

**AUDIT COMMITTEE**  
**30 JULY 2013**

Minutes of the meeting of the Audit Committee of Flintshire County Council held in the Clwyd Committee Room, County Hall, Mold on Tuesday, 30 July 2013

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

Councillors: Glyn Banks and Arnold Woolley

**SUBSTITUTE:** Councillor Marion Bateman (for Haydn Bateman)

**APOLOGIES:** Councillors: Ian Roberts, Mr Paul Williams, Chief Executive, Head of Finance and Finance Manager (Strategy & Technical)

**IN ATTENDANCE:** Head of Legal & Democratic Services, Internal Audit Manager, Democracy & Governance Manager, Corporate Finance Manager and Committee Officer

Ms. Amanda Hughes of Wales Audit Office

**25. SUBSTITUTION**

Prior to the start of the meeting, the Democracy & Governance Manager explained the constitutional requirement for the Committee to consider whether appropriate reasons had been provided for the proposed substitution. The Chair and Councillor G.S. Banks both indicated their agreement.

**RESOLVED:**

That Councillor M. Bateman be permitted as a substitute for the meeting.

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

No declarations of interest were made.

**27. TREASURY MANAGEMENT ANNUAL REPORT 2012/13 AND 2013/14 UPDATE**

The Corporate Finance Manager presented the Annual Report on the Council's Treasury Management Policy, Strategy and Practices 2012/13 together with an update on Treasury Management activity in 2013/14 to the end of May 2013. The report included the reporting cycle schedule for these reports, together with the draft Annual Report to be submitted to Cabinet and full Council in September 2013. The Corporate Finance Manager highlighted the key points on activity within this and gave a brief update on investments and borrowing. In pointing out an error in paragraph 3.10 of the report, he confirmed that the total investment balance was £61.9m as stated in Appendix 3 to the report.

The current Treasury Management Strategy had been implemented in April 2013 and there was an obligation to report on any breaches. Following reference by the Corporate Finance Manager to a breach in relation to a limit

applied to a new investment of an A- rated counterparty, the Chair sought clarification on why this had not been applied. The Corporate Finance Manager explained that an investment of £7m had been made at an early stage of implementation of the new Strategy where the individual had made the investment based on the limit in the previous Strategy. This had been immediately identified and rectified, with the additional £2m returned, and steps taken to ensure there was no repeat. In response to a query raised by Councillor G.S. Banks, the Corporate Finance Manager said that there was no financial loss arising from this and that the money had been returned the day after the request had been made.

Following queries raised by Councillor M. Bateman, the Corporate Finance Manager explained that the claim to Landsbanki had been submitted on the understanding that interest amounts would be paid on the investments. In response to a question on the Single Status and Equal Pay reserve, the Corporate Finance Manager stated that, as with all reserves held, this would form part of overall cashflow considerations in dealing with Treasury Management activity.

Councillor Banks referred to the Council's average borrowing rate of 5.43% throughout the year and asked about the highest and lowest rates. He also asked if officers had explored the potential to share treasury management advisor services with other Councils to achieve savings. The Corporate Finance Manager pointed out that each Council would have its own Treasury Management Strategy but would provide a written response to both queries.

In response to a question from the Chair on borrowing activity, the Corporate Finance Manager explained that the Capital Financing Requirement (CPR) indicated the level of debt to fund capital expenditure. The difference between this amount and the total external debt was due to internal funds being utilised instead of borrowing.

Councillors Banks and Bateman sought clarification on a number of issues in relation to Landsbanki. The Corporate Finance Manager explained that the assets held by Landsbanki in their reported accounts meant that it was reasonable to still assume that the Council would eventually receive 100% of its investment. A large number of investors, particularly in the Local Government sector, were involved in the process to seek recovery of their investments. Collective action by the Local Government Association on behalf of Councils to instruct a firm of solicitors to act jointly had reduced legal costs. The Head of Legal & Democratic Services confirmed that the information on investments in the report did not reflect these legal costs. He explained that these were not recoverable from Landsbanki and that to pursue them through a legal route would result in a reduction in the amount available to be claimed.

Ms. A. Hughes of Wales Audit Office confirmed that the position on these investments had been accounted for within the financial statements.

**RESOLVED:**

- (a) That the report be noted; and

- (b) That the Corporate Finance Manager provide the Committee with a written response to the two queries raised by Councillor Banks.

## **28. CERTIFICATION OF GRANT CLAIMS AND RETURNS 2011/12**

Ms. A. Hughes of Wales Audit Office (WAO) presented the annual report on the grant claim certification for the year ending 31 March 2012. She confirmed that the Council generally had adequate arrangements in place for the production and submission of its 2011/12 grants claims. It was noted that the Council had addressed a number of recommendations made in the report for 2010/11 including the procedure on the grants completion checklist for all grant claims.

