerns to be true and in the public interest and that if they went externally in the first instance, they could demonstrate that this was reasonable in the circumstances.

The Head of Legal & Democratic Services said that the points raised were valid and would be conveyed to the Constitution Committee. With the agreement of the Chairs of both Committees, the comments could be incorporated in the policy, or alternatively the item could be deferred to a future date to allow a re-draft. Following a suggestion by the Internal Audit Manager that the policy be re-drafted, this was endorsed by the Chair and supported by the Committee.

Councillor Glyn Banks asked what protection was in place to any individual of whom a malicious allegation had been made. The Democracy & Governance Manager said that the protection only applied to employees who raised concerns which they reasonably believed to be in the public interest. The Head of Legal & Democratic Services added that if this was the case then no action would be taken, however only in limited circumstances where there was clear evidence of malice, the Council as the employer would need to take necessary disciplinary action.

RESOLVED:

That the policy be re-drafted to reflect the comments made and submitted to a future meeting of the Committee.

85. DATA PROTECTION AUDIT BY THE INFORMATION COMMISSIONER'S OFFICE

The Democracy & Governance Manager presented the report on the sign-off by the Information Commissioner's Office (ICO) on its audit of the Council's compliance with the Data Protection Act 1998 undertaken in April 2013. The results and agreed action plan had been received by the Committee on 7 October 2013, reporting the conclusion of 'reasonable assurance' around the Council's Data Protection processes and procedures, which was the second best of the four categories of audit opinion.

As part of the ICO follow-up process, a report by Internal Audit detailing progress on the implementation of the action plan had been submitted to the ICO. This indicated that 61% of the recommendations had been implemented, 26% were in the process of being implemented and 13% had not yet reached their implementation dates. A response from the ICO stated satisfaction with the progress made.

The Head of Legal & Democratic Services commented on the recently approved new operating model of the Council which reflected the recommendation by ICO for more central awareness and assurance of monitoring of Data Protection procedures. Following a question from the Chair, he explained that the new chief officer in charge of governance would become the Senior Information Risk Owner (SIRO) for the Council.

The Chair congratulated the Democracy & Governance Manager and officers for their work for their work on this item.

RESOLVED:

That the completion of the ICO audit process be noted.

86. ACTION TRACKING

The Internal Audit Manager presented an update report on actions carried out to date from points raised at previous Audit Committee meetings. On actions from the meeting on 18 December 2013, he advised that the proposed meeting between the Committee and Overview & Scrutiny Chairs and Vice-Chairs on 8 April 2014 had been cancelled due to insufficient business.

RESOLVED:

That the report be accepted.

87. FORWARD WORK PROGRAMME

The Internal Audit Manager presented the report to consider the Forward Work Programme for the next year. In relation to the Committee's self-assessment report scheduled for the next meeting, he reminded those present of the need to return the questionnaire and offered assistance on its completion. A deadline of Friday 4 April was set for the return of completed questionnaires.

RESOLVED:

That the Forward Work Programme be approved.

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

RESOLVED:

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

89. EMPTY HOMES SCHEME

Councillor Glyn Banks left the room prior to consideration of this item as he had declared a personal and prejudicial interest.

The Internal Audit Manager introduced the initial and follow-up audit reports relating to the Empty Homes Scheme and reassured the Committee that a significant amount of activity had been undertaken by the Head of Housing and her team to address the issues raised.

The Head of Housing provided explanation on the investigation by Internal Audit into fraudulent activity leading to a number of recommendations. Whilst expressing her deep concern about the issues raised within the report, she said that the fraudulent activity could not have been anticipated and had been investigated promptly, with actions taken to implement the recommendations. A further review had established good progress with implementing the recommendations and had resulted in some improvements to the Empty Homes Scheme service. Although the Empty Homes Scheme was part of the broader service area of Disabled Facilities Grants, no similar weaknesses had been identified in that area.

As Chairman of the Housing Overview & Scrutiny Committee, Councillor Ron Hampson praised the work undertaken by the Head of Housing and said that this had been a difficult situation which appeared to have been dealt with thoroughly.

Councillor Tim Newhouse requested the contact details of the new employee who had taken responsibility for the Empty Homes Scheme and said that all Members should be given notification of such changes in key personnel. The Head of Legal & Democratic Services agreed to liaise with the Head of ICT & Customer Services to put in place an automatic response to emails sent to closed accounts of ex-employees.

The Head of Housing responded to a number of questions about the issues identified in the report and those involved.

Mr. John Herniman of the Wales Audit Office said that despite the sums of money involved being small in comparison, this demonstrated the importance of establishing controls. The Internal Audit Manager drew attention to the

recommendations in the audit report, which included provision for a review of the application form to include a checklist of safeguards together with other controls in relation to the setting up of payments.

The Chair thanked the Head of Housing for attending the meeting and for the actions put in place.

RESOLVED:

That the work of Internal Audit, actions taken to rectify the issues and the subsequent improvements made in the service be noted.

90. ATTENDANCE BY MEMBERS OF THE PRESS AND PUBLIC

There were two members of the press in attendance.

(The meeting started at 10.00 am and ended at 12.40 pm)

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Chair