The overall grants total for 2011/12 was £193m comprising 26 grants and returns, 14 of which were unqualified with no amendment, four unqualified with some amendment, three qualified with no amendment and five qualified with some amendment.

In response to the Chair's request for further explanation, Ms. Hughes said that a qualification meant that an error had been identified, such as where the Council's correct process had not been followed, which could not be resolved through adjustment. She stated that the recommendations all related to procedural and process type matters and that the WAO would work with Council officers to improve these. To assist with this, she suggested that the WAO provide training to officers responsible for dealing with grants.

Councillor M. Bateman asked if any of the grants and returns certified for 2011/12 had been qualified in previous years. Ms. Hughes did not have this information to hand but was aware of previous qualified claims for Communities First which were not unique to Flintshire. Councillor Bateman went on to question the length of time of qualification and whether actions from previous years had been addressed. Ms. Hughes said that previous recommendations had mainly been addressed although some remained outstanding and were carried forward. A qualification could result in a request from the grant awarding body for further information to satisfy itself of the outcome.

Councillor G.S. Banks referred to the net adjustment of £44K resulting from changes to grant entitlement and asked how this compared with other Councils. Whilst unable to comment on comparison, Ms. Hughes felt that this figure was a fair result based on the number of amendments required and the overall total.

The Corporate Finance Manager reassured Members that steps were taken to deal with the recommendations and findings of the WAO and that improvements had been made through the implementation of the new structure in Finance. He acknowledged that further improvements were needed and welcomed the suggestion of training which would benefit audit time and fees. Ms. Hughes commented that insufficient supporting papers resulted in increased time of WAO audit work which was reflected in fees payable by the Council.

In responding to a question from the Chair on the Housing and Council Tax Benefits Scheme, Ms. Hughes commented that this was an area of

significant complexity within many Councils, where individuals were required to notify the Council of any changes in circumstances. She explained that the lack of an adequate audit trail for this area meant that no evidence could be shown to demonstrate the preparation of calculations. A previous report issued by WAO had been critical of the Council's processes in this area, however Ms. Hughes was pleased to note that these had mostly been addressed.

Further queries were raised by the Chair on Recommendations 2 and 5 in the report. On the latter, Ms. Hughes confirmed that the Council adequately recorded its assets but recommended that Communities First held a register to list its assets and that this was outside the Council's remit. On the strengthening of arrangements to ensure that adequate supporting information was provided to WAO, the Corporate Finance Manager said that the improved process in completing grant claim completion checklists would assist in the majority of cases.

Councillor Banks asked if the outcomes from the report could be included in the report for 2012/13 to show comparison and progress made. Ms. Hughes agreed to this request.

**RESOLVED:**

- (a) That the content of the Grant Claim Certification for 2011/12 be noted;
- (b) That the suggested training session for Council officers by Wales Audit Office be pursued; and
- (c) That outcomes from the Wales Audit Office report on Certification of Grants and Returns 2011/12 be included in the report for 2012/13 to show comparison.

**29. AUDIT COMMITTEE TERMS OF REFERENCE**

The Internal Audit Manager presented the report to seek agreement to changes to the Audit Committee Terms of Reference, Article 7 in the Council's Constitution, to reflect arrangements currently in place. The document had been prepared in consultation with Wales Audit Office (WAO) representatives, the Chief Executive, Head of Finance, Head of Legal & Democratic Services and Democracy & Governance Manager.

The Democracy & Governance Manager explained the requirement for the report to be considered by the Constitution Committee including whether or not the changes to the report would also need approval by full Council.

Councillor M. Bateman raised concerns about the proposed removal of wording under 'Internal Control' on the accountability for the security and misuse of computer systems. The Internal Audit Manager explained the suggestion to amend the original wording, which had been inserted some time ago, to remove the emphasis on computerised systems due to the extensive use of computer-based systems now in place. He added that the proposed changes in the document were suggestions that could be amended further or reinstated depending on Members' views. In response to further queries raised by

Councillor Bateman, the Head of Legal & Democratic Services gave clarification on teams and systems in place within the Council who were responsible for information security, commenting that the Information Commissioner's audit of Data Protection practices in Flintshire had highlighted this as an area of good practice.

In response to the concerns raised by Councillor Bateman, the Chair asked that some of the detail on information security of computer systems be reinstated.

Councillor G.S. Banks referred to discussion at a previous meeting on the approval process of tendering exemptions and raised similar concerns about responsibility for approving changes to the Constitution. The Head of Legal & Democratic Services advised that the Council had agreed that minor amendments to the Constitution could be made following consultation with the Chairman of the Constitution Committee and Group Leaders where none of them objected.

The Democracy & Governance Manager referred to the size of the Constitution which required continual update and that the improved arrangement under delegated powers to officers made it easier to keep the Constitution up-to-date.

**RESOLVED:**

That the proposed changes to the Audit Committee Terms of Reference be approved, including a further change to reinstate some wording on information security in relation to computer systems.

**30. INTERNAL AUDIT CHARTER**

The Internal Audit Manager presented the report to outline the updated Internal Audit Charter. Changes had been made in accordance with requirements of the new Public Sector Internal Audit Standards (PSIAS) which had replaced the Chartered Institute of Public Finance & Accountancy (CIPFA) standards. Most of the changes reflected current practices which had not previously been included in the Charter.

The Chair pointed out that the section on 'Audit Responsibility' did not include mention of Police involvement in terms of any improprieties. The Internal Audit Manager explained the process leading up to any contact with the Police, with possible involvement by Human Resources, but stressed that any decision to take the matter further would rest with the Police.

The Democracy & Governance Manager suggested that the Charter could include reference to the involvement of appropriate officers such as the Head of Legal & Democratic Services on such matters.

The Head of Legal & Democratic Services provided more detail on the investigations process including his involvement in issues identified under the disciplinary policy. He also provided information on the involvement of the Crown Prosecution Service in cases reported to the Police, together with clarification on

the Council's Whistleblowing Policy where individuals internally or externally were able to report matters firstly through internal procedures or directly to the Police.

Following a request made by the Chair, the Internal Audit Manager agreed to include more detail on Police involvement during investigations by Internal Audit into matters relating to fraud and irregularities.

Under the section on 'Independence and Authority', Councillor G.S. Banks referred to the opening paragraph relating to impartial advice to management and suggested that reference be included on the provision of advice from Wales Audit Office (WAO) colleagues in working alongside Internal Audit and the Audit Committee. Ms. Hughes of WAO suggested that this could be expanded upon in the penultimate bullet point on liaison with the external auditor under 'Audit Responsibility'.

Councillor M. Bateman queried the removal of text on the 'efficient and effective use of resources' under 'Definition of Internal Audit'. The Internal Audit Manager explained that the original wording taken from CIPFA had been replaced by the new definition from PSIAS, but agreed to reinstate part of this.

#### **RESOLVED:**

That the proposed changes to the Internal Audit Charter be approved, together with three additional changes:

- To include more detail on Police involvement in the undertaking of investigations into fraud and irregularities in consultation with appropriate Council officers;
- To include reference to the provision of advice from Wales Audit Office colleagues in working alongside Internal Audit and the Audit Committee; and
- To include wording on economic, efficient and effective use of resources.

#### **31. ACTION TRACKING**

The Internal Audit Manager introduced the report on actions resulting from points raised at previous meetings of the Audit Committee. The report contained a summary of actions carried out to date, the majority of which had been completed. An update on those remaining would be reported to a future meeting.

In response to a comment made by the Chair, Ms. Hughes of Wales Audit Office confirmed that there were no longer any balancing entries in the income and expenditure account but that balancing entries had increased in the cashflow statement. Discussions with the Finance Manager (Strategy & Technical) had confirmed that work was ongoing by officers to resolve this. Ms. Hughes said that the issue would be considered by WAO in the context of the audit on the accounts once officers had completed their work. If there were any ongoing concerns, WAO would raise these as part of this year's audit, however it was hoped that a satisfactory outcome would be achieved at the end of the audit.

On the Internal Audit Progress Report for 12 June 2013, the Chair gave a reminder for Councillor I.B. Roberts to be kept informed of progress on changes to school banking arrangements. The Internal Audit Manager explained that this agreement had been made at the subsequent meeting on 17 July 2013 and would be included on that action sheet.

The Democracy & Governance Manager advised that the second briefing meeting between the Audit Committee and Overview & Scrutiny Chairs had been deferred from 23 July 2013 to 10 September 2013 due to the cancellation of the special County Council meeting.

**RESOLVED:**

That the report be accepted.

**32. FORWARD WORK PROGRAMME**

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

The Democracy & Governance Manager advised that a report on Corporate Governance would be submitted to the December 2013 meeting to consider Member involvement in the preparation process for the next Annual Governance Statement and the annual update of the Code of Corporate Governance.

Councillor M. Bateman suggested that a future item be included on qualified grant claims and time taken to resolve. Ms. Hughes of Wales Audit Office advised that the report on grant claims for the following year would include an update on previous qualifications which were unresolved.

**RESOLVED:**

That the Forward Work Programme be approved with the inclusion of the Corporate Governance item for the December 2013 meeting.

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

There was one member of the press in attendance.

(The meeting started at 2.00 pm and ended at 3.30 pm)

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**Chair